AmInvestment Bank Berhad

Pillar 3 Disclosures

As at 31 March 2016

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Contents

1.0 Scope of Application

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

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

The following information has been provided in order to highlight the capital adequacy of the Bank and its subsidiaries ("the Group"). The information provided has been verified by the Group internal auditors and certified by the Group Managing Director.

Capital Adequacy Ratios

BNM guidelines on capital adequacy require regulated banking subsidiaries to maintain an adequate level of capital to withstand any losses which may result from credit and other risks associated with financing operations. Each of these entities is independently held by AMMB as a regulated banking institution - there are no cross-shareholdings within or between these entities.

With effect from 1 January 2013 to 31 December 2015, the capital adequacy ratios are computed in accordance to BNM's guidelines on Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework for Islamic Banks (Capital Components) issued by the Prudential Financial Policy Department on 28 November 2012, which is based on the Basel III 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 Capital Adequacy Framework (Basel II - Risk Weighted Assets) and Capital Adequacy Frameworks for Islamic Banks (Basel II - Risk Weighted Assets).

The minimum regulatory capital adequacy requirements under transitional arrangements as per the guidelines are set out as follows:

	Calendar year 2013	**Calendar year 2014**	**Calendar year 2015 onwards***
CET 1 Capital Ratio	3.5%	4.0%	4.5%
Tier 1 Capital Ratio	4.5%	5.5%	6.0%
Total Capital Ratio	8.0%	8.0%	8.0%

*excluding capital conservation buffer ("CCB") of 2.5% of total risk weighted assets ("RWA") and countercyclical capital buffer ranging between 0% and 2.5% of total RWA and additional buffer requirements that may be specified by BNM.

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

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

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

	CCB
Calendar year 2016	0.625%
Calendar year 2017	1.25%
Calendar year 2018	1.875%
Calendar year 2019 onwards	2.50%

1.0 Scope of Application (Cont'd.)

Frequency of Disclosure

Full disclosure requirements under the BNM guidelines are made on an annual and semi-annual basis except for disclosures under paragraph 10.1 of the guidelines and all qualitative disclosures which are made on an annual basis if there are no material changes in the interim reporting periods.

Medium and Location of Disclosure

These Pillar 3 disclosures of the Group are available on Group's corporate website at www.ambankgroup.com.

1.1 Basis of Consolidation

For statutory accounting purposes, the consolidated financial statements of the Bank comprise the financial statements of the Bank and the financial statements of all its controlled entities (individually referred to as "group entities") where it is determined that there is a capacity to control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

Type of entity	Accounting treatment	
	Statutory reporting	Basel III regulatory reporting
Subsidiaries licensed under FSA or IFSA or engaged in financial activities	Fully consolidated	Deducted from capital at the banking subsidiary entity level; Fully consolidated in the calculation of capital adequacy at the banking subsidiary consolidated level
Subsidiaries engaged in non-financial activities	Fully consolidated	Risk weighted at the banking subsidiary entity level; Consolidated in calculation of capital adequacy at the banking subsidiary consolidated level
Associates and jointly controlled entities which are licensed under FSA or IFSA or engaged in financial activities	Equity accounted	Deducted in calculation of capital
Associates and jointly controlled entities which are not licensed under FSA or IFSA and not engaged in financial activities	Equity accounted	Reported as investment and risk weighted

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

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

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. The capital plan ensures that adequate levels of capital and an optimum mix of different components of capital are maintained by the Group to support its strategy.

The capital plan takes the following into account:

(a) Regulatory capital requirements.

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

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

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

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

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

The capital that the Group is required to hold is determined by its statement of financial position, commitments & contingencies, counterparty and other risk exposures after applying collateral and other mitigants, based on the Group's risk rating methodologies and systems. BNM has the right to impose further capital requirements on Malaysian Financial Institutions.

The Group operates processes and controls to monitor and manage capital adequacy across the organisation. Capital is maintained on the basis of the local regulator's requirements. It is overseen by the Group Chief Executive Officers Committee ("Group CEOs Committee"). The Group CEOs Committee is also responsible for managing the Group's statement of financial position, capital and liquidity.

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

2.0 Capital Management (Contd.)

Group CEOs Committee proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. For the current financial year ending 31 March 2016 ("FY 2016"), these ranges are 8.1% to 10.1% for the Common Equity Tier 1 Capital Ratio, 9.6% to 11.6% for the Tier 1 Capital Ratio, and 14.0% to 16.0% for the Total Capital Ratio. The Group has been operating within these ranges.

The Capital and Balance Sheet Management Department, is responsible for the ongoing asessment of the demand for capital and the updating of the Group's capital plan.

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

Table 2.1: Capital Adequacy Ratios

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

	31.03.2016		31.03.2015	
	Group	Bank	Group	Bank
Before deducting proposed dividends:				
CET 1 Capital Ratio	34.669%	33.574%	28.744%	24.196%
Tier 1 Capital Ratio	34.669%	33.574%	28.744%	24.196%
Total Capital Ratio	34.946%	33.574%	28.744%	24.196%
After deducting proposed dividends:				
CET 1 Capital Ratio	32.352%	31.204%	27.534%	22.820%
Tier 1 Capital Ratio	32.352%	31.204%	27.534%	22.820%
Total Capital Ratio	32.630%	31.204%	27.534%	22.820%

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

	31.03.2016 Islamic Window	31.03.2015 Islamic Window
CET 1 Capital Ratio	162.361%	107.696%
Tier 1 Capital Ratio	162.361%	107.696%
Total Capital Ratio	162.361%	107.696%

Table 2.2 Risk-Weighted Assets and Capital Requirements

(a) The aggregated breakdown of RWA by exposures in major risk category of the Group is as follows:

	31.03.16					
Exposure class	**RM'000**	**Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM") RM'000**	**Net exposures/ EAD after CRM RM'000**	**Risk weighted assets RM'000**	**Total Risk Weighted Assets after effects of RIA RM'000**	**Minimum capital requirement at 8% RM'000**
1. **Credit risk**						
On balance sheet exposures						
Sovereigns/ Central banks		2,890	2,890	-	-	-
Banks, development financial institutions ("DFIs") and multilateral development banks		465,449	465,449	93,090	93,090	7,447
Corporates		353,454	150,805	75,369	75,369	6,030
Regulatory retail		27,080	3,547	2,660	2,660	213
Higher risk assets		11,820	11,820	17,729	17,729	1,418
Other assets		863,745	863,745	863,743	863,743	69,099
Defaulted exposures		10	10	15	15	1
Total for on balance sheet exposures		1,724,448	1,498,266	1,052,606	1,052,606	84,208
Off balance sheet exposures:						
Off balance sheet exposures other than Over the counter ("OTC") derivatives or Credit derivatives		57,932	28,316	15,525	15,525	1,242
Total for off balance sheet exposures		57,932	28,316	15,525	15,525	1,242
Total on and off balance sheet exposures		1,782,380	1,526,582	1,068,131	1,068,131	85,450
2. **Large exposures risk requirement**				-	-	-
3. **Market risk**	**Long Position**	**Short Position**				
Interest rate risk						
- General interest rate risk	1,337	1,337		-	-	-
Foreign currency risk	27,313	-		27,313	27,313	2,186
Equity risk						
- General risk	532	514		18	18	1
- Specific risk	532	514		662	662	53
Option risk	13,348	-		18,354	18,354	1,468
Total	43,062	2,365		46,347	46,347	3,708
4. **Operational risk**				353,281	353,281	28,263
5. **Total RWA and capital requirements**				1,467,759	1,467,759	117,421

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

Exposure class	31.03.15					
	RM'000	Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM") RM'000	Net exposures/ EAD after CRM RM'000	Risk weighted assets RM'000	Total Risk Weighted Assets after effects of RIA RM'000	Minimum capital requirement at 8% RM'000
1. **Credit risk**						
On balance sheet exposures						
Sovereigns/ Central banks		7,767	7,767	-	-	-
Banks, DFIs and MDBs		956,277	956,277	237,164	237,164	18,973
Corporates		362,880	172,907	97,470	97,470	7,798
Regulatory retail		34,054	4,428	3,321	3,321	266
Higher risk assets		11,894	11,894	17,841	17,841	1,427
Other assets		721,112	721,112	721,109	721,109	57,689
Defaulted exposures		1	1	1	1	-
Total for on balance sheet exposures		2,093,985	1,874,386	1,076,906	1,076,906	86,153
Off balance sheet exposures:						
Off balance sheet exposures other than Over the counter ("OTC") derivatives or Credit derivatives		145,591	111,831	78,134	78,134	6,251
Total for off balance sheet exposures		145,591	111,831	78,134	78,134	6,251
Total on and off balance sheet exposures		2,239,576	1,986,217	1,155,040	1,155,040	92,404
2. **Large exposures risk requirement**		-	-	438	438	35
3. **Market risk**	**Long Position**	**Short Position**				
Interest rate risk /Rate of return risk						
- General interest rate risk/Rate of return risk	2,317	2,317		-	-	-
Foreign currency risk	116,485	2		116,485	116,485	9,319
Equity risk						
- General risk	441	458		17	17	1
- Specific risk	441	458		556	556	44
Total	119,684	3,235		117,058	117,058	9,364
4. **Operational risk**				380,922	380,922	30,474
5. **Total RWA and capital requirements**				1,653,458	1,653,458	132,277

Table 2.2 Risk-Weighted Assets and Capital Requirements

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

	31.03.16					
Exposure class	**RM'000**	**Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM") RM'000**	**Net exposures / EAD after CRM RM'000**	**Risk weighted assets RM'000**	**Total Risk Weighted Assets after effects of RIA RM'000**	**Minimum capital requirement at 8% RM'000**
1. **Credit risk**						
On balance sheet exposures						
Sovereigns/ Central banks		70	70	-	-	-
Banks, DFIs and MDBs		286,965	286,965	57,393	57,393	4,592
Other assets		18,428	18,428	18,428	18,428	1,474
Total for on balance sheet exposures		305,463	305,463	75,821	75,821	6,066
Off balance sheet exposures:						
Off balance sheet exposures other than Over the counter ("OTC") derivatives or credit derivatives		6,663	6,663	1,333	1,333	107
Defaulted exposures						
Total for off balance sheet exposures		6,663	6,663	1,333	1,333	107
Total on and off balance sheet exposures		312,126	312,126	77,154	77,154	6,173
2. **Large exposures risk requirement**		-	-	-	-	-
	Long Position	**Short Position**				
3. **Market risk**	**-**	**-**				
Interest rate risk /Rate of return risk	**-**	**-**		-	-	-
- General interest rate risk/Rate of return risk	-	-		-	-	-
- Specific interest rate risk/Rate of return risk	-	-		-	-	-
Foreign currency risk	-	-		-	-	-
Equity risk	-	-		-	-	-
- General risk						-
- Specific risk						-
Option risk	-	-		-	-	-
Total	-	-		-	-	-
4. **Operational risk**				40,392	40,392	3,231
5. **Total RWA and capital requirements**				117,546	117,546	9,404

The Islamic window of the Group did not have Restricted Investment Account ("RIA") that qualifies as a risk absorbent as at 31 March 2016 and 31 March 2015.

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

	31.03.15					
Exposure class	**RM'000**	**Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM") RM'000**	**Net exposures/ EAD after CRM RM'000**	**Risk weighted assets RM'000**	**Total Risk Weighted Assets after effects of RIA RM'000**	**Minimum capital requirement at 8% RM'000**
1. **Credit risk**						
On balance sheet exposures						
Sovereigns/ Central banks		64	64	-	-	-
Banks, DFIs and MDBs		245,552	245,552	49,111	49,111	3,929
Other assets		22,277	22,277	22,277	22,277	1,782
Total for on balance sheet exposures		267,893	267,893	71,388	71,388	5,711
Off balance sheet exposures:						
Off balance sheet exposures other than Over the counter ("OTC") derivatives or Credit derivatives		77,650	77,650	56,330	56,330	4,506
Total for off balance sheet exposures		77,650	77,650	56,330	56,330	4,506
Total on and off balance sheet exposures		345,543	345,543	127,718	127,718	10,217
2. **Large exposures risk requirement**		-	-	-	-	-
	Long Position	**Short Position**				
3. **Market risk**	-	-				
4. **Operational risk**				31,531	31,531	2,523
5. **Total RWA and capital requirements**				159,249	159,249	12,740

3.0 Capital Structure

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

- Common Equity Tier 1 (“CET1”) Capital;
- Tier 2 Capital

All capital instruments included in the capital base have been issued in accordance with the BNM rules and guidelines. The Additional Tier 1 and Tier 2 capital instruments of the Group that were issued prior to 2013 do not meet all qualifying criteria for full recognition of capital instruments under the Basel III accord, on the requirements for loss absorbency at the point of non-viability, and write-off or conversion mechanisms for achieving principal loss absorption and/or loss absorbency at the point of non-viability. These Additional Tier 1 and 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 recognised for each banking entity (and its consolidated group level) shall be capped at 90% of the base in 2013 (as counted separately for Additional Tier 1 Capital and Tier 2 Capital respectively), with the cap reducing by 10% in each subsequent year. To the extent that an instrument is redeemed or derecognised after 1 January 2013, the amount serving as the base is not reduced.

3.1 CET1 Capital

CET1 Capital consists of the following:

(a) 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.

(b) Share Premium

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

(c) Retained Earnings

Retained earnings at the end of the financial year/period and eligible reserves are accumulated resources included in the shareholder’s funds in an entity’s statement of financial position, with certain regulatory adjustments applied. The retained earnings is included in CET1 Capital net of any interim and/or final dividend declared, and net of any interim losses. Quarterly interim profits have been included in CET1 Capital, subject to review/audit by the external auditors.

(d) Other Disclosed Reserves

Other disclosed reserves comprise the following:

(i) Statutory Reserve

Statutory reserve is maintained in compliance with Section 47(2) f of the FSA, Section 57(2) of IFSA and is not distributable as cash dividends.

(ii) Capital Reserve and Merger Reserve

The capital reserve and merger reserve represent reserves arising from the transfer of subsidiaries pursuant to schemes of arrangement under group restructuring which involved capital reduction and was accounted for using the merger accounting method.

(iii) Foreign Currency Translation Reserve/(Deficit)

Exchange gain (foreign currency translation reserve) and exchange losses (foreign currency translation deficit) arise from the translation of the financial statements of foreign operations, whose functional currencies are different from that of the Group's presentation currency.

(iv) Available-for-Sale Reserve/(Deficit)

Available-for-sale reserve/(deficit) is in respect of unrealised fair value gains/(losses) on financial instruments available-for-sale. Where the unrealised fair value changes is a net gain outstanding balance, the Bank can recognise 45% of the total outstanding balance as part of CET1 Capital. Where the unrealised fair value changes is a net loss outstanding balance, the entire outstanding balance is deducted in CET1 Capital.

(v) Regulatory Reserve

Regulatory reserve is maintained in accordance with paragraph 13.1 of the BNM's guidelines on Classification and Impairment Provisions for Loans and Advances as an additional credit risk absorbent. The amount of the regulatory reserve is derecognised in the calculation of CET1 Capital.

3.2 Additional Tier 1 Capital

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

3.3 Tier 2 Capital

The main components of Tier 2 capital are collective impairment provisions and regulatory reserves (subject to a maximum of 1.25% of total credit risk-weighted assets determined under the Standardised Approach) for credit risk and subordinated debt instruments. The Bank does not have any Tier 2 capital instruments in issuance.

Table 3.1: Capital Structure

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

	Group		Bank	
	31.03.16 RM'000	**31.03.15 RM'000**	**31.03.16 RM'000**	**31.03.15 RM'000**
CET1 Capital				
Ordinary shares	200,000	200,000	200,000	200,000
Retained earnings	103,699	58,511	99,023	82,533
Unrealised gains on financial investments available-for-sale ("AFS")	-	1,076	-	1,024
Foreign exchange translation reserve	2,165	37,445	-	-
Statutory reserve	200,000	200,000	200,000	200,000
Regulatory reserve	2,800	2,800	2,800	2,800
Capital reserve	2,815	2,815		-
Merger reserve	7,656	7,656		-
Less : Regulatory adjustments applied on CET1 capital				
Goodwill	-	-	-	-
Other intangibles	(2,583)	(2,920)	(2,542)	(1,710)
Deferred tax assets	(4,899)	(2,782)	(4,899)	(2,782)
55% of cumulative gains of AFS financial instruments	-	(592)	-	(563)
Regulatory reserve attributable to loans and advances	(2,800)	(2,800)	(2,800)	(2,800)
Investments in capital instruments of unconsolidated financial and insurance/ takaful entities	-	(12,021)	(8,321)	(52,370)
Deduction in excess of Tier 2*	-	(13,922)	(1,477)	(74,446)
CET1 Capital/ Tier 1 Capital	**508,853**	**475,266**	**481,784**	**351,686**
Tier 2 Capital				
Collective impairment provisions and regulatory reserve	4,072	4,111	4,072	4,111
Less : Regulatory adjustments applied on Tier 2 Capital	-	(4,111)	(4,072)	(4,111)
Tier 2 Capital	**4,072**	**-**	**-**	**-**
Total Capital	**512,925**	**475,266**	**481,784**	**351,686**

*The portion of regulatory adjustments not deducted from Tier 2 Capital (as the Bank does not have enough Tier 2 to satisfy the deduction) is deducted from the next higher level of capital; as per paragraph 31.1 of the Bank Negara Malaysia's Capital Adequacy Framework (Capital Components).

3.3 Tier 2 Capital (Cont'd.)

Table 3.1: Capital Structure

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

	Group		Bank	
	31.03.16 RM'000	**31.03.15 RM'000**	**31.03.16 RM'000**	**31.03.15 RM'000**
Credit risk	1,068,131	1,155,040	1,096,673	1,122,413
Market risk	46,347	117,058	35,738	16,101
Operational risk	353,281	380,922	302,599	314,533
Large exposure risk RWA for equity holdings	-	438	-	438
Total risk weighted assets	1,467,759	1,653,458	1,435,010	1,453,485

(b) The components of CET1 Capital of the Islamic window of the Bank is as follows:

	31.03.16 RM'000	**31.03.15 RM'000**
CET1 Capital		
Capital Funds	30,000	30,000
Retained earnings	161,143	141,506
Less : Regulatory adjustments applied on CET1 Capital		
Other intangibles	-	(1)
Deferred tax assets	(296)	(1)
CET1 capital/ Tier 1 capital/ Total capital	**190,847**	**171,504**

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

	31.03.16 RM'000	**31.03.15 RM'000**
Credit risk	77,154	127,718
Operational risk	40,392	31,531
Total risk weighted assets	117,546	159,249

4.0 General Risk Management

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

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

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

Board Approved Risk Appetite Statement

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

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

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

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

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

The Group manages trading and sales activities by instituting appropriate governance, culture, and controls to promote acceptable behaviour.

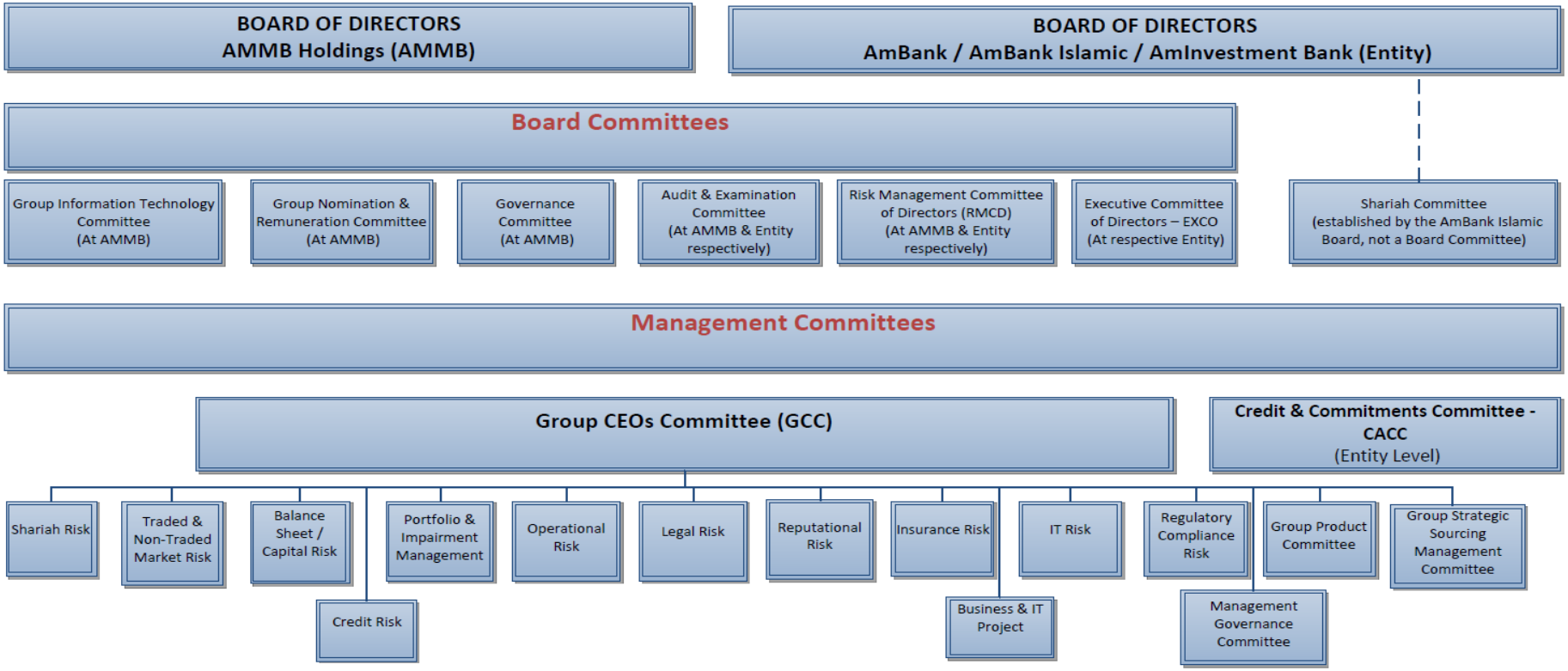
Risk Management Governance

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

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

Table 4.0: Risk Management Governance

The following chart sets out the organisational structure of the Group CEOs Committee and an overview of the Group CEOs Committee's roles and responsibilities.



4.1 Internal Capital Adequacy Assessment Process

The core objectives of the Group's Internal Capital Adequacy Assessment Process ("ICAAP") Policy are to:

- Protect the interests of depositors, creditors and shareholders;
- Ensure the safety and soundness of the Group's capital position; and
- Ensure that the capital base supports the Group's Risk Appetite, and strategic business objectives, in an efficient and effective manner.

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

The following key principles underpin the ICAAP.

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

- Group Risk Appetite, including the Group'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 Group's overall risk management strategy and governance frameworks.

4.1.3 Capital Management Plan and Framework

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

- A strategy for maintaining capital resources over time;
- Measures that would be taken in the event capital falls below a targeted level; and
- Measures to ensure that the Group is in compliance with minimum regulatory standards;

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

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

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 (e.g. 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 Internal Capital Adequacy Assessment Process (Cont'd.)

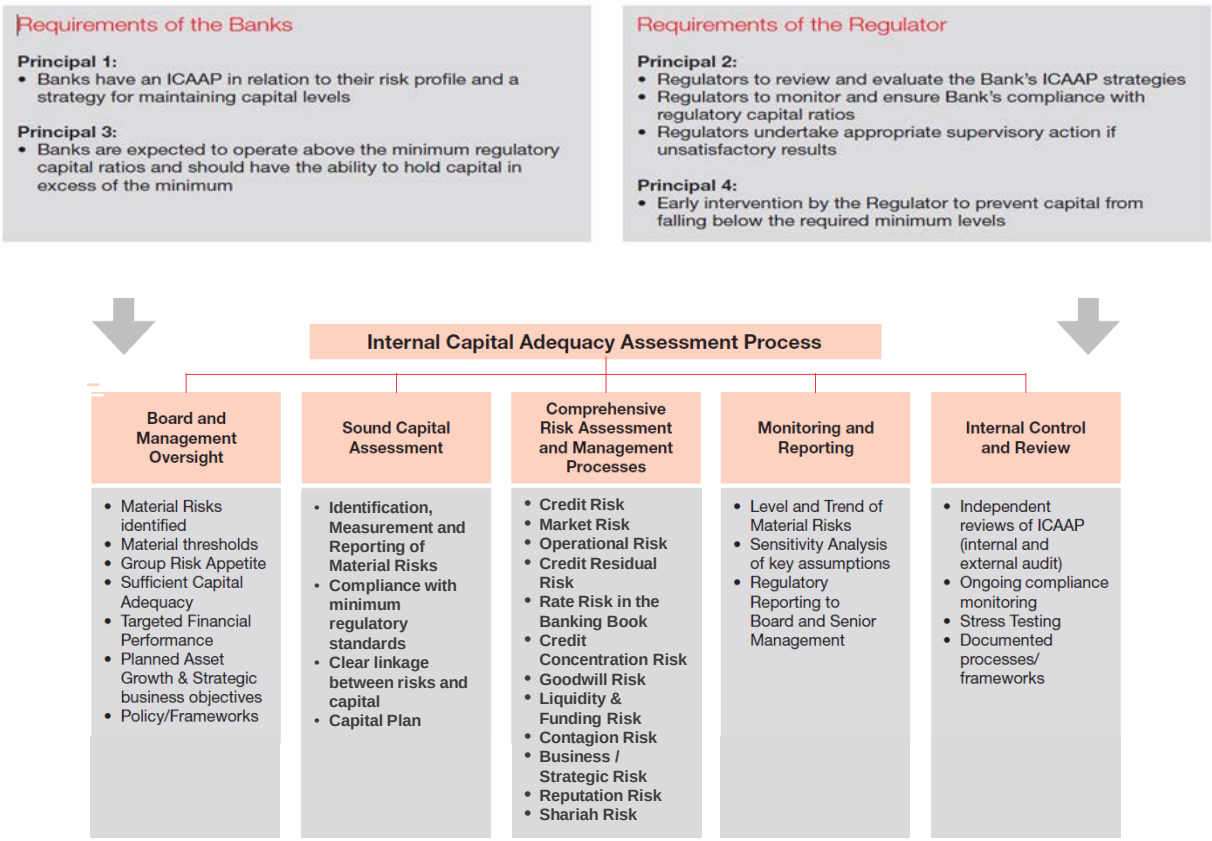
4.1.6 Material Risks

- 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.

ICAAP Framework



Overview of ICAAP process and setting Internal Capital Targets

5.0 Credit Risk Management

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

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

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its payment obligations. Exposure to credit risk arises from lending, securities and derivative exposures. The identification of credit risk is done by assessing the potential impact of internal and external factors on the Group transactions and/or positions as well as Shariah compliance risk (please refer to Section 14 for discussion on Shariah Governance Structure).

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

For non-retail credits, risk recognition begins with an assessment of the financial standing of the borrower or counterparty using 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 Group’s credit exposures.

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

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

- improvement in the accuracy of individual obligor risk ratings;
- enhancement to pricing models;
- loan loss provision calculation;
- stress-testing; and
- enhancement to portfolio management.

5.0 Credit Risk Management (Cont'd.)

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

- Concentration threshold/review trigger:
  - single counterparty credit;
  - industry sector; and
  - country.
- Setting Loan to Value limits for asset backed loans (i.e., property exposures and other collateral);
- Classified Account processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers;
- Rescheduled and Restructured ("R&R") Account Management sets out the controls in managing R&R loan and advances pursuant to the BNM's revised policy on Classification and Impairment Provisions for Loans issued in April 2015; and
- Setting Guidelines on Wholesale Pricing/ Benchmark Returns which serve as a guide to the minimum returns the Group requires for the risk undertaken, taking into account operating expenses and cost of capital.

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

The Group CEOs Committee regularly meets to review the quality and diversification of the Group's loans portfolio, approve new and amended credit risk policy, and review the portfolio risk profile against the GRAF.

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

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

5.0 Credit Risk Management (Cont'd.)

5.1 Impairment

5.1.1 Definition of past due and impaired loans and advances

All loans and advances are categorised as either:

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

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

A loans and advances is classified as impaired under the following circumstances:

(a) When the principal or interest/profit or both is past due[1] or the amount outstanding is in excess of approved limit (for revolving facilities), each for more than 90 days or 3 months on any material obligation[2]; or

(b) For loans where repayments are scheduled on intervals of 3 months or longer, the loan and advance is to be classified as impaired 1+30 days or 1 day +1 month past due (the 30-days grace period is to allow for exclusion of administrative default[3]).

(c) For trade bills/facilities, an account is deemed defaulted and impaired when the past due is 90 days from due date of the bill.

(d) A loans may also be classified as impaired:

i. If it is probable that the bank will be unable to collect all amounts due (including both interest/ profit and principal) according to the contractual terms of the agreement; or

ii. Due to cross-default. Cross-default occurs when:

- a default of a loans obligation of a cutomer triggers a default of another loan obligation of the same customer or
- a default of a loans obligation of a customer triggers a default of a loan obligation of other customers within the same customer group.

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

iii. If deemed appropriate by the Watchlist Committee.

(e) Debt instruments (for example, fixed income securities, debt converted instrument etc.) shall be classified as impaired

i. When the coupon /interest/profit payment or face/nominal value redemption is one (1) day past due after the grace period, where there is a stipulated grace period within the contractually agreed terms; or

ii. When an event of default (EOD) has been declared by the Trustee/ Facility Agent[4] for reasons other than payment in default (as outlined in the Trust Deeds Guidelines issued by the SC); or

iii. Where it is deemed appropriate to classify as impaired and approved by the Watchlist Committee.

(f) In the case of stock broking and futures broking:

i. For margin loans, it is impaired when there is shortfall to the market value i.e. the collateral value is lower than the outstanding balance.

ii. For futures business, the account is impaired when the overlosses are not remedied within 30 days and are not secured against dealer's retention funds.

(g) The loans and advances is deemed impaired when it is classified as R&R in the Central Credit Reference Information System ("CCRIS").

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

[2] Material obligation as determined by Management. Current "material" threshold is set at more than RM200.00

[3] Administrative defaults include cases where exposures become overdue because of oversight on the part of the obligor and/or the banking institution. Instances of administrative defaults may be excluded from the historical default count, subject to appropriate policies and procedures established by the banking institution to evaluate and approve such cases.

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

5.1.2 Methodology for Determination of Individual and Collective Allowances

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

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

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

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

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

With effect from 31 December 2015, the Group is required to maintain, in aggregate, collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding loans/ financing[5] net of individual impairment.

[5] Excluding loans/ financing with an explicit guarantee from the Government of Malaysia.

Table 5.1: Distribution of gross credit exposures by sector

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

	31.03.16									
	Agriculture RM'000	Construction RM'000	Finance and Insurance RM'000	Government and Central RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On balance sheet exposures										
Sovereigns/ Central banks	-	-	-	2,890	-	-	-	-	-	2,890
Banks, DFIs and MDBs	-	-	465,449	-	-	-	-	-	-	465,449
Corporates	860	-	77,859	-	4,233	5,015	45,595	219,892	-	353,454
Regulatory retail	-	-	-	-	-	-	-	27,080	-	27,080
Higher risk assets	-	-	-	-	-	-	-	-	11,820	11,820
Other assets	-	-	-	-	-	-	-	647,540	216,205	863,745
Defaulted exposures	-	-	-	-	-	-	-	10	-	10
Total for on balance sheet exposures	860	-	543,308	2,890	4,233	5,015	45,595	894,522	228,025	1,724,448
Off balance sheet exposures										
Off balance sheet exposures other than Over the counter derivatives or Credit derivatives	-	21,164	100	-	1,850	-	6,420	28,398	-	57,932
Total for off balance sheet exposures	-	21,164	100	-	1,850	-	6,420	28,398	-	57,932
Total on and off balance sheet exposures	**860**	**21,164**	**543,408**	**2,890**	**6,083**	**5,015**	**52,015**	**922,920**	**228,025**	**1,782,380**

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

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

	31.03.15									
	Agriculture RM'000	Construction RM'000	Finance and Insurance RM'000	Government and Central Banks RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On balance sheet exposures										
Sovereigns/ Central banks	-	-	-	7,767	-	-	-	-	-	7,767
Banks, DFIs and MDBs	-	-	956,277	-	-	-	-	-	-	956,277
Corporates	860	-	76,140	-	5,527	1,074	61,192	217,744	343	362,880
Regulatory retail	-	-	-	-	-	-	-	34,054	-	34,054
Higher risk assets	-	-	-	-	-	-	-	-	11,894	11,894
Other assets	-	-	31,346	-	-	-	-	515,170	174,596	721,112
Defaulted exposures	-	-	-	-	-	-	-	1	-	1
Total for on balance sheet exposures	860	-	1,063,763	7,767	5,527	1,074	61,192	766,969	186,833	2,093,985
Off balance sheet exposures										
Off balance sheet exposures other than Over the counter derivatives or Credit derivatives	-	50,064	100	-	1,590	51,900	9,744	32,193	-	145,591
Total for off balance sheet exposures	-	50,064	100	-	1,590	51,900	9,744	32,193	-	145,591
Total on and off balance sheet exposures	**860**	**50,064**	**1,063,863**	**7,767**	**7,117**	**52,974**	**70,936**	**799,162**	**186,833**	**2,239,576**

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

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

	31.03.16			
	Business Activities RM'000	**Household RM'000**	**Not allocated RM'000**	**Total RM'000**
Impaired loans and advances	2,251	-	-	**2,251**
Individual allowance	2,251	-	-	**2,251**
Collective allowance	-	-	1,272	**1,272**
Charges/(Write-back) for individual allowances	(40)	-	-	**(40)**
Write-offs against individual allowance	-	-		**-**

	31.03.15			
	Business Activities RM'000	**Household RM'000**	**Not allocated RM'000**	**Total RM'000**
Impaired loans and advances	2,291	-	-	**2,291**
Individual allowances	2,291	-	-	**2,291**
Collective allowances	-	-	1,311	**1,311**
Charges/(Write-back) for individual allowances	(115)	(792)	-	**(907)**
Write-offs against individual allowances	1,676	-	-	**1,676**

Table 5.3: Geographical distribution of credit exposures

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

	31.03.16		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ Central banks	2,890	-	2,890
Banks, DFIs and MDBs	443,372	22,077	465,449
Corporates	353,454	-	353,454
Regulatory retail	27,080	-	27,080
Higher risk assets	11,813	7	11,820
Other assets	858,640	5,105	863,745
Equity exposures	-	-	-
Defaulted exposures	10	-	10
Total for on balance sheet exposures	1,697,259	27,189	1,724,448
Off balance sheet exposures			
Off balance sheet exposures other than OTC derivatives or credit	57,932	-	57,932
Total for off balance sheet exposures	57,932	-	57,932
Total on and off balance sheet exposures	**1,755,191**	**27,189**	**1,782,380**

	31.03.15		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ Central banks	7,767	-	7,767
Banks, DFIs and MDBs	839,022	117,255	956,277
Corporates	362,880	-	362,880
Regulatory retail	34,054	-	34,054
Higher risk assets	11,888	6	11,894
Other assets	720,588	524	721,112
Defaulted exposures	1	-	1
Total for on balance sheet exposures	1,976,200	117,785	2,093,985
Off balance sheet exposures			
Off balance sheet exposures other than OTC derivatives or Credit	145,591	-	145,591
Total for off balance sheet exposures	145,591	-	145,591
Total on and off balance sheet exposures	**2,121,791**	**117,785**	**2,239,576**

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

All amounts of impaired and past due loans and advances, individual and collective allowances reside in Malaysia and are as follows:

			31.03.16
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans and advances	2,251	-	2,251
Individual allowance	2,251	-	2,251
Collective allowance	1,272	-	1,272

			31.03.15
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans and advances	2,291	-	2,291
Individual allowance	2,291	-	2,291
Collective allowance	1,311	-	1,311

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

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

	31.03.16								
	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	299	-	-	-	-	-	2,591	-	2,890
Banks, DFIs and MDBs	465,449	-	-	-	-	-	-	-	465,449
Corporates	395	1,465	-	3,408	347,661	525	-	-	353,454
Regulatory retail	-	4	497	204	548	25,827	-	-	27,080
Higher risk assets	-	-	-	-	-	-	-	11,820	11,820
Other assets	842,397	-	-	-	-	-	-	21,348	863,745
Defaulted exposures	-	-	9	-	1	-	-	-	10
Total for on balance sheet exposures	1,308,540	1,469	506	3,612	348,210	26,352	2,591	33,168	1,724,448
Off balance sheet exposures									
credit derivatives	1	3,687	548	4,005	10,972	6,758	31,961	-	57,932
Defaulted exposures									
Total for off balance sheet exposures	1	3,687	548	4,005	10,972	6,758	31,961	-	57,932
Total on and off balance sheet exposures	**1,308,541**	**5,156**	**1,054**	**7,617**	**359,182**	**33,110**	**34,552**	**33,168**	**1,782,380**

	31.03.15								
	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	284	-	-	-	-	-	7,483	-	7,767
Banks, DFIs and MDBs	956,277	-	-	-	-	-	-	-	956,277
Corporates	348	2,930	-	2,124	357,478	-	-	-	362,880
Regulatory retail	-	73	116	339	657	32,869	-	-	34,054
Higher risk assets	-	-	-	-	-	-	-	11,894	11,894
Other assets	698,626	-	-	-	-	-	-	22,486	721,112
Defaulted exposures	-	-	-	-	-	1	-	-	1
Total for on balance sheet exposures	1,655,535	3,003	116	2,463	358,135	32,870	7,483	34,380	2,093,985
Off balance sheet exposures									
Off balance sheet exposures other than OTC derivatives or	51,000	3,551	2,340	2,647	22,005	26,672	37,376	-	145,591
Total for off balance sheet exposures	51,000	3,551	2,340	2,647	22,005	26,672	37,376	-	145,591
Total on and off balance sheet exposures	**1,706,535**	**6,554**	**2,456**	**5,110**	**380,140**	**59,542**	**44,859**	**34,380**	**2,239,576**

Table 5.6: Reconciliation of changes to loan impairment allowances

The reconciliation of changes to loan impairment allowances of the Group is as follows:

	31.03.16	
	Individual impairment allowance RM'000	**Collective impairment allowance RM'000**
Balance at beginning of financial year	2,291	1,311
Charge for the period – net	(40)	(39)
Balance at end of financial year	2,251	1,272

	RM'000
Bad debts written off during the financial year	-
Bad debt recoveries during the financial year	-
	-

	31.03.15	
	Individual impairment allowance RM'000	**Collective impairment allowance RM'000**
Balance at beginning of financial year	14,327	4,872
Charge for the year – net	(907)	(2,730)
Amount written-off	(1,676)	(788)
Disposal of a subsidiary	(9,906)	-
Exchange differences	453	(43)
Balance at end of financial year	2,291	1,311

	(Charge off)/ recoveries
	RM'000
Bad debts written off during the financial year	(1,075)
Bad debt recoveries during the financial year	-
	(1,075)

6.0 Credit Risk Exposure under Standardised Approach

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

- Standard & Poor's Rating Services ("S&P")
- Moody's Investors Service ("Moody's")
- Fitch Rating ("Fitch")
- RAM Rating Services Berhad ("RAM")
- Malaysian Rating Corporation Berhad ("MARC")

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

Credit quality	**Moody's**	**S&P**	**Fitch**	**RAM**	**MARC**
Exceptionally Strong	Aaa to A2	AAA to A	AAA to A		
Very strong	A3 to Baa3	A- to BBB-	A- to BBB-	AAA to AA3	AAA to AA
Strong	Ba1 to Ba2	BB+ to BB	BB+ to BB	A1 to A2	
Satisfactory	Ba3	BB-	BB-	A3 to BBB2	AA- to A+
Moderate	B1 to B2	B+ to B	B+ to B	BBB3 to BB1	A to A-
Marginal	B3	B-	B-	BB2 to B1	BBB+ to BBB-
Substandard	Caa1 to C	CCC+ to C	CCC to C	B2 to C3	BB+ to C
Impaired	D	D	D	D	D

6.0 Credit Risk Exposure under the Standardised Approach

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

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

	31.03.16							
	Exposures after netting and credit risk mitigation							
Risk Weights	Sovereigns and Central banks RM'000	Banks, DFIs and MDBs RM'000	Corporates RM'000	Regulatory retail RM'000	Higher risk assets RM'000	Other assets RM'000	Total Exposures after Netting and CRM RM'000	Total Risk Weighted Assets RM'000
0%	2,890	-	75,437	-	-	2	78,329	-
20%	-	465,449	6,662	-	-	-	472,111	94,422
50%	-	-	14,501	-	-	-	14,501	7,251
75%	-	-	-	4,388	-	-	4,388	3,291
100%	-	-	81,679	1	-	863,743	945,423	945,423
150%	-	-	-	10	11,820	-	11,830	17,744
Total	2,890	465,449	178,279	4,399	11,820	863,745	1,526,582	1,068,131

	31.03.15							
	Exposures after netting and credit risk mitigation							
Risk Weights	Sovereigns and Central banks RM'000	Banks, DFIs and MDBs RM'000	Corporates RM'000	Regulatory retail RM'000	Higher risk assets RM'000	Other assets RM'000	Total Exposures after Netting and CRM RM'000	Total Risk Weighted Assets RM'000
0%	7,767	-	75,436	-	-	3	83,206	-
20%	-	803,249	26,650	-	-	-	829,899	165,980
50%	-	153,028	23,414	-	-	-	176,442	88,221
75%	-	-	-	7,112	-	-	7,112	5,334
100%	-	-	156,554	-	-	721,109	877,663	877,663
150%	-	-	-	1	11,893	-	11,895	17,842
Total	7,767	956,277	282,054	7,113	11,893	721,112	1,986,217	1,155,040

Table 6.2: Rated Exposures according to Ratings by ECAIs

	31.03.16					
	Ratings of Corporate by Approved ECAIs					
Exposure class	**Moodys**	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Ba3**	**B1 to C**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	RAM	**AAA to AA3**	**A to A3**	**BBB1 to BB3**	**B1 to D**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	RII	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
Corporates	400,816	-	-	-	-	400,816
Total	400,816	-	-	-	-	400,816

	31.03.15					
	Ratings of Corporate by Approved ECAIs					
Exposure class	**Moodys**	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Ba3**	**B1 to C**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	RAM	**AAA to AA3**	**A to A3**	**BBB1 to BB3**	**B1 to D**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	RII	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
Corporates	495,785	-	-	-	-	495,785
Total	495,785	-	-	-	-	495,785

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

Exposure Class	31.03.16						
	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
	RII	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central banks	2,890	-	2,890	-	-	-	-
Total	**2,890**	-	**2,890**	-	-	-	-

Exposure Class	31.03.15						
	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3				Caa1 to C	
	S&P	AAA to AA-				CCC+ to D	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RII	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central banks	7,767	-	7,767	-	-	-	-
Total	**7,767**	-	**7,767**	-	-	-	-

Exposure class	31.03.16						
	Ratings of Banking Institutions 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
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	RII	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures							
Banks, DFIs and MDBs	465,449	-	11,032	121,511	-	-	332,906
Total	**465,449**	-	**11,032**	**121,511**	-	-	**332,906**

Exposure class	31.03.15						
	Ratings of Banking Institutions 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
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	RII	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures							
Banks, DFIs and MDBs	**956,277**	-	13,306	537,152	-	-	405,819
Total	**956,277**	-	**13,306**	**537,152**	-	-	**405,819**

7.0 Credit Risk Mitigation

Main types of collateral taken by the Group

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

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

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, this is not supported by collateral.

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

Processes for collateral management

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

Guarantee Support

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

Use of credit derivatives and netting for risk mitigation

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

Transaction structuring to mitigate credit risk

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

Concentrations of credit risk mitigation

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

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

7.0 Credit Risk Mitigation

Table 7.1: Credit Risk Mitigation

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

Exposures	31.03.16 Exposures before CRM RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit risk		
On balance sheet exposures		
Sovereigns/ Central banks	2,890	-
Banks, DFIs and MDBs	465,449	-
Corporates	353,454	231,279
Regulatory retail	27,080	24,406
Higher risk assets	11,820	-
Other assets	863,745	-
Equity exposures	-	-
Defaulted exposures	10	-
Total for on balance sheet exposures	1,724,448	255,685
Off balance sheet exposures		
Off balance sheet exposures other than OTC derivatives or credit derivatives	57,932	30,499
Total for off balance sheet exposures	57,932	30,499
Total on and off balance sheet exposures	**1,782,380**	**286,184**

Exposures	31.03.15 Exposures before CRM RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit risk		
On balance sheet exposures		
Sovereigns/ Central banks	7,767	-
Public Sector Entities	-	-
Banks, DFIs and MDBs	956,277	-
Corporates	362,880	220,511
Regulatory retail	34,054	30,188
Higher risk assets	11,894	-
Other assets	721,112	-
Specialised Financing/ Investment	-	-
Equity exposures	-	-
Defaulted exposures	1	-
Total for on balance sheet exposures	2,093,985	250,699
Off balance sheet exposures		
Off balance sheet exposures other than OTC derivatives or credit derivatives	145,591	35,379
Total for off balance sheet exposures	145,591	35,379
Total on and off balance sheet exposures	**2,239,576**	**286,078**

8.0 Off Balance Sheet exposures and Counterparty Credit Risk

8.1 Off Balance Sheet exposures

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

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

(2) Derivatives Financial Instruments, e.g. forward exchange contracts (forward exchange contracts and cross currency swaps), equity related contracts (option and futures).

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

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

8.2 Counterparty Credit Risk

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

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

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

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

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

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

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

Exposure to the counterparty is governed by the counterparty credit limit under the GRAF.

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

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

Table 8.1: Off Balance Sheet Exposures

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

Description	31.03.16			
	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	17,319	-	17,319	6,661
Assets sold with recourse	100		100	100
Obligations under underwriting agreements	-		-	
Foreign exchange related contracts				
One year or less	666	-	-	-
Equity and commodity related contracts				
One year or less	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	19		9	7
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	202,518		40,504	8,757
Total	**220,622**	**-**	**57,932**	**15,525**

Description	31.03.15			
	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	99,447	-	99,447	67,228
Assets sold with recourse	100		100	100
Obligations under underwriting agreements	-		-	-
Foreign exchange related contracts				
One year or less	2,321	-	-	-
Equity and commodity related contracts		1		
One year or less	457		-	-
Over five years				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	19		9	7
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	230,174		46,035	10,799
Total	**332,518**	**1**	**145,591**	**78,134**

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

As at 31 March 2016 and 31 March 2015, the Group does not have any credit derivatives.

9.0 Securitisation

The Group and the Bank did not have any securitisation exposure in its trading and banking books nor did it undertake any securitisation activities during the current financial period and for year ended 31 March 2016.

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 • Key Control Testing • Risk Treatment Plan
Control/ Mitigation	• Policies addressing control & governance requirements to mitigate specific operational risk • Advisory on the establishment of internal controls • Contingency planning
Monitoring/ Review	• Monitoring and reporting of loss incidents by Event Type, Portfolio and Line of Business and entity, reporting of operational risk board and management trigger, risk profile status,key risk indicator breaches and key control testing exceptions. • 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 Section 14 for discussion on Shariah Governance Structure). It excludes strategic, systemic and reputational risk.

Operational Risk Appetite ("ORA") is set as part of overall GRAF, which sets the acceptable tolerance levels of operational risk that the Bank is willing to accept, taking into consideration of the relevant financial and non-financial risk or return attributes in order to support the achievement of Bank's strategic plan and business objectives. The ORA statements and measurements are classified based on operational loss event types, which are grouped into five (5) categories as below and monitored via Incident Management and Data Collection, Key Risk Indicator and Key Control Testing.

- Fraud (internal & external);
- Employment Practices and Workplace Safety;
- Client, Products and Business Practices;
- Business Disruption, System Failures and Damage to Physical Assets; and
- Execution, Delivery and Process Management

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

- The first line of defence is responsible for the management of operational risk in order that accountability and ownership is as close as possible to the activity that creates the risk and ensuring that effective action is taken to manage them. Enhanced First Line of Defence provides a business specific focus on the implementation of operational risk management activities and supports more effective day-to-day monitoring of operational risks.

- 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 CEOs Committee ("GCC"), RMCD and Board.

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

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

10.0 Operational Risk (Cont'd.)

- The Incident Management and Data Collection ("IMDC") module provides a common platform for reporting operational risk incidents that fall 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 operational risks in future and estimate the amount of economic capital charge.

- The Risk and Control Self Assessment ("RCSA") is a process of continual assessment of risks and controls effectiveness. By using structured questionnaires to assess and measure key risk and its corresponding controls effectiveness, RCSA provides risk profiling across the Group

- The Key Risk Indicators ("KRI") module provides early warning of increasing risk and/or control failures by monitoring the changes of the underlying risk measurements.

- The Key Control Testing ("KCT") is the test steps or assessment performed periodically to assure that the key controls are in place and they are operating as intended or effective in managing the operational risks.

- The Risk Treatment Plan is required to be developed to ensure all risks identified are resolved or mitigated sufficiently.

As part of the on-going process to improve the management of operational risks, a dedicated IT Risk Unit which focuses on the management of IT-related risks, was set-up in July 2015.

The Group CEOs Committee, RMCD and Board are the main reporting and escalation committees for operational risk matters including outsourcing risk, information technology risk, shariah risk, legal risk and business continuity management.

10.1 Business Continuity Management

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

Identification	• Identify events that potentially threaten the business operations and areas of criticality
Assessment/ Measurement	• Incident 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 Group's operations and establishment of critical functions recovery against downtimes. BCM builds the resilience and recovery capability to safeguard the interest of Group's stakeholders by protecting our brand and reputation.

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

The Group is continuously reviewing the level of business operations resiliency and conduct periodical testing 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 Group conducts its business, it is subject to legal risks arising from potential breaches of applicable laws, unenforceability of contracts, lawsuits, or adverse judgement, which may lead to incurrence of losses, disruption or otherwise impact on the Group's financials or reputation.

Legal risk is overseen by Group CEOs Committee, upon advice by internal legal counsel and, where necessary, in consultation with external legal counsel to ensure that such risks are appropriately managed.

10.3 Regulatory Compliance Risk

The Group has established a compliance policy which sets out the roles and responsibilities of the Board, Senior Management, Business Units, Group Shared Services, Group Compliance and Group Internal Audit to oversee the management of compliance risk with the aim to promote the safety of the Group by minimising financial, reputational and operational risks arising from legal and regulatory non-compliance.

The Group has put in place the processes to manage the compliance functions in identifying, assessing and monitoring the following activities:

- Management of AML/CFT ongoing due diligence via tracking, monitoring and reporting of suspicious transactions
- Management of new regulations including timely dissemination, engagement and monitoring
- Undertake periodic compliance assessment including onsite, offsite, thematic and initial one-off onsite validation
- Review of new or variation to existing products and services

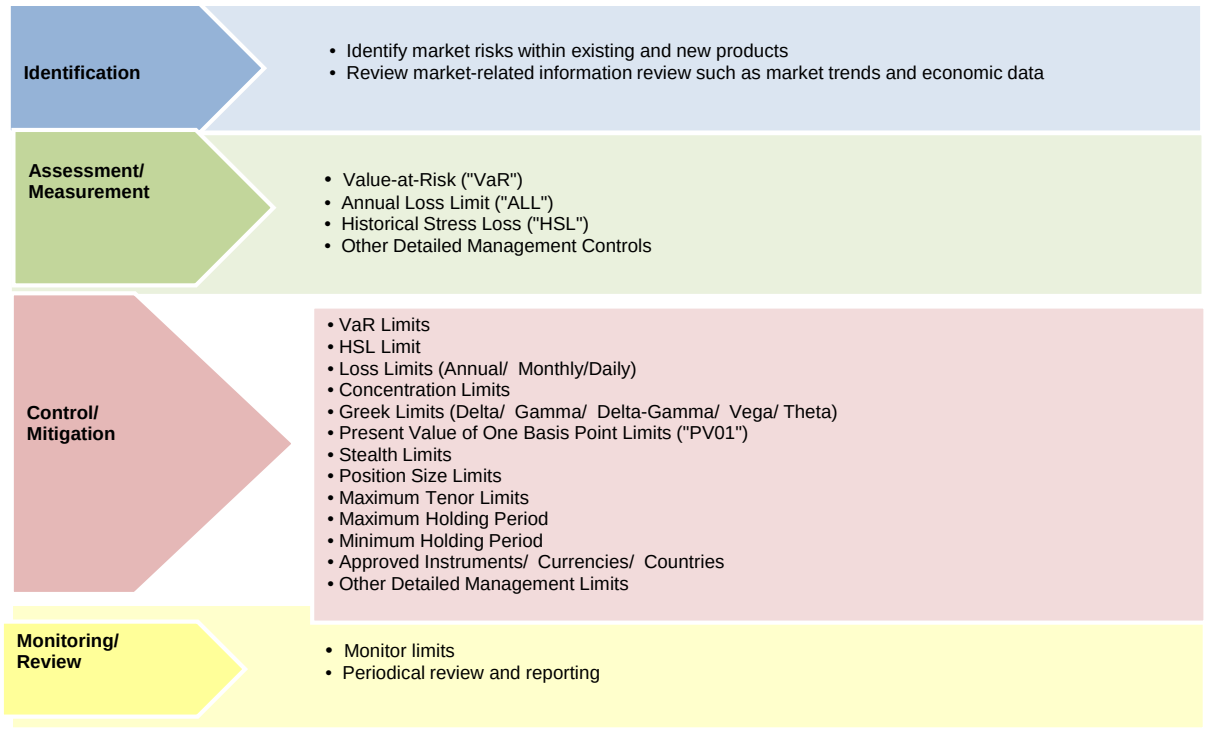
Training is provided to employees of AmBank Group on relevant legal and regulatory requirements governing its activities and guidance on implementation of internal controls to manage compliance risk.

11.0 Market Risk Management

Market risk is the risk of losses due to adverse changes in the level or volatility of market rates or prices, such as interest/profit rates, credit spreads, equity prices and foreign exchange rates. The Group differentiates between two categories of market risk: Traded Market Risk ("TMR") and Non-Traded Market Risk ("NTMR"). Assessment, control and monitoring of these risks are the responsibilities of Investment Banking and Markets Risk ("IBMR").

11.1 Traded Market Risk ("TMR")

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



11.1 Traded Market Risk (Cont'd.)

TMR arises from transactions in which the Group 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, accurately measure and work with the business to ensure exposures are managed within the Board and Group CEOs Committee approved limit structures and risk appetite. This is done via robust traded market risk measurement, limit setting, limit monitoring, and collaboration and agreement with Business Units.

VaR, ALL, HSL and other detailed management controls 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. Loss limits serve to alert management on the need to take relevant and appropriate action once they are triggered.

To complement VaR, HSL is used as a measure of the potential impact on portfolio values due to more extreme, albeit plausible, market movements. In addition, HSL is used to gauge and ensure that the Group is able to absorb extreme, unanticipated market movements.

Apart from VaR, ALL and HSL, additional sensitivity controls (e.g. Greek Limits/PV01) and indicators are used to monitor changes in portfolio value due to changes in risk factors under different market conditions.

IBMR monitors and reports risk exposures against limits on a daily basis. Portfolio market risk positions are also reported to 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 Group adopts the Standardised Approach for market risk capital charge computation. The capital charge serves as a buffer against losses from potential adverse market movements.

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

11.2 Non-Traded Market Risk

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

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

Identification	• Identify IRR/RORBB within existing and new products. • Review market-related information such as market trends and economic data
Assessment/ Measurement	• VaR • Earnings-at-Risk ("EaR") • PV01 • Other Detailed Management Controls
Control/ Mitigation	• VaR Limits • EaR Limits • PV01 Limits • Other Detailed Management Limits
Monitoring/ Review	• Monitor limits • Periodical review and reporting

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

11.2 Non-Traded Market Risk (Cont'd.)

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

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

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

The Group complements VaR by stress testing IRR/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 interest/profit rates and spreads, changes in loan/financing and deposit product balances due to behavioural characteristics under different interest/profit rate environments. Material assumptions include the repricing characteristics and the stickiness of indeterminate or non-maturity deposits and loans/financings.

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

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

IRR/RORBB exposures are monitored by IBMR and positions reported to the Group CEOs Committee, RMCD and Board.

Table 11.1 : Market Risk Sensitivity-IRR/ROBB

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

Impact on Income Statement

	31.03.16		31.03.15	
Currency	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**
MYR	**740**	**(740)**	**3,851**	**(3,851)**

Impact on Equity

	31.03.16		31.03.15	
Currency	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**
MYR	**(4,262)**	**4,749**	**(2,369)**	**2,821**

12.0 Equities (Banking Book Positions)

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

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

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

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

12.0 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. 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.

Table 12.1: Equity investments and capital requirement

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

	31.03.16	31.03.15
Non traded equity investments	**RM'000**	**RM'000**
Value of quoted (publicly traded) equities	-	-
Value of unquoted (privately held) equities	11,720	11,794
Total	11,720	11,794
Net realised and unrealised gains/ (losses)		
Cumulative realised gains/ (losses) from sales and liquidations	(49)	-
Total unrealised gains/ (losses)	(1,024)	(683)
Total	(1,073)	(683)
Risk Weighted Assets		
Equity investments subject to a 100% risk weight	-	
Equity investments subject to a 150% risk weight	17,579	17,691
Total	17,579	17,691
Total minimum capital requirement (8%)	1,406	1,415

13.0 Liquidity Risk and Funding Management

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 management is the ongoing ability to raise sufficient funds to finance actual and proposed business activities at a reasonable cost. Improper funding management may lead to liquidity problem. On the other hand, insufficient liquidity risk management may also give rise to funding risk.

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

Identification	• Identify liquidity risk within existing and new business activities • Review market-related information such as market trends and economic data • Keep abreast with regulatory requirements
Assessment/ Measurement	• Liquidity Coverage Ratio ("LCR") • Depositor Concentration Ratios • Loans to Deposit Ratio ("LDR") • Other Detailed Management Controls
Control/ Mitigation	• LCR Limits • Depositor Concentration Ratios • LDR Limits • Other Detailed Management Limits
Monitoring/ Review	• Monitor limits • Periodical review and reporting

The liquidity risk management of the Group is aligned to BNM's Liquidity Coverage Ratio ("LCR") issued by BNM on 31 March 2015. The primary objective of the Group's liquidity risk management is to ensure the availability of sufficient funds at a reasonable cost to honour all financial commitments when they fall due. This objective is partly managed through maintenance of a portfolio of high-quality liquid assets to protect against adverse funding conditions and support day-to-day operations. The secondary objective is to ensure an optimal funding structure and to balance the key liquidity risk management objectives, which includes diversification of funding sources, customer base and maturity period.

The Board provides the liquidity risk management oversight while the Group CEOs Committee is the responsible governing body that approves the Group's liquidity management and strategies policies, and is responsible for setting liquidity limits, proposing liquidity risk policies and contingency funding plan, and practices to be in compliance with local regulatory requirements, and monitor liquidity on an ongoing basis. The Capital and Balance Sheet Management Department and Group Risk Management propose and oversee the implementation of policies and other controls relating to the above risks.

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

The Group has in place various liquidity measurements that provide the Group with visibility from volatility of customer's deposits to the concentration ratio of chunky deposits. Group Risk Management is responsible for monitoring the controls and limits while the Capital and Balance Sheet Management Department is responsible to ensure the controls and limits are within the thresholds.

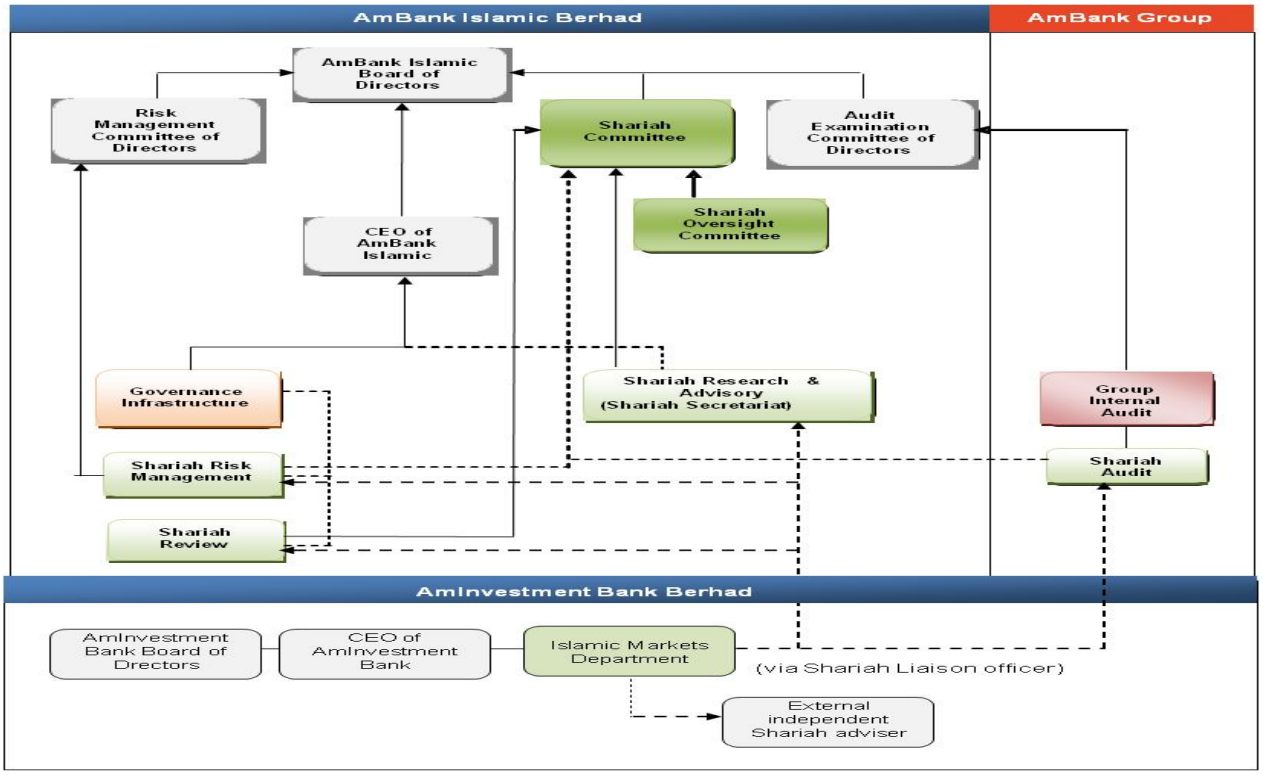
Stress testing is undertaken to assess and plan for the impact for various scenarios which may put the Group's liquidity at risk. The Group further stresses the importance of customer deposit accounts as a source of funds to finance lending to customers. They are monitored using the unadjusted loans to deposit ratio, which compares loans and advances to customers as a percentage of customer deposit accounts.

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

13.0 Liquidity Risk and Funding Management (Cont'd.)

In preparation to the impending implementation of BNM's Basel III Net Stable Funding Ratio ("NSFR"), the Group is already monitoring the NSFR and continue to pursue strategies to ensure the availability of cost effective liquidity.

14.0 Shariah Governance Structure



A Shariah governance framework is put in place in the organizational structure of the Group for its Islamic banking operations, in accordance with the requirements of BNM's "Shariah Governance Framework for Islamic Financial Institutions". This is to ensure the Islamic operations and business activities of the Group, including AmInvestment Bank Berhad ("AmInvestment Bank") comply with Shariah principles and its requirements as prescribed by the Islamic Financial Services Act, 2013 ("IFSA 2013") and the relevant guidelines issued by Securities Commission Malaysia ("SC")

The Bank adopts a leverage model whereby, through its Islamic window i.e. Islamic Markets Department ("IMD"), it leverages on AmBank Islamic Shariah Governance Structure, including the SC of AmBank Islamic. Alternatively, IMD may also opt for independent external Shariah advisor(s) as approved by the SC of Malaysia when necessary and will be on ad-hoc basis

Board of Directors

The Board of the Bank is accountable and responsible for the overall oversight on the Shariah governance and Shariah compliance pursuant to the IFSA 2013. The Board performs its oversight through various committees such as the AEC, RMCD and the Shariah Committee.

Audit and Examination Committee of Directors

AEC is a Board committee of the Bank responsible for assisting the Board in ensuring Islamic Banking operations of the Group are Shariah compliant through oversight of the Shariah Audit function performed by Group Internal Audit.

Risk Management Committee of Directors

RMCD is a Board committee of the Bank responsible for assisting the Board in ensuring risk management and control process are in place and functioning, including Shariah risk management .

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 Islamic capital market products and services, Shariah policies and the relevant documentation in relation to the Bank's Islamic operations and business activities.

14.0 Shariah Governance Structure (Contd.)

Shariah Liaison Officer, IMD

As per the leveraging model, the Bank via IMD leverages on AmBank Islamic Shariah Governance Structure, through its appointed Shariah Liaison Officer(s) who shall communicate with the Shariah Secretariat in escalating Shariah matters/issues to the Shariah Committee, if any. IMD is a one-stop centre and point-of-reference for the relevant LOBs under the Bank with regards to Islamic capital market products and services.

Shariah Oversight Committee

The Shariah Oversight Committee, which is a sub-committee to the Shariah Committee, performs an oversight function on Islamic capital market product and services from Shariah perspective. The Committee provides guidance and advice on matters pertaining to Shariah non-compliant incidences as well as treatment of Shariah non-compliant income (if any).

Management

Management via IMD, including the Chief Executive Officer ("CEO") of the Bank, is responsible to make reference to the Shariah Committee or external independent Shariah advisor and/or the Shariah Oversight Committee on Shariah matters and to take necessary measures for implementation. The Management is also responsible in setting the infrastructure and providing the environment and adequate resources to support the Shariah governance structure. This includes putting in place adequate systems and controls in order to ensure compliance with Shariah and to mitigate Shariah non-compliance risk.

Shariah Research & Advisory

Shariah research

IMD will be undertaking the Shariah research, which will include study or research of new Islamic capital market product and services, policies and guidelines (where relevant). As per the leveraging model, the findings of the Shariah research will be forwarded to the Shariah Committee (via the Shariah Secretariat) for final Shariah decisions or fatwa.

Alternatively, IMD can also undertake the Shariah research with the appointed external independent Shariah adviser(s). Final Shariah decisions or fatwa by the external independent Shariah adviser(s) will then be shared by IMD to the Shariah Committee, via the Shariah Secretariat.

Shariah Advisory

IMD provides Shariah advisory which shall be based on the Shariah resolutions (fatwa) issued by the Shariah Advisory Council ("**SAC**") of BNM and/or SC. As per the leveraging model, IMD shall also provide Shariah advisory based on the Shariah decision/pronouncement/resolution issued by the Shariah Committee.

Alternatively, the provision of Shariah advisory by IMD can also be based on the decision/pronouncement/resolution issued by the external independent Shariah adviser(s).

Ultimately, all Shariah advise dispensed by IMD be in line with the Shariah Resolutions (fatwa) issued by SAC of BNM and SC, at all time.

Shariah Risk Management

As per the leveraging model, the Shariah Risk Management ("**SRM**") function of AmBank Islamic shall undertake the Shariah risk review of IMD. The SRM function is accountable to the RMCD. The SRM is a function to systematically identify, measure, monitor and control of Shariah non-compliance risks to mitigate any possible non-compliance events.

The Shariah Risk Management is executed through the three lines of defence in managing Shariah risk. The three lines of defence are: 1st- The Business and Support Units; 2nd – Shariah Risk Management, Shariah Review, IMD, Compliance; 3rd – Shariah Audit.

Shariah Review

As per the leveraging model, the Shariah Review function of AmBank Islamic shall undertake the Shariah review of IMD. The Shariah Review function is accountable to the Shariah Committee.The objective of the Shariah review function is to provide reasonable self-assurance for AmInvestment Bank in its daily activities and operations thus to add value and improve the degree of Shariah awareness and compliance.

Shariah Audit

The Shariah Audit function is accountable to the AEC. A designated team within the Group Internal Audit Department is responsible to conduct independent assessment on the level of Shariah compliance of Islamic capital market product and services operations through Shariah Audit function. Audit coverage include review of product structure documentation, adequacy of systems, internal controls and computation, staff competency and adequacy of the Shariah governance process.