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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.

Up until 31 December 2014, AmBank had provided explicit guarantee against the liabilities of its wholly owned Labuan offshore banking subsidiary, AmInternational (L) Ltd. ("AMIL"), a Labuan company licensed under the Labuan Financial Services and Securities Act to carry out Labuan banking business. On 31 December 2014, AMIL surrendered its banking licence and subsequently changed its principal activity to that of investment holding.

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 Managing Director.

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 provided within their respective published financial statements that are available via our website at www.ambankgroup.com.

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

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

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

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

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

Type of entity	Accounting treatment	
	Statutory reporting	Basel III regulatory reporting
Subsidiaries licensed under FSA or IFSA or engaged in financial activities	Fully consolidated	Deducted from capital at the banking subsidiary entity level; Fully consolidated in the calculation of capital adequacy at the banking subsidiary consolidated level
Subsidiaries engaged in non-financial activities	Fully consolidated	Risk weighted at the banking subsidiary entity level; Consolidated in 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:

- forecast demand for capital to support the credit ratings; and
- increase in demand for capital due to business growth and market shocks.

(b) Or stresses:

- available supply of capital and capital raising options; and
- internal controls and governance for managing the Group's risk, performance and capital.

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

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

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

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

The capital that the Group is required to hold is determined by its 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 Chief Executive Officers Committee ("Group CEOs Committee"). The Group CEOs Committee is also responsible for managing the Group's statement of financial position, capital and liquidity.

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

Group CEOs Committee proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. For the current financial year ended 31 March 2015 ("FY 2015"), these ranges are 8.0% to 10.0% for the Common Equity Tier 1 Capital Ratio, 9.5% to 11.5% 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 March 2015			
	AmBank	AmBank Islamic	AmInvestment Bank	Group *
Before deducting proposed dividends:				
CET1 Capital ratio	10.653%	9.200%	24.196%	10.975%
Tier 1 Capital ratio	12.446%	9.200%	24.196%	12.245%
Total Capital ratio	16.020%	14.371%	24.196%	16.233%
After deducting proposed dividends:				
CET1 Capital ratio	10.023%	9.200%	22.820%	10.508%
Tier 1 Capital ratio	11.816%	9.200%	22.820%	11.778%
Total Capital ratio	15.390%	14.371%	22.820%	15.766%

	31 March 2014			
	AmBank	AmBank Islamic	AmInvestment Bank	Group *
Before deducting proposed dividends:				
CET1 Capital ratio	9.451%	9.829%	16.863%	10.075%
Tier 1 Capital ratio	11.416%	9.829%	16.863%	11.510%
Total Capital ratio	14.913%	15.805%	16.863%	15.818%
After deducting proposed dividends:				
CET1 Capital ratio	9.145%	9.201%	16.863%	9.696%
Tier 1 Capital ratio	11.110%	9.201%	16.863%	11.131%
Total Capital ratio	14.607%	15.178%	16.863%	15.439%

Notes:

(i) The Group has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk. With effect from 1 January 2013, the capital adequacy ratios are computed in accordance with BNM's guidelines on Capital Adequacy Framework (Capital Components) issued on 28 November 2012, which is based on the Basel III capital accord. The minimum regulatory capital adequacy requirements are as follows:

	Transitional arrangements		
	Calendar Year		
	2013	2014	2015 onwards
CET1 Capital ratio	3.5%	4.0%	4.5%
Tier 1 Capital ratio	4.5%	5.5%	6.0%
Total Capital ratio	8.0%	8.0%	8.0%

(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 capital position and RWA of AmBank refers to the combined capital base and RWA of AmBank (M) Bhd and its wholly-owned offshore banking subsidiary, AMIL. On 31 December 2014, AMIL had ceased to carry on Labuan banking business. Consequently, the above capital ratios of AmBank as at 31 March 2015 refers to only AmBank's capital base as a ratio of its RWA.

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 2015			
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 RPSIA RM'000	Total risk weighted assets after effects of RPSIA RM'000	Minimum capital requirement at 8% RM'000
1. Credit risk							
On balance sheet exposures							
Sovereigns/central banks		12,225,767	12,225,767	–	–	–	–
Banks, development financial institutions ("DFIs") and multilateral development banks ("MDBs")		12,408,855	12,408,855	2,594,507	–	2,594,507	207,561
Insurance companies, securities firms and fund managers"		35,068	35,068	35,068	–	35,068	2,805
Corporates		52,163,610	48,697,187	40,305,638	1,363,811	38,941,827	3,115,346
Regulatory retail		32,239,542	32,051,629	24,276,596	–	24,276,596	1,942,128
Residential mortgages		10,961,099	10,938,010	3,889,953	–	3,889,953	311,196
Higher risk assets		120,233	120,233	180,349	–	180,349	14,428
Other assets		4,068,190	4,068,190	3,668,927	–	3,668,927	293,514
Securitisation exposures		54,626	54,626	27,088	–	27,088	2,167
Equity exposures		5,395	5,395	5,395	–	5,395	432
Defaulted exposures		1,163,558	1,151,136	1,386,084	–	1,386,084	110,887
Total for on balance sheet exposures		**125,445,943**	**121,756,096**	**76,369,605**	**1,363,811**	**75,005,794**	**6,000,464**
Off balance sheet exposures:							
Over the counter ("OTC") derivatives		3,820,769	3,820,769	1,665,359	–	1,665,359	133,229
Credit derivatives		16	16	8	–	8	1
Off balance sheet exposures other than OTC derivatives or credit derivatives		10,720,143	9,871,131	8,832,374	–	8,832,374	706,590
Defaulted exposures		41,686	38,436	57,610	–	57,610	4,609
Total for off balance sheet exposures		**14,582,614**	**13,730,352**	**10,555,351**	**–**	**10,555,351**	**844,429**
Total on and off balance sheet exposures		**140,028,557**	**135,486,448**	**86,924,956**	**1,363,811**	**85,561,145**	**6,844,893**
2. Large exposures risk requirement				1,474	–	1,474	118
3. Market risk	**Long position**	**Short position**					
Interest rate risk/Rate of return risk							
- General interest rate risk/Rate of return risk	86,476,527	84,366,499		2,028,187	–	2,028,187	162,255
- Specific interest rate risk/Rate of return risk	3,124,503	939,785		150,546	–	150,546	12,044
Foreign currency risk	512,639	28,797		512,639	–	512,639	41,011
Equity risk							
- General risk	171,042	5,313		165,763	–	165,763	13,261
- Specific risk	171,042	5,313		258,396	–	258,396	20,672
Option risk	549,005	306,933		7,112	–	7,112	569
Total	**91,004,758**	**85,652,640**		**3,122,643**	**–**	**3,122,643**	**249,812**
4. Operational risk				**6,946,680**	**–**	**6,946,680**	**555,734**
5. Total RWA and capital requirements				**96,995,753**	**1,363,811**	**95,631,942**	**7,650,557**

As part of arrangements between AmBank and AmBank Islamic in relation to a Restricted Profit Sharing Investment Account ("RPSIA") agreement, AmBank records as "deposits and placements with banks and other financial institutions" its exposure in the arrangement, whereas AmBank Islamic records its exposure as "financing and advances". The RPSIA 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 RPSIA exposes AmBank to the risks and rewards of the financing, and accordingly AmBank accounts for all impairment allowances and risk-weighted assets arising from the RPSIA financing.

As at 31 March 2015, the gross exposure and collective allowance relating to the RPSIA financing are RM1,363.8 million and RM1.6 million (2014: RM450.1 million and RM2.5 million respectively). There was no individual allowance provided for the RPSIA financing. RPSIA assets excluded from the risk-weighted capital adequacy computation of AmBank Islamic for 31 March 2015 amounted to RM1,363.8 million (2014: RM450.1 million) and the risk weight on these RPSIA assets are accounted for in the computation of capital adequacy of AmBank.

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

The aggregated breakdown of RWA by exposures in major risk category of AMMB Banking Group is as follows: (Cont'd.)

		31 March 2014 (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 RPSIA RM'000	Total risk weighted assets after effects of RPSIA RM'000	Minimum capital requirement at 8% RM'000
1. Credit risk							
On balance sheet exposures							
Sovereigns/central banks		17,174,218	17,174,218	–	–	–	–
Banks, development financial institutions ("DFIs") and multilateral development banks ("MDBs")		8,551,010	8,551,010	1,951,904	–	1,951,904	156,152
Insurance companies, securities firms and fund managers		32,857	32,857	32,857	–	32,857	2,629
Corporates		47,296,504	43,855,834	38,305,092	450,133	37,854,959	3,028,397
Regulatory retail		35,399,658	35,205,927	26,678,048	–	26,678,048	2,134,244
Residential mortgages		10,500,745	10,479,600	3,724,103	–	3,724,103	297,928
Higher risk assets		126,280	126,280	189,420	–	189,420	15,154
Other assets		3,924,344	3,924,344	3,508,894	–	3,508,894	280,712
Securitisation exposures		171,382	171,382	113,723	–	113,723	9,098
Equity exposures		9,386	9,386	9,386	–	9,386	751
Defaulted exposures		1,170,846	1,158,636	1,281,205	–	1,281,205	102,496
Total for on balance sheet exposures		**124,357,230**	**120,689,475**	**75,794,633**	**450,133**	**75,344,500**	**6,027,560**
Off balance sheet exposures:							
Over the counter ("OTC") derivatives		2,321,708	2,321,708	1,329,526	–	1,329,526	106,362
Credit derivatives		16	16	8	–	8	1
Off balance sheet exposures other than OTC derivatives or credit derivatives		11,675,486	10,764,482	9,692,778	–	9,692,778	775,422
Defaulted exposures		36,032	31,234	46,786	–	46,786	3,743
Total for off balance sheet exposures		**14,033,242**	**13,117,440**	**11,069,098**	**–**	**11,069,098**	**885,528**
Total on and off balance sheet exposures		**138,390,472**	**133,806,915**	**86,863,731**	**450,133**	**86,413,598**	**6,913,088**
2. Large exposures risk requirement				875	–	875	70
3. Market risk	**Long position**	**Short position**					
Interest rate risk/Rate of return risk							
- General interest rate risk/Rate of return risk	63,551,645	61,400,042		1,632,951	–	1,632,951	130,636
- Specific interest rate risk/Rate of return risk	2,661,247	323,439		332,825	–	332,825	26,626
Foreign currency risk	277,493	58,777		277,493	–	277,493	22,199
Equity risk							
- General risk	210,328	2,122		208,206	–	208,206	16,656
- Specific risk	210,328	2,122		302,574	–	302,574	24,206
Option risk	1,283,449	2,147,956		192,573	–	192,573	15,406
Total	**68,194,490**	**63,934,458**		**2,946,622**	**–**	**2,946,622**	**235,730**
4. Operational risk				**7,088,670**	**–**	**7,088,670**	**567,094**
5. Total RWA and capital requirements				**96,899,897**	**450,133**	**96,449,764**	**7,715,981**

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

(c) Retained earnings

Retained earnings at the end of the financial year 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, 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 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.

3.1 CET 1 Capital (Cont'd.)

(d) Other disclosed reserves (Cont'd.)

(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 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.

(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 CET1 Capital.

(f) Profit equalisation reserve

Profit equalisation reserve is the amount appropriated out of the total Islamic banking gross income in order to maintain a certain level of return to Investment Account Holders ("IAH") which is as stipulated by BNM's Guidelines on Profit Equalisation Reserve. Profit equalisation reserve is allocated from retained profits and classified as a separate reserve in equity and is non-distributable. The amount of the profit equalisation reserve is derecognised in the calculation of CET1 Capital.

(g) 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 2015, the amount of Additional Tier 1 Capital that can be recognised in the computation of the capital adequacy ratios are capped at 70% 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
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**

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%	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) Non-Cumulative Non-Voting Guaranteed Preference Shares

On 27 January 2006, AMBB Capital (L) Ltd, a wholly-owned subsidiary of AmBank issued United States Dollar ("USD") 200 million Innovative Hybrid Tier 1 Capital comprising 2,000 preference shares of USD100,000 each ("Hybrid Securities"). The Hybrid Securities are subordinated and guaranteed by AmBank. The gross proceeds from the issuance was on-lent to AmBank in the form of a subordinated term loan on 27 January 2006 for the purpose of supplementing AmBank's working capital requirements.

The salient features of the Hybrid Securities are as follows:

(i) The Hybrid Securities bear non-cumulative dividends from the issue date to (but excluding) 27 January 2016 at 6.77% per annum and thereafter, a floating rate per annum equal to 3 month USD LIBOR plus 2.90% if not redeemed on 27 January 2016. The non-cumulative dividends are payable on a semi-annual basis.

(ii) The Hybrid Securities are perpetual securities and have no fixed final redemption date. The Hybrid Securities may be redeemed in whole but not in part at the option of the issuer (but not the holders) in certain circumstances. In each case, not less than 30 or more than 60 days' notice (which notice shall be irrevocable) must be given.

The Hybrid Securities are listed on both the Labuan International Financial Exchange Inc. and the Singapore Exchange Securities Trading Limited and are offered to international institutional investors outside Malaysia.

(b) 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.

3.2 Additional Tier 1 Capital (Cont'd.)

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.

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 reserves (subject to a maximum of 1.25% of total credit risk weighted assets determined under the Standardised Approach) and subordinated debt instruments.

The amount of Tier 2 Capital 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 2015, the amount of such Tier 2 Capital that can be recognised in the computation of the capital adequacy ratios is capped at 70% 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.

3.3 Tier 2 Capital (Cont'd.)

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
MTN - Tranche 2	165,000
MTN - Tranche 3	75,000
MTN - Tranche 4	45,000
MTN - Tranche 5	75,000
MTN - Tranche 6	600,000
MTN - Tranche 7	97,800
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%	0

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

Base for Tier 2 Capital Instruments outstanding on 1 January 2013	
Instruments	**RM'000**
Subordinated Sukuk Musharakah - Tranche 1	600,000
Subordinated Sukuk Musharakah - Tranche 2	200,000
Subordinated Sukuk Musharakah - Tranche 3	200,000
Total qualifying base	1,000,000

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%	0

3.3 Tier 2 capital (Cont'd.)

Medium Term Notes

In the financial year 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 2015 are as follows:

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 was included 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 2015 are as follows:

Issue Date	First Call Date	Tenor	Interest Rate	Nominal value outstanding (RM million)
30 September 2011	30 September 2016	10 years Non-Callable 5 years	4.40% per annum	480
31 January 2012	31 January 2017	10 years Non-Callable 5 years	4.35% per annum	190
24 December 2012	23 December 2017	10 years Non-Callable 5 years	4.45% per annum	130
Total				**800**

3.3 Tier 2 capital (Cont'd.)

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 are fully Basel III compliant and 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.

The salient features of the Subordinated Notes issued under this programme and outstanding as at 31 March 2015 are as follows:

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

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 the 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 are fully Basel III compliant and 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 2015 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
Total				**350**

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 2015			
	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	4,874,087	747,523	82,533	5,953,934
Available-for-sale reserve/(deficit)	1,323	(6,592)	1,024	(4,309)
Foreign exchange translation reserve	50,585	–	–	87,982
Statutory reserve	980,969	483,345	200,000	1,664,314
Regulatory reserve	–	–	2,800	2,800
Profit equalisation reserve	–	3,904	–	3,904
Capital reserve	–	–	–	2,815
Merger reserve	–	–	–	111,805
Cash flow hedging deficit	(481)	–	–	(481)
Less: Regulatory adjustments applied on CET1 Capital				
Goodwill	–	–	–	–
Intangible assets	(327,689)	(20)	(1,710)	(337,689)
Deferred tax assets	(98,869)	–	(2,782)	(105,328)
Profit equalisation reserve	–	(3,904)	–	(3,904)
Cash flow hedging deficit	481	–	–	481
55% of cumulative gains of AFS reserve	(728)	–	(563)	(1,256)
Regulatory reserve	–	–	(2,800)	(2,800)
Investment in ordinary shares of unconsolidated financial and insurance/takaful entities	(28,652)	–	(52,370)	(12,846)
Deduction in excess of Tier 2 Capital**	–	–	(74,446)	(13,922)
CET1 Capital	**7,214,234**	**2,411,363**	**351,686**	**10,495,815**
Additional Tier 1 Capital				
Additional Tier 1 Capital instruments (subject to gradual phase-out treatment)	1,214,570	–	–	1,214,570
Tier 1 Capital	**8,428,804**	**2,411,363**	**351,686**	**11,710,385**
Tier 2 Capital				
Tier 2 Capital instruments meeting all relevant criteria for inclusion	400,000	350,000	–	750,000
Tier 2 Capital instruments (subject to gradual phase-out treatment)	1,310,000	700,000	–	2,010,000
Collective allowance and regulatory reserve	753,172	305,338	4,111	1,059,188
Less: Regulatory adjustments applied on Tier 2 Capital	(42,978)	–	(4,111)	(5,348)
Tier 2 Capital	**2,420,194**	**1,355,338**	**–**	**3,813,840**
Total Capital	**10,848,998**	**3,766,701**	**351,686**	**15,524,225**
Credit RWA	60,253,770	25,790,830	1,122,413	86,924,956
Less: Credit RWA absorbed by Restricted Profit Sharing Investment Account	–	(1,363,811)	–	(1,363,811)
Total Credit RWA	60,253,770	24,427,019	1,122,413	85,561,145
Market RWA	2,774,466	230,629	16,101	3,122,643
Operational RWA	4,694,931	1,553,441	314,533	6,946,680
Large exposure risk RWA for equity holdings	–	–	438	1,474
Total Risk Weighted Assets	**67,723,167**	**26,211,089**	**1,453,485**	**95,631,942**

* 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 Bank Negara Malaysia's guidelines on Capital Adequacy Framework (Capital Components).

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 2014			
	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	4,408,666	698,125	57,377	5,343,662
Available-for-sale reserve/(deficit)	(72,241)	(18,442)	1,707	(87,776)
Foreign exchange translation reserve	(1,990)	–	–	32,527
Statutory reserve	980,969	483,345	200,000	1,664,314
Profit equalisation reserve	–	1,260	–	1,260
Capital reserve	–	–	–	2,815
Merger reserve	48,516	–	–	111,805
Cash flow hedging reserve	3,029	–	–	3,029
Less: Regulatory adjustments applied on CET1 Capital				
Goodwill	–	–	–	(11,243)
Intangible assets	(330,679)	(26)	(1,714)	(336,694)
Deferred tax assets	(51,825)	–	(14,164)	(104,652)
Profit equalisation reserve	–	(1,260)	–	(1,260)
Cash flow hedging reserve	(3,029)	–	–	(3,029)
55% of cumulative gains of AFS reserve	–	–	(939)	(968)
Investment in ordinary shares of unconsolidated financial and insurance/takaful entities	(67,722)	–	(25,536)	(6,074)
Deduction in excess of Tier 2 Capital**	–	–	(98,062)	(17,763)
CET1 Capital	**6,676,902**	**2,350,109**	**318,669**	**9,740,268**
Additional Tier 1 Capital				
Additional Tier 1 Capital instruments (subject to gradual phase-out treatment)	1,388,080	–	–	1,388,080
Tier 1 Capital	**8,064,982**	**2,350,109**	**318,669**	**11,128,348**
Tier 2 Capital				
Tier 2 Capital instruments meeting all relevant criteria for inclusion	400,000	350,000	–	750,000
Tier 2 Capital instruments (subject to gradual phase-out treatment)	1,557,800	800,000	–	2,357,800
Collective allowance and regulatory reserve	783,541	279,038	4,085	1,063,297
Less: Regulatory adjustments applied on Tier 2 Capital	(270,888)	–	(4,085)	(6,535)
Tier 2 Capital	**2,470,453**	**1,429,038**	**–**	**4,164,562**
Total Capital	**10,535,435**	**3,779,147**	**318,669**	**15,292,910**
Credit RWA	62,683,302	22,773,142	1,483,738	86,863,731
Less: Credit RWA absorbed by Restricted Profit Sharing Investment Account	–	(450,133)	–	(450,133)
Total Credit RWA	62,683,302	22,323,009	1,483,738	86,413,598
Market RWA	2,839,123	68,731	38,766	3,033,666
Operational RWA	4,977,955	1,519,289	366,407	7,088,670
Large exposure risk RWA for equity holdings	143,864	–	875	144,739
Total Risk Weighted Assets	**70,644,244**	**23,911,029**	**1,889,786**	**96,680,673**

* 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 Bank Negara Malaysia's guidelines on Capital Adequacy Framework (Capital Components).

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

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 operational environment.

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

Board Approved Risk Appetite Statement

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

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

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

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

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

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

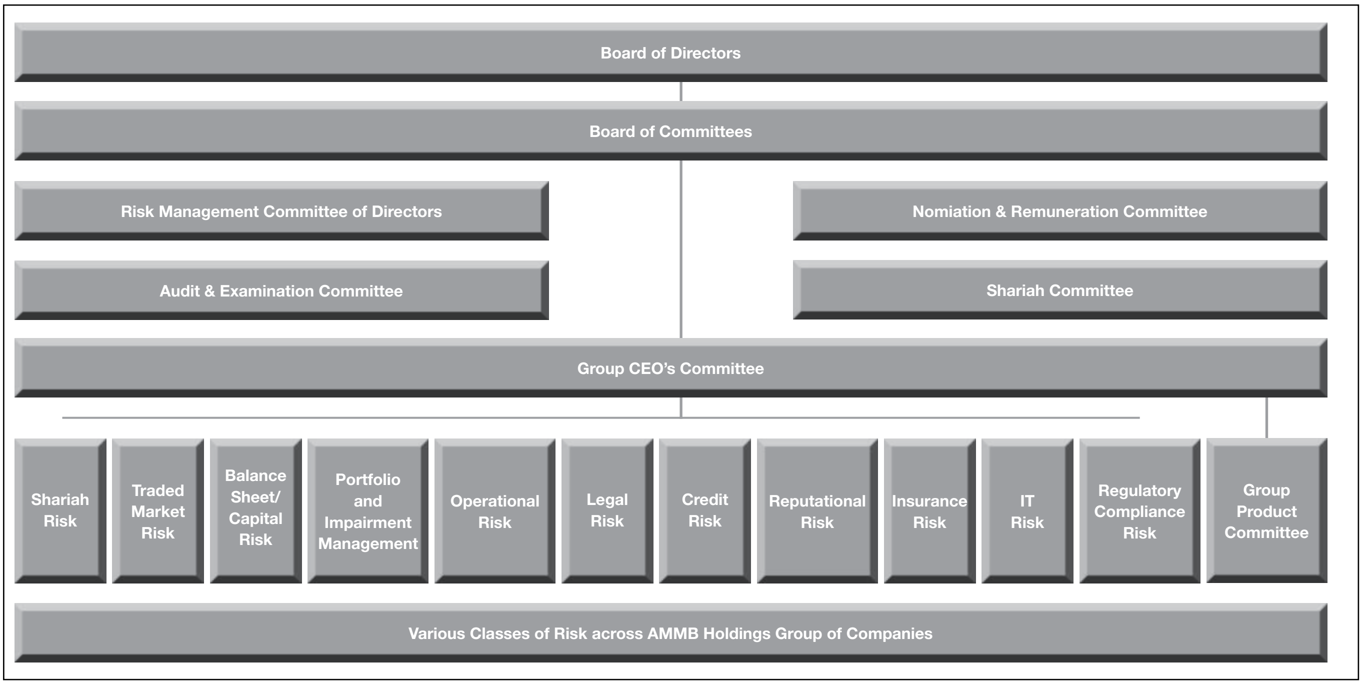
Risk Management Governance

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

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

In July 2013, the Group Product Committee ("GPC") was re-established as a sub-committee of the Group CEOs Committee. The GPC is to oversee activities in managing products for the Group; and to advise and report to the Group CEOs Committee on product related matters.

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



Business/ Strategic Risk

Business risk is the risk of loss arising from the inability to adapt cost structures, products, pricing, or activities in response to lower than expected revenues, or higher than expected costs (excluding risks elsewhere defined), caused by an unexpected adverse change in the economy and general business conditions/operating environment.

Reputational Risk

Reputation risk is the risk that a company will lose current and future business and/or incur substantial financial penalties because its character or quality has been called into question.

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 Internal Capital Adequacy Assessment Process (Cont'd.)

4.1.2 Management Oversight

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

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

4.1.3 Capital Management Plan and Framework

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

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

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

- Meet minimum prudential requirements in all jurisdictions in which the Group operates, also any 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.

4.1.6 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

Requirements of the Banks

Principal 1:

- Banks have an ICAAP in relation to their risk profile and a strategy for maintaining capital levels

Principal 3:

- Banks are expected to operate above the minimum regulatory capital ratios and should have the ability to hold capital in excess of the minimum

Requirements of the Regulator

Principal 2:

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

Principal 4:

- Early intervention by the Regulator to prevent capital from falling below the required minimum levels

Internal Capital Adequacy Assessment Process

Board and Management Oversight	Sound Capital Assessment	Comprehensive Risk Assessment and Management Processes	Monitoring and Reporting	Internal Control and Review
• Material Risk Identified • Material thresholds • Group Risk Appetite • Sufficient Capital Adequacy • Targeted Financial Performance • Planned Asset Growth & Strategic business objective • Policy/Framework	• Identification, Measurement and Reporting of Material Risks • Stressed Plans • Compliance with minimum regulatory standards • Clear linkage between risks and capital • Capital Plan	• Credit Risk • Market Risk • Operational Risk • Credit Residual Risk • Rate Risk in the Banking Book • Credit Concentration Risk • Goodwill Risk • Liquidity & Funding Risk • Contagion Risk • Business/Strategic Risk • Reputation Risk • Shariah Risk	• Level and Trend of Material Risks • Sensitivity Analysis of key assumptions • Regulatory Reporting to Board and Senior Management	• Independent reviews of ICAAP (internal and external audit) • Ongoing compliance monitoring • Stress Testing • Documented processes/ frameworks

Overview of ICAAP process and setting Internal Capital Targets

5.0 CREDIT RISK MANAGEMENT

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

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

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its payment obligations. Exposure to credit risk arises from lending, securities and derivative exposures. The identification of credit risk is done by assessing the potential impact of internal and external factors on the Group'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.

Lending/financing activities are guided by internal credit policies and Risk Appetite Framework that are approved by the Board. 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; and
- Setting Benchmark Returns which serve as a guide to the minimum returns the Group requires for the risk undertaken, taking into account operating expenses and cost of capital.

Individual credit risk exposure exceeding certain Credit Approval Delegation ("CAD") thresholds/exceptions to Group Risk Appetite Framework ("GRAF") are escalated to Credit and Commitments Committee ("CACC") for approval. In the event such exposure requires Executive Committee of Directors' ("EXCO") review and endorsement, it will be escalated. Portfolio credit risk is reported to the relevant management and board committees.

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

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

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

5.1 Impairment

5.1.1 Definition of Past Due and Impaired Loans, 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) 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[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]).

(c) For trade bills/facilities, an account is deemed default 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. As deemed appropriate by the Watch and Control Committee where it is determined the loans/financing have a high probability of default; or
ii. Cross-default occurs when:
  - a default of a loan/financing obligation of a borrower triggers a default of another loan/financing obligation of the same borrower or
  - a default of a loan/financing obligation of a borrower triggers a default of a loan/financing obligation of other borrowers within the same borrower group.

(e) Debt instruments (for example, fixed income securities, debt converted instrument etc.) shall be classified as impaired when the coupon or interest payment is 1 day past due.

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

i. For margin lending, it is impaired when there is a shortfall to carrying value i.e. difference between the collateral value (if any) and the outstanding balance.
ii. For contra losses, it is impaired when the facility is overdue by 30 days.

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 are computed after making the necessary adjustments to reflect current economic conditions.

[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.

[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.

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 2015	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	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
On balance sheet exposures														
Sovereigns/Central banks	–	–	–	–	151,112	–	–	10,278,397	–	–	1,796,258	–	–	12,225,767
Banks, DFIs and MDBs	–	–	–	–	–	–	–	12,282,183	–	–	71,389	–	55,283	12,408,855
Insurance companies, Securities firms and Fund managers	–	–	–	–	–	–	–	35,068	–	–	–	–	–	35,068
Corporates	3,875,404	3,741,894	8,232,753	1,395,327	6,631,807	4,805,559	2,331,067	5,823,425	8,014,784	1,292,913	3,146,169	2,726,954	145,554	52,163,610
Regulatory retail	71,946	17,617	218,998	3,391	202,301	262,702	94,183	223,287	100,286	97,063	136,570	30,773,848	37,350	32,239,542
Residential mortgages	–	–	–	–	–	–	–	–	–	–	–	10,961,099	–	10,961,099
Higher risk assets	–	–	–	–	–	–	–	–	–	–	–	18,868	101,365	120,233
Other assets	–	–	–	–	–	–	–	31,346	–	–	–	515,170	3,521,674	4,068,190
Securitisation exposures	–	–	–	–	–	–	–	23,669	–	–	30,957	–	–	54,626
Equity exposures	–	–	7	–	–	–	–	5,227	–	–	–	–	161	5,395
Defaulted exposures	8,454	300	47,263	7,820	34,096	34,046	9,141	7,904	363,741	6,024	9,194	625,205	10,370	1,163,558
Total for on balance sheet exposures	**3,955,804**	**3,759,811**	**8,499,021**	**1,406,538**	**7,019,316**	**5,102,307**	**2,434,391**	**28,710,506**	**8,478,811**	**1,396,000**	**5,190,537**	**45,621,144**	**3,871,757**	**125,445,943**
Off balance sheet exposures														
OTC derivatives	3,161	185,794	125,721	–	6,474	4,125	68,813	3,373,040	8,953	41,469	629	–	2,590	3,820,769
Credit derivatives	–	–	–	–	–	–	–	16	–	–	–	–	–	16
Off balance sheet exposures other than OTC derivatives or Credit derivatives	284,680	585,610	1,738,026	189,920	2,293,086	765,437	295,338	629,377	1,039,212	267,568	321,872	2,296,856	13,161	10,720,143
Defaulted exposures	–	1,134	2,342	–	29,044	2,428	652	5,146	110	431	15	259	125	41,686
Total for off balance sheet exposures	**287,841**	**772,538**	**1,866,089**	**189,920**	**2,328,604**	**771,990**	**364,803**	**4,007,579**	**1,048,275**	**309,468**	**322,516**	**2,297,115**	**15,876**	**14,582,614**
Total on and off balance sheet exposures	**4,243,645**	**4,532,349**	**10,365,110**	**1,596,458**	**9,347,920**	**5,874,297**	**2,799,194**	**32,718,085**	**9,527,086**	**1,705,468**	**5,513,053**	**47,918,259**	**3,887,633**	**140,028,557**

5.0 CREDIT RISK MANAGEMENT (Cont'd.)

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 2014													
	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	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
On balance sheet exposures														
Sovereigns/Central banks	–	–	–	–	117,013	–	–	13,900,363	–	–	2,856,709	–	300,133	17,174,218
Banks, DFIs and MDBs	–	–	–	–	–	–	–	8,470,498	–	798	69,627	–	10,087	8,551,010
Insurance companies, Securities firms and Fund managers	–	–	–	–	–	–	–	32,857	–	–	–	–	–	32,857
Corporates	3,868,523	3,141,998	8,184,045	1,579,238	6,989,052	4,204,303	2,962,251	3,893,145	7,014,735	1,917,043	1,455,196	1,812,837	274,138	47,296,504
Regulatory retail	114,786	29,936	255,287	4,036	268,335	339,228	120,030	246,421	83,601	114,835	167,611	33,611,769	43,783	35,399,658
Residential mortgages	–	–	–	–	–	–	–	–	–	–	–	10,500,745	–	10,500,745
Higher risk assets	–	–	–	–	–	–	–	918	417	–	–	22,439	102,506	126,280
Other assets	129	–	286	–	1,956	83	367	42,402	315	162,581	–	976,925	2,739,300	3,924,344
Securitisation exposures	–	–	–	–	–	–	91,586	74,397	–	–	5,399	–	–	171,382
Equity exposures	–	–	18	–	–	–	1,860	5,642	1,650	36	–	–	180	9,386
Defaulted exposures	11,786	640	107,372	290	107,624	38,338	45,640	9,309	7,984	6,921	12,277	809,635	13,030	1,170,846
Total for on balance sheet exposures	**3,995,224**	**3,172,574**	**8,547,008**	**1,583,564**	**7,483,980**	**4,581,952**	**3,221,734**	**26,675,952**	**7,108,702**	**2,202,214**	**4,566,819**	**47,734,350**	**3,483,157**	**124,357,230**
Off balance sheet exposures														
OTC derivatives	4,450	9,672	60,516	–	9,338	6,197	45,270	2,151,603	2,671	26,132	–	–	5,859	2,321,708
Credit derivatives	–	–	–	–	–	–	–	16	–	–	–	–	–	16
Off balance sheet exposures other than OTC derivatives or Credit derivatives	392,020	187,942	2,071,798	213,777	2,384,702	941,012	468,837	570,925	1,219,557	276,164	386,925	2,540,348	21,479	11,675,486
Defaulted exposures	–	–	4,072	–	17,692	4,175	500	5,190	–	4,183	12	86	122	36,032
Total for off balance sheet exposures	**396,470**	**197,614**	**2,136,386**	**213,777**	**2,411,732**	**951,384**	**514,607**	**2,727,734**	**1,222,228**	**306,479**	**386,937**	**2,540,434**	**27,460**	**14,033,242**
Total on and off balance sheet exposures	**4,391,694**	**3,370,188**	**10,683,394**	**1,797,341**	**9,895,712**	**5,533,336**	**3,736,341**	**29,403,686**	**8,330,930**	**2,508,693**	**4,953,756**	**50,274,784**	**3,510,617**	**138,390,472**

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 2015	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	9,142	7,041	206,878	21,361	21,685	43,289	24,277	451	398,608	15,921	12,603	797,553	13,922	–	1,572,731
Past due loans/financing	21,442	9,442	217,827	841	97,258	118,048	100,778	7,195	343,655	49,490	52,749	10,456,534	42,613	–	11,517,872
Individual allowance	–	5,949	137,352	13,032	7,854	10,710	13,078	–	30,267	7,111	978	9,493	–	–	235,823
Collective allowance	–	–	–	–	–	–	–	–	–	–	–	–	–	1,413,424	1,413,424
Charges/(writeback) for individual allowance	(11)	2,959	24,703	(11,659)	12,967	12,810	(952)	10,359	24,958	9,020	1,732	5,263	692	–	92,841
Write-offs against individual allowance	–	137	5,862	–	112	–	2,695	21	–	–	–	2,800	–	–	11,627

31 March 2014	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	7,385	4,132	227,053	24,250	36,051	44,512	62,616	1,769	7,920	24,511	13,816	1,213,010	1,679	–	1,668,704
Past due loans/financing	66,989	18,726	283,365	24,915	173,997	148,449	374,429	12,651	174,772	102,005	73,499	13,599,269	5,781	–	15,058,847
Individual allowance	11	3,127	108,930	21,240	3,366	205	8,746	–	123	2,754	–	19,050	–	–	167,552
Collective allowance	–	–	–	–	–	–	–	–	–	–	–	–	–	1,950,556	1,950,556
Charges/(writeback) for individual allowance	(5,161)	4,079	131,331	(3,249)	3,858	5,905	41,908	–	(4,788)	3,229	29,324	(6,743)	(5,523)	–	194,170
Write-offs against individual allowance	–	15,638	120,927	–	14,784	7,308	39,248	–	567	4,080	32,669	–	245	–	235,466

Table 5.3: Geographical distribution of credit exposures

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

	31 March 2015 In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/Central banks	11,707,281	518,486	12,225,767
Banks, DFIs and MDBs	11,377,395	1,031,460	12,408,855
Insurance companies, Securities firms and Fund managers	35,068	–	35,068
Corporates	49,419,827	2,743,783	52,163,610
Regulatory retail	32,232,582	6,960	32,239,542
Residential mortgages	10,961,099	–	10,961,099
Higher risk assets	119,150	1,083	120,233
Other assets	3,862,688	205,502	4,068,190
Specialised Financing/Investment	–	–	–
Securitisation exposures	54,626	–	54,626
Equity exposures	5,395	–	5,395
Defaulted exposures	1,163,401	157	1,163,558
Total for on balance sheet exposures	**120,938,512**	**4,507,431**	**125,445,943**
Off balance sheet exposures			
OTC derivatives	3,820,764	5	3,820,769
Credit derivatives	16	–	16
Off balance sheet exposures other than OTC derivatives or Credit derivatives	10,017,519	702,624	10,720,143
Defaulted exposures	41,686	–	41,686
Total for off balance sheet exposures	**13,879,985**	**702,629**	**14,582,614**
Total on and off balance sheet exposures	**134,818,497**	**5,210,060**	**140,028,557**

	31 March 2014 In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/Central banks	16,651,813	522,405	17,174,218
Banks, DFIs and MDBs	7,376,076	1,174,934	8,551,010
Insurance companies, Securities firms and Fund managers	155	32,702	32,857
Corporates	45,904,310	1,392,194	47,296,504
Regulatory retail	35,399,658	–	35,399,658
Residential mortgages	10,500,745	–	10,500,745
Higher risk assets	125,356	924	126,280
Other assets	3,737,914	186,430	3,924,344
Specialised Financing/Investment	–	–	–
Securitisation exposures	171,382	–	171,382
Equity exposures	9,350	36	9,386
Defaulted exposures	1,170,846	–	1,170,846
Total for on balance sheet exposures	**121,047,605**	**3,309,625**	**124,357,230**
Off balance sheet exposures			
OTC derivatives	2,321,708	–	2,321,708
Credit derivatives	16	–	16
Off balance sheet exposures other than OTC derivatives or Credit derivatives	11,436,709	238,777	11,675,486
Defaulted exposures	36,032	–	36,032
Total for off balance sheet exposures	**13,794,465**	**238,777**	**14,033,242**
Total on and off balance sheet exposures	**134,842,070**	**3,548,402**	**138,390,472**

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 2015		
	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
Impaired loans, advances and financing	1,572,731	–	1,572,731
Past due loans/financing	11,517,872	–	11,517,872
Individual allowance	235,823	–	235,823
Collective allowance	1,399,449	13,975	1,413,424

	31 March 2014		
	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
Impaired loans, advances and financing	1,650,220	18,484	1,668,704
Past due loans/financing	15,058,847	–	15,058,847
Individual allowance	155,630	11,922	167,552
Collective allowance	1,935,785	14,771	1,950,556

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 2015								
	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	12 months RM'000	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	7,363,872	518,486	39,691	–	–	111,715	4,192,003	–	12,225,767
Banks, DFIs and MDBs	5,786,428	6,015,151	202,669	41,929	25,205	95,456	236,803	5,214	12,408,855
Insurance companies, Securities firms and Fund managers	–	–	–	–	–	–	35,068	–	35,068
Corporates	12,611,990	3,879,843	3,253,383	2,286,742	6,341,510	6,317,590	17,472,552	–	52,163,610
Regulatory retail	1,604,464	66,964	125,313	274,956	2,689,845	5,709,215	21,768,785	–	32,239,542
Residential mortgages	761	299	1,134	3,828	58,387	129,986	10,766,704	–	10,961,099
Higher risk assets	1	25	14	59	479	1,444	16,846	101,365	120,233
Other assets	1,244,268	8,900	11,214	23,028	453,106	203,050	–	2,124,624	4,068,190
Specialised Financing/ Investment	–	–	–	–	–	–	–	–	–
Securitisation exposures	6	–	–	–	–	–	54,620	–	54,626
Equity exposures	5,226	–	–	–	–	–	8	161	5,395
Defaulted exposures	395,222	8,560	11,180	14,865	95,191	127,028	511,512	–	1,163,558
Total for on balance sheet exposures	**29,012,238**	**10,498,228**	**3,644,598**	**2,645,407**	**9,663,723**	**12,695,484**	**55,054,901**	**2,231,364**	**125,445,943**
Off balance sheet exposures									
OTC derivatives	332,521	251,288	278,084	410,913	644,305	558,032	1,345,626	–	3,820,769
Credit derivatives	–	–	–	–	10	–	6	–	16
Off balance sheet exposures other than OTC derivatives or Credit derivatives	1,424,378	1,034,971	1,165,335	1,911,504	1,949,721	906,960	2,327,274	–	10,720,143
Defaulted exposures	3,734	13,330	1,482	18,708	399	977	3,056	–	41,686
Total for off balance sheet exposures	**1,760,633**	**1,299,589**	**1,444,901**	**2,341,125**	**2,594,435**	**1,465,969**	**3,675,962**	**–**	**14,582,614**
Total on and off balance sheet exposures	**30,772,871**	**11,797,817**	**5,089,499**	**4,986,532**	**12,258,158**	**14,161,453**	**58,730,863**	**2,231,364**	**140,028,557**

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 are as follows:

	31 March 2014								
	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	12 months RM'000	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	8,253,072	3,150,733	317,409	394,031	–	441,417	4,596,838	20,718	17,174,218
Banks, DFIs and MDBs	5,312,847	1,820,747	696,008	125,202	51,671	114,844	114,133	315,558	8,551,010
Insurance companies, Securities firms and Fund managers	156	–	–	–	–	–	32,701	–	32,857
Corporates	13,161,438	3,737,631	3,119,316	1,771,135	4,303,371	6,636,274	14,565,681	1,658	47,296,504
Regulatory retail	1,940,375	90,704	143,553	327,587	2,965,523	5,980,690	23,951,226	–	35,399,658
Residential mortgages	1,368	415	1,498	3,974	64,215	137,601	10,291,674	–	10,500,745
Higher risk assets	462	26	62	119	607	1,373	23,201	100,430	126,280
Other assets	1,735,850	3,908	4,904	10,159	–	341,784	–	1,827,739	3,924,344
Securitisation exposures	4,040	–	–	–	–	–	167,342	–	171,382
Equity exposures	5,641	–	–	–	–	–	3,565	180	9,386
Defaulted exposures	158,260	15,026	19,209	35,194	156,358	159,898	626,901	–	1,170,846
Total for on balance sheet exposures	**30,573,509**	**8,819,190**	**4,301,959**	**2,667,401**	**7,541,745**	**13,813,881**	**54,373,262**	**2,266,283**	**124,357,230**
Off balance sheet exposures									
OTC derivatives	58,650	54,064	48,995	111,199	577,074	721,878	749,848	–	2,321,708
Credit derivatives	–	–	–	–	10	–	6	–	16
Off balance sheet exposures other than OTC derivatives or Credit derivatives	1,486,075	983,395	1,218,169	2,116,651	1,747,166	1,040,647	3,083,383	–	11,675,486
Defaulted exposures	13,253	1,363	5,186	6,114	6,158	193	3,765	–	36,032
Total for off balance sheet exposures	**1,557,978**	**1,038,822**	**1,272,350**	**2,233,964**	**2,330,408**	**1,762,718**	**3,837,002**	**–**	**14,033,242**
Total on and off balance sheet exposures	**32,131,487**	**9,858,012**	**5,574,309**	**4,901,365**	**9,872,153**	**15,576,599**	**58,210,264**	**2,266,283**	**138,390,472**

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 2015	
	Individual impairment allowance RM'000	Collective impairment allowance RM'000
Balance at beginning of the financial year	167,552	1,950,556
Charge for the year – net	91,027	504,522
Reclassification to assets held for sale	(9,906)	–
Amount written-off	(13,303)	(1,043,652)
Amount transferred from AmBank Islamic (Note 1)	–	(2,463)
Amount transferred to AmBank	–	2,463
Exchange differences	453	1,998
Balance at end of the financial year	**235,823**	**1,413,424**

	(Charge off)/ recoveries RM'000
Bad debts written off during the year/period	622,275
Bad debt recoveries during the year/period	–

	31 March 2014	
	Individual impairment allowance RM'000	Collective impairment allowance RM'000
Balance at beginning of the financial year	186,122	1,948,313
Effect arising from the pooling of interests	–	38,660
As restated	186,122	1,986,973
Charge for the year/period – net	216,719	602,110
Amount written-off	(235,466)	(639,938)
Exchange differences	177	1,411
Balance at end of the financial year	**167,552**	**1,950,556**

	(Charge off)/ recoveries RM'000
Bad debts written off during the year	(73,098)
Bad debt recoveries during the year	821,567

Note 1 On 2 May 2014, upon expiry of the RPSIA contract entered into with AmBank Islamic in the financial year ended 31 March 2013, AmBank had derecognised the collective allowance previously recognised in its financial statements. Accordingly, AmBank Islamic now accounts for the collective allowance in its financial statements.

Note 2 As at 31 March 2015, the gross exposure and collective allowance relating to the RPSIA financing amounted to RM1,363.8 million and RM1.6 million respectively (31 March 2014:RM450.1 million and RM2.5 million respectively). There was no individual allowance provided for the RPSIA financing for 2015 and 2014.

6.0 CREDIT RISK EXPOSURE UNDER STANDARDISED APPROACH

The Group adopts the list of eligible External Credit Assessment Institutions (“ECAIs”) that are used by the Group for the following exposure classes:

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

Depending on the exposure class, the following ratings by the following ECAIs are 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 External Credit Assessment Institutions (ECAIs) rating that broadly corresponds to the broad internal credit quality categories. The mapping is based on 1 year average cumulative default rates as per corporate default studies undertaken by Fitch (1990-2012), Standard & Poor’s (1981-2012), Moody’s (1983-2012), RAM (1992-2012) and MARC (1998-2012); and is incorporated in the Credit Risk Rating Policy.

Credit Quality Classification	Moody’s	S & P	Fitch	RAM	MARC
Very Strong	AAA to Baa3	AAA to BBB-	AAA to BBB-	AAA to AA3	AAA to AA
Strong	Ba1 to Ba3	BB+ to BB-	BB+ to BB-	A1 to BBB3	AA- to A+
Satisfactory	B1 to B3	B+ to B-	B+ to B-	BB1 to B1	A 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 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 2015 Exposures after netting and credit risk mitigation											
Risk weights	Sovereigns and Central banks RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities firms and Fund managers RM'000	Corporates RM'000	Regulatory retail RM'000	Residental mortgages RM'000	Higher risk assets RM'000	Other assets RM'000	Securitisation exposures RM'000	Equity exposures RM'000	Total Exposures after Netting and CRM RM'000	Total Risk Weighted Assets RM'000
0%	12,225,767	24,797	–	5,245,411	–	–	–	399,263	–	–	17,895,238	–
20%	–	13,485,048	–	4,752,350	3,467	–	–	–	53,312	–	18,294,177	3,658,836
35%	–	–	–	–	–	10,536,010	–	–	–	–	10,536,010	3,687,604
50%	–	1,995,411	–	330,482	24,648	457,069	–	–	–	–	2,807,610	1,403,804
75%	–	–	–	–	32,791,674	–	–	–	–	–	32,791,674	24,593,755
100%	–	553	92,007	47,227,192	1,132,645	225,492	–	3,668,927	–	5,395	52,352,211	52,352,211
150%	–	–	–	500,266	171,086	–	136,862	–	–	–	808,214	1,212,320
1250%	–	–	–	–	–	–	–	–	1,314	–	1,314	16,426
Total	**12,225,767**	**15,505,809**	**92,007**	**58,055,701**	**34,123,520**	**11,218,571**	**136,862**	**4,068,190**	**54,626**	**5,395**	**135,486,448**	**86,924,956**

	31 March 2014 Exposures after netting and credit risk mitigation											
Risk weights	Sovereigns and Central banks RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities firms and Fund managers RM'000	Corporates RM'000	Regulatory retail RM'000	Residental mortgages RM'000	Higher risk assets RM'000	Other assets RM'000	Securitisation exposures RM'000	Equity exposures RM'000	Total Exposures after Netting and CRM RM'000	Total Risk Weighted Assets RM'000
0%	17,174,218	14,221	–	3,454,129	–	–	–	410,290	–	–	21,052,858	–
20%	200	8,149,006	–	2,811,319	11,875	–	–	6,449	164,923	–	11,143,772	2,228,753
35%	–	–	–	–	–	10,116,493	–	–	–	–	10,116,493	3,540,772
50%	–	2,422,531	–	366,948	32,072	537,724	–	–	–	–	3,359,275	1,679,638
75%	–	–	–	–	36,581,523	–	–	–	–	–	36,581,523	27,436,142
100%	–	66	53,470	45,901,636	1,250,663	121,405	–	3,507,605	–	9,386	50,844,231	50,844,231
150%	–	–	–	272,787	286,481	–	143,036	–	–	–	702,304	1,053,456
1250%	–	–	–	–	–	–	–	–	6,459	–	6,459	80,739
Total	**17,174,418**	**10,585,824**	**53,470**	**52,806,819**	**38,162,614**	**10,775,622**	**143,036**	**3,924,344**	**171,382**	**9,386**	**133,806,915**	**86,863,731**

Table 6.2: Rated Exposures according to Ratings by ECAIs

	31 March 2015					
	Ratings of Corporate by Approved ECAIs					
	Moody's	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	92,007	–	–	–	–	92,007
Corporates	62,338,535	2,995,459	217,821	134	56	59,125,065
Total	**62,430,542**	**2,995,459**	**217,821**	**134**	**56**	**59,217,072**

	31 March 2014					
	Ratings of Corporate by Approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RII	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
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	53,470	–	–	–	–	53,470
Corporates	57,115,590	2,220,910	233,798	–	33	54,660,849
Total	**57,169,060**	**2,220,910**	**233,798**	**–**	**33**	**54,714,319**

	31 March 2015					
	Short term Ratings of Banking Institutions and Corporate by Approved ECAIs					
	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+ F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
Exposure class	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Banks, DFIs and MDBs	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**

	31 March 2014					
	Short term Ratings of Banking Institutions and Corporate by Approved ECAIs					
	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+ F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
	RII	a-1+,a-1	a-2	a-3	b,c	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	104,813	104,813	–	–	–	–
Total	**104,813**	**104,813**	**–**	**–**	**–**	**–**

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

	31 March 2015					
	Ratings of Sovereigns and Central Banks by Approved ECAIs					
	Moody's	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	12,225,767	518,486	11,707,281	–	–	–
Total	**12,225,767**	**518,486**	**11,707,281**	**–**	**–**	**–**

	31 March 2014					
	Ratings of Sovereigns and Central Banks by Approved ECAIs					
	Moody's	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
	RII	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	17,174,418	522,405	16,652,013	–	–	–
Total	**17,174,418**	**522,405**	**16,652,013**	**–**	**–**	**–**

	31 March 2015					
	Ratings of Banking Institutions by Approved ECAIs					
	Moody's	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	15,505,808	4,934,672	2,697,113	1,428,843	49	6,445,131
Total	**15,505,808**	**4,934,672**	**2,697,113**	**1,428,843**	**49**	**6,445,131**

	31 March 2014					
	Ratings of Banking Institutions by Approved ECAIs					
	Moody's	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
	RII	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	10,481,010	1,070,567	927,474	925,132	62	7,557,775
Total	**10,481,010**	**1,070,567**	**927,474**	**925,132**	**62**	**7,557,775**

Table 6.3: Securitisation according to Ratings by ECAIs

	31 March 2015			
	Ratings of Securitisation by Approved ECAIs			
	Moody's	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	54,626	53,312	–	1,314
Total	**54,626**	**53,312**	**–**	**1,314**

	31 March 2014			
	Ratings of Securitisation by Approved ECAIs			
	Moody's	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
	RII	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	171,382	164,923	–	6,459
Total	**171,382**	**164,923**	**–**	**6,459**

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
- 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, this is not supported by collateral.

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

Processes for collateral management

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

Guarantee Support

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.

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 2015 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	12,225,767	–	–
Banks, DFIs And MDBs	12,408,855	–	–
Insurance companies, Securities firms and Fund managers	35,068	–	–
Corporates	52,163,610	1,263,686	7,786,794
Regulatory retail	32,239,542	2,642	331,409
Residential mortgages	10,961,099	–	126,181
Higher risk assets	120,233	–	–
Other assets	4,068,190	–	–
Securitisation exposures	54,626	–	–
Equity exposures	5,395	–	–
Defaulted exposures	1,163,558	2,186	67,595
Total for on balance sheet exposures	**125,445,943**	**1,268,514**	**8,311,979**
Off balance sheet exposures			
OTC derivatives	3,820,769	–	–
Credit derivatives	16	–	–
Off balance sheet exposures other than OTC derivatives or Credit derivatives	10,720,143	15,067	1,610,807
Defaulted exposures	41,686	35	12,604
Total for off balance sheet exposures	**14,582,614**	**15,102**	**1,623,411**
Total on and off balance sheet exposures	**140,028,557**	**1,283,616**	**9,935,390**

Exposures	31 March 2014 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	17,174,218	–	–
Banks, DFIs And MDBs	8,551,010	–	–
Insurance companies, Securities firms and Fund managers	32,857	–	–
Corporates	47,296,504	1,063,194	7,842,064
Regulatory retail	35,399,658	9,696	366,236
Residential mortgages	10,500,745	–	98,733
Higher risk assets	126,280	–	–
Other assets	3,924,344	–	–
Securitisation exposures	171,382	–	–
Equity exposures	9,386	–	–
Defaulted exposures	1,170,846	6,177	40,296
Total for on balance sheet exposures	**124,357,230**	**1,079,067**	**8,347,329**
Off balance sheet exposures			
OTC derivatives	2,321,708	–	–
Credit derivatives	16	–	–
Off balance sheet exposures other than OTC derivatives or Credit derivatives	11,675,486	8,784	1,790,809
Defaulted exposures	36,032	50	11,839
Total for off balance sheet exposures	**14,033,242**	**8,834**	**1,802,648**
Total on and off balance sheet exposures	**138,390,472**	**1,087,901**	**10,149,977**

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 confine to a standardised underlying instrument. Where the maximum payout is known, it is taken as the pre-settlement risk amount. However, in situations where the maximum payout is not observable, a Monte Carlo simulation method is used.

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

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:

	31 March 2015			
Description	**Principal Amount RM'000**	**Positive Fair Value of Derivative Contracts RM'000**	**Credit Equivalent Amount RM'000**	**Risk Weighted Assets RM'000**
Direct Credit Substitutes	996,116		996,116	864,804
Transaction related contingent Items	6,355,902		3,177,951	2,267,393
Short Term Self Liquidating trade related contingencies	715,135		143,027	115,047
Assets sold with recourse	300		100	100
Forward Asset Purchases	824,066		55,226	25,761
Obligations under an on-going underwriting agreements	–		–	–
Foreign exchange related contracts				
One year or less	35,092,270	810,371	1,214,420	664,982
Over one year to five years	2,500,277	203,211	350,443	104,415
Over five years	1,950,414	228,324	616,206	340,259
Interest/Profit rate related contracts				
One year or less	4,922,516	1,989	10,347	3,796
Over one year to five years	31,036,561	115,815	838,890	278,245
Over five years	8,783,307	68,173	682,670	216,296
Equity and commodity related contracts				
One year or less	606,676	1,504	10,988	10,816
Over one year to five years	–	–	4,549	2,275
Over five years	69,830	1,757	–	–
Other Commodity Contracts				
One year or less	363,034	363	37,029	18,514
Credit Derivative Contracts				
One year or less	327,515	7,572	–	–
Over one year to five years	–	–	10	5
Over five years	326,889	33,133	6	3
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	4,970,929		2,511,000	2,264,785
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	15,645,655		3,142,257	2,787,962
Unutilised credit card lines	3,955,894		791,179	589,693
Total	**119,693,486**	**1,472,212**	**14,582,614**	**10,555,351**

Description	Principal Amount RM'000	31 March 2014 Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Direct Credit Substitutes	1,336,108		1,207,308	1,050,829
Transaction related contingent Items	5,370,402		2,749,602	1,925,160
Short Term Self Liquidating trade related contingencies	677,065		135,407	100,189
Assets sold with recourse	300		300	300
Forward Asset Purchases	275,872		6,530	3,744
Obligations under an on-going underwriting agreements	296,375		–	–
Foreign exchange related contracts				
One year or less	23,311,484	91,629	235,814	154,345
Over one year to five years	3,018,618	118,761	331,810	271,535
Over five years	895,569	89,634	272,947	225,831
Interest/Profit rate related contracts				
One year or less	4,377,755	3,947	12,754	4,554
Over one year to five years	28,591,959	153,942	927,330	392,518
Over five years	6,250,838	48,801	476,900	244,942
Equity and commodity related contracts				
One year or less	419,790	4,928	19,603	13,526
Over one year to five years	395,211	523	22,093	11,046
Other Commodity Contracts				
One year or less	53,805	80	2,770	1,385
Over one year to five years	320,095	480	19,686	9,843
Credit Derivative Contracts				
Over one year to five years	306,519	4,651	10	5
Over five years	305,967	19,153	6	3
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	6,169,893		3,065,133	2,649,405
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	18,399,196		3,700,104	3,378,187
Unutilised credit card lines	4,235,678		847,135	631,751
Total	**105,008,499**	**536,529**	**14,033,242**	**11,069,098**

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

Credit derivatives that create exposures to counterparty credit risk are as follows:

Usage	Product	31 March 2015 Sell Leg Notional Exposure for Protection Sold RM'000	31 March 2015 Buy Leg * Notional Exposure for Protection Bought RM'000	31 March 2014 Sell Leg Notional Exposure for Protection Sold RM'000	31 March 2014 Buy Leg * Notional Exposure for Protection Bought RM'000
Intermediation	Credit default swap	354,399	300,000	312,485	300,000

* Out of the total notional exposure for protection bought as at 31 March 2015, RM283,500,000 (31 March 2014: 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 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 AMMB Banking 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 Debt Capital Markets team is tasked with the structuring of securitisation transactions whilst the governance of these securitisation activities is overseen by the Board and Executive Committees, and managed in accordance with the credit risk and market risk frameworks.

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

9.4 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 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.

Table 9.1: Securitisation (Trading and Banking Book)

The aggregated securitised exposures of AMMB Banking Group is as follows:

	31 March 2015			
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	165,580	–	100,918	–
Mortgage loans	801,925	–	792,193	–
Total Traditional Securitisation	**967,505**	**–**	**893,111**	**–**
Total Synthetic Securitisation	**–**	**–**	**–**	**–**
Total Traditional and Synthetic Securitisation	**967,505**	**–**	**893,111**	**–**

	31 March 2014			
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	199,373	–	129,895	–
Mortgage loans	747,256	–	738,154	–
Total Traditional Securitisation	**946,629**	**–**	**868,049**	**–**
Total Synthetic Securitisation	**–**	**–**	**–**	**–**
Total Traditional and Synthetic Securitisation	**946,629**	**–**	**868,049**	**–**

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

	31 March 2015						
				Distribution of Exposures after CRM according to Appplicable Risk Weights			
Securitisation Exposures by Exposure Type	Exposure Value of Positions Purchased or Retained	Exposure after CRM	Exposures subject to deduction	Rated Securitisation Exposures or Risk weights of Guarantees/ Credit Derivatives 20%	50%	1250%	Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Traditional Securitisation Originated by Third Party							
On Balance Sheet Exposures	53,312	53,312	–	53,312	–	–	10,662
Originated by the Group							
On Balance Sheet Exposures	1,314	1,314	–	–	–	1,314	16,426
Total Traditional Securitisation	54,626	54,626	–	53,312	–	1,314	27,088
Total Traditional and Synthetic Securitisation	**54,626**	**54,626**	**–**	**53,312**	**–**	**1,314**	**27,088**

	31 March 2014						
				Distribution of Exposures after CRM according to Appplicable Risk Weights			
Securitisation Exposures by Exposure Type	Exposure Value of Positions Purchased or Retained	Exposure after CRM	Exposures subject to deduction	Rated Securitisation Exposures or Risk weights of Guarantees/ Credit Derivatives 20%	50%	1250%	Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Traditional Securitisation Originated by Third Party							
On Balance Sheet Exposures	164,923	164,923	–	164,923	–	–	32,984
Originated by the Group							
On Balance Sheet Exposures	6,459	6,459	–	–	–	6,459	80,739
Total Traditional Securitisation	171,382	171,382	–	164,923	–	6,459	113,723
Total Traditional and Synthetic Securitisation	**171,382**	**171,382**	**–**	**164,923**	**–**	**6,459**	**113,723**

Table 9.3: Securitisation under the Standardised Approach for Trading Book Exposures

	31 MARCH 2015				
Securitisation Exposures by Exposure Type	Total exposure value of positions RM'000	Exposures subject to deduction RM'000	General Risk Charge RM'000	Specific Risk Charge RM'000	Risk Weighted Assets RM'000
<u>Traditional Securitisation Originated by Third Party</u>					
On Balance Sheet by Exposure Type - others	–	–	–	–	–
Total Traditional Securitisation	**–**	**–**	**–**	**–**	**–**

	31 MARCH 2014				
Securitisation Exposures by Exposure Type	Total exposure value of positions RM'000	Exposures subject to deduction RM'000	General Risk Charge RM'000	Specific Risk Charge RM'000	Risk Weighted Assets RM'000
<u>Traditional Securitisation Originated by Third Party</u>					
On Balance Sheet by Exposure Type - others	40,685	–	895	814	21,363
Total Traditional Securitisation	**40,685**	**–**	**895**	**814**	**21,363**

10.0 OPERATIONAL RISK

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

Identification	• Identify and analyse risks in key processes/activities within Line of Business (including new products)
Assessment/ Measurement	• Incident Management and Data Collection • Risk and Control Self Assessment • Key Risk Indicators • Key Control Testing • Risk Treatment Plan
Control/ Mitigation	• Policies addressing control 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 GRAF, which sets the acceptable tolerance levels of operational risk that the Bank is willing to accept, taking into consideration of the relevant financial and non-financial risk or return attributes in order to support the achievement of Bank's strategic plan and business objectives.The ORA statements and measurements are classified based on operational loss event types, which are grouped into five (5) categories as below and monitored via Incident Management and Data Collection, Key Risk Indicator and Key Control Testing.

- Fraud (internal 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 is responsible for the management of operational risk in order that accountability and ownership is as close as possible to the activity that creates the risk and ensuring that effective action is taken to manage them. Enhanced First Line of Defence provides a business specific focus on the implementation of operational risk management activities and supports more effective day-to-day monitoring of operational risks.
- In the second line, Group Operational Risk is responsible for exercising governance over operational risk through the management of the operational risk framework, policy development, quality assurance of internal controls, operational risk measurement and capital allocation, fraud strategy and reporting of operational risk issues to Group CEOs Committee, Risk Management Committee of Directors ("RMCD") and Board.
- Group Internal Audit acts as the third and final line of defence by providing independent assurance on the internal control effectiveness through periodic audit programme.

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

- The Incident Management and Data Collection ("IMDC") module provides a common platform for reporting operational risk incidents that fall within one of the seven Event Types as stated in Basel II. IMDC also serves as a centralised database of operational risk incidents to model the potential exposure to operational risks in future and estimate the amount of economic capital charge.
- The Risk and Control Self Assessment ("RCSA") is a process of continual assessment of risks and controls effectiveness. By using structured questionnaires to assess and measure key risk and its corresponding controls effectiveness, RCSA provides risk profiling across the Group.
- The Key Risk Indicators ("KRI") module provides early warning of increasing risk and/or control failures by monitoring the changes of the underlying risk measurements.
- The Key Control Testing ("KCT") is the test steps or assessment performed periodically to assure that the key controls are in place and they are operating as intended or effective in managing the operational risks.
- The Risk Treatment Plan is required to be developed to ensure all risks identified are resolved or mitigated sufficiently.

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

10.1 Business Continuity Management

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

Identification	• Identify events that potentially threaten the business operations and areas of criticality
Assessment/ Measurement	• Business Impact Analysis • Threat Assessment
Control/ Mitigation	• Policies governing the BCM implementation • BCM methodologies controlling the process flow • Implementing the BCM 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 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 ongoing agenda to heighten the BCM awareness and inculcate a business resilience culture.

10.2 Legal Risk

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

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

10.3 Regulatory Compliance Risk

A proactive regulatory risk monitoring and control process is essential for any financial group to provide assurance that its products and services are offered in a manner consistent with regulatory requirements and industry best practice. Regulatory Compliance undertakes the task by ensuring that appropriate measures are introduced and applied accordingly, whilst inculcating a compliance culture across all levels of staff. Amongst the measures introduced are monitoring and reporting, training, providing advice and disseminating information. A process is in place to standardise compliance practices across the Group.

The compliance monitoring and reporting system is essentially a mechanism through which businesses monitor their compliance to rules and regulations as well as provide monthly, quarterly and exception reporting that is carried out online. This reaffirms our commitment to a centralised compliance infrastructure that embraces regular self-assessment by staff, thus providing management the assurance that staff are aware and comply with internal and external requirements.

Compliance awareness is performed on a regular basis to ensure staff keeps abreast of banking, insurance, capital markets and anti-money laundering laws as well as other regulatory developments. The awareness helps staff develop their skills to identify compliance issues as well as cultivate good corporate ethics.In addition to the training provided, the Compliance Repository, an online resource tool, continues to provide staff with easy access to rules and regulations to various search modes.

Regulatory Compliance also provides advice on regulatory matters and measures to be implemented by the Group to facilitate compliance with rules and regulations. To further promote understanding, regulatory compliance facilitates briefings, disseminates information and leads coordination efforts.

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 responsibility 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 review such as market trends and economic data
Assessment/ Measurement	• Value-at-Risk ("VaR") • Annual Loss Limit ("ALL") • Historical Stress Loss ("HSL") • Other Detailed Management Controls
Control/ Mitigation	• VaR Limits • HSL Limit • Loss Limits (Annual/Monthly/Daily) • Concentration Limits • Greek Limits (Delta/Gamma/Delta-Gamma/Vega/Theta) • Present Value of One Basis Point Limits ("PV01") • Stealth Limits • Position Size Limits • Maximum Tenor Limits • Maximum Holding Period • Minimum Holding Period • Approved Instruments/Currencies/Countries • 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 CEOs Committee approved limit structures and risk appetite. This is done via robust traded market risk measurement, limit setting, limit monitoring, and collaboration and agreement with Business Units.

VaR, ALL, HSL and other detailed management controls are used to measure, monitor and control TMR exposures. VaR is a quantitative measure which applies recent historic market conditions to estimate potential losses in market value, at a certain confidence level and over a specified holding period. Loss limits serve to alert management on the need to take relevant and appropriate action once they are triggered.

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

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

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

The Group adopts the Standardised Approach for market risk capital charge computation. The capital charge serves as a buffer against losses from potential adverse market movements.

IBMR is committed to ongoing 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 review 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 • Other Detailed Management Limits
Monitoring/ Review	• Monitor limits • Periodical review and reporting

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

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

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

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

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

Key assumptions in the gap and sensitivity analysis relate to the behaviour of interest/profit rates and spreads, changes in loan/financing and deposit product balances due to behavioural characteristics under different interest/profit rate environments. Material assumptions include the repricing characteristics and the stickiness of indeterminate or non-maturity deposits and loans/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 Group's policies in the areas of product and liquidity management as well as the banking book policy statements and hedging policies.

IRR/RORBB is calculated daily and reported to Group CEOs Committee, RMCD and the Board.

Table 11.1: Interest Rate Risk/Rate of Return Risk Sensitivity in the Banking Book

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

Impact On Profit Before Taxation	31 March 2015	
	Interest Rate/Rate of Return	Interest Rate/Rate of Return
	+ 100 bps	- 100 bps
Currency	RM'000	RM'000
MYR	155,510	(155,510)

Impact on Equity		
	Interest Rate/Rate of Return	Interest Rate/Rate of Return
	+ 100 bps	- 100 bps
Currency	RM'000	RM'000
MYR	(550,073)	618,507

Impact On Profit Before Taxation	31 March 2014	
	Interest Rate/Rate of Return	Interest Rate/Rate of Return
	+ 100 bps	- 100 bps
Currency	RM'000	RM'000
MYR	162,628	(162,628)

Impact on Equity		
	Interest Rate/Rate of Return	Interest Rate/Rate of Return
	+ 100 bps	- 100 bps
Currency	RM'000	RM'000
MYR	(569,021)	632,380

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 Group is as follows:

	31 March 2015 RM'000	31 March 2014 RM'000
Non traded equity investments		
Value of quoted (publicly traded) equities	176,996	188,288
Value of unquoted (privately held) equities	100,367	102,465
Total	**277,363**	**290,753**
Net realised and unrealised gains/(losses)		
Cumulative realised gains/(losses) from sales and liquidations	12,081	41,204
Total unrealised gains/(losses)	(9,866)	(12,154)
Total	**2,215**	**29,050**
Risk Weighted Assets		
Equity investments subject to a 100% risk weight	176,957	188,288
Equity investments subject to a 150% risk weight	150,608	153,699
Total	**327,565**	**341,987**
Total minimum capital requirement (8%)	**26,205**	**27,359**

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 risk is the risk of ongoing ability to raise sufficient funds to finance actual and proposed business activities at a reasonable cost. Funding and liquidity risk are interrelated as improper funding risk management may lead to liquidity problem while insufficient liquidity risk management may also give rise to funding risk.

The liquidity risk management 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	• New Liquidity Framework ("NLF") • Liquidity Concentration Ratios • Liquidity Coverage Ratio ("LCR") • Loans to Deposit Ratio ("LDR") • Other Detailed Management Controls
Control/ Mitigation	• NLF Limits • Concentration Ratios • LCR Limits • LDR Limits • Other Detailed Management Limits
Monitoring/ Review	• Monitor limits • Periodical review and reporting

The liquidity risk management of the Group is aligned with both BNM's Liquidity Coverage Ratio ("LCR") and the New Liquidity Framework 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 Group CEOs Committee is the responsible governing body that approves the Group's liquidity management and strategies policies, and is responsible for setting liquidity limits, proposing liquidity risk policies and contingency funding plan, and practices to be in compliance with local regulatory requirements, and monitor liquidity on an ongoing basis. The Capital and Balance Sheet Management Department and Group Risk Management propose and oversee the implementation of policies and other controls relating to the above risks.

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

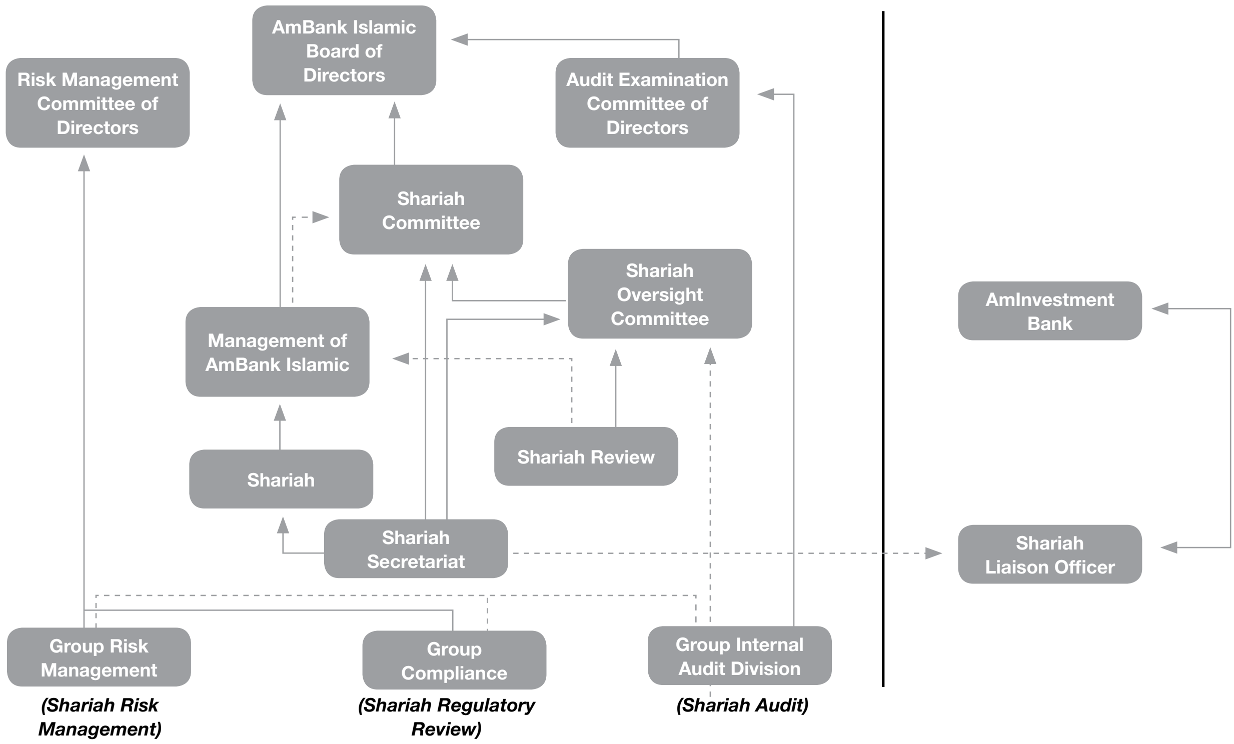
The Group has in place various liquidity measurements that provide the Group with visibility from volatility of customer's deposits to the concentration ratio of chunky deposits. Group Risk Management is responsible for monitoring the controls and limits while the Capital and Balance Sheet Management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

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

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.

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

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



The Group has established a sound and robust Shariah governance structure for its Islamic banking operations in accordance with the requirement of BNM's "Shariah Governance Framework for Islamic Financial Institutions". This is to ensure the operations and business activities of AmBank Islamic comply with Shariah principles and its requirements.

Apart from Shariah Department and Shariah Review Department, AmBank Islamic's Shariah governance structure leverages on the Group's shared platforms such as Group Risk Management Department, Group Compliance Department and Group Internal Audit Division for key Shariah functions. As a prudential measure, AmBank Islamic has continued to enhance its overall Shariah governance structure and compliance with Shariah requirements in line with the regulatory policies and requirements under Islamic Financial Services Act (IFSA).

AmInvestment Bank leverages on the Shariah Secretariat of AmBank Islamic in referring matters to the Shariah Committee. AmInvestment Bank also has the option to engage external Shariah Advisor registered and approved by the Securities Commission Malaysia.

Board of Directors

The Board is accountable and responsible for the overall oversight on the Shariah governance and Shariah compliance, including the appointment and remuneration of the Shariah Committee members. The Board performs its oversight through various committees such as AEC, RMCD and Shariah Committee.

Audit and Examination Committee ("AEC")

AEC is a Board committee 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 Division.

Risk Management Committee of Directors ("RMCD")

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 through Group Risk Management Department and Shariah regulatory review through Group Compliance Department.

Shariah Committee

The Shariah Committee is responsible and accountable on matters related to Shariah. This includes advising the Board and Management on Shariah matters and endorsing and validating products and services, Shariah policies and the relevant documentation in relation to Islamic Banking operations. The Shariah Committee also provides advice and guidance on management of zakat fund, charity and other social programs or activities.

Shariah Oversight Committee

The Shariah Oversight Committee, which is a sub-committee to the Shariah Committee performs an oversight function from Shariah perspective for the functions of Shariah review, Shariah audit, and Shariah risk management. Shariah Oversight Committeeprovides guidance and advice on matters pertaining to Shariah non-compliant incidents as well as treatment of Shariah non-compliant income (if any).

Management

Management is responsible to make reference to the Shariah Committee and 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 Department

The Shariah Department operates as a one-stop centre for all Shariah related matters of Islamic businesses and activities. This includes providing day-to-day Shariah advisory and research, and as Secretariat to the Shariah Committee and Shariah Oversight Committee. In addition, the Shariah Department also performs the zakat and charity management.

Shariah Review Department

Shariah Review Department is a designated team within AmBank Islamic that undertakes Shariah review function from operational perspective. The objective of the Shariah review function is to provide reasonable self-assurance for AmBank Islamic in its daily activities and operations thus to add value and improve the degree of Shariah awareness and compliance. Shariah Review Department is accountable to the Shariah Oversight Committee and operationally report to the Management of AmBank Islamic.

Group Internal Audit Division

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

Group Compliance Department

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

Group Risk Management Department

Shariah risk management leverages on existing infrastructure within Group Risk Management Department in managing the Shariah risk. The unique Shariah risks shall be identified according to existing risk types, credit risk, operational risk and market risk.

14.1 Non-Shariah compliant income

Shariah non-compliant income is an income generated from any transaction(s) that arise from the failure of AmBank Islamic to comply with Shariah principles and requirements as laid down by Shariah Advisory Council of Bank Negara Malaysia and its own Shariah Committee.

As at 31 March 2015, an amount of approximately RM113,600 arising from 3 Shariah non-compliant incidents was recorded as Shariah non-compliant income. The amount due to operational error was refunded to the affected customers in accordance with the manner as prescribed by the Shariah Oversight Committee.

AmBank Islamic has put in place and continues to enhance controls to prevent similar incidents from recurring such as revised processes as well as asset management.