AmInvestment Bank Berhad

Pillar 3 Disclosure

As at 30 September 2016

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Contents

1.0 Scope of Application

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

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

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

Capital Adequacy Ratios

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

The Group and the Bank has adopted the Standardised Approach for Credit and Market Risks and the Basic Indicator Approach for Operational Risk, based on BNM's Guidelines on Capital Adequacy Framework (Basel II - Risk Weighted Assets).

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

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

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

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

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

1.1 Basis of Consolidation

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

For purposes of this Pillar 3 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.

1.1 Basis of Consolidation (Cont'd.)

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 bank entity level; Fully consolidated in the calculation of capital adequacy at bank the consolidated level.
Subsidiaries engaged in non-financial activities	Fully consolidated	Risk weighted at the bank entity level; Consolidated in calculation of capital adequacy at the bank consolidated level.
Associates and jointly controlled entities which are licensed under FSA or IFSA or engaged in financial activities	Equity accounted	Deducted in calculation of capital.
Associates and jointly controlled entities which are not licensed under FSA or IFSA and not engaged in financial activities	Equity accounted	Reported as investment and risk weighted.

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

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

2.0 Capital Management

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

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

The capital plan takes the following into account:

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

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

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

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

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

2.0 Capital Management (Cont'd.)

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 Asset and Liability 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.

Group Management Risk Committee ("GMRC") proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. For the current financial year ending 31 March 2017 ("FY 2017"), these ranges are 16.0% to 18.0% for the Common Equity Tier 1 Capital Ratio, 16.0% to 18.0% for the Tier 1 Capital Ratio, and 16.0% to 18.0% for the Total Capital Ratio.

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

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

Table 2.1: Capital Adequacy Ratios

The restated comparative capital adequacy ratios and balances in the respective tables were due to the effect of the pooling of interests method arising from:

(i) the transfers of futures broking business from a wholly-owned subsidiary, AmFutures Sdn Bhd ("AmFutures") to the Bank.

(ii) acquisition of 100% equity interest in AmFunds Management Berhad ("AMFB") and AmIslamic Funds Management Sdn Bhd ("AIFM") from a related company, AmInvestment Group Berhad.

The Bank, AmFutures, AFMB 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.

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

	30.09.2016		31.03.2016 (Restated)	
	Group	Bank	Group	Bank
Before deducting proposed dividends:				
CET 1 Capital Ratio	35.329%	33.169%	35.422%	34.341%
Tier 1 Capital Ratio	35.329%	33.169%	35.422%	34.341%
Total Capital Ratio	35.582%	33.169%	35.659%	34.341%
After deducting proposed dividends:				
CET 1 Capital Ratio	35.192%	33.005%	33.445%	32.026%
Tier 1 Capital Ratio	35.192%	33.005%	33.445%	32.026%
Total Capital Ratio	35.445%	33.005%	33.682%	32.026%

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

	30.09.2016 Islamic Window	31.03.2016 Islamic Window
CET 1 Capital Ratio	182.111%	162.361%
Tier 1 Capital Ratio	182.111%	162.361%
Total Capital Ratio	182.111%	162.361%

Table 2.2 Risk-Weighted Assets and Capital Requirements

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

	30.09.16					
Exposure class		**Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM")**	**Net exposures/ EAD after CRM**	**Risk weighted assets**	**Total Risk Weighted Assets after effects of RIA**	**Minimum capital requirement at 8%**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
1. **Credit risk**						
On balance sheet exposures						
Sovereigns/ Central banks		3,389	3,389	-	-	-
Banks, development financial institutions ("DFIs") and multilateral development banks		589,648	589,648	117,930	117,930	9,434
Corporates		342,404	156,145	80,682	80,682	6,455
Regulatory retail		26,768	3,004	2,253	2,253	180
Higher risk assets		11,820	11,820	17,730	17,730	1,418
Other assets		684,713	684,713	652,446	652,446	52,196
Defaulted exposures		10	10	15	15	1
Total for on balance sheet exposures		1,658,752	1,448,729	871,056	871,056	69,684
Off balance sheet exposures:						
Off balance sheet exposures other than OTC derivatives or Credit derivatives		47,518	21,372	14,419	14,419	1,154
Total for off balance sheet exposures		47,518	21,372	14,419	14,419	1,154
Total on and off balance sheet exposures		1,706,270	1,470,101	885,475	885,475	70,838
2. **Large exposures risk requirement**		-	-	-	-	-
3. **Market risk**	**Long Position**	**Short Position**				
Interest rate risk						
- General interest rate risk	460	462		-	-	-
Foreign currency risk	33,794	145		33,794	33,794	2,704
Equity risk						
- General risk	388	413		25	25	2
- Specific risk	388	413		491	491	39
Total	35,030	1,433		34,310	34,310	2,745
4. **Operational risk**				537,190	537,190	42,975
5. **Total RWA and capital requirements**				1,456,975	1,456,975	116,558

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

Exposure class		Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM")	Net exposures/ EAD after CRM	Risk weighted assets	Total Risk Weighted Assets after effects of RIA	Minimum capital requirement at 8%
	31.03.16 (Restated)					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
1. **Credit risk**						
On balance sheet exposures						
Sovereigns/ Central banks		2,890	2,890	-	-	-
Banks, development financial institutions ("DFIs") and multilateral development banks		560,015	560,015	112,003	112,003	8,960
Corporates		353,454	150,805	75,369	75,369	6,030
Regulatory retail		27,080	3,547	2,660	2,660	213
Higher risk assets		11,820	11,820	17,729	17,729	1,418
Other assets		884,363	884,363	884,359	884,359	70,749
Defaulted exposures		10	10	15	15	1
Total for on balance sheet exposures		1,839,632	1,613,450	1,092,135	1,092,135	87,371
Off balance sheet exposures:						
Off balance sheet exposures other than Over the counter ("OTC") derivatives or Credit derivatives		57,932	28,316	15,525	15,525	1,242
Total for off balance sheet exposures		57,932	28,316	15,525	15,525	1,242
Total on and off balance sheet exposures		1,897,564	1,641,766	1,107,660	1,107,660	88,613
2. **Large exposures risk requirement**		-	-	-	-	-
3. **Market risk**	**Long Position**	**Short Position**				
Interest rate risk						
- General interest rate risk	1,337	1,337		-	-	-
Foreign currency risk	33,498	-		33,498	33,498	2,680
Equity risk						
- General risk	532	514		18	18	1
- Specific risk	532	514		662	662	53
Option risk	13,348	-		18,354	18,354	1,468
Total	49,247	2,365		52,532	52,532	4,202
4. **Operational risk**				559,382	559,382	44,751
5. **Total RWA and capital requirements**				1,719,574	1,719,574	137,565

Table 2.2 Risk-Weighted Assets and Capital Requirements

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

	30.09.16					
Exposure class		**Gross exposures/ EAD before CRM**	**Net exposures/ EAD after CRM**	**Risk weighted assets**	**Total Risk Weighted Assets after effects of RIA**	**Minimum capital requirement at 8%**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
1. **Credit risk**						
On balance sheet exposures						
Sovereigns/ Central banks		49	49	-	-	-
Banks, DFIs and MDBs		289,764	289,764	57,952	57,952	4,636
Other assets		8,116	8,116	8,116	8,116	649
Total for on balance sheet exposures		297,929	297,929	66,068	66,068	5,285
Off balance sheet exposures:						
Off balance sheet exposures other than Over the counter ("OTC") derivatives or credit derivatives		3,998	3,998	800	800	64
Total for off balance sheet exposures		3,998	3,998	800	800	64
Total on and off balance sheet exposures		301,927	301,927	66,868	66,868	5,349
2. **Large exposures risk requirement**		-	-	-	-	-
	Long Position	**Short Position**				
3. **Market risk**	-	-				
4. **Operational risk**				41,415	41,415	3,313
5. **Total RWA and capital requirements**				108,283	108,283	8,662

The Islamic window of the Group did not have Restricted Investment Account ("RIA") that qualifies as a risk absorbent as at 30 September 2016 and 31 March 2016.

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

	31.03.16					
Exposure class		**Gross exposures/ EAD before CRM**	**Net exposures/ EAD after CRM**	**Risk weighted assets**	**Total Risk Weighted Assets after effects of RIA**	**Minimum capital requirement at 8%**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
1. **Credit risk**						
On balance sheet exposures						
Sovereigns/ Central banks		70	70	-	-	-
Banks, DFIs and MDBs		286,965	286,965	57,393	57,393	4,591
Other assets		18,428	18,428	18,428	18,428	1,474
Total for on balance sheet exposures		305,463	305,463	75,821	75,821	6,065
Off balance sheet exposures:						
Off balance sheet exposures other than Over the counter ("OTC") derivatives or credit derivatives		6,663	6,663	1,333	1,333	107
Total for off balance sheet exposures		6,663	6,663	1,333	1,333	107
Total on and off balance sheet exposures		312,126	312,126	77,154	77,154	6,172
2. **Large exposures risk requirement**		-	-	-	-	-
	Long Position	**Short Position**				
3. **Market risk**	-	-				
4. **Operational risk**				40,392	40,392	3,231
5. **Total RWA and capital requirements**				117,546	117,546	9,403

3.0 Capital Structure

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

- Common Equity Tier 1 ("CET1") Capital;
- Tier 2 Capital

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

3.1 CET1 Capital

CET1 Capital consists of the following:

(a) Paid-up Ordinary Share Capital

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

(b) Share Premium

Share premium is used to record premium arising from new shares issued by the Bank.

(c) Retained Earnings

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

(d) Other Disclosed Reserves

Other disclosed reserves comprise the following:

(i) Statutory Reserve

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

(ii) Capital Reserve and Merger Reserve

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

(iii) Foreign Currency Translation Reserve/(Deficit)

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

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

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

(v) Regulatory Reserve

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

3.2 Additional Tier 1 Capital

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

3.3 Tier 2 Capital

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

Table 3.1: Capital Structure

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

	Group		Bank	
	30.09.16	**31.03.16 (Restated)**	**30.09.16**	**31.03.16 (Restated)**
	RM'000	**RM'000**	**RM'000**	**RM'000**
CET1 Capital				
Ordinary shares	200,000	200,000	200,000	200,000
Retained earnings	75,071	103,699	70,395	99,023
Exchange fluctuation reserve	2,625	2,165	-	-
Statutory reserve	200,000	200,000	200,000	200,000
Regulatory reserve	2,800	2,800	2,800	2,800
Capital reserve	2,815	2,815	-	-
Merger reserve	82,115	149,639	-	22,622
Less : Regulatory adjustments applied on CET1 Capital:				
Goodwill	(36,442)	(36,442)	-	-
Other intangibles	(4,631)	(5,304)	(2,463)	(2,582)
Deferred tax assets	(6,812)	(7,463)	(4,668)	(4,899)
Regulatory reserve	(2,800)	(2,800)	(2,800)	(2,800)
Investments in capital instruments of unconsolidated financial entitie	-	-	(38,206)	(8,321)
Deduction in excess of Tier 2*	-	-	(21,793)	(1,477)
CET1 Capital/ Tier 1 Capital	**514,741**	**609,109**	**403,265**	**504,366**
Tier 2 Capital				
Collective impairment provisions and regulatory reserve	3,679	4,072	3,679	4,072
Less : Regulatory adjustments applied on Tier 2 Capital	-	-	(3,679)	(4,072)
Tier 2 Capital	**3,679**	**4,072**	**-**	**-**
Total Capital	**518,420**	**613,181**	**403,265**	**504,366**

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

3.3 Tier 2 Capital (Cont'd.)

Table 3.1: Capital Structure

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

	Group		Bank	
	30.09.16	**31.03.16 (Restated)**	**30.09.16**	**31.03.16 (Restated)**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Credit risk	885,475	1,107,660	902,329	1,123,172
Market risk	34,310	52,532	17,814	35,866
Operational risk	537,190	559,382	295,635	309,658
Total risk weighted assets	1,456,975	1,719,574	1,215,778	1,468,696

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

	30.09.16	**31.03.16**
	RM'000	**RM'000**
CET1 Capital		
Capital Funds	30,000	30,000
Retained earnings	167,507	161,143
Less : Regulatory adjustments applied on CET1 Capital		
Deferred tax assets	(312)	(296)
CET1 capital/ Tier 1 capital/ Total capital	**197,195**	**190,847**

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

	30.09.16	**31.03.16**
	RM'000	**RM'000**
Credit risk	66,868	77,154
Operational risk	41,415	40,392
Total risk weighted assets	108,283	117,546

4.0 General Risk Management

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

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

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

Board Approved Risk Appetite Statement

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

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

We adopt a conservative approach to liquidity management, maintaining stable and diversified funding base consistent with Basel III liquidity matrix (Net Stable Funds Ratio, and Liquidity Coverage Ratios).

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

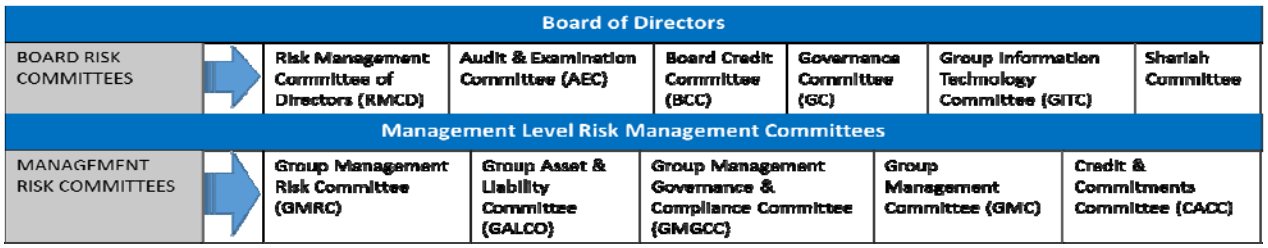
The Group manages shariah risk by ensuring that its operations, business, affairs and activities are in compliance with rulings of the BNM's Shariah Advisory Council ("SAC") and the Group's Shariah Committee.

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

Risk Management Governance

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

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



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 •Wholesale Pricing •Collateral and tailored facility structures
Monitoring/ Review	•Monitor and report portfolio mix •Review customer 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, securities and derivative exposures. The identification of credit risk is done by assessing the potential impact of internal and external factors on the Group transactions and/or positions as well as Shariah compliance risk.

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

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

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

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

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

5.0 Credit Risk Management (Cont'd.)

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

- Concentration threshold/review trigger:
  - single counterparty credit;
  - industry sector; and
  - country.
- Setting Loan to Value limits for asset backed loans (i.e., property exposures and other collateral);
- Classified Account processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers;
- Rescheduled and Restructured ("R&R") Account Management sets out the controls in managing R&R loans and advances pursuant to the BNM's revised policy on Classification and Impairment Provisions for Loans issued in April 2015; and
- Setting guidelines on Wholesale Pricing 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 GMRC regularly meets to review the quality and diversification of the Group's loans portfolio, and review the portfolio risk profile against the 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 delinquency buckets and exposures by industry sectors are reported monthly by Group Risk to executive management and to all meetings of the Board.

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

5.0 Credit Risk Management (Cont'd.)

5.1 Impairment

5.1.1 Definition of past due and impaired loans and advances

All loans and advances are categorised as either:

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

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

A loan is classified as impaired under the following circumstances:

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

(b) for loans where repayments are scheduled on intervals of 3 months or longer, the loan and advance is to be classified as impaired 1+30 days or 1 day +1 month past due (the 30-days grace period is to allow for exclusion of administrative default[2]).

(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 may also be classified as impaired:

i. if it is probable that the Group and the Bank will be unable to collect all amounts due (including both interest 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 obligation of a customer triggers a default of another loan obligation of the <u>same</u> customer or
- a default of a loan obligation of a customer triggers a default of a loan obligation of <u>other</u> customers within the same customer group.

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

iii. if deemed appropriate by the Watchlist Forum.

[1] Material obligation as determined by Management. Current “material” threshold is set at more than RM200.00

[2] 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.

5.1 Impairment (Cont'd.)

5.1.1 Definition of Past Due and Impaired Loans and Advances (Cont'd.)

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

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

ii. when an event of default ("EOD") has been declared by the Trustee/ Facility Agent[3] 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 loans, the account is impaired after 7 days when there is shortfall to the market value i.e. the collateral value is lower than the outstanding balance.

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

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

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 and an assessment of impairment:

(a) Trigger management

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

(b) Valuation of assets

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

Collective Assessment

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

With effect from 31 December 2015, the Group is required to maintain, in aggregate, collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding loans/ financing[4] net of individual impairment.

[3] 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.

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

Table 5.1: Distribution of gross credit exposures by sector

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

	30.09.16									
	Agriculture RM'000	Construction RM'000	Finance and Insurance RM'000	Government and Central Banks RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On balance sheet exposures										
Sovereigns/ Central banks	-	-	-	3,389	-	-	-	-	-	3,389
Banks, DFIs and MDBs	-	-	589,648	-	-	-	-	-	-	589,648
Corporates	861	-	76,165	-	6,190	5,015	49,933	204,240	-	342,404
Regulatory retail	-	-	-	-	-	-	-	26,768	-	26,768
Higher risk assets	-	-	-	-	-	-	-	-	11,820	11,820
Other assets	-	-	-	-	-	-	-	387,694	297,019	684,713
Defaulted exposures	-	-	-	-	-	-	-	10	-	10
Total for on balance sheet exposures	861	-	665,813	3,389	6,190	5,015	49,933	618,712	308,839	1,658,752
Off balance sheet exposures										
Off balance sheet exposures other than OTC derivatives or Credit derivatives	-	11,021	-	-	1,460	-	6,108	28,929	-	47,518
Total for off balance sheet exposures	-	11,021	-	-	1,460	-	6,108	28,929	-	47,518
Total on and off balance sheet exposures	**861**	**11,021**	**665,813**	**3,389**	**7,650**	**5,015**	**56,041**	**647,641**	**308,839**	**1,706,270**

Table 5.1: Distribution of gross credit exposures by sector (Cont'd.)

The distribution of credit exposures by sector of the Group are as follows (Cont'd.):

	31.03.16 (Restated)									
	Agriculture RM'000	Construction RM'000	Finance and Insurance RM'000	Government and Central Banks RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On balance sheet exposures										
Sovereigns/ Central banks	-	-	-	2,890	-	-	-	-	-	2,890
Banks, DFIs and MDBs	-	-	560,015	-	-	-	-	-	-	560,015
Corporates	860	-	77,859	-	4,233	5,015	45,595	219,892	-	353,454
Regulatory retail	-	-	-	-	-	-	-	27,080	-	27,080
Higher risk assets	-	-	-	-	-	-	-	-	11,820	11,820
Other assets	-	-	-	-	-	-	-	647,540	236,823	884,363
Defaulted exposures	-	-	-	-	-	-	-	10	-	10
Total for on balance sheet exposures	860	-	637,874	2,890	4,233	5,015	45,595	894,522	248,643	1,839,632
Off balance sheet exposures										
Off balance sheet exposures other than Over the counter derivatives	-	21,164	100	-	1,850	-	6,420	28,398	-	57,932
Total for off balance sheet exposures	-	21,164	100	-	1,850	-	6,420	28,398	-	57,932
Total on and off balance sheet exposures	**860**	**21,164**	**637,974**	**2,890**	**6,083**	**5,015**	**52,015**	**922,920**	**248,643**	**1,897,564**

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

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

	30.09.16			
	Business Activities RM'000	**Household RM'000**	**Not allocated RM'000**	**Total RM'000**
Impaired loans and advances	2,211	-	-	**2,211**
Individual allowance	2,211	-	-	**2,211**
Collective allowance	-	-	879	**879**
Charges/(Write-back) for individual allowances	(40)	-	-	**(40)**

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

Table 5.3: Geographical distribution of credit exposures

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

	30.09.16		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ Central banks	3,389	-	3,389
Banks, DFIs and MDBs	564,883	24,765	589,648
Corporates	342,404	-	342,404
Regulatory retail	26,768	-	26,768
Higher risk assets	11,813	7	11,820
Other assets	682,394	2,319	684,713
Defaulted exposures	10	-	10
Total for on balance sheet exposures	1,631,661	27,091	1,658,752
Off balance sheet exposures			
Off balance sheet exposures other than OTC derivatives or credit derivatives	47,518	-	47,518
Total for off balance sheet exposures	47,518	-	47,518
Total on and off balance sheet exposures	**1,679,179**	**27,091**	**1,706,270**

	31.03.16 (Restated)		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ Central banks	2,890	-	2,890
Banks, DFIs and MDBs	537,938	22,077	560,015
Corporates	353,454	-	353,454
Regulatory retail	27,080	-	27,080
Higher risk assets	11,813	7	11,820
Other assets	879,258	5,105	884,363
Defaulted exposures	10	-	10
Total for on balance sheet exposures	1,812,443	27,189	1,839,632
Off balance sheet exposures			
Off balance sheet exposures other than OTC derivatives or credit derivatives	57,932	-	57,932
Total for off balance sheet exposures	57,932	-	57,932
Total on and off balance sheet exposures	**1,870,375**	**27,189**	**1,897,564**

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

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

			30.09.16
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans and advances	2,211	-	2,211
Individual allowance	2,211	-	2,211
Collective allowance	879	-	879

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

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

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

	30.09.16								
	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No maturity specified RM'000	Total RM'000
On balance sheet exposures									
Sovereigns/ central banks	109	-	-	-	-	-	3,280	-	3,389
Banks, DFIs and MDBs	589,648	-	-	-	-	-	-	-	589,648
Corporates	360	2,203		1,787	337,294	760	-	-	342,404
Regulatory retail	-	176	43	194	393	25,962	-	-	26,768
Higher risk assets								11,820	11,820
Other assets	663,811	-	-	-	-	-	-	20,902	684,713
Defaulted exposures	10	-	-	-	-	-	-	-	10
Total for on balance sheet exposures	1,253,938	2,379	43	1,981	337,687	26,722	3,280	32,722	1,658,752
Off balance sheet exposures									
Off balance sheet exposures other than OTC derivatives or credit derivatives	-	6,696	45	6,958	4,230	48	29,541	-	47,518
Total for off balance sheet exposures	-	6,696	45	6,958	4,230	48	29,541	-	47,518
Total on and off balance sheet exposures	1,253,938	9,075	88	8,939	341,917	26,770	32,821	32,722	1,706,270

	31.03.16 (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	299	-	-	-	-	-	2,591	-	2,890
Banks, DFIs and MDBs	560,015	-	-	-	-	-	-	-	560,015
Corporates	395	1,465	-	3,408	347,661	525	-	-	353,454
Regulatory retail	-	4	497	204	548	25,827	-	-	27,080
Higher risk assets	-	-	-	-	-	-	-	11,820	11,820
Other assets	863,015	-	-	-	-	-	-	21,348	884,363
Defaulted exposures	-	-	9	-	1	-	-	-	10
Total for on balance sheet exposures	1,423,724	1,469	506	3,612	348,210	26,352	2,591	33,168	1,839,632
Off balance sheet exposures									
Off balance sheet exposures other than OTC derivatives or credit derivatives	1	3,687	548	4,005	10,972	6,758	31,961	-	57,932
Total for off balance sheet exposures	1	3,687	548	4,005	10,972	6,758	31,961	-	57,932
Total on and off balance sheet exposures	**1,423,725**	**5,156**	**1,054**	**7,617**	**359,182**	**33,110**	**34,552**	**33,168**	**1,897,564**

Table 5.6: Reconciliation of changes to loan impairment allowances

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

	30.09.16	
	Individual impairment allowance RM'000	**Collective impairment allowance RM'000**
Balance at beginning of financial year	2,251	1,272
Charge for the period – net	(40)	(393)
Balance at end of financial period	2,211	879

	(Charge off)/recoveries
	RM'000
Bad debts written off during the financial period	-
Bad debt recoveries during the financial period	-
	-

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

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

6.0 Credit Risk Exposure under Standardised Approach

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

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

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

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

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

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

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

	30.09.16							
	Exposures after netting and credit risk mitigation							
Risk Weights	Sovereigns and Central banks RM'000	Banks, DFIs and MDBs RM'000	Corporates RM'000	Regulatory retail RM'000	Higher risk assets RM'000	Other assets RM'000	Total Exposures after Netting and CRM RM'000	Total Risk Weighted Assets RM'000
0%	3,389	-	75,463	-	-	3	78,855	-
20%	-	589,648	3,998	-	-	40,330	633,976	126,795
50%	-	-	7,023	-	-	-	7,023	3,512
75%	-	-	-	3,979	-	-	3,979	2,985
100%	-	-	90,058	-	-	644,380	734,438	734,438
150%	-	-	-	10	11,820	-	11,830	17,745
Total	3,389	589,648	176,542	3,989	11,820	684,713	1,470,101	885,475

	31.03.16 (Restated)							
	Exposures after netting and credit risk mitigation							
Risk Weights	Sovereigns and Central banks RM'000	Banks, DFIs and MDBs RM'000	Corporates RM'000	Regulatory retail RM'000	Higher risk assets RM'000	Other assets RM'000	Total Exposures after Netting and CRM RM'000	Total Risk Weighted Assets RM'000
0%	2,890	-	75,437	-	-	4	78,331	-
20%	-	560,015	6,662	-	-	-	566,677	113,335
50%	-	-	14,501	-	-	-	14,501	7,251
75%	-	-	-	4,388	-	-	4,388	3,291
100%	-	-	81,679	1	-	884,359	966,039	966,039
150%	-	-	-	10	11,820	-	11,830	17,744
Total	2,890	560,015	178,279	4,399	11,820	884,363	1,641,766	1,107,660

Table 6.2: Rated Exposures according to Ratings by ECAIs

	30.09.16					
	Ratings of Corporate by Approved ECAIs					
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	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
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
Corporates	380,047	-	-	-	-	380,047
Total	380,047	-	-	-	-	380,047

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

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

	30.09.16					
	Ratings of Sovereigns and Central Banks by Approved ECAIs					
Exposure Class	**Moodys**	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off-Balance Sheet Exposures						
Sovereigns and Central banks	3,389	-	3,389	-	-	-
Total	**3,389**	-	**3,389**	-	-	-

	31.03.16					
	Ratings of Sovereigns and Central Banks by Approved ECAIs					
Exposure Class	**Moodys**	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off-Balance Sheet Exposures						
Sovereigns and Central banks	2,890	-	2,890	-	-	-
Total	**2,890**	-	**2,890**	-	-	-

	30.09.16					
	Ratings of Banking Institutions by Approved ECAIs					
Exposure class	**Moodys**	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	RAM	**AAA to AA3**	**A1 to A3**	**BBB1 to BBB3**	**BB1 to B3**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Banks, DFIs and MDBs	589,648	-	11,914	156,063	-	421,671
Total	**589,648**	-	**11,914**	**156,063**	-	**421,671**

	31.03.16 (Restated)					
	Ratings of Banking Institutions by Approved ECAIs					
Exposure class	**Moodys**	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	RAM	**AAA to AA3**	**A1 to A3**	**BBB1 to BBB3**	**BB1 to B3**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Banks, DFIs and MDBs	560,015	-	11,032	121,511	-	427,472
Total	**560,015**	-	**11,032**	**121,511**	-	**427,472**

7.0 Credit Risk Mitigation

Table 7.1: Credit Risk Mitigation

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

Exposures	30.09.16 Exposures before CRM RM'000	30.09.16 Exposures covered by Eligible Financial Collateral RM'000
Credit risk		
On balance sheet exposures		
Sovereigns/ Central banks	3,389	-
Banks, DFIs and MDBs	589,648	-
Corporates	342,404	218,109
Regulatory retail	26,768	24,013
Higher risk assets	11,820	-
Other assets	684,713	-
Defaulted exposures	10	-
Total for on balance sheet exposures	1,658,752	242,122
Off balance sheet exposures		
Off balance sheet exposures other than OTC derivatives or credit derivatives	47,518	27,537
Total for off balance sheet exposures	47,518	27,537
Total on and off balance sheet exposures	**1,706,270**	**269,659**

Exposures	31.03.16 (Restated) Exposures before CRM RM'000	31.03.16 (Restated) Exposures covered by Eligible Financial Collateral RM'000
Credit risk		
On balance sheet exposures		
Sovereigns/ Central banks	2,890	-
Banks, DFIs and MDBs	560,015	-
Corporates	353,454	231,279
Regulatory retail	27,080	24,406
Higher risk assets	11,820	-
Other assets	884,363	-
Defaulted exposures	10	-
Total for on balance sheet exposures	1,839,632	255,685
Off balance sheet exposures		
Off balance sheet exposures other than OTC derivatives or credit derivatives	57,932	30,499
Total for off balance sheet exposures	57,932	30,499
Total on and off balance sheet exposures	**1,897,564**	**286,184**

8.0 Off Balance Sheet Exposure and Counterparty Credit Risk

Table 8.1: Off Balance Sheet Exposures

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

	30.09.16		
Description	**Principal Amount RM'000**	**Credit Equivalent Amount RM'000**	**Risk Weighted Assets RM'000**
Direct Credit Substitutes	11,021	11,021	4,311
Foreign exchange related contracts			
One year or less	922	-	-
Equity and commodity related contracts			
One year or less	413		
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	19	9	7
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	182,437	36,488	10,101
Total	**194,812**	**47,518**	**14,419**

	31.03.16		
Description	**Principal Amount RM'000**	**Credit Equivalent Amount RM'000**	**Risk Weighted Assets RM'000**
Direct Credit Substitutes	17,319	17,319	6,661
Assets sold with recourse	100	100	100
Obligations under underwriting agreements	13,348	-	
Foreign exchange related contracts			
One year or less	1,332	-	-
Equity and commodity related contracts			
One year or less	516	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	19	9	7
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	202,519	40,504	8,757
Total	**235,153**	**57,932**	**15,525**

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

As at 30 September 2016 and 31 March 2016, the Group does not have any credit derivatives.

9.0 Securitisation

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

10.0 Non-Traded Market Risk

Table 10.1 : Market Risk Sensitivity-Interest Rate Risk / Rate of Return Risk in the Banking Book (IRR / RORBB)

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

Impact on Income Statement

	30.09.16		31.03.16	
Currency	Interest Rate + 100 bps (RM'000)	Interest Rate - 100 bps (RM'000)	Interest Rate + 100 bps (RM'000)	Interest Rate - 100 bps (RM'000)
MYR	61	(61)	740	(740)

Impact on Equity

	30.09.16		31.03.16	
Currency	Interest Rate + 100 bps (RM'000)	Interest Rate - 100 bps (RM'000)	Interest Rate + 100 bps (RM'000)	Interest Rate - 100 bps (RM'000)
MYR	(3,646)	4,141	(4,262)	4,749

11.0 Equities (Banking Book Positions)

Table 11.1: Equity investments and capital requirement

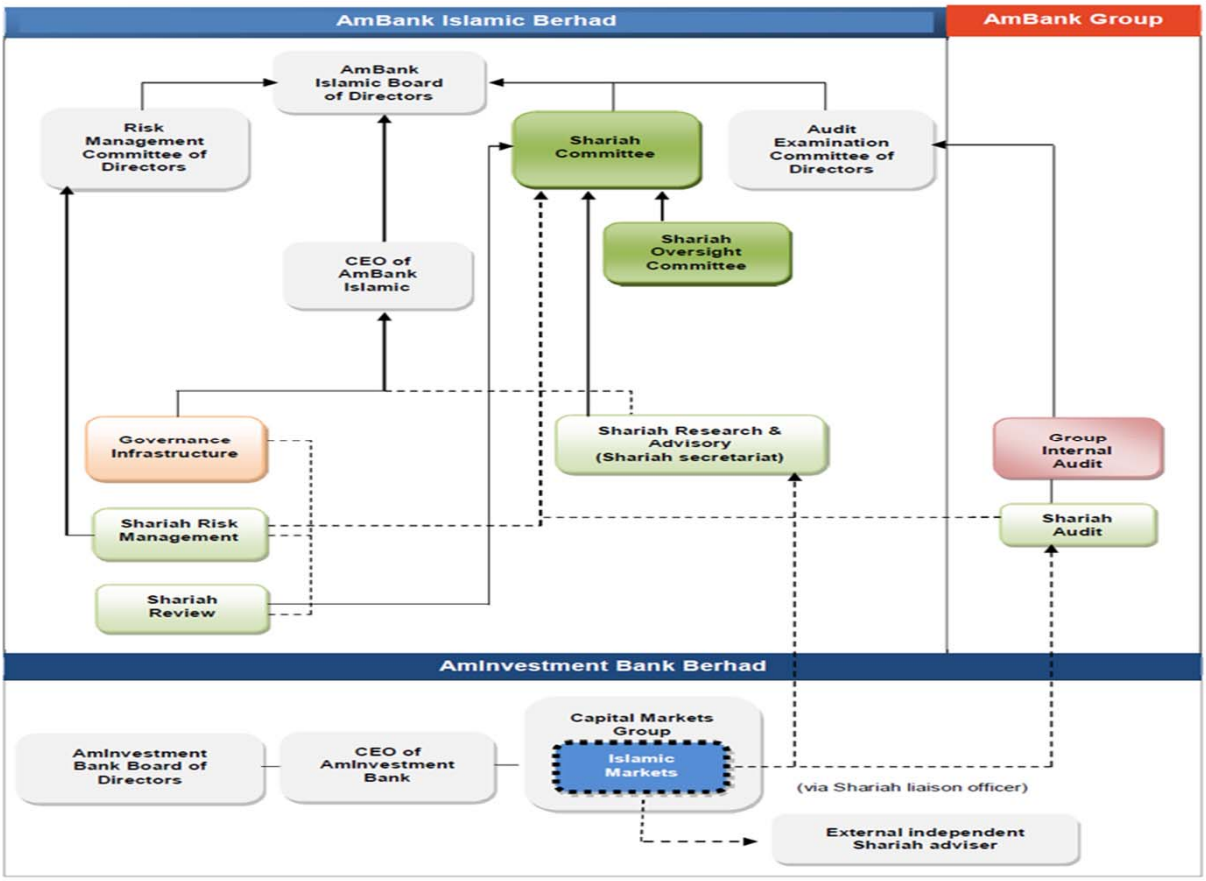
An analysis of equity investments by appropriate equity groupings and risk weighted assets of the Group are as follows:

	30.09.16	31.03.16
Non traded equity investments	**RM'000**	**RM'000**
Value of quoted (publicly traded) equities	-	-
Value of unquoted (privately held) equities	11,720	11,720
Total	**11,720**	**11,720**
Net realised and unrealised gains/ (losses)		
Cumulative realised gains/ (losses) from sales and liquidations	295	(49)
Total unrealised gains/ (losses)	-	(1,024)
Total	**295**	**(1,073)**
Risk Weighted Assets		
Equity investments subject to a 100% risk weight	-	-
Equity investments subject to a 150% risk weight	17,580	17,579
Total	**17,580**	**17,579**
Total minimum capital requirement (8%)	**1,406**	**1,406**

12.0 Liquidity Risk and Funding Management

The liquidity risk management of the Bank is aligned to BNM's policy document on Liquidity Coverage Ratio ("LCR") issued by BNM on 31 March 2015.

13.0 Shariah Governance Structure



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

The Bank adopts a leverage model (with some minor refinements/enhancements during the current financial period) whereby, through its Islamic window i.e. Islamic Markets ("IM"), it leverages on AmBank Islamic Shariah Governance Structure, including the Shariah Committee of AmBank Islamic. Alternatively, IM may also opt for independent external Shariah advisor(s) as approved by the SC of Malaysia when necessary and will be on ad-hoc basis.

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

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

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

Shariah Committee
The Shariah Committee is responsible and accountable on matters related to Shariah. This includes advising the Board and Management on Shariah matters and endorsing and validating Islamic capital market products and services, Shariah policies and the relevant documentation in relation to the Bank's Islamic operations and business activities.

13.0 Shariah Governance Structure (Contd.)

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

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

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

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

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

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

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

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

Shariah Risk Management
IM shall identify, measure, monitor and control the occurrence of Shariah non-compliance risks and to mitigate any possible non-compliant events. As per the leveraging model, the Shariah risk assessment will be reported to the Group Risk infrastructure . Endorsement by the appointed Shariah adviser for all Islamic capital market products shall provide the assurance that the Islamic capital market product satisfies the Shariah compliance.

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 Islamic Markets and Shariah Adviser (Shariah committee and/or independent Shariah adviser); 3rd – Shariah Audit.

Shariah Review
IM shall review the structure, terms and conditions, documentation and issuance process of Islamic capital market products. Endorsement by the appointed Shariah adviser as part of the requirement by the Securities Commission for all the Islamic capital market products serves as assurance that the Islamic capital market products are Shariah compliant.

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

13.1 Shariah Non-Compliant Income
There was no shariah non-compliant incidents and income during the financial period ended 30 September 2016 (Nil for the financial year ended 31 March 2016).