AMMB Banking Group
Pillar 3 Disclosure

31 March 2017

RWCAF- Pillar 3 Disclosure
(Applicable to the regulated banking subsidiaries of the Group)
For 31 March 2017

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 framework apply are AmBank (M) Berhad ("AmBank"), AmInvestment Bank Berhad ("AmInvestment Bank") and AmBank Islamic Berhad ("AmBank Islamic") – which offers Islamic banking services.

The following information has been provided in order to highlight the capital adequacy of our regulated banking subsidiaries and a pro-forma view of the Group position on an aggregated basis. The information provided has been verified by the Group internal auditors and certified by the Group Chief Executive Officer.

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. Each entity's standalone and consolidated capital adequacy position and more detailed quantitative disclosures are available via our website at www.ambankgroup.com.

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 13 October 2015, which is based on the Basel III capital accord. Pursuant to these guidelines, the minimum capital adequacy ratios to be maintained under the guidelines for its banking subsidiaries are 4.5% for CET1 capital, 6.0% for Tier 1 capital and 8.0% for total capital ratio. The Group's banking subsidiaries 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	2.5%

AMMB, being a financial holding company ("FHC") will be required to comply with the above BNM guidelines on minimum capital adequacy ratios at the consolidated level for FHC effective 1 January 2019.

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 period.

Medium and Location of Disclosure

The Pillar 3 disclosures of the Group is available on our corporate website at www.ambankgroup.com.

1.0 Scope of Application (Cont'd.)

1.1 Basis of Consolidation

For statutory accounting purposes, the consolidated financial statements of AMMB comprise the financial statements of the Company 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 Disclosure, 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 the 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 the calculation of capital
Associates and jointly controlled entities which are not licensed under FSA or IFSA or 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 Board 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.

2.0 Capital Management (Cont'd.)

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 and 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 Assets and Liabilities Committee ("GALCO"). The GALCO 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.

GALCO proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. For the current financial year ended 31 March 2017 ("FY 2017"), these ranges are 8.5% to 10.5% for the Common Equity Tier ("CET1") Capital Ratio, 9.7% to 11.7% 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 assessment of the demand for capital and the updating of the Group's capital plan.

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

Table 2.1: Capital Adequacy Ratios

The capital adequacy ratios of our regulated banking subsidiaries and a pro-forma Group view are as follows:

	31.03.17			
	AmBank	**AmBank Islamic**	**AmInvestment Bank**	**Group ***
Before deducting proposed dividends:				
CET1 Capital ratio	11.230%	10.498%	32.916%	11.917%
Tier 1 Capital ratio	12.478%	10.498%	32.916%	12.809%
Total Capital ratio	16.073%	15.069%	32.916%	16.658%
After deducting proposed dividends:				
CET1 Capital ratio	10.764%	10.498%	31.373%	11.563%
Tier 1 Capital ratio	12.012%	10.498%	31.373%	12.455%
Total Capital ratio	15.607%	15.069%	31.373%	16.304%

	31.03.16			
	AmBank (Restated) Note (iii) (a)	**AmBank Islamic**	**AmInvestment Bank (Restated) Note (iii) (b)**	**Group * (Restated) Note (iii) (c)**
Before deducting proposed dividends:				
CET1 Capital ratio	11.083%	9.846%	34.341%	11.605%
Tier 1 Capital ratio	12.555%	9.846%	34.341%	12.640%
Total Capital ratio	15.767%	15.320%	34.341%	16.467%
After deducting proposed dividends:				
CET1 Capital ratio	10.642%	9.846%	32.026%	11.259%
Tier 1 Capital ratio	12.114%	9.846%	32.026%	12.294%
Total Capital ratio	15.326%	15.320%	32.026%	16.121%

Notes:

(i) The Group has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk.

(ii) Group* figures presented in this Report represent an aggregation of the consolidated capital positions and risk weighted assets ("RWA") of our regulated banking institutions. The consolidated positions of each entity are published at www.ambankgroup.com.

(iii) The restated comparative capital adequacy ratios were due to the effect of the pooling of interests method arising from :

(a) the transfer of card operations to AmBank from its wholly-owned subsidiary, AmCard Services Berhad.

(b) the transfer of future broking business from AmFutures Sdn Bhd ("AmFutures") to AmInvestment Bank during the current financial period. AmFuture is a wholly owned subsidiary of AmInvestment Bank.

(c) acquisition of 100% equity interest in AmFunds Management Berhad ("AFM"), and AmIslamic Funds Management Sdn Bhd ("AIFM") by AmInvestment Bank from a related company, AmInvestment Group Berhad. AmInvestment Bank, AmFutures, AFM and AIFM are all under common control. Accordingly the abovementioned transfer of business and acquisition had been accounted for via the pooling of interests method.

Under the pooling of interests method, the results and financial position of the abovementioned transfer of business and acquisition are included in the financial statements of AmInvestment Bank as if the merger had been effected prior to and throughout the current financial year.

Table 2.2: Risk-Weighted Assets and Capital Requirements

The aggregated breakdown of RWA by exposures in major risk category of AMMB Banking Group is as follows:

	31 MARCH 2017						
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**	**Risk Weighted Assets Absorbed by RIA 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		7,817,184	7,807,800	4,444	-	4,444	356
Public Sector Entities ("PSEs")		41,621	41,621	8,324	-	8,324	666
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")		7,750,663	7,750,663	1,600,086	-	1,600,086	128,006
Insurance companies, Securities firms and Fund managers		73	73	73	-	73	6
Corporates		53,600,587	51,578,897	42,690,636	1,604,369	41,086,267	3,286,902
Regulatory retail		32,650,413	32,438,383	25,228,009	-	25,228,009	2,018,241
Residential mortgages		14,569,271	14,551,934	5,377,152	-	5,377,152	430,172
Higher risk assets		120,722	120,646	180,969	-	180,969	14,477
Other assets		2,983,660	2,983,660	2,496,231	-	2,496,231	199,699
Securitisation exposures		53,095	53,095	12,303	-	12,303	984
Equity exposures		576	576	576	-	576	46
Defaulted exposures		1,275,124	1,251,096	1,370,372	-	1,370,372	109,630
Total for on balance sheet exposures		120,862,989	118,578,444	78,969,175	1,604,369	77,364,806	6,189,185
Off balance sheet exposures:							
Over the counter ("OTC") derivatives		4,007,121	4,007,121	2,070,084	-	2,070,084	165,606
Credit derivatives		14	14	7	-	7	1
Off balance sheet exposures other than OTC derivatives or Credit derivatives		12,117,557	10,185,895	9,170,486	-	9,170,486	733,639
Defaulted exposures		20,952	18,114	25,408	-	25,408	2,032
Total for off balance sheet exposures		16,145,644	14,211,144	11,265,985	-	11,265,985	901,278
Total on and off balance sheet exposures		137,008,633	132,789,588	90,235,160	1,604,369	88,630,791	7,090,463
2. **Large exposures risk requirement**				30,573	-	30,573	2,446
3. **Market risk**	**Long Position**	**Short Position**					
Interest rate risk /Rate of return risk							
- General interest rate risk/Rate of return ris	105,407,319	98,458,791		1,773,919	-	1,773,919	141,913
- Specific interest rate risk/Rate of return ris	7,012,517	306,644		136,285	-	136,285	10,904
Foreign currency risk	256,209	361,530		416,346	-	416,346	33,308
Equity risk							
- General risk	74,434	15,941		58,679	-	58,679	4,694
- Specific risk	74,434	15,941		48,390	-	48,390	3,871
Option risk	428,329	199,741		12,352	-	12,352	988
Total	113,253,242	99,358,588		2,445,971	-	2,445,971	195,678
4. **Operational risk**				6,160,989	-	6,160,989	492,879
5. **Total RWA and capital requirements**				98,872,693	1,604,369	97,268,324	7,781,466

As part of an arrangement between AmBank and AmBank Islamic in relation to Restricted Investment Account ("RIA") agreements, AmBank records as Investment account its exposure in the arrangement, whereas AmBank Islamic records its exposure as "financing and advances". The RIA is a contract based on Shariah concept of Mudarabah between AmBank and AmBank Islamic to finance a specific business venture where AmBank solely provides capital and the business ventures are managed solely by AmBank Islamic as the entrepreneur. The RIA exposes AmBank to the risks and rewards of the financing, and accordingly AmBank accounts for all impairment allowances and risk-weighted assets arising from the RIA arrangement.

As at 31 March 2017, the gross exposure and collective allowance relating to the RIA financing are RM1,604.4 million and RM2.3 million (31 March 2016: RM1,004.0 million and RM1.5 million respectively). There was no individual allowance provided for the RIA financing. RIA assets excluded from the risk-weighted capital adequacy computation of AmBank Islamic for 31 March 2017 amounted to RM1,604.4 million (31 March 2016: RM1,004.0 million) and the risk weighted on these RIA assets are accounted for in the computation of capital adequacy of AmBank.

Table 2.2 Risk-Weighted Assets and Capital Requirements (Cont'd.)

The aggregated breakdown of RWA by exposures in major risk category of AMMB Banking Group is as follows:

	31 MARCH 2016 (Restated)						
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**	**Risk Weighted Assets Absorbed by RIA 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		12,011,366	12,011,366	-	-	-	-
Banks, development financial institutions ("DFIs") and multilateral development banks ("MDBs")		10,032,775	10,032,775	2,110,552	-	2,110,552	168,843
Insurance companies, Securities firms and Fund managers		7,201	7,201	7,201	-	7,201	576
Corporates		51,251,650	49,695,524	39,354,722	1,003,979	38,350,743	3,068,060
Regulatory retail		33,688,061	32,665,429	25,679,133	-	25,679,133	2,054,330
Residential mortgages		11,347,176	11,324,616	4,010,179	-	4,010,179	320,814
Higher risk assets		111,409	111,409	167,113	-	167,113	13,369
Other assets		3,474,031	3,474,031	3,032,362	-	3,032,362	242,589
Securitisation exposures		53,432	53,432	13,607	-	13,607	1,089
Equity exposures		4,210	4,210	4,210	-	4,210	337
Defaulted exposures		1,147,366	1,130,451	1,396,145	-	1,396,145	111,691
Total for on balance sheet exposures		123,128,677	120,510,444	75,775,224	1,003,979	74,771,245	5,981,698
Off balance sheet exposures:							
Over the counter ("OTC") derivatives		4,513,246	4,513,246	1,840,600	-	1,840,600	147,248
Credit derivatives		42	42	21	-	21	2
Off balance sheet exposures other than OTC derivatives or Credit derivatives		10,897,557	10,076,020	8,832,482	-	8,832,482	706,598
Defaulted exposures		51,758	32,042	48,063	-	48,063	3,845
Total for off balance sheet exposures		15,462,603	14,621,350	10,721,166	-	10,721,166	857,693
Total on and off balance sheet exposures		138,591,280	135,131,794	86,496,390	1,003,979	85,492,411	6,839,391
2. **Large exposures risk requirement**				-	-	-	-
3. **Market risk**	**Long Position**	**Short Position**					
Interest rate risk /Rate of return risk							
- General interest rate risk/Rate of return risk	93,046,824	91,456,261		2,071,964	-	2,071,964	165,757
- Specific interest rate risk/Rate of return risk	2,624,760	860,826		141,221	-	141,221	11,297
Foreign currency risk	180,552	65,119		180,552	-	180,552	14,444
Equity risk							
- General risk	142,867	11,304		131,563	-	131,563	10,525
- Specific risk	142,867	11,304		30,081	-	30,081	2,407
Option risk	657,381	469,892		24,554	-	24,554	1,964
Total	96,795,251	92,874,706		2,579,935	-	2,579,935	206,394
4. **Operational risk**				7,108,472	-	7,108,472	568,678
5. **Total RWA and capital requirements**				96,184,797	1,003,979	95,180,818	7,614,463

3.0 Capital Structure

Table 3.3 Capital Structure summarises the aggregated capital position of the Group. The capital structure includes capital under the following headings:

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

All capital instruments included in the capital base have been issued in accordance with the BNM rules and guidelines. The 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 was used to record premium arising from new shares issued in the Company under the Companies Act, 1965. Pursuant to the amendments in Section 74 of the Companies Act 2016 ("CA 2016"), all shares issued before or upon commencement of CA 2016 shall have no par or nominal value i.e. any amount outstanding in the share premium account shall be part of the entity's paid-up share capital upon commencement of CA 2016. Under the CA 2016, companies are given a transitional period of 24 months to utilise the balances in share premium account. As at 31 March 2017, the entire balance of share premium of its banking subsidiaries had been transferred to paid-up share capital of the respective subsidiaries.

(c) Retained Earnings

Retained earnings at the end of the financial year and eligible reserves are accumulated resources included in the shareholders’ funds in an entity’s statement of financial position, with certain regulatory adjustments applied. 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 and Section 57(2)(f) of IFSA and is not distributable as cash dividends.

(ii) Capital Reserve and Merger Reserve

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

3.1 CET 1 Capital (Cont'd.)

(d) Other Disclosed Reserves (Cont'd.)

(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 investments available-for-sale. Where the unrealised fair value changes is a net gain outstanding balance, the banking subsidiaries can recognise 45% of the total outstanding balance as part of CET 1 Capital. Where the unrealised fair value changes is a net loss outstanding balance, the entire outstanding balance is deducted in CET 1 Capital.

(e) Cash Flow Hedging Reserve/(Deficit)

Cash flow hedging reserve/(deficit) comprises the portion of the gains/(losses) on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. Cash flow hedging gain as at the reporting period is classified as cash flow hedging reserve and cash flow hedging losses is classified as cash flow hedging deficit. The amount of the cash flow hedging reserve/(deficit) is derecognised in the calculation of CET 1 Capital.

(f) Regulatory Reserve

Regulatory reserve is maintained in accordance with paragraph 13.1 of the the BNM's Policy Document on Classification and Impairment Provisions for Loans/Financing 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 amount of Additional Tier 1 Capital that can be recognised in the computation of the capital adequacy ratios of the banking subsidiaries, at both the entity and consolidated level for 2013, has been capped at 90% of the total qualifying Additional Tier 1 Capital balance outstanding as at 1 January 2013. For 2017, the amount of Additional Tier 1 Capital that can be recognised in the computation of the capital adequacy ratios are capped at 50% of the total qualifying Additional Tier 1 Capital balance outstanding as at 1 January 2013. This is in accordance with the transitional gradual phase-out treatment under the Basel III regime. As at 1 January 2013 and at present, only AmBank has Additional Tier 1 Capital Instrument in issuance. Table 3.1 outlines the application of the grandfathering provisions in respect of the Additional Tier 1 Capital Instruments of AmBank. Details of the Additional Tier 1 Capital Instruments are outlined below.

Table 3.1 Additional Tier 1 Capital Instruments of AmBank and the Basel III Gradual Phase-Out Treatment

Base for Additional Tier 1 Capital Instruments outstanding on 1 January 2013		
Instruments	**RM'000**	
Non-cumulative Non-voting Guaranteed Preference Shares	750,100	Note 1
Innovative Tier 1 Capital - Tranche 1	300,000	
Innovative Tier 1 Capital - Tranche 2	185,000	
Non-Innovative Tier 1 Capital - Tranche 1	200,000	
Non-Innovative Tier 1 Capital - Tranche 2	300,000	
Total qualifying base	**1,735,100**	

Note 1
Repaid in full on its first call date of 27 January 2016.

3.2 Additional Tier 1 Capital (Cont'd.)

Table 3.1: Additional Tier 1 Capital Instruments of AmBank and the Basel III Gradual Phase-Out Treatment (Cont'd.)

Calendar year	Cap on Additional Tier 1 Capital Instruments that can be recognised in capital adequacy computation each year	
	Cap %	Cap RM'000
2013	90%	1,561,590
2014	80%	1,388,080
2015	70%	1,214,570
2016	60%	1,041,060
2017	50%	867,550
2018	40%	694,040
2019	30%	520,530
2020	20%	347,020
2021	10%	173,510
2022	0%	-

Innovative Tier 1 Capital

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

(a) Innovative Tier 1 Capital Securities

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

(b) Non-Innovative Tier 1 Capital

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

(i) Non-Cumulative Perpetual Capital Securities ("NCPCS"), which are issued by AmBank and stapled to the Subordinated Notes described below; and

(ii) Subordinated Notes ("SubNotes"), which are issued by AmPremier Capital Berhad ("AmPremier"), a wholly-owned subsidiary of AmBank.

(collectively known as "Stapled Capital Securities").

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

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

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

3.2 Additional Tier 1 Capital (Cont'd.)

Innovative Tier 1 Capital (Cont'd.)

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

3.3 Tier 2 capital

The main components of Tier 2 Capital are collective impairment provisions and regulatory reserve (subject to a maximum of 1.25% of total credit risk weighted assets determined under the Standardised Approach) and subordinated debt instruments.

The amount of Tier 2 Capital issued prior to 2013 that can be recognised in the computation of the capital adequacy ratios of the banking subsidiaries, at both the entity and consolidated level for 2013, has been capped at 90% of the total qualifying Tier 2 Capital balance outstanding as at 1 January 2013. For 2017 the amount of such Tier 2 Capital that can be recognised in the computation of the capital adequacy ratios is capped at 50% of the total qualifying Tier 2 Capital balance outstanding as at 1 January 2013. This is in accordance with the transitional gradual phase-out treatment under the Basel III regime. Tables 3.2(a) and 3.2(b) outline the application of the grandfathering provisions in respect of the Tier 2 Capital Instruments for AmBank and AmBank Islamic respectively. AmInvestment Bank does not have any Tier 2 Capital Instruments in issuance as at 1 January 2013 and at present. Details of the Tier 2 Capital Instruments are outlined below.

Table 3.2(a) Tier 2 Capital Instruments of AmBank and the Basel III Gradual Phase Out Treatment

Base for Tier 2 Capital Instruments outstanding on 1 January 2013			
Instruments	**RM'000**		
Medium Term Notes ("MTN") - Tranche 1	200,000	Note 1	(a)
MTN – Tranche 2	165,000		(b)
MTN – Tranche 3	75,000		(c)
MTN – Tranche 4	45,000		(d)
MTN – Tranche 5	75,000		(e)
MTN – Tranche 6	600,000		
MTN – Tranche 7	97,800		(f)
MTN – Tranche 8	710,000		
Total qualifying base	**1,967,800**		

Calendar year	Cap on Tier 2 Capital Instruments that can be recognised in capital adequacy computation each year	
	Cap %	Cap RM'000
2013	90%	1,771,020
2014	80%	1,574,240
2015	70%	1,377,460
2016	60%	1,180,680
2017	50%	983,900
2018	40%	787,120
2019	30%	590,340
2020	20%	393,560
2021	10%	196,780
2022	0%	-

Note 1 :
(a) Tranche 1 was called and cancelled on its first call date of 4 February 2013.
(b) Tranche 2 was called and cancelled on its first call date of 14 March 2013.
(c) Tranche 3 was called and early redeemed on its first call date of 16 March 2015.
(d) Tranche 4 was called and cancelled on its first call date of 28 March 2013.
(e) Tranche 5 was called and early redeemed on 28 March 2015.
(f) Tranche 7 was called and cancelled on its first called date of 10 December 2014.

3.3 Tier 2 capital (Cont'd.)

Table 3.2(b) Tier 2 Capital Instruments of AmBank Islamic and the Basel III Gradual Phase-Out Treatment

Base for Tier 2 Capital Instruments outstanding on 1 January 2013		
Instruments	**RM'000**	Note 1
Subordinated Sukuk Musharakah – Tranche 1	600,000	(a)
Subordinated Sukuk Musharakah – Tranche 2	200,000	(b)
Subordinated Sukuk Musharakah – Tranche 3	200,000	(c)
Total qualifying base	**1,000,000**	

Note 1 :

(a) Nominal value of sukuk which amounted to RM120.0 million was purchased and cancelled as at 31 March 2014. On 30 September 2016, the Bank early redeemed the remaining portion of this tranche which amounted to RM480.0 million on its first call date.

(b) Nominal value of sukuk which amounted to RM10.0 million was purchased and cancelled as at 31 March 2014. On its first call date of 31 January 2017, the Bank early redeemed the remaining portion of this tranche which amounted to RM190.0 million.

(c) Nominal value of sukuk which amounted to RM70.0 million was purchased and cancelled as at 31 March 2014.

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

Medium Term Notes

In the financial year ended 31 March 2008, AmBank implemented a RM2.0 billion nominal value Medium Term Notes ("MTN") Programme. The proceeds raised from the MTN Programme had been utilised for the refinancing of existing subordinated debts and for general working capital requirements.

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

The MTNs issued under the MTN Programme was included as Tier 2 Capital under BNM's capital adequacy framework. Effective 1 January 2013, the MTNs are eligible for gradual phase-out treatment under the transitional arrangement of the Basel III accord, for recognition as Tier 2 Capital for capital adequacy calculation.

The salient features of the MTNs issued under this programme and outstanding as at 31 March 2017 are as follows:

3.3 Tier 2 capital (Cont'd.)

Medium Term Notes (Cont'd.)

Issue Date	First Call Date	Tenor	Interest Rate	Nominal Value Outstanding (RM million)
9 April 2008	9 April 2018	15 years Non-Callable 10 years	6.25% per annum (step up by 0.5% per annum after its first call date).	600
16 October 2012	16 October 2017	10 years Non-Callable 5 years	4.45% per annum	710
Total				**1,310**

Basel II Subordinated Sukuk Musharakah

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

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

Sukuk Musharakah issued under the Sukuk Musharakah programme qualified as Tier 2 Capital under BNM's capital adequacy framework. Effective 1 January 2013, the Sukuk Musharakah qualify as Tier 2 Capital as a capital instrument eligible for gradual phase-out treatment under the transitional arrangements of the Basel III accord.

The salient features of the Sukuk Musharakah issued under the Subordinated Sukuk Musharakah programme and outstanding as at 31 March 2017 are as follows:

Issue Date	First Call Date	Tenor	Interest Rate	Nominal Value Outstanding (RM million)
24 December 2012	26 December 2017	10 years Non-Callable 5 years	4.45% per annum	130
Total				**130**

Basel III Subordinated Notes

On 30 December 2013, AmBank established a new Subordinated Notes programme of RM4.0 billion. The objective of the programme is to enable the issuance of Tier 2 Capital from time to time, for the purpose of enhancing AmBank's total capital position. The programme is set up in accordance to the requirements spelt out in the Capital Adequacy Framework (Capital Components) issued by BNM. Securities issued under this programme qualified for recognition as Tier 2 Capital for the purpose of capital adequacy ratio computation.

The programme has a tenor of 30 years from the date of the first issuance under the programme. Each issuance of Tier 2 Subordinated Notes under this programme shall have a tenor of at least 5 years from the issue date, and is callable on any coupon payment date after a minimum period of 5 years from the date of issuance of each tranche.

3.3 Tier 2 capital (Cont'd.)

Basel III Subordinated Notes (Cont'd.)

The salient features of the Subordinated Notes issued under this programme and outstanding as at 31 March 2017 are as follows:

Issue Date	First Call Date	Tenor	Interest Rate	Nominal value outstanding (RM million)
30 December 2013	31 December 2018	10 years Non-Callable 5 years	5.20% per annum	400
15 March 2017	15 March 2022	10 years Non-Callable 5 years	5.20% per annum	500
Total				**900**

Basel III Subordinated Sukuk Murabahah

On 28 February 2014, AmBank Islamic had implemented a Subordinated Sukuk Murabahah programme of RM3.0 billion. The objective of the programme is to enable the issuance of Tier 2 Capital from time to time, for the purpose of enhancing AmBank Islamic's total capital position. The programme is set up in accordance to the requirements spelt out in the Capital Adequacy Framework for Islamic Banks (Capital Components) issued by BNM, and the securities issued under this programme qualified for recognition as Tier 2 Capital for the purpose of capital adequacy ratio computation.

The programme has a tenor of 30 years from the date of the first issuance under the programme. Each issuance of Tier 2 SubNotes under this programme shall have a tenor of at least 5 years from the issue date, and is callable on any coupon payment date after a minimum period of 5 years from the date of issuance of each tranche.

The salient features of the Sukuk Murabahah issued under this programme and outstanding as at 31 March 2017 are as follows:

Issue Date	First Call Date	Tenor	Interest Rate	Nominal value outstanding (RM million)
28 February 2014	28 February 2019	10 years Non-Callable 5 years	5.07% per annum	200
25 March 2014	25 March 2019	10 years Non-Callable 5 years	5.05% per annum	150
21 December 2015	21 December 2020	10 years Non-Callable 5 years	5.35% per annum	250
30 December 2016	30 December 2021	10 years Non-Callable 5 years	5.50% per annum	10
15 March 2017	15 March 2022	10 years Non-Callable 5 years	5.20% per annum	240
Total				**850**

Table 3.3: Capital Structure

The aggregated components of CET1 Capital, Additional Tier 1 Capital, Tier 2 Capital and Total Capital of the Group are as follows:

	31 March 2017			
	AmBank RM'000	AmBank Islamic RM'000	AmInvestment Bank RM'000	Group * RM'000
CET1 Capital				
Ordinary shares	1,763,208	1,187,107	200,000	3,150,315
Retained earnings	5,371,939	1,179,283	88,943	6,931,726
Available-for-sale (deficit)	(12,233)	(5,149)	-	(17,381)
Foreign exchange translation reserve	119,797	-	-	130,278
Statutory reserve	980,969	483,345	200,000	1,664,314
Regulatory reserve	163,820	58,430	2,800	225,050
Capital reserve	-	-	-	2,815
Merger reserve	-	-	-	186,264
Cash flow hedging reserve	3,010	-	-	3,010
Less: Regulatory adjustments applied on CET1 capital				
Goodwill	-	-	-	(36,442)
Other intangible assets	(406,504)	(448)	(2,513)	(411,124)
Deferred tax assets	-	-	(7,153)	(9,158)
Cash flow hedging reserve	(3,010)	-	-	(3,010)
Regulatory reserve	(163,820)	(58,430)	(2,800)	(225,050)
Investment in ordinary shares of unconsolidated financial and insurance/ takaful entities	(6,808)	-	(39,847)	-
Deduction in excess of Tier 2 capital**	-	-	(6,458)	-
CET1 Capital	7,810,368	2,844,138	432,972	11,591,607
Additional Tier 1 Capital				
Additional Tier 1 Capital Instruments (subject to gradual phase-out treatment)	867,550	-	-	867,550
Qualifying CET 1, Additional Tier 1 capital Instruments held by third parties	-	-	-	2
Tier 1 Capital	8,677,918	2,844,138	432,972	12,459,159
Tier 2 Capital				
Tier 2 Capital Instruments meeting all relevant criteria for inclusion	900,000	850,000	-	1,750,000
Tier 2 Capital Instruments (subject to gradual phase-out treatment)	983,900	130,000	-	1,113,900
Qualifying CET1, Additional Tier 1 and Tier 2 capital Instruments held by third parties	-	-	-	1
Collective allowance and regulatory reserve	618,212	258,458	3,504	880,197
Less: Regulatory adjustments applied on Tier 2 Capital	(1,702)	-	(3,504)	-
Tier 2 Capital	2,500,410	1,238,458	-	3,744,098
Total Capital	**11,178,328**	**4,082,596**	**432,972**	**16,203,257**
Credit RWA	63,094,846	27,107,178	1,015,958	90,235,160
Less: Credit RWA absorbed by Restricted Investment Account	-	(1,604,369)	-	(1,604,369)
Total Credit RWA	63,094,846	25,502,809	1,015,958	88,630,791
Market RWA	2,231,439	178,976	20,158	2,445,971
Operational RWA	4,190,538	1,410,237	279,251	6,160,989
Large exposure risk RWA for equity holdings	30,573	-	-	30,573
Total Risk Weighted Assets	**69,547,396**	**27,092,022**	**1,315,367**	**97,268,324**

* Group figures presented in this Report represents an aggregation of the consolidated capital position and RWA of our regulated banking subsidiaries.

** The portion of regulatory adjustments not deducted from Tier 2 (as the AmInvestment 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 BNM's guidelines on Capital Adequacy Framework (Capital Components).

Table 3.3: Capital Structure (Cont'd.)

The aggregated components of CET1 Capital, Additional Tier 1 Capital, Tier 2 Capital and Total Capital of the Group are as follows:

	31 March 2016 (Restated)			
	AmBank RM'000	AmBank Islamic RM'000	AmInvestment Bank RM'000	Group * RM'000
CET1 Capital				
Ordinary shares	820,364	462,922	200,000	1,483,286
Share premium	942,844	724,185	-	1,667,029
Retained earnings	5,080,500	982,055	99,023	6,421,500
Available-for-sale reserve/(deficit)	11,951	(1,589)	-	10,162
Foreign exchange translation reserve	61,296	-	-	65,471
Statutory reserve	980,969	483,345	200,000	1,664,314
Regulatory reserve	-	-	2,800	2,800
Capital reserve	-	-	-	2,815
Merger reserve	13,181	-	22,621	253,786
Cash flow hedging deficit	3,635	-	-	3,635
Qualifying non-controlling interest	-	-	-	2
Less: Regulatory adjustments applied on CET1 capital				
Goodwill	-	-	-	(36,442)
Other intangible assets	(350,750)	(14)	(2,582)	(356,071)
Deferred tax assets	(115,179)	-	(4,899)	(123,696)
Cash flow hedging deficit	(3,635)	-	-	(3,635)
55% of cumulative gains of AFS reserve	(6,573)	-	-	(6,463)
Regulatory reserve	-	-	(2,800)	(2,800)
Investment in ordinary shares of unconsolidated financial and insurance/ takaful entities	(23,106)	-	(8,321)	-
Deduction in excess of Tier 2 capital**	-	-	(1,477)	-
CET1 Capital	7,415,497	2,650,904	504,365	11,045,693
Additional Tier 1 Capital				
Additional Tier 1 Capital Instruments (subject to gradual phase-out treatment)	985,000	-	-	985,000
Tier 1 Capital	8,400,497	2,650,904	504,365	12,030,693
Tier 2 Capital				
Tier 2 Capital Instruments meeting all relevant criteria for inclusion	400,000	600,000	-	1,000,000
Tier 2 Capital Instruments (subject to gradual phase-out treatment)	1,180,680	600,000	-	1,780,680
Qualifying CET1, Additional Tier 1 and Tier 2 capital Instruments held by third parties	-	-	-	1
Collective allowance and regulatory reserve	583,675	273,963	4,072	861,734
Less: Regulatory adjustments applied on Tier 2 Capital	(15,404)	-	(4,072)	-
Tier 2 Capital	**2,148,951**	**1,473,963**	**-**	**3,642,415**
Total Capital	**10,549,448**	**4,124,867**	**504,365**	**15,673,108**
Credit RWA	60,047,250	26,112,657	1,123,172	86,496,390
Less: Credit RWA absorbed by Restricted Investment Account	-	(1,003,979)	-	(1,003,979)
Total Credit RWA	60,047,250	25,108,678	1,123,172	85,492,411
Market RWA	2,231,172	296,231	35,866	2,579,935
Operational RWA	4,629,614	1,519,148	309,658	7,108,472
Total Risk Weighted Assets	**66,908,036**	**26,924,057**	**1,468,696**	**95,180,818**

* Group figures presented in this Report represents an aggregation of the consolidated capital position and RWA of our regulated banking subsidiaries.

** The portion of regulatory adjustments not deducted from Tier 2 (as the AmInvestment 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 BNM's guidelines on Capital Adequacy Framework (Capital Components).

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 Common Equity Tier 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 AmBank Islamic's Shariah Committee.

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

4.0 General Risk Management (Cont'd.)

Risk Management Governance

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

The Board has also established the Management Risk Committees to assist it in managing the risks and businesses of the Group. The management committees 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.

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; and
- 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 rating 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.)

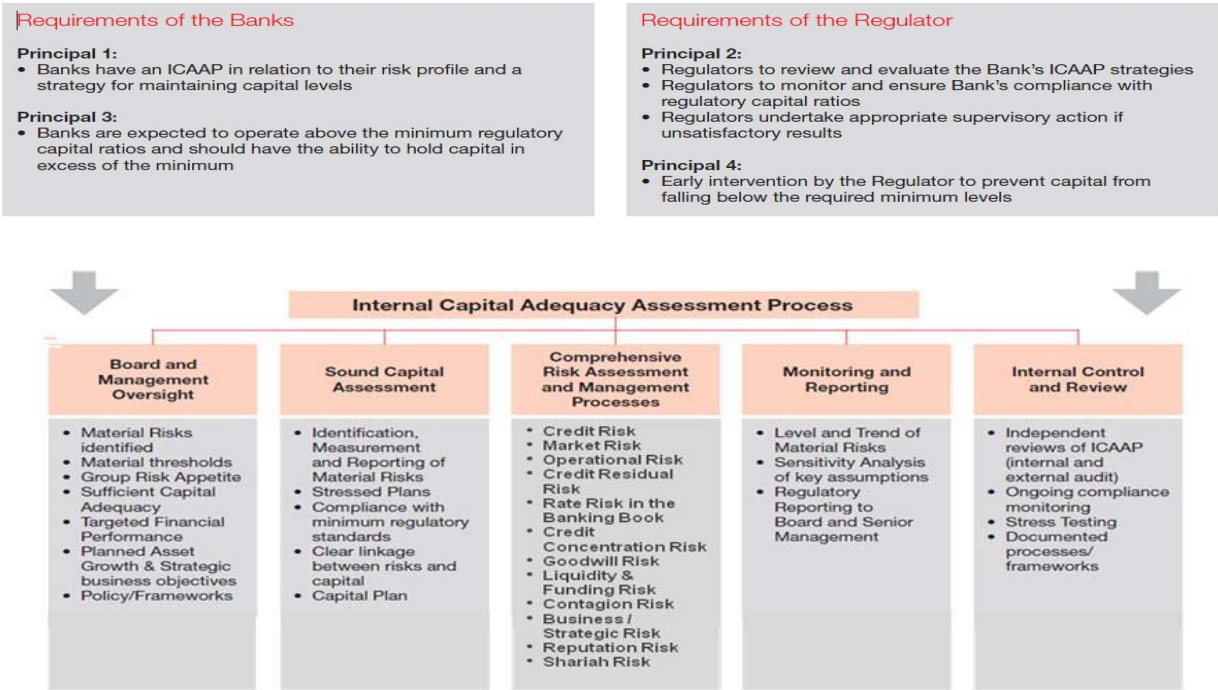
4.1.6 Material Risks

- 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, • Whosale pricing • Collateral and 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 credit 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/financing, securities and derivative exposures. The identification of credit risk is done by assessing the potential impact of internal and external factors on the Group's 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 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/ financing loss provision calculation;
- stress-testing; and
- enhancement to portfolio management.

5.0 Credit Risk Management (Cont'd.)

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

- Concentration threshold/review trigger:
  - single counterparty credit;
  - industry sector; and
  - country
- Setting Loan/Financing to Value limits for asset backed loans/financing (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 loans/financing pursuant to the BNM's revised policy on Classification and Impairment Provisions for Loans/Financing; and
- Setting guidelines on Wholesale Pricing 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 Board Credit Committee ("BCC") for review or approval, as the case may be. Portfolio credit risk is reported to the relevant management and board committees.

The Group Management Risk Committee ("GMRC") regularly meets to review the quality and diversification of the Group's loan/financing portfolio, and review the portfolio risk profile against the Group Risk Appetite Framework ("GRAF"), and recommend or approve new and amended credit risk policy.

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

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

5.1 Impairment

5.1.1 Definition of Past Due and Impaired Loans, Financing and Advances

All loans, financing and advances are categorised as either:

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

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

A loan/financing 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/financing where repayments are scheduled on intervals of 3 months or longer, the loan/financing 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]); or

(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 loan/financing 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 loan/financing obligation of a customer triggers a default of another loan/financing obligation of the same customer; or
- a default of a loan/financing obligation of a customer triggers a default of a loan/financing obligation of other customer within the same customer group.

The Credit and Commitments Committee ("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 Forum.

(e) debt instruments (for example, corporate bond and sukuk, debt converted instruments etc.) shall be classified as impaired:

i. when the coupon/interest 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 Deed Guidelines issued by the Securities Commission of Malaysia); or

iii. where it is deemed appropriate to classify as impaired and approved by the Watchlist Forum.

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

i. for margin loan/financing, the account is impaired after 7 days when there is shortfall to 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 loan/financing is deemed impaired when it is classified as rescheduled or restructured ("R&R") in the Central Credit Reference Information System ("CCRIS").

5.1 Impairment (Cont'd.)

5.1.2 Methodology for Determination of Individual and Collective Allowances

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

Individual Assessment

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

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

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

Collective Assessment

Loans/financing and advances, and commitments and contingencies below the significant threshold and those not assessed to be individually impaired, will be subject to collective assessment and a collective allowance will be computed accordingly. The collective impairment assessment and provisioning methodology uses historical loss data to derive the level of provisions. The collective provisions is 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.

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

Table 5.1: Distribution of gross credit exposures by sector
The aggregated distribution of credit exposures by sector of AMMB Banking Group is as follows:

	31 MARCH 2017														
	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurant and Hotel RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	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	-	-	-	-	-	-	-	-	7,787,641	-	-	29,543	-	-	7,817,184
PSEs	-	-	-	-	-	262	-	40,539	-	-	14	806	-	-	41,621
Banks, DFIs and MDBs	-	-	-	-	-	-	-	7,750,663	-	-	-	-	-	-	7,750,663
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	-	73	-	-	-	-	-	-	73
Corporates	3,915,683	3,100,376	9,314,332	750,423	6,657,359	5,168,231	3,616,714	7,031,169	-	8,023,222	1,182,047	3,100,969	1,652,987	87,075	53,600,587
Regulatory retail	19,887	7,599	130,817	4,504	85,512	192,545	35,005	3,599	-	68,916	73,668	95,826	31,924,078	8,457	32,650,413
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	14,569,271	-	14,569,271
Higher risk assets	-	-	-	-	-	-	-	-	-	-	-	-	20,438	100,284	120,722
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	414,572	2,569,088	2,983,660
Specialised Financing/	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitisation exposures	-	-	-	-	-	-	-	30,995	-	22,100	-	-	-	-	53,095
Equity exposures	-	-	8	-	-	-	-	435	-	-	-	-	-	133	576
Defaulted exposures	595	123,870	32,005	2,423	24,718	31,616	8,146	1	-	545,125	5,740	7,345	493,021	519	1,275,124
Total for on balance sheet exposures	3,936,165	3,231,845	9,477,162	757,350	6,767,589	5,392,654	3,659,865	14,857,474	7,787,641	8,659,363	1,261,469	3,234,489	49,074,367	2,765,556	120,862,989
Off balance sheet exposures															
OTC derivatives	8,295	335,638	103,605	-	8	9,417	54,040	3,484,094	-	8,337	3,522	158	-	7	4,007,121
Credit derivatives	-	-	-	-	-	-	-	14	-	-	-	-	-	-	14
Off balance sheet exposures other than OTC derivatives or Credit derivatives	362,489	397,878	2,055,838	311,919	2,812,252	1,040,575	491,588	438,760	-	1,191,125	251,929	333,058	2,424,100	6,046	12,117,557
Defaulted exposures	-	255	506	-	273	496	227	-	-	7,039	880	-	11,195	81	20,952
Total for off balance sheet exposures	370,784	733,771	2,159,949	311,919	2,812,533	1,050,488	545,855	3,922,868	-	1,206,501	256,331	333,216	2,435,295	6,134	16,145,644
Total on and off balance sheet exposures	**4,306,949**	**3,965,616**	**11,637,111**	**1,069,269**	**9,580,122**	**6,443,142**	**4,205,720**	**18,780,342**	**7,787,641**	**9,865,864**	**1,517,800**	**3,567,705**	**51,509,662**	**2,771,690**	**137,008,633**

Table 5.1: Distribution of gross credit exposures by sector (Cont'd.)
The aggregated distribution of credit exposures by sector of AMMB Banking Group is as follows:

	31 MARCH 2016 (Restated)														
	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurant and Hotel RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	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	-	-	-	-	-	-	-	-	12,011,366	-	-	-	-	-	12,011,366
Banks, DFIs and MDBs	-	-	-	-	-	-	-	9,961,208	-	-	-	71,567	-	-	10,032,775
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	-	7,201	-	-	-	-	-	-	7,201
Corporates	3,925,707	3,334,279	8,709,684	695,584	6,862,206	4,484,435	2,131,657	6,192,045	-	8,826,325	834,987	3,560,504	1,550,688	143,549	51,251,650
Regulatory retail	51,352	18,749	242,344	3,922	179,507	256,160	79,002	187,723	-	113,471	100,755	104,828	32,327,545	22,703	33,688,061
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	11,347,176	-	11,347,176
Higher risk assets	-	-	-	-	-	-	-	-	-	-	-	-	11,139	100,270	111,409
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	647,540	2,826,491	3,474,031
Securitisation exposures	-	-	-	-	-	-	-	31,181	-	22,251	-	-	-	-	53,432
Equity exposures	-	-	8	-	-	-	-	4,066	-	-	-	-	-	136	4,210
Defaulted exposures	2,767	3,172	52,637	6,261	35,637	41,127	12,546	7	-	432,888	3,505	7,008	537,081	12,730	1,147,366
Total for on balance sheet exposures	3,979,826	3,356,200	9,004,673	705,767	7,077,350	4,781,722	2,223,205	16,383,431	12,011,366	9,394,935	939,247	3,743,907	46,421,169	3,105,879	123,128,677
Off balance sheet exposures															
OTC derivatives	58,395	226,195	145,683	-	668	27,528	89,165	3,949,673	-	12,740	2,076	1,123	-	-	4,513,246
Credit derivatives	-	-	-	-	-	-	-	42	-	-	-	-	-	-	42
Off balance sheet exposures other than OTC derivatives or Credit derivatives	342,175	409,156	1,867,604	292,636	2,106,630	879,787	342,985	626,040	-	1,267,689	241,368	293,296	2,223,316	4,875	10,897,557
Defaulted exposures	-	189	1,832	-	688	43,126	500	5,000	-	270	3	1	32	117	51,758
Total for off balance sheet exposures	400,570	635,540	2,015,119	292,636	2,107,986	950,441	432,650	4,580,755	-	1,280,699	243,447	294,420	2,223,348	4,992	15,462,603
Total on and off balance sheet exposures	**4,380,396**	**3,991,740**	**11,019,792**	**998,403**	**9,185,336**	**5,732,163**	**2,655,855**	**20,964,186**	**12,011,366**	**10,675,634**	**1,182,694**	**4,038,327**	**48,644,517**	**3,110,871**	**138,591,280**

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

The aggregated amounts of impaired and past due loans, advances and financing, individual and collective allowances, charges for individual impairment allowances and write offs during the financial year by sector of AMMB Banking Group is as follows:

	31 MARCH 2017														
	Agriculture	Mining and Quarrying	Manufacturing	Electricity, Gas and Water	Construction	Wholesale, Retail Trade, Restaurant and Hotel	Transport, Storage and Communication	Finance and Insurance	Real Estate	Business Activities	Education and Health	Household	Others	Not allocated	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Impaired loans, advances and financing	842	153,931	94,910	7,963	16,349	46,449	9,869	1	707,073	10,051	8,562	629,037	4,289	-	**1,689,326**
Past due loans / financing	10,595	101,556	229,653	8,174	44,811	88,406	45,465	698	731,348	50,830	22,929	9,607,445	21,454	-	**10,963,364**
Individual allowance	-	30,072	54,166	5,440	3,786	602	719	-	153,941	3,257	-	7,014	-	-	**258,997**
Collective allowance	-	-	-	-	-	-	-	-	-	-	-	-	-	861,780	**861,780**
Charges / (writeback) for individual allowance	-	42,780	41,837	(241)	(6,453)	3,912	3,952	-	160,274	644	-	5,280	66	-	**252,051**
Write-offs against individual allowance/other movements	-	25,201	136,105	4,335	1,183	6,599	16,214	-	112,908	2,738	-	4,572	470	-	**310,325**

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

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

	31 MARCH 2016 (Restated)														
	Agriculture	Mining and Quarrying	Manufacturing	Electricity, Gas and Water	Construction	Wholesale, Retail Trade, Restaurant and Hotel	Transport, Storage and Communication	Finance and Insurance	Real Estate	Business Activities	Education and Health	Household	Others	Not allocated	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Impaired loans, advances and financing	2,448	88,437	185,628	16,588	46,565	38,884	25,453	32	571,936	11,267	7,196	701,999	4,422	-	**1,700,855**
Past due loans / financing	16,524	12,716	232,648	17,491	92,680	97,018	54,716	891	662,000	60,678	30,776	9,471,182	10,967	-	**10,760,287**
Individual allowance	-	12,493	148,434	10,016	11,422	3,289	12,981	-	106,575	5,351	-	6,306	402	-	**317,269**
Collective allowance	-	-	-	-	-	-	-	-	-	-	-	-	-	1,061,513	**1,061,513**
Charges / (writeback) for individual allowance	-	6,544	30,859	(3,015)	11,095	1,264	13,393	-	76,308	(406)	(329)	2,814	402	-	**138,929**
Write-offs against individual allowance/other movements	-	-	19,777	-	7,527	8,685	13,490	-	-	1,354	649	6,001	-	-	**57,483**

During the financial year, the Group had realigned its Financial Institutions Statistical System ("FISS") reporting of gross loans and advances analysed by sector, by type of customer and by interest rate sensitivity to BNM Central Credit Reference Information System ("CCRIS") reporting on loans and advances. Consequently, the Group had restated the gross impaired loans and advances by sector and past due loans/financing by sector to conform with current financial year's classification.

Table 5.3: Geographical distribution of credit exposures

The aggregated geographic distribution of credit exposures of AMMB Banking Group is as follows:

	31 MARCH 2017		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ Central banks	7,808,296	8,888	7,817,184
PSEs	41,621	-	41,621
Banks, DFIs and MDBs	6,828,126	922,537	7,750,663
Insurance companies, Securities firms and Fund managers	73	-	73
Corporates	51,400,893	2,199,694	53,600,587
Regulatory retail	32,650,413	-	32,650,413
Residential mortgages	14,569,271	-	14,569,271
Higher risk assets	120,671	51	120,722
Other assets	2,895,112	88,548	2,983,660
Securitisation exposures	53,095	-	53,095
Equity exposures	576	-	576
Defaulted exposures	1,193,630	81,494	1,275,124
Total for on balance sheet exposures	117,561,777	3,301,212	120,862,989
Off balance sheet exposures			
OTC derivatives	4,003,222	3,899	4,007,121
Credit derivatives	14	-	14
Off balance sheet exposures other than OTC derivatives or Credit derivatives	11,450,243	667,314	12,117,557
Defaulted exposures	20,952	-	20,952
Total for off balance sheet exposures	15,474,431	671,213	16,145,644
Total on and off balance sheet exposures	133,036,208	3,972,425	137,008,633

	31 MARCH 2016 (Restated)		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ Central banks	11,231,213	780,153	12,011,366
Banks, DFIs and MDBs	8,274,157	1,758,618	10,032,775
Insurance companies, Securities firms and Fund managers	7,201	-	7,201
Corporates	48,538,728	2,712,922	51,251,650
Regulatory retail	33,684,894	3,167	33,688,061
Residential mortgages	11,347,176	-	11,347,176
Higher risk assets	111,363	46	111,409
Other assets	3,374,400	99,631	3,474,031
Securitisation exposures	53,432	-	53,432
Equity exposures	4,210	-	4,210
Defaulted exposures	1,147,260	106	1,147,366
Total for on balance sheet exposures	117,774,034	5,354,643	123,128,677
Off balance sheet exposures			
OTC derivatives	4,513,246	-	4,513,246
Credit derivatives	42	-	42
Off balance sheet exposures other than OTC derivatives or Credit derivatives	10,192,402	705,155	10,897,557
Defaulted exposures	51,758	-	51,758
Total for off balance sheet exposures	14,757,448	705,155	15,462,603
Total on and off balance sheet exposures	**132,531,482**	**6,059,798**	**138,591,280**

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

The aggregated amounts of impaired and past due loans, advances and financing, individual and collective allowances by geographic distribution of AMMB Banking Group is as follows:

	31 MARCH 2017		
	In Malaysia RM'000	**Outside Malaysia RM'000**	**Total RM'000**
Impaired loans, advances and financing	1,607,832	81,494	1,689,326
Past due loans / financing	10,881,870	81,494	10,963,364
Individual allowance	258,988	9	258,997
Collective allowance	855,717	6,063	861,780

	31 MARCH 2016		
	In Malaysia RM'000	**Outside Malaysia RM'000**	**Total RM'000**
Impaired loans, advances and financing	1,599,569	101,286	1,700,855
Past due loans / financing	10,659,001	101,286	10,760,287
Individual allowance	307,805	9,464	317,269
Collective allowance	1,044,605	16,908	1,061,513

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

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

	31 MARCH 2017								
	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No maturity specified RM'000	Total RM'000
On balance sheet exposures									
Sovereigns/ central banks	3,548,583	-	29,543	-	215,164	264,625	3,759,269	-	7,817,184
PSEs	-	14	14	154	41,149	28	262	-	41,621
Banks, DFIs and MDBs	5,245,044	1,953,477	150,691	71,347	187,290	-	142,814	-	7,750,663
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	73	-	73
Corporates	15,442,959	4,096,140	3,654,201	1,394,826	6,321,358	6,553,914	16,137,189	-	53,600,587
Regulatory retail	108,029	32,201	92,942	260,058	2,951,858	7,339,761	21,865,564	-	32,650,413
Residential mortgages	430	334	986	4,333	54,390	138,524	14,370,274	-	14,569,271
Higher risk assets	30	-	70	14	521	822	18,980	100,285	120,722
Other assets	1,214,888	3,920	34,883	218,411	20,372	-	-	1,491,186	2,983,660
Securitisation exposures	39	-	-	-	-	-	53,056	-	53,095
Equity exposures	435	-	-	-	-	-	8	133	576
Defaulted exposures	569,358	20,230	4,966	10,604	148,527	86,269	435,170	-	1,275,124
Total for on balance sheet exposures	26,129,795	6,106,316	3,968,296	1,959,747	9,940,629	14,383,943	56,782,659	1,591,604	120,862,989
Off balance sheet exposures									
OTC derivatives	210,060	368,177	185,765	311,471	251,422	1,063,986	1,616,240	-	4,007,121
Credit derivatives	-	-	-	-	-	14	-	-	14
Off balance sheet exposures other than OTC derivatives or Credit derivatives	1,109,893	861,104	611,288	1,954,530	2,001,065	1,112,689	4,466,988	-	12,117,557
Defaulted exposures	1,187	1,509	386	2,716	2,240	3,903	9,011	-	20,952
Total for off balance sheet exposures	1,321,140	1,230,790	797,439	2,268,717	2,254,727	2,180,592	6,092,239	-	16,145,644
Total on and off balance sheet exposures	**27,450,935**	**7,337,106**	**4,765,735**	**4,228,464**	**12,195,356**	**16,564,535**	**62,874,898**	**1,591,604**	**137,008,633**

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

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

	31 MARCH 2016 (Restated)								
	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	7,072,496	900,005	-	163,261	-	237,710	3,637,894	-	12,011,366
Banks, DFIs and MDBs	7,098,581	2,353,077	102,716	155,178	116,158	30,516	176,549	-	10,032,775
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	7,201	-	7,201
Corporates	14,223,655	4,005,282	2,209,229	1,374,699	7,265,129	6,733,409	15,440,247	-	51,251,650
Regulatory retail	1,509,320	72,232	114,553	269,840	2,827,969	6,050,145	22,844,002	-	33,688,061
Residential mortgages	324	329	1,027	4,720	57,320	130,948	11,152,508	-	11,347,176
Higher risk assets	26	-	4	71	488	394	10,156	100,270	111,409
Other assets	1,442,038	6,807	7,803	14,324	296,610	105,347	-	1,601,102	3,474,031
Securitisation exposures	40	-	-	-	-	-	53,392	-	53,432
Equity exposures	4,066	-	-	-	-	-	7	137	4,210
Defaulted exposures	409,480	29,323	17,760	40,487	116,332	78,639	455,345	-	1,147,366
Total for on balance sheet exposures	31,760,026	7,367,055	2,453,092	2,022,580	10,680,006	13,367,108	53,777,301	1,701,509	123,128,677
Off balance sheet exposures									
OTC derivatives	229,219	431,417	735,925	427,425	335,403	776,364	1,577,493	-	4,513,246
Credit derivatives	-	23	7	-	-	12	-	-	42
Off balance sheet exposures other than OTC derivatives or Credit derivatives	1,365,935	1,061,827	1,087,985	2,151,379	1,943,473	511,950	2,775,008	-	10,897,557
Defaulted exposures	14,495	1,370	23,543	10,637	280	-	1,433	-	51,758
Total for off balance sheet exposures	1,609,649	1,494,637	1,847,460	2,589,441	2,279,156	1,288,326	4,353,934	-	15,462,603
Total on and off balance sheet exposures	**33,369,675**	**8,861,692**	**4,300,552**	**4,612,021**	**12,959,162**	**14,655,434**	**58,131,235**	**1,701,509**	**138,591,280**

Table 5.6: Reconciliation of changes to loans/financing impairment allowances
The reconciliation of changes to aggregated loan/financing impairment allowances of AMMB Banking Group is as follows:

	31 MARCH 2017	
	Individual impairment allowance RM'000	**Collective impairment allowance RM'000**
Balance at beginning of the financial year	317,269	1,061,513
Charge for the period – net	252,051	256,261
Amount written-off	(312,025)	(458,250)
Exchange differences	1,702	2,256
Balance at end of the financial year **	258,997	861,780

	(Charge off)/ recoveries
	RM'000
Bad debts written off during the period	(104,963)
Bad debt recoveries during the period	786,619

	31 MARCH 2016		
	Individual impairment allowances RM'000	**Collective impairment allowances RM'000**	
Balance at beginning of the financial year	235,823	1,413,424	
Charge for the year – net	138,929	263,782	
Amount written-off	(57,483)	(616,968)	
Amount transferred to AmBank Islamic	-	(17)	*
Amount transferred from AmBank	-	17	*
Exchange differences	-	1,275	
Balance at end of the financial year **	317,269	1,061,513	

	(Charge off)/ recoveries
	RM'000
Bad debts written off during the year	(122,038)
Bad debt recoveries during the year	687,592

* on 31 December 2015, a contract for the sum of RM300,000,000 was entered into by AmBank with AmBank Islamic. Arising from this new contract, AmBank Islamic transferred collective allowance of RM2,461,000 for the financing funded to AmBank. On 15 March 2016, AmBank early redeemed the RIA and derecognised the collective allowance previously recognised in its financial statements of RM2,478,000.

** As at 31 March 2017, the gross exposure and collective allowance relating to the RIA financing amounted to RM1,604.4 million and RM2.3 million respectively (31 March 2016: RM1,004.0 million and RM1.5 million) respectively.

There was no individual allowance provided for the RIA financing as at 31 March 2017 and 31 March 2016.

6.0 Credit Risk Exposure under Standardised Approach

Depending on the exposure class, the ratings 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")

Internal credit rating grades assigned to corporate and retail lending business are currently aligned 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 the latest available corporate default studies undertaken by Fitch, Standard & Poor's, Moody's, RAM and MARC; and is incorporated in the Credit Risk Rating Policy.

6.0 Credit Risk Exposure under the Standardised Approach (Cont'd.)

Table 6.1: Credit exposures by risk weights under the Standardised Approach
The breakdown of credit risk exposures by risk weights of AMMB Banking Group is as follows:

	31 March 2017												
	Exposures after netting and credit risk mitigation												
Risk weights	Sovereigns and Central banks	PSEs	Banks, DFIs and MDBs	Insurance Companies, Securities firms and Fund managers	Corporates	Regulatory retail	Residental mortgages	Higher risk assets	Other assets	Securitisation exposures	Equity exposures	Total Exposures after Netting and CRM	Total Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	7,798,912	-	24,856	-	4,989,524	-	-	-	470,360	-	-	13,283,652	-
20%	13,306	41,621	8,436,951	-	4,827,125	43,407	-	-	21,336	52,958	-	13,436,704	2,687,341
35%	-	-	-	-	-	-	12,681,694	-	-	-	-	12,681,694	4,438,592
50%	8,888	-	2,499,394	-	1,460,450	26,775	2,029,702	-	-	-	-	6,025,209	3,012,603
75%	-	-	-	-	-	30,834,619	-	-	-	-	-	30,834,619	23,125,965
100%	-	-	-	30,259	49,206,193	3,848,924	66,916	-	2,491,964	-	576	55,644,832	55,644,832
150%	-	-	-	-	627,367	116,231	-	139,143	-	-	-	882,741	1,324,114
1250%	-	-	-	-	-	-	-	-	-	137	-	137	1,713
Total	7,821,106	41,621	10,961,201	30,259	61,110,659	34,869,956	14,778,312	139,143	2,983,660	53,095	576	132,789,588	90,235,160

	31 MARCH 2016 (Restated)												
	Exposures after netting and credit risk mitigation												
Risk weights	Sovereigns and Central banks	PSEs	Banks, DFIs and MDBs	Insurance Companies, Securities firms and Fund managers	Corporates	Regulatory retail	Residental mortgages	Higher risk assets	Other assets	Securitisation exposures	Equity exposures	Total Exposures after Netting and CRM	Total Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	12,012,016	-	24,916	-	6,022,526	-	-	-	441,669	-	-	18,501,127	-
20%	40,971	-	11,917,256	-	5,418,075	3,870	-	-	-	53,195	-	17,433,367	3,486,673
35%	-	-	-	-	-	-	11,032,827	-	-	-	-	11,032,827	3,861,490
50%	-	-	1,812,528	-	100,015	26,220	341,032	-	-	-	-	2,279,795	1,139,898
75%	-	-	-	-	-	33,172,210	-	-	-	-	-	33,172,210	24,879,157
100%	-	-	161	82,875	46,101,979	2,473,012	189,683	-	3,032,362	-	4,210	51,884,282	51,884,282
150%	-	-	-	4,702	537,196	162,828	-	123,223	-	-	-	827,949	1,241,923
1250%	-	-	-	-	-	-	-	-	-	237	-	237	2,967
Total	12,052,987	-	13,754,861	87,577	58,179,791	35,838,140	11,563,542	123,223	3,474,031	53,432	4,210	135,131,794	86,496,390

Table 6.2: Rated Exposures according to Ratings by ECAIs

	31 MARCH 2017					
	Ratings of Corporate by Approved ECAIs					
	Moodys	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Ba3**	**B1 to C**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	RAM	**AAA to AA3**	**A to A3**	**BBB1 to BB3**	**B1 to D**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
Exposure class	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)	42,121	40,539	96	-	-	1,486
Insurance companies, Securities firms and Fund managers	30,259	-	-	-	-	30,259
Corporates	65,040,492	3,092,990	2,629,744	-	-	59,317,758
Total	65,112,872	3,133,529	2,629,840	-	-	59,349,503

	31 MARCH 2016					
	Ratings of Corporate by Approved ECAIs					
	Moodys	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Ba3**	**B1 to C**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	RAM	**AAA to AA3**	**A to A3**	**BBB1 to BB3**	**B1 to D**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
Exposure class	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
Insurance companies, Securities firms and Fund managers	87,877	-	-	-	-	87,877
Corporates	61,345,854	3,873,064	1,433,703	382	-	56,038,705
Total	61,433,731	3,873,064	1,433,703	382	-	56,126,582

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

	31 MARCH 2017					
	Ratings of Sovereigns and Central Banks by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
Exposure Class	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Sovereigns and Central banks	7,830,490	-	7,821,602	8,888	-	-
Total	**7,830,490**	**-**	**7,821,602**	**8,888**	**-**	**-**

	31 MARCH 2016					
	Ratings of Sovereigns and Central Banks by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
Exposure Class	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Sovereigns and Central banks	12,052,987	780,153	11,272,834	-	-	-
Total	**12,052,987**	**780,153**	**11,272,834**	**-**	**-**	**-**

	31 MARCH 2017					
	Ratings of Banking Institutions by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
Exposure class	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Banks, DFIs and MDBs	**10,961,201**	**3,243,448**	**2,351,183**	**637,064**	**413**	**4,729,093**
Total	**10,961,201**	**3,243,448**	**2,351,183**	**637,064**	**413**	**4,729,093**

	31 MARCH 2016 (Restated)					
	Ratings of Banking Institutions by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
Exposure class	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Banks, DFIs and MDBs	13,754,861	5,119,799	1,883,304	1,105,003	-	5,646,755
Total	**13,754,861**	**5,119,799**	**1,883,304**	**1,105,003**	**-**	**5,646,755**

Table 6.3: Securitisation according to Ratings by ECAIs

	31 MARCH 2017			
	Ratings of Securitisation by Approved ECAIs			
	Moodys	Aaa to Aa3	A1 to A3	Unrated
	S&P	AAA to AA-	A+ to A-	Unrated
	Fitch	AAA to AA-	A+ to A-	Unrated
	RAM	AAA to AA3	A1 to A3	Unrated
	MARC	AAA to AA-	A+ to A-	Unrated
Exposure class	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures				
Securitisation exposures	**53,095**	**52,958**	**-**	**137**
Total	**53,095**	**52,958**	**-**	**137**

	31 MARCH 2016			
	Ratings of Securitisation by Approved ECAIs			
	Moodys	Aaa to Aa3	A1 to A3	Unrated
	S&P	AAA to AA-	A+ to A-	Unrated
	Fitch	AAA to AA-	A+ to A-	Unrated
	RAM	AAA to AA3	A1 to A3	Unrated
	MARC	AAA to AA-	A+ to A-	Unrated
Exposure class	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures				
Securitisation exposures	53,432	53,195	-	237
Total	53,432	53,195	-	237

7.0 Credit Risk Mitigation

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

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

In the case of the Group's Islamic Banking operations, only Shariah approved assets can be accepted as permissible collateral.

Where the customer risk profile is considered very sound (or by nature of the product, for instance small limit products such as credit cards), a transaction may be provided on an "unsecured" basis, i.e, 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.

The Group Collateral Policy, is the internally recognised collateral framework for lending/financing purposes as well as for regulatory capital.

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

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

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

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

Transaction structuring to mitigate credit risk
Besides tangible security and guarantee support described above, credit risk mitigation techniques are used in structuring transactions. These include duration limits managing the number of years the loan/financing is extended, amortisation schedules and loan/financing covenants. These assist in managing credit risk and in providing early warning signals, whereby should loan/financing 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/Financing to Value metrics.

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

7.0 Credit Risk Mitigation

Table 7.1: Credit Risk Mitigation
The aggregated exposures and eligible guarantees, credit derivatives and collateral of the AMMB Banking Group are as follows:

Exposures	31 MARCH 2017		
	Exposures before CRM RM'000	Exposures covered by Guarantees RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit risk			
On balance sheet exposures			
Sovereigns/ Central banks	7,817,184	-	-
PSEs	41,621	-	-
Banks, DFIs And MDBs	7,750,663	-	-
Insurance companies, Securities firms and Fund managers	73	-	-
Corporates	53,600,587	907,760	4,345,823
Regulatory retail	32,650,413	42,680	292,438
Residential mortgages	14,569,271	-	99,065
Higher risk assets	120,722	-	128
Other assets	2,983,660	-	-
Securitisation exposures	53,095	-	-
Equity exposures	576	-	-
Defaulted exposures	1,275,124	1,131	228,297
Total for on balance sheet exposures	120,862,989	951,571	4,965,751
Off balance sheet exposures			
OTC derivatives	4,007,121	-	-
Credit derivatives	14	-	-
Off balance sheet exposures other than OTC derivatives or Credit derivatives	12,117,557	1,873	2,646,298
Defaulted exposures	20,952	-	3,111
Total for off balance sheet exposures	16,145,644	1,873	2,649,409
Total on and off balance sheet exposures	**137,008,633**	**953,444**	**7,615,160**

Exposures	31 MARCH 2016 (Restated)		
	Exposures before CRM RM'000	Exposures covered by Guarantees RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit risk			
On balance sheet exposures			
Sovereigns/ Central banks	12,011,366	-	-
Banks, DFIs And MDBs	10,032,775	-	-
Insurance companies, securities firms and fund managers	7,201	-	-
Corporates	51,251,650	1,857,633	6,032,117
Regulatory retail	33,688,061	3,777	356,319
Residential mortgages	11,347,176	-	126,511
Higher risk assets	111,409	-	-
Other assets	3,474,031	-	-
Securitisation exposures	53,432	-	-
Equity exposures	4,210	-	-
Defaulted exposures	1,147,366	756	174,692
Total for on balance sheet exposures	123,128,677	1,862,166	6,689,639
Off balance sheet exposures			
OTC derivatives	4,513,246	-	-
Credit derivatives	42	-	-
Off balance sheet exposures other than OTC derivatives or Credit derivatives	10,897,557	44,046	1,537,823
Defaulted exposures	51,758	-	24,471
Total for off balance sheet exposures	15,462,603	44,046	1,562,294
Total on and off balance sheet exposures	**138,591,280**	**1,906,212**	**8,251,933**

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, certain transaction-related contingent items, obligation under underwriting agreement, short term self liquidating trade-related contingencies, irrevocable commitment to extend credit and unutilised credit card line.

(2) Derivatives Financial Instruments, e.g. forward exchange contracts (forward exchange contracts and cross currency swaps) interest/profit rate related contracts (interest/profit rates futures and interest/profit rates swap), equity related contracts (option and futures) and commodity related contract (option).

(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 GRAF.

8.2 Counterparty Credit Risk

Market related credit risk is present in market instruments (derivatives and forward contracts), and comprises counterparty risk (default at the end of contract) and pre-settlement risk (default at any time during the life of contract). Market related credit risk requires a different method in calculating the pre-settlement risk because actual and potential market movements impact the Group's exposure. The markets covered by this treatment for transactions entered by the Group include interest/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 the exposure, plus the notional principal multiplied by the potential credit risk exposure ("PCRE") factor; 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 recognise that prices change over the remaining period to maturity, and that risk increases with time. The PCRE factors are mandated for regulatory capital purposes.
- Variation to the above generic methodology is allowed for specific product.

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

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

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

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

8.0 Off Balance Sheet exposures and Counterparty Credit Risk

Table 8.1: Off Balance Sheet Exposures
The aggregated off balance sheet exposures and counterparty credit risk of the AMMB Banking Group is as follows:

Description	31 MARCH 2017			
	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Direct Credit Substitutes	2,052,065		2,307,265	1,851,606
Transaction related contingent Items	5,914,536		2,829,668	2,163,653
Short Term Self Liquidating trade related contingencies	835,140		167,028	151,681
Forward Asset Purchases	680,643		28,509	9,351
Obligations under on-going underwriting agreements	150,000		-	-
Foreign exchange related contracts				
One year or less	48,067,817	492,522	1,021,607	592,048
Over one year to five years	2,525,097	65,376	357,703	211,231
Over five years	2,140,212	395,785	783,247	456,220
Interest/Profit rate related contracts				
One year or less	9,810,942	6,210	38,691	16,611
Over one year to five years	31,205,847	134,572	952,697	387,114
Over five years	10,148,780	106,390	832,991	389,179
Equity and commodity related contracts				
One year or less	229,628	2,417	15,177	15,177
Over one year to five years	83,396	4	5,008	2,504
Credit Derivative Contracts				
Over one year to five years	361,251	11,237	14	7
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	3,925,299		1,962,649	1,603,802
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	17,383,700		4,130,891	2,884,890
Unutilised credit card lines	3,562,496		712,499	530,911
Total	**139,076,849**	**1,214,513**	**16,145,644**	**11,265,985**

Description	31 MARCH 2016			
	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Direct Credit Substitutes	2,267,415		2,267,415	1,909,462
Transaction related contingent Items	5,052,478		2,526,239	1,637,276
Short Term Self Liquidating trade related contingencies	649,520		129,904	104,687
Assets sold with recourse	300		300	300
Forward Asset Purchases	866,986		84,175	67,504
Obligations under an on-going underwriting agreements	73,348		-	-
Foreign exchange related contracts				
One year or less	44,413,999	1,279,777	1,798,301	846,473
Over one year to five years	1,125,883	38,416	144,281	75,319
Over five years	1,980,369	281,465	656,786	359,512
Interest/Profit rate related contracts				
One year or less	8,175,391	3,740	15,068	5,163
Over one year to five years	31,903,999	176,675	961,939	309,898
Over five years	9,773,151	149,030	920,707	230,844
Equity and commodity related contracts				
One year or less	159,622	1,878	10,617	10,617
Over one year to five years	73,572	1,133	5,547	2,774
Credit Derivative Contracts				
One year or less	337,027	485	30	15
Over one year to five years	336,367	19,493	12	6
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	4,703,052		2,354,026	1,929,594
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	14,890,326		3,017,965	2,808,385
Unutilised credit card lines	2,846,456		569,291	423,337
Total	**129,629,261**	**1,952,092**	**15,462,603**	**10,721,166**

Table 8.2: Credit Derivatives Counterparty Credit Risk ("CCR")
Credit derivatives that create exposures to counterparty credit risk are as follows:

		31 MARCH 2017		31 MARCH 2016	
		Sell Leg	Buy Leg *	Sell Leg	Buy Leg *
Usage	Product	Notional Exposure for Protection Sold RM'000	Notional Exposure for Protection Bought RM'000	Notional Exposure for Protection Sold RM'000	Notional Exposure for Protection Bought RM'000
Intermediation	Credit default swap	211,251	150,000	373,394	300,000

* Out of the total notional exposure for protection bought as at 31 March 2017, RM150,000,000 (31 March 2016: RM283,500,000) has no counterparty credit risk exposure because it is on a fully funded basis.

9.0 Securitisation

9.1 Objectives, roles and involvement

AMMB Banking Group has undertaken securitisations of its own originated assets, as well as advised on securitisations of third party assets as part of its structured finance/debt capital markets services for its clients. The Group's objectives in relation to securitisation activity include the following:

- increase the availability of different sources of funding;
- facilitate prudential balance sheet management;
- transfer of credit and market risk;
- obtain regulatory capital relief, if applicable;
- earn management fees on assets under management;
- earn other fees for products and services provided, e.g., liquidity, funding and credit support, structuring, arranging and underwriting services.

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

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

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

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

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

9.3 Governance

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

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

9.4 Risk measurement and reporting of securitisation exposures

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

9.5 SPV used in securitisation exercises

Third party exposures that have been securitised via SPVs include civil servant, personal loans/financing and government-linked companies' staff housing loans.

9.6 Accounting Policies for Securitisation

The Group has sponsored SPVs involving assets of the Group. Such SPVs are consolidated where the Group has control as determined in accordance with MFRS 10, Consolidated Financial Statements.

Assets that have been transferred wholly or proportionately to an unconsolidated entity remain on the Group's statement of financial position, with a liability recognised for the proceeds received, unless:

(a) substantially all risks and rewards associated with the assets have been transferred, in which case, they are derecognised in full; or
(b) if a significant portion, but not all, of the risks and rewards have been transferred, the asset is derecognised entirely if the transferee has the ability to sell the financial asset, otherwise the asset continues to be recognised to the extent of the Group's continuing involvement.

9.7 Use of external rating agencies

The Group uses the services of both RAM and MARC and where applicable, international rating agency for securitisation transactions purposes.

9.0 Securitisation

Table 9.1: Securitisation (Trading and Banking Book)
The aggregated securitised exposures of AMMB Banking Group is as follows:

	31 MARCH 2017			
Underlying Asset	**Total Exposures Securitised RM'000**	**Past Due RM'000**	**Impaired RM'000**	**Gains/ losses recognised during the year RM'000**
Traditional Securitisation				
Originated by the Group				
Banking Book				
Corporate loans	134,116	-	62,161	-
Mortgage loans	877,968	-	871,632	-
Total Traditional Securitisation	1,012,084	-	933,793	-
Total Synthetic Securitisation	-	-	-	-
Total Traditional and Synthetic Securitisation	**1,012,084**	**-**	**933,793**	**-**

	31 MARCH 2016			
Underlying Asset	**Total Exposures Securitised RM'000**	**Past Due RM'000**	**Impaired RM'000**	**Gains/ losses recognised during the year RM'000**
Traditional Securitisation				
Originated by the Group				
Banking Book				
Corporate loans	125,714	-	57,563	-
Mortgage loans	847,829	-	842,332	-
Total Traditional Securitisation	973,543	-	899,895	-
Total Synthetic Securitisation	**-**	**-**	**-**	**-**
Total Traditional and Synthetic Securitisation	**973,543**	**-**	**899,895**	**-**

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

	31 MARCH 2017						
				Distribution of Exposures after CRM according to Appplicable Risk Weights			
				Rated Securitisation Exposures or Risk weights of Guarantees/ Credit Derivatives			
Securitisation Exposures by Exposure Type	**Exposure Value of Positions Purchased or Retained RM'000**	**Exposure after CRM RM'000**	**Exposures subject to deduction RM'000**	**20% RM'000**	**50% RM'000**	**1250% RM'000**	**Risk Weighted Assets RM'000**
Traditional Securitisation							
Originated by Third Party							
On Balance Sheet Exposures	52,958	52,958	-	52,958	-	-	10,591
Originated by the Group							
On Balance Sheet Exposures	137	137	-	-	-	137	1,712
Total Traditional Securitisation	53,095	53,095	-	52,958	-	137	12,303

	31 MARCH 2016						
				Distribution of Exposures after CRM according to Appplicable Risk Weights			
				Rated Securitisation Exposures or Risk weights of Guarantees/ Credit Derivatives			
Securitisation Exposures by Exposure Type	**Exposure Value of Positions Purchased or Retained RM'000**	**Exposure after CRM RM'000**	**Exposures subject to deduction RM'000**	**20% RM'000**	**50% RM'000**	**1250% RM'000**	**Risk Weighted Assets RM'000**
Traditional Securitisation							
Originated by Third Party							
On Balance Sheet Exposures	53,195	53,195	-	53,195	-	-	10,639
Originated by the Group							
On Balance Sheet Exposures	237	237	-	-	-	237	2,968
Total Traditional Securitisation	53,432	53,432	-	53,195	-	237	13,607

There are no securitisation exposure under trading book for 2017 and 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 Business and Functional LInes (including new products)
Assessment/ Measurement	• Incident Management and Data Collection • Risk and Control Self-Assessment • Key Risk Indicators • Key Control Testing
Control/ Mitigation	• Policies addressing control and 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 triggers, 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 Group Risk Appetite Framework ("GRAF"), which sets the acceptable tolerance levels of operational risk that the Group 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 the Group’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 and 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 ("FLOD") 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, validation of FLOD effectiveness and capital allocation, fraud strategy and reporting of operational risk issues to GMRC, 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.

10.0 Operational Risk (Cont'd.)

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

- The Incident Management and Data Collection ("IMDC") module provides a common platform for reporting 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 GMRC, 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	• 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 • BCM 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 the 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, failure to respond to changes in regulatory framework and failure to protect assets (including intelectual properties) owned by the banks which may lead to incurrence of losses, disruption or otherwise impact on the Group's financials or reputation.

Legal risk is overseen by Group Management Risk Committee ("GMRC"), 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 in place a compliance framework to promote the safety and soundness of the Group by minimising financial, reputational and operational risks arising from regulatory non-compliance.

The Group believes in and embraces a stronger compliance culture to reflect a corporate culture of high ethical standards and integrity where the Board of Directors (Board) and Senior Management lead by example.

The Group continues to exercise and enhance its due diligence governance process and remains vigilant towards emerging risk as well as sensitive towards heightened regulatory surveillance and enforcement.

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.

Identification	• Identify market risks within existing and new products • Review market-related information such as market trends and economic data
Assessment/ Measurement	• Value-at-Risk ("VaR") • Loss Limit • Historical Stress Loss ("HSL") • Present Value of One Basis Point ("PV01") • Sensitivity to Change • Other Detailed Management Controls
Control/ Mitigation	• VaR Limit • Loss Limits / Triggers (Annual/ Monthly/ Daily) • HSL Limit • PV01 Limits • Greek Limits (Delta/ Gamma/ Delta-Gamma/ Vega/ Theta) • Concentration Limits • Position Size Limits • Maximum Tenor Limits • Maximum Holding Period • Minimum Holding Period • Approved Portfolio Products • Approved Countries/ Currencies • Other Detailed Management Limits
Monitoring/ Review	• Monitor limits • Periodical review and reporting

TMR arises from transactions in which the Group acts as principal with clients or the market. It involves taking positions in fixed income, equity, 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 Management Risk Committee ("GMRC") 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, Loss Limits, 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, Loss Limits 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.

11.1 Traded Market Risk (“TMR”) (Cont'd.)

IBMR monitors and reports risk exposures against limits on a daily basis. Portfolio market risk positions are also reported to GMRC, 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 trend and economic data
Assessment/ Measurement	• VaR • Earnings-at-Risk (“EaR”) • PV01 • Other Detailed Management Controls
Control/ Mitigation	• VaR Limits • EaR Limits • PV01 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.

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 the Group's capital.

The Board’s oversight of IRR/RORBB is supported by the Group Asset & Liability Committee ("GALCO"). GALCO is responsible for the alignment of Group-wide risk appetite and funding needs, taking into consideration Group-wide business strategies. GALCO 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.

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

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/financing.

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 the Group's policies in the areas of product and liquidity management as well as the banking book policy statements and hedging policies.

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

Table 11.2: Interest Rate Risk/ Rate of Return Risk Sensitivity in the Banking Book
The aggregated IRR/ RORBB sensitivity for AMMB Banking Group is as follows:

	31 MARCH 2017	
	Interest Rate / Rate of Return +100 bps RM'000	**Interest Rate / Rate of Return -100 bps RM'000**
Impact on Profit Before Taxation	99,629	(99,629)
	Interest Rate / Rate of Return +100 bps RM'000	**Interest Rate / Rate of Return -100 bps RM'000**
Impact on Equity	(560,779)	627,654

	31 MARCH 2016	
	Interest Rate / Rate of Return +100 bps RM'000	**Interest Rate / Rate of Return -100 bps RM'000**
Impact on Profit Before Taxation	94,651	(94,651)
	Interest Rate / Rate of Return +100 bps RM'000	**Interest Rate / Rate of Return -100 bps RM'000**
Impact on Equity	(541,973)	608,738

12.0 Equities (Banking Book Positions)

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

- Equity investments that are taken for strategic and other objectives – Where an equity investment is undertaken for a strategic purpose, such investment will be made only after extensive analysis and due diligence. Equity investments undertaken for other business objectives are principally in conjunction with initiatives or measures promoted by the relevant regulatory authorities or trade bodies in which the Group will jointly with other financial institutions invest in such entities to attain various objectives, such as socio-economic development, promoting the further development of the financial market, the provision of facilities to improve customer service, and support for human capital development for the betterment of the Malaysian banking industry. The Board's approvals are required prior to committing to all forms of equity investment under this category and, where relevant, the necessary regulatory approval or notification will be obtained or met.
- Equity investments on which capital gains are expected – These transactions are for proprietary trading.
- Equity investments made as the result of a work out of a problem exposure – From time to time, the Group will take an equity stake in a customer as part of a work out arrangement for problem exposures. These investments are made only where there is no other viable option available and form an immaterial part of the Group's equity exposures.

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

Measurement of equity securities - Equity securities that have a quoted market price are carried at their fair value. 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 AMMB Banking

	31 MARCH 2017	31 MARCH 2016
Non traded equity investments	**RM'000**	**RM'000**
Value of quoted (publicly traded) equities	149,246	141,868
Value of unquoted (privately held) equities	99,281	99,270
Total	**248,527**	**241,138**
Net realised and unrealised gains/ (losses)		
Cumulative realised gains from sales and liquidations	5,538	21,666
Total unrealised losses	5,606	(1,925)
Total	**11,144**	**19,741**
Risk Weighted Assets		
Equity investments subject to a 100% risk weight	149,202	141,827
Equity investments subject to a 150% risk weight	148,988	148,965
Total	**298,190**	**290,792**
Total minimum capital requirement (8%)	**23,855**	**23,263**

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 trend and economic data • Keep abreast with regulatory requirements
Assessment/ Measurement	• Liquidity Coverage Ratio ('LCR') • Depositor Concentration Ratios • Loan to Deposit Ratios • Other Detailed Management Controls
Control/ Mitigation	• Liquidity Coverage Ratio ("LCR") Limits • Depositor Concentration Ratios • Loan to Deposit Ratio 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. 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 GALCO is the responsible governing body that approves the Group's liquidity management and strategies policies, and is responsible for setting liquidity limits, proposing liquidity risk policies and contingency funding plan, and practices to be in compliance with local regulatory requirements, and monitor liquidity on an ongoing basis. The Capital and Balance Sheet Management Department and IBMR 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. IBMR 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.

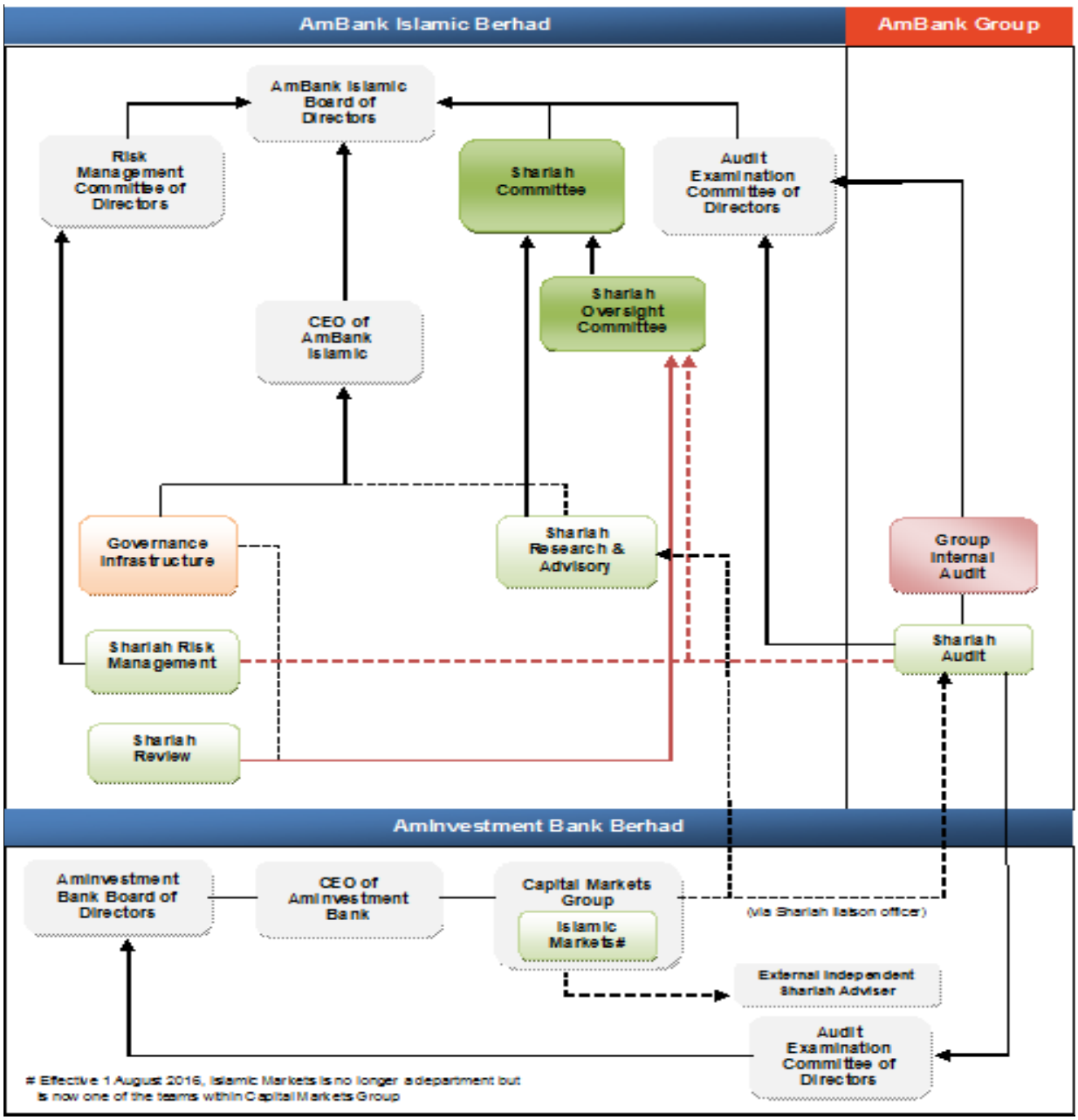
Stress testing is undertaken to assess and plan for the impact for various scenarios which may put the Group's liquidity at risk. The Group further stresses the importance of customer deposit accounts as a source of funds to finance lending/financing to customers. They are monitored using the unadjusted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

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

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

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

14.0 Shariah Governance Structure



14.0 Shariah Governance Structure (Cont'd.)

The Group has established a sound and robust Shariah governance structure 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 operations and business activities of its Islamic banking operations comply with the Shariah principles and its requirements as prescribed by the Islamic Financial Services Act, 2013 and the relevant guideline issued by the Securities Commission of Malaysia ("SC").

Apart from Shariah Research & Advisory, Shariah Risk Management and Shariah Review functions which reside in AmBank Islamic, AmBank Islamic's Shariah governance structure leverages on the Group platform of Group Internal Audit Division for Shariah Audit function.

Islamic Markets ("IM") of AmInvestment Bank leverages on AmBank Islamic's Shariah Governance Structure, including the Shariah Committee of AmBank Islamic. The Shariah governance framework for AmInvestment Bank is in place for its Islamic Banking and finance operations. IM also engages the services of independent external Shariah adviser(s) as approved by Securities Commission when necessary and will be on ad-hoc basis. During the current financial period, there were some minor refinements/enhancements to the Shariah governance structure detailed below.

Board of Directors
The Board 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
AEC is a Board committee and responsible for assisting the Board in ensuring Islamic Banking, finance and capital market operations 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 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 banking, finance and capital market products and services, Shariah policies and the relevant documentation in relation to the Bank's Islamic finance and Islamic capital markets operations and business activities.

Shariah Oversight Committee
The Shariah Oversight Committee, which is a sub-committee to the Shariah Committee, also performs an oversight function on Islamic banking, finance and capital market products 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, including the Chief Executive Officer ("CEO") is responsible to make reference to the Shariah Committee or the external independent Shariah advisor and/or the Shariah Oversight Committee on Shariah matters and to take necessary measures for implementation. The Management or the CEO 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
The Shariah Research and Advisory Department is accountable to the Shariah Committee and is responsible for providing day-to-day Shariah advisory on Islamic banking and finance, including Shariah legal aspects, conducting Shariah research, formulating Shariah policies and acting as Secretariat to the Shariah Committee and the Shariah Oversight Committee.

14.0 Shariah Governance Structure (Cont'd.)

Shariah Liaison Officer, IM

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

Shariah Risk Management

The Shariah Risk Management ("SRM") section 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, Shariah Research and Advisory, Compliance; 3rd – Shariah Audit.

Shariah Review

The Shariah Review Section is accountable to the Shariah Oversight Committee. The objective of the Shariah review function is to provide reasonable self-assurance for the 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 banking, finance and capital market product and services operations through Shariah Audit function. The Shariah audit covers all activities particularly the operational components of AmBank Islamic and AmInvestment Islamic window that are subjected to the risk of Shariah non-compliance including but not limited to products, operational processes, the technology supporting the operations, the people involved in key areas of risk, documentation and contracts, policies and procedures and other activities that require the adherence to Shariah principles.

14.1 Shariah Non-Compliant incidents and income

There were no Shariah non-compliant incidents and income during the financial year ended 31 March 2017 (there were eight Shariah non-compliant incidents for the financial year ended 31 March 2016 amounting to approximately RM9.7 million attributable to transactions which originated prior to financial year ended 31 March 2016, which was subsequently purified).