AmBank (M) Berhad
Pillar 3 Disclosures

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1.0 Scope of Application

The Bank Negara Malaysia's ("BNM") Risk Weighted Capital Adequacy Framework – Basel II and Capital Adequacy Framework for Islamic Bank – CAFIB ("RWCAF") – Disclosure Requirements ("Pillar 3") is applicable to all banking institutions licensed under the Banking and Financial Institutions Act 1989 ("BAFIA") and all Islamic banks licensed under section 3(4) of the Islamic Banking Act 1983 ("IBA"). The Pillar 3 disclosure requirements aim to enhance transparency on the risk management practices and capital adequacy of banking institutions.

The banking entity at AmBank (M) Berhad Group level to which the RWCAF framework applies is AmBank (M) Berhad.

The Bank has 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. In accordance with the RWCAF, the capital position and risk weighted assets ("RWA") of the Bank refers to the combined capital base and RWA of the Bank and AMIL.

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

BNM guidelines on capital adequacy require regulated banking entities to maintain an adequate level of capital to withstand any losses which may result from credit and other risks associated with financing operations.

The capital adequacy ratios are computed in accordance with BNM's Risk Weighted Capital Adequacy Framework or Capital Adequacy Framework for Islamic Banks (as applicable), which are based on the Basel II capital accord. The Group and the Bank have adopted the Standardised Approach for Credit and Market Risks and the Basic Indicator Approach for Operational Risk.

The minimum regulatory capital adequacy requirement is 8.0% for the risk weighted capital ratio.

1.1 Basis of Consolidation

For statutory accounting purposes, the consolidated financial statements of the Bank comprise the financial statements of the Bank and the financial statements of all its controlled entities (individually referred to as "group entities") where it is determined that there is a capacity to control. Control means the power to govern directly or indirectly the financial and operating policies of an entity so as to obtain benefits from its activities.

For purposes of this Pillar 3 Report, 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 II regulatory reporting
Subsidiaries licensed under BAFIA or IBA or engaged in financial activities	Fully consolidated	Fully consolidated
Subsidiaries engaged in non-financial activities	Fully consolidated	Deducted from capital base
Associates and jointly controlled entities which are licensed under BAFIA or IBA	Equity accounted	Pro-rata consolidated
Associates and jointly controlled entities which are not licensed under BAFIA or IBA	Equity accounted	Reported as investment and risk weighted

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

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

2.0 Capital Management

The capital and risk management of the banking subsidiaries of AMMB Holdings Berhad ("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 5 year horizon and approved by the Board of Directors. The capital plan ensures that adequate levels of capital and an optimum mix of the different components of capital are maintained by the 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
- increases in demand for capital due to business growth and market shocks.

(b) Or stresses:
- available supply of capital and capital raising options; and
- internal controls and governance for managing the 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 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 balance sheet, off-balance sheet, counterparty and other risk exposures after applying collateral and other mitigants, based on the Group's risk rating methodologies and systems. We discuss these outcomes with BNM on a regular basis as part of our normal regulatory liaison activities. BNM has the right to impose further capital requirements on Malaysian Financial Institutions via its Financial Market Supervision remit.

2.0 Capital Management (Contd.)

The Group operates processes and controls to monitor and manage capital adequacy across the organisation. Where we operate in other jurisdictions, capital is maintained on the basis of the local regulator's requirements. It is overseen by the Group Asset and Liability Committee ("GALCO"), which is 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 of Directors. The Risk Management Committee of Directors ("RMCD") is specifically delegated the task of reviewing all risk management issues including oversight of the Group's capital position and any actions impacting the capital levels. The Audit and Examination Committee ("AEC") reviews specific risk areas and the issues discussed at the key capital management committees.

GALCO proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. These ranges are 7.5 per cent to 8.5 per cent for the Tier 1 capital ratio and 11.5 per cent to 12.5 per cent for the total capital ratio. The Group has been (knowingly) operating in excess of these ranges for the last 3 years as the Group was conservatively positioned for any repercussions from the Global Financial Crisis.

A dedicated team, 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.

In light of the uncertain economic environment and evolving regulatory debate on banking institutions' capital structures, we believe it is appropriate to remain strongly capitalised above our target ranges.

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.

There are no current material, practical or legal impediments to the prompt transfer of capital resources in excess of those required for regulatory purposes or repayment of liabilities between the ultimate parent company, AMMB, and its group entities when due.

Table 2.1: Capital Adequacy Ratio

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

	Group		Bank	
	2011	2010	2011	2010
Before deducting proposed dividends:				
Core capital ratio	9.8%	9.9%	10.0%	11.0%
Risk weighted capital ratio	14.5%	15.3%	14.8%	15.3%
After deducting proposed dividends:				
Core capital ratio	9.3%	9.4%	9.5%	10.4%
Risk weighted capital ratio	14.1%	14.9%	14.4%	14.8%

(b) The capital adequacy ratios of the banking subsidiaries of the Group are as follows:

	AmIslamic		AMIL	
	2011	2010	2011	2010
Before deducting proposed dividends:				
Core capital ratio	N/A	10.5%	47.3%	38.3%
Risk weighted capital ratio	N/A	15.3%	47.5%	38.5%
After deducting proposed dividends:				
Core capital ratio	N/A	10.5%	47.3%	38.3%
Risk weighted capital ratio	N/A	15.3%	47.5%	38.5%

Notes:

1) The capital position and RWA of the Bank refers to the combined capital base and RWA of AmBank (M) Bhd and its wholly-owned offshore banking subsidiary company, AmInternational (L) Ltd ("AMIL").

2) The capital adequacy ratios of AmIslamic Bank Berhad ("AmIslamic") are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks ("CAFIB"), which are based on the Basel II capital accord. AmIslamic has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk. On 28 February 2011, AmIslamic was transferred to AMMB Holdings Berhad.

3) During the current financial year, AMIL has computed its capital adequacy ratios in accordance with BNM RWCAF based on the Basel II capital accord. It has adopted the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk. For the financial year 2010, the capital adequacy ratios of AMIL for capital compliance on a standalone basis were computed in accordance with the guidelines on Risk Weighted Capital Adequacy issued by Labuan Financial Services Authority ("LFSA"), which was based on the Basel I capital accord. The core capital and risk weighted capital ratios for financial year 2010 would have been 41.9% and 42.0% respectively, if these ratios had been computed under the Basel II capital accord.

Table 2.2 : Risk-Weighted Assets and Capital Requirements

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

2011 Exposure Class	Gross Exposures/ EAD before Credit Risk Mitigation ("CRM")	Net Exposures/ EAD after CRM	Risk Weighted Assets	Minimum Capital Requirement at 8%
	RM'000	RM'000	RM'000	RM'000
1. **Credit Risk**				
On Balance Sheet Exposures				
Sovereigns/ Central Banks	8,913,240	8,627,683	-	-
Banks, Development Financial Institutions ("DFI") & Multilateral Development Banks ("MDB")	7,633,456	7,633,456	1,784,418	142,753
Insurance Companies, Securities Firms & Fund Managers	54,968	54,968	31,732	2,539
Corporates	24,874,291	22,691,482	21,087,007	1,686,961
Regulatory Retail	25,023,133	24,889,156	18,641,377	1,491,310
Residential Mortgages	6,860,275	6,848,849	2,752,168	220,173
Higher Risk Assets	217,560	217,560	326,340	26,107
Other Assets	1,442,090	1,442,090	1,123,365	89,869
Securitisation	137,943	137,943	26,895	2,152
Equity	62,374	62,374	62,374	4,990
Defaulted Exposures	2,276,362	2,211,082	3,052,751	244,220
Total On Balance Sheet Exposures	**77,495,692**	**74,816,643**	**48,888,427**	**3,911,074**
Off-Balance Sheet Exposures				
Over the counter ("OTC") Derivatives	1,478,374	1,478,374	744,556	59,564
Credit Derivatives	1,045	1,044	522	42
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	6,926,395	6,609,086	6,048,183	483,855
Defaulted Exposures	89,268	87,515	131,272	10,502
Total Off-Balance Sheet Exposures	**8,495,082**	**8,176,019**	**6,924,533**	**553,963**
Total On and Off-Balance Sheet Exposures	**85,990,774**	**82,992,662**	**55,812,960**	**4,465,037**
2. **Large Exposure Risk Requirement**	-	-	-	-

	Long Position	Short Position		Risk Weighted Assets	Minimum Capital Requirement at 8%
3. **Market Risk**					
Interest Rate Risk					
- General interest rate risk	53,451,775	51,102,848		1,020,954	81,676
- Specific interest rate risk	4,489,674	1,950,806		355,633	28,451
Foreign Currency Risk	8,768	17,927		17,927	1,434
Equity Risk					
- General risk	349,668	25,751		323,917	25,913
- Specific risk	349,668	25,751		519,835	41,587
Option Risk	294,367	302,792		3,931	315
Total	**58,943,920**	**53,425,875**		**2,242,197**	**179,376**
4. **Operational Risk**				5,176,229	414,098
5. **Total RWA and Capital Requirements**				**63,231,386**	**5,058,511**

The Group does not have Profit-Sharing Investment Account ("PSIA") that qualifies as a risk absorbent.

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

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

2010 Exposure Class	Gross Exposures/ EAD before Credit Risk Mitigation ("CRM")		Net Exposures/ EAD after CRM	Risk Weighted Assets	Minimum Capital Requirement at 8%
	RM'000		RM'000	RM'000	RM'000
1. **Credit Risk**					
On Balance Sheet Exposures					
Sovereigns/ Central Banks	11,956,071		11,956,071	-	-
Public Sector Entities	79,464		79,464	15,893	1,272
Banks, Development Financial Institutions ("DFI") & Multilateral Development Banks ("MDB")	5,339,184		5,339,184	1,132,161	90,573
Insurance Companies, Securities Firms & Fund Managers	800,523		800,523	800,523	64,042
Corporates	22,905,262		21,736,229	19,486,537	1,558,923
Regulatory Retail	33,481,043		33,353,322	24,942,498	1,995,400
Residential Mortgages	6,873,319		6,863,926	2,906,731	232,539
Higher Risk Assets	208,404		208,404	312,606	25,008
Other Assets	1,483,663		1,483,663	1,159,247	92,740
Equity	66,546		66,546	66,546	5,324
Securitisation	326,731		326,730	95,256	7,620
Defaulted Exposures	5,068,153		4,150,969	5,923,806	473,904
Total On Balance Sheet Exposures	**88,588,363**		**86,365,031**	**56,841,804**	**4,547,345**
Off-Balance Sheet Exposures					
Over the counter ("OTC") Derivatives	1,176,143		1,176,143	523,626	41,890
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	4,616,009		4,286,550	3,974,760	317,981
Total Off-Balance Sheet Exposures	**5,792,152**		**5,462,693**	**4,498,386**	**359,871**
Total On and Off-Balance Sheet Exposures	**94,380,515**		**91,827,724**	**61,340,190**	**4,907,216**
2. **Large Exposure Risk Requirement**	-		-	5,203	416
3. **Market Risk**	**Long Position**	**Short Position**			
Interest Rate Risk					
- General interest rate risk	29,457,307	27,207,877		1,037,271	82,982
- Specific interest rate risk	3,230,626	1,011,669		230,851	18,468
Foreign Currency Risk	690,817	276		690,817	55,265
Equity Risk					
- General risk	33,859	-		33,859	2,709
- Specific risk	33,859	-		43,701	3,496
Option Risk	283,459	220,852		4,702	376
Total	**33,729,927**	**28,440,674**		**2,041,201**	**163,296**
4. **Operational Risk**				4,877,266	390,181
5. **Total RWA and Capital Requirements**				**68,263,860**	**5,461,109**

The Group does not have Profit-Sharing Investment Account ("PSIA") that qualifies as a risk absorbent.

3.0 Capital Structure

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

- paid-up ordinary share capital, irredeemable non-cumulative convertible preference shares, and eligible reserves;
- innovative Tier 1 capital and qualifying subordinated liabilities; and
- collective allowance (netted against loans, advances and financing).

All capital instruments included in the capital base have been issued in accordance with the Bank Negara Malaysia rules and guidelines.

For regulatory purposes, capital is categorised into two main categories, or tiers, depending on the degree of permanency and loss absorbency exhibited. These are Tier 1 and Tier 2 capital which are described below.

3.1 Tier 1 Capital

Tier 1 capital comprises paid-up ordinary share capital, irredeemable non-cumulative convertible preference shares, retained earnings, eligible reserves, innovative and non-innovative Tier 1 capital, after the deduction of certain regulatory adjustments.

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.

Irredeemable Non-cumulative Convertible Preference Shares

Irredeemable non-cumulative convertible preference shares are permanent holdings for which there are no obligation to pay a dividend, and the dividend payment is not cumulative. Such shares do not generally carry voting rights, but rank higher than ordinary shares for dividend payments and in the event of a winding-up or other return of capital.

In the financial year 2008, the Bank issued RM150 million Irredeemable Non-Cumulative Convertible Preference Shares ("INCPS") to its holding company, AMFB Holdings Berhad. The INCPS are convertible into new ordinary shares of the Bank on the basis of one (1) new ordinary share for every one (1) INCPS held.

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.

3.1 Tier 1 Capital (Contd.)

Eligible Reserves

Eligible reserves comprise the following:

- **Share Premium**
  Share premium is used to record premium arising from new shares issued in the group entity.
- **Statutory Reserve**
  Statutory reserve is maintained in compliance with the provisions of BAFIA and IBA and is not distributable as cash dividends.
- **Capital Reserve and Merger Reserve**
  The capital reserve and merger reserve represent reserves arising from the transfer of subsidiaries pursuant to schemes of arrangement under group restructuring which involved capital reduction and was accounted for using the merger accounting method.
- **Exchange Fluctuation Reserve**
  Exchange fluctuation reserve is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging.

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 the Bank issued United States Dollar ("USD") 200,000,000 Innovative Hybrid Tier 1 Capital comprising 2,000 preference shares of USD100,000 each ("Hybrid Securities"). The Hybrid Securities are subordinated and guaranteed by the Bank. The gross proceeds from the issuance was on-lent to the Bank in the form of a subordinated term loan on 27 January 2006 for the purpose of supplementing the Bank'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 three (3) month US dollar LIBOR plus 2.90 percent, 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 nor 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, the Bank issued up to RM485 million Innovative Tier I Capital Securities under its RM500 million Innovative Tier I Capital Securities ("ITICS") Programme. The ITICS bear 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 the Bank's ordinary shares. Upon BNM's approval, the Bank 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.

3.1 Tier 1 Capital (Contd.)

Non-innovative Tier 1 Capital

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

- Non-Cumulative Perpetual Capital Securities ("NCPCS"), which are issued by the Bank and stapled to the Subordinated Notes described below; and
- Subordinated Notes ("SubNotes"), which are issued by AmPremier Capital Berhad ("AmPremier"), a wholly-owned subsidiary of the Bank (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 Sub-Notes will be assigned to the Bank pursuant to the forward purchase contract entered into by the Bank 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 the Bank 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 the Bank 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 tenure 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 the Bank. Claims in respect of the NCPCS rank pari passu and without preference among themselves and with the most junior class of preference shares of the Bank but in priority to the rights and claims of the ordinary shareholders of the Bank. The SubNotes rank pari passu and without preference among themselves and with the most junior class of notes or preference shares of AmPremier.

3.2 Tier 2 capital

The main components of Tier 2 capital are collective allowance for bad and doubtful debts and subordinated debt instruments as follows:

Medium Term Notes

In the financial year 2008, the Bank 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 MTN 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 in compliance with the Risk Weighted Capital Adequacy Framework issued by BNM.

The salient features of the MTNs issued are as follows:

(i) Tranche 1 amounting to RM500 million was issued on 4 February 2008 and is for a tenor of 10 years Non-Callable 5 years and bears interest at 5.23% per annum.

(ii) Tranche 2 and 3 totalling RM240 million was issued on 14 March 2008 as follows:

- Tranche 2 amounting to RM165 million is for a tenor of 10 years Non-Callable 5 years and bears interest at 5.2% per annum.
- Tranche 3 amounting to RM75 million is for a tenor of 12 years Non-Callable 7 years and bears interest at 5.4% per annum.

(iii) Tranche 4 and 5 totalling RM120 million was issued on 28 March 2008 as follows:

- Tranche 4 amounting to RM45 million is for a tenor of 10 years Non-Callable 5 years and bears interest at 5.2% per annum.
- Tranche 5 amounting to RM75 million is for a tenor of 12 years Non-Callable 7 years and bears interest at 5.4% per annum.

(iv) Tranche 6 amounting to RM600 million issued on 9 April 2008 is for a tenor of 15 years Non-Callable 10 years and bears interest at 6.25% per annum.

(v) Tranche 7 amounting to RM97.8 million issued on 10 December 2009 is for a tenor of 10 years Non-Callable 5 years and bears interest at 5.75% per annum.

The interest rate of the MTN will step up by 0.5% per annum as follows:

(i) Tranche 1 – at the beginning of the 5th year
(ii) Tranche 2 – at the beginning of the 6th year
(iii) Tranche 3 – at the beginning of the 8th year
(iv) Tranche 4 – at the beginning of the 6th year
(v) Tranche 5 – at the beginning of the 8th year
(vi) Tranche 6 – at the beginning of the 11th year
(vii) Tranche 7 – at the beginning of the 6th year

and every anniversary thereafter, preceding the maturity date of the MTN.

3.2 Tier 2 capital (Contd.)

Subordinated Sukuk Musyarakah

On 21 December 2006, AmIslamic issued RM400,000,000 Subordinated Sukuk Musyarakah ("Sukuk Musyarakah") for the purpose of increasing AmIslamic's capital funds.

The salient features of the Sukuk Musyarakah are as follows:

(i) The Sukuk Musyarakah carries a profit rate of 4.80% per annum for the first five (5) years and shall be stepped up by 0.50% per annum for every subsequent year to maturity date. The profit is payable on a semi-annual basis.

(ii) The Sukuk Musyarakah is for a period of ten (10) years. AmIslamic may exercise its call option and redeem in whole (but not in part) the Sukuk Musyarakah 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.

On 28 February 2011, AmIslamic was transferred to AMMB.

Exchangeable Bonds

In the financial year 2008, the Bank issued RM575,000,000 Exchangeable Bonds ("EB") to ANZ Funds Pty Ltd ("ANZ Funds"). The EB will mature on the 10th anniversary from the date of issue. Interest will accrue on the EB at a rate of 5% per annum for the first five years and 5.5% for the next five years. The EB are exchangeable into 188,524,590 new ordinary shares in the ultimate holding company, AMMB at an exchange price of RM3.05 per share. Pursuant to the completion of AMMB's Rights Issue on 15 January 2008, the EB conversion price was adjusted from RM3.05 per share to RM2.95 per share. Bank Negara Malaysia has approved the EB as Tier 2 capital of the Bank under BNM's capital adequacy framework.

On 3 August 2009, pursuant to ANZ Fund's notice to exchange its entire holdings of the EB into new AMMB shares, AMMB has allotted 194,915,254 new AMMB shares to ANZ Funds ("the Exchange"). Arising from the Exchange, AMMB became the holder of the EB.

The EB was redeemed on 28 February 2011.

Innovative and Non-innovative Tier 1 Capital Securities

Please refer to Section 3.1 for details of the innovative and non-innovative Tier 1 capital securities in issue.

Table 3.1 : Capital Structure

The components of Tier 1 and Tier 2 Capital of the Group and the Bank are as follows:

	The Group		The Bank	
	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000
Tier 1 capital				
Paid-up ordinary share capital	670,364	670,364	670,364	670,364
Share premium	942,844	942,844	942,844	942,844
Statutory reserve	680,459	945,628	680,459	680,459
Capital reserve	-	377,492	-	-
Merger reserve	48,516	397,566	48,516	-
Exchange fluctuation reserve	(709)	60	(709)	9,470
Irredeemable non-cumulative convertible preference shares	150,000	150,000	150,000	150,000
Innovative Tier 1 capital	926,409	1,011,446	925,373	921,431
Non-innovative Tier 1 capital	500,000	500,000	500,000	500,000
Retained earnings at end of year	2,690,387	2,019,923	2,684,567	2,498,526
Non controlling interest	50	-	-	-
Total	**6,608,320**	**7,015,323**	**6,601,414**	**6,373,094**
Less:				
Deferred tax assets	(432,260)	(273,306)	(432,260)	(231,088)
Total Tier 1 capital	**6,176,060**	**6,742,017**	**6,169,154**	**6,142,006**
Tier 2 capital				
Medium term notes	1,557,800	1,557,800	1,557,800	1,557,800
Subordinated bonds	-	400,000	-	-
Exchangeable bonds	-	575,000	-	575,000
Innovative Tier 1 capital	308,691	223,654	309,727	313,669
Collective/General allowance for bad and doubtful debts[#]	1,166,407	997,741	1,161,406	808,631
Total Tier 2 capital	**3,032,898**	**3,754,195**	**3,028,933**	**3,255,100**
Total capital funds	**9,208,958**	**10,496,212**	**9,198,087**	**9,397,106**
Less:				
Investment in subsidiaries	(32,769)	(32,779)	(32,780)	(816,850)
Other deduction	(18,672)	(50)	(18,672)	(50)
Capital base	**9,157,517**	**10,463,383**	**9,146,635**	**8,580,206**

[#] Excludes collective allowance on impaired loans restricted from Tier 2 capital of the Group and the Bank of RM480,983,000 and RM480,964,000 respectively as at 31 March 2011.

4.0 Risk Management Framework

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

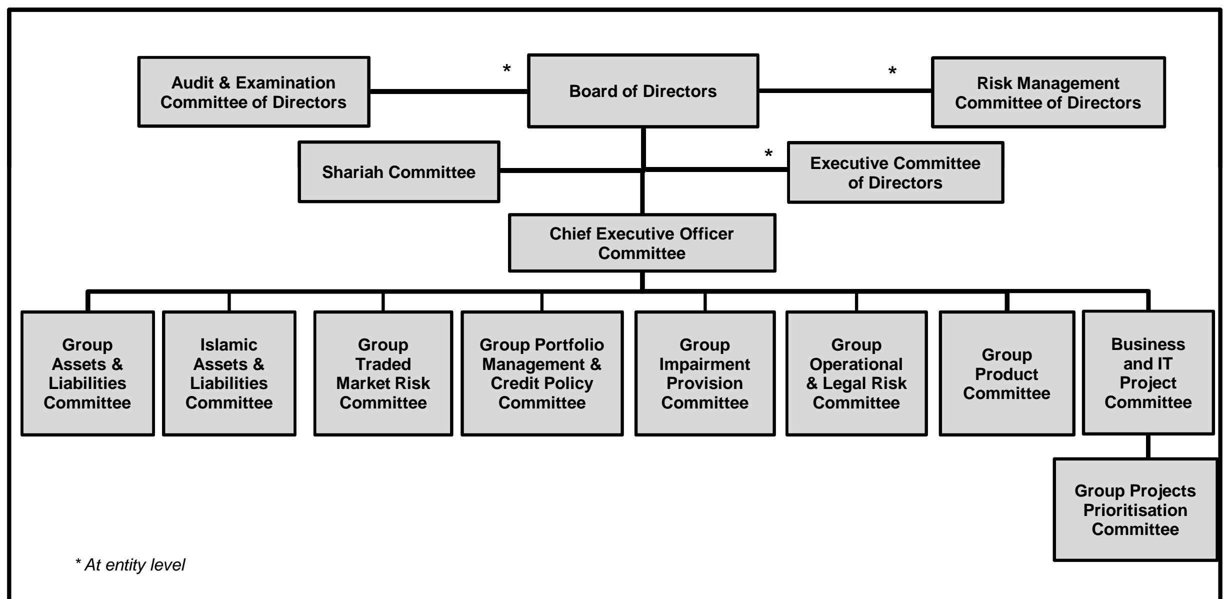
The Risk Appetite Framework is approved annually by the Board of Directors taking into account the Group's desired external rating and targeted profitability/ return on equity ("ROE") and is reviewed periodically throughout the financial year by both the executive management and the Board of Directors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

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

Risk Management Governance

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

The Board of Directors has also established various Management Committees at the Group level to assist it in managing the risks and businesses of the Group. The following chart sets out the organisational structure of the risk management committees and an overview of the respective committee's roles and responsibilities:



4.0 Risk Management Framework (Contd.)

Risk Management Governance (Contd.)

Committee	Roles and Responsibilities
Risk Management Committee of Directors ("RMCD")	- Oversee senior management activities in managing risk (covering credit, market, funding, operational, legal, regulatory capital and strategic risk) and to ensure that the risk management process is in place and functioning. - Report and advise the Board of Directors on risk issues.
Audit & Examination Committee of Directors ("AEC")	- Provide assistance to the Board in relation to fulfilling fiduciary responsibilities and monitoring of the accounting and financial reporting practices of the Group. - Provide assistance to Board of Directors in ensuring the Islamic Banking operations of the Group are Shariah compliant.
Shariah Committee	- Responsible and accountable on matters related to Shariah, which includes advising Board of Directors and management on Shariah matters and endorsing and validating products and services, and the relevant documentations in relation to Islamic Banking operations of the Group.
Executive Committee of Directors ("EXCO")	- Responsible to consider and approve credit facilities and commitment that are not in accordance with the policies approved by the BOARD for which EXCO has been granted powers to exempt. - Review credit facilities and commitment that exceeds certain thresholds.
Chief Executive Officer Committee ("CEO Committee")	- Responsible for overall day to day operations of the Group such as oversee management's activities in managing risk, review high level risk exposures, portfolio composition and risk strategies; and evaluate the existence and effectiveness of the control and risk management infrastructure. - Report and advise the Board of Directors on risk issues.
Group Assets and Liabilities Committee (Conventional and Islamic) ("GALCO")	- Responsible for the development of capital and balance sheet management policy, approve and oversee non-traded interest/profit rate risk exposures, liquidity and funding framework and hedging and management of structural foreign exposure. Ensure fund transfer pricing is effective and fair and capital is managed.
Islamic Assets and Liabilities Committee	- Responsible for the development of Islamic capital and balance sheet management policy, approve and oversee rate of return risk exposures, liquidity and funding framework and hedging and management of structural foreign exposure. Ensure fund transfer pricing is effective and fair and capital is managed.
Group Traded Market Risk Committee ("GTMRC")	- Responsible for development of traded market risk policy framework, oversee the trading book portfolio, approve new trading products and ensure the compliance with the internal and regulatory requirements throughout the Group.
Group Portfolio Management and Credit Policy Committee ("GPMCP")	- Responsible for development for credit policy framework, oversee credit portfolio, endorse asset writing strategies, review credit provisioning policies and process and ensure the compliance with the internal and regulatory requirements throughout the Group.
Group Impairment Provision Committee	- Responsible for the development of key policies relating to impairment provisions, ensure provision are assessed and made in accordance with Board approved policies and FRS 139 and 137 standards and establish adequate management governance for the determination of provisions.
Group Operational and Legal Risk Committee ("GOLRC")	- Responsible for endorsing operational risk, legal risk and regulatory compliance framework, oversee operational risk and legal risk management and reviews regulatory actions or any incidences that may give rise to operational and legal risk along with the actions taken to mitigate such risks.
Group Product Committee ("GPC")	- Responsible for ensuring adequate infrastructure and resources are in place for product management, endorse proposal for new product and product launching strategies, approve proposal for product variation and reactivation of dormant product and review post implementation activities and product performance.

4.0 Risk Management Framework (Contd.)

Risk Management Governance (Contd.)

Committee	Roles and Responsibilities
Business and IT Project Committee (“BITPC”)	- Responsible to review and approve (or where required recommend for approval) requests relating to the Group’s major Business and Information Technology ("IT") investments. - To ensure all projects are aligned to the Business and IT plans, appropriate prioritisation of Business and IT projects, and the allocation of resources.
Group Projects Prioritisation Committee	- Responsible to optimise the allocation of shared resources and change capacity to programmes, projects and initiatives across the Group.

4.1 Internal Capital Adequacy Assessment Process ("ICAAP")

The core objectives of the Group’s ICAAP Policy are to:

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

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

The following key principles underpin the ICAAP.

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

- Group Risk Appetite, including the Bank’s target credit rating category;
- Regulatory Capital requirements (basic Economic Capital methodologies to be introduced in FY 2013);
- The Board and Management’s targeted financial performance, and
- The Group’s planned asset growth and strategic business objectives.

4.1.2 Management oversight

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

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

4.1.3 Capital Management Plan and Framework

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

- A strategy for maintaining capital resources over time;
- Measures that would be taken in the event capital falls below a targeted level;
- Measures to ensure that the Group is in compliance with minimum regulatory standards;
- Stressed capital plans; with clearly documented assumptions consistent with the Group’s strategic planning cycles.

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

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

- Meet minimum prudential requirements in all jurisdictions in which the Group operates, also any ratings agency requirements, including maintaining appropriate buffers over minimum capital levels.
- Be consistent with the Group's overall risk profile and financial positions, taking into account its strategic focus and business plan.
- Ensure there is sufficient capital to support the regulatory capital requirements of the business, including those resulting from the outcomes of stress testing.

The Group will have appropriately established capital targets for each major capital type; including:

- Minimums;
- Triggers; and
- Target operating ranges

The relationship between regulatory targets and economic capital will be clearly articulated and documented as part of the Group's Economic Capital initiatives, targeted for basic introduction in FY 2013.

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 (basic Economic Capital methodologies to be introduced in FY 2013);
- Capital allocation should be consistent with the Group's Regulatory Capital measurement framework (basic Economic Capital methodologies to be introduced in FY 2013) 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 Economic Capital Model

- The Group will develop a fully documented, Board approved comprehensive and credible internal economic capital model, targeted for basic introduction in FY 2013;
- In advance of the introduction of an economic capital model, regulatory capital will be used as a proxy in order to ease the transition process;
- While capital may not be required for every material risk, the economic capital framework must consider the capital required for each material risk type. The reason for the inclusion or exclusion of any material risk types from the economic capital model must be documented.

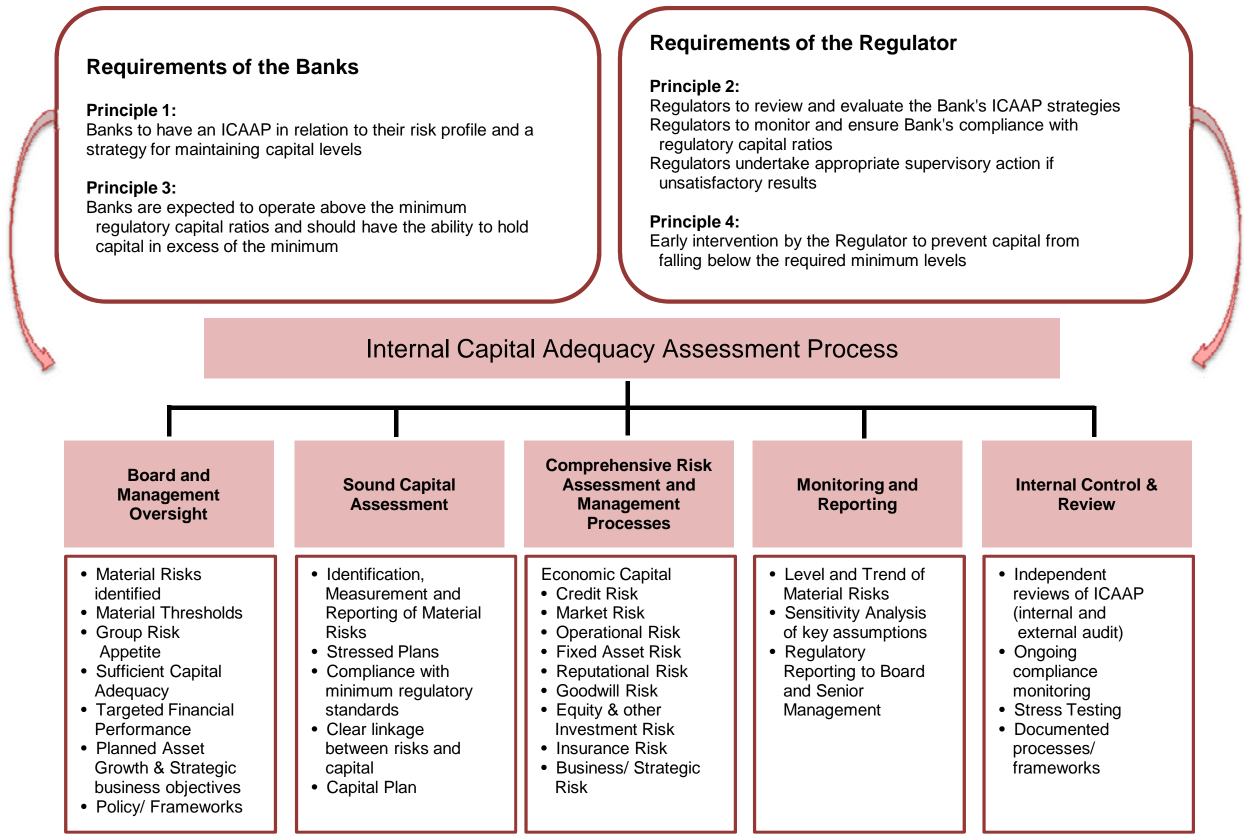
4.1.8 The Board must be notified and the regulator advised as soon as practicable of any:

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

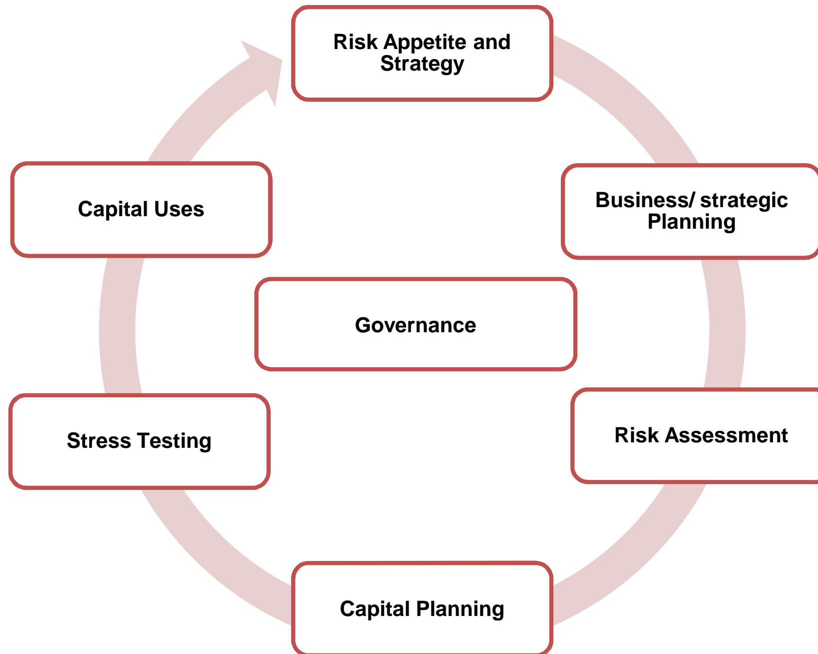
4.1.9 The cost of capital should be reviewed annually. The cost of capital should be set with reference to the Group's long term Return on Equity objectives.

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

ICAAP Framework



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	• Accurate identification/recognition of credit risk on transactions and/ or positions • Selection of 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	• Monitoring of portfolio and reporting • Watchlist review • Post mortem review

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

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 an internally developed credit rating model. The model consists of quantitative and qualitative scores that are then translated into a rating grade, ranging from "AAA" (representing the lowest risk grade) to "C" (i.e., the highest risk grade). The assigned credit rating grade forms a crucial part of the credit analysis undertaken for each of the Group's credit exposures.

To support credit risk management's observation of disciplines governed by the Basel II Framework and Financial Reporting Standards ("FRS"), our rating models pertaining to credit risk (obligor's PD, LGD and EAD) are in the process of being upgraded. These new models are scheduled to be operational during 2012 and will:

- improve the accuracy of individual obligor risk ratings and calculation of expected loss;
- enhance pricing models;
- facilitate loan loss provision calculation;
- automate stress-testing; and
- enhance portfolio management.

For retail credits, third generation credit-scoring systems to better differentiate the quality of borrowers are being used to complement the credit assessment and approval processes. New LGD and EAD models have also been recently developed which will also become operational during 2012.

5.0 Credit Risk Management (Contd.)

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

- concentration limits by exposures to:
  - single counterparty credit;
  - industry sector;
  - country; and
  - portfolio composition (by risk grade).
- Asset writing strategies for industry sectors and individual customers;
- Setting Loan to Value limits for asset backed loans (i.e., property exposures and other collateral);
- Watchlist processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers; and.
- Setting Benchmark Returns which serve as a guide to the minimum returns the Group requires for the risk undertaken, taking into account operating expenses and cost of capital.

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

The GPMCP regularly meets to review the quality and diversification of the Group's loan portfolio, approve new and amended credit risk policy, review watchlist reports and post mortem review of loans/ financing (to extract lessons learned for facilitating credit training and refinement of credit policies or guidelines, towards enhancing risk identification and control).

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

The Group applies the 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

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.

5.1 Impairment (Contd.)

A loan is classified as impaired under the following circumstances:

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

(b) the loan exhibits weaknesses that render a classification appropriate to the Group's Credit Risk Rating Framework, which requires it to fall under the "unlikeliness to repay" category under the Group's Watchlist Policy.

(c) for loans with repayment schedules on quarterly basis or longer intervals to be classified as impaired as soon as default[2] occurs, unless it does not exhibit any weakness that would render it classified according to the Group's Credit Risk Rating Framework. Notwithstanding that, these loans shall be classified as impaired when the principal or interest or both is past due for more than 90 days or 3 months.

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

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

All financial assets 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.

As a transitional arrangement up to 2012, BNM has given banking institutions the choice of applying either one of the following approaches in computing the required collective assessment:

(a) Transitional approach – where, banking institutions may maintain an allowance of at least 1.5 per cent of total outstanding loans net of individual impairment allowance; or

(b) Full FRS 139 compliance approach – where collective allowances are computed using models based on the banking institutions' historical experience.

The Group has opted for the transitional approach and has modified it to reflect the Group's historical loss experience.

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

2 "Default" is defined for loans with repayment schedules on a quarterly basis or longer as 1 day past due + 30 days.

Table 5.1 : Distribution of gross credit exposures by sector

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

2011	Primary Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurant and Hotel RM'000	Transport, Storage and Communication RM'000	Finance, Insurance, Real Estate and Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On Balance Sheet Exposures												
Sovereigns/ Central Banks	-	-	-	-	-	-	-	8,913,240	-	-	-	8,913,240
Banks, Development Financial Institutions & Multilateral Development Banks	-	-	-	539	-	-	-	7,566,729	-	9,371	56,817	7,633,456
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	8,496	-	-	46,472	-	-	-	54,968
Corporates	1,844,540	1,051,084	4,369,138	2,603,220	2,149,044	2,682,856	2,008,719	6,324,877	270,198	314,012	1,256,603	24,874,291
Regulatory Retail	179,750	24,812	24,695	13,176	349,722	60,000	348,711	180,796	159,111	23,666,464	15,896	25,023,133
Residential Mortgages	-	-	-	-	368	-	-	3	-	6,859,904	-	6,860,275
Higher Risk Assets	-	-	-	-	-	-	-	-	95,504	34,309	87,747	217,560
Other Assets	-	-	-	-	-	-	-	-	-	-	1,442,090	1,442,090
Securitisation	68,184	-	-	-	-	-	-	64,302	-	-	5,457	137,943
Equity	-	-	-	-	-	-	-	-	32,857	7	29,510	62,374
Defaulted Exposures	9,075	2	226,708	118,338	245,045	431,386	75,128	364,870	36,337	742,198	27,275	2,276,362
Total for On Balance Sheet Exposures	2,101,549	1,075,898	4,620,541	2,735,273	2,752,675	3,174,242	2,432,558	23,461,289	594,007	31,626,265	2,921,395	77,495,692
Off-Balance Sheet Exposures												
OTC Derivatives	319	9,646	24,161	-	509	6,226	16,507	1,307,927	3	-	113,076	1,478,374
Credit Derivatives	-	-	-	-	-	-	-	1,045	-	-	-	1,045
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatitives	168,888	105,189	757,566	222,617	2,010,337	515,360	392,150	1,006,579	52,009	1,140,126	555,574	6,926,395
Defaulted Exposures	285	-	4,431	-	30,167	6,599	43,260	4,296	-	-	230	89,268
Total for Off-Balance Sheet Exposures	169,492	114,835	786,158	222,617	2,041,013	528,185	451,917	2,319,847	52,012	1,140,126	668,880	8,495,082
Total On and Off-Balance Sheet Exposures	**2,271,041**	**1,190,733**	**5,406,699**	**2,957,890**	**4,793,688**	**3,702,427**	**2,884,475**	**25,781,136**	**646,019**	**32,766,391**	**3,590,275**	**85,990,774**

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

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

2011	Primary Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurant and Hotel RM'000	Transport, Storage and Communication RM'000	Finance, Insurance, Real Estate and Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Unallocated RM'000	Total RM'000
Impaired loans, advances and financing	38,356	355	244,898	288,508	284,056	58,724	19,562	116,756	41,337	1,018,435	12,260	-	**2,123,247**
Past due loans	64,445	9,065	277,919	3,913	399,864	236,024	92,164	259,916	94,921	11,588,164	16,120	-	**13,042,515**
Individual allowances	25,239	-	47,355	170,190	69,578	898	8,870	9,070	2,681	887	6,303	-	**341,071**
Collective allowances												1,647,390	**1,647,390**
Charges for individual allowances	1,213	-	10,907	(3,536)	59,769	12,029	8,744	(6,103)	3,197	1,428	4,733	-	**92,381**
Write-offs against individual allowances	-	-	17,459	-	105,920	9,727	175	6,674	11,188	48,417	2,939	-	**202,499**

Table 5.3 : Geographical distribution of credit exposures

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

2011	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On Balance Sheet Exposures			
Sovereigns/ Central Banks	8,913,240	-	8,913,240
Banks, Development Financial Institutions & Multilateral Development Banks	6,396,539	1,236,917	7,633,456
Insurance Companies, Securities Firms & Fund Managers	54,968	-	54,968
Corporates	24,429,823	444,468	24,874,291
Regulatory Retail	25,023,133	-	25,023,133
Residential Mortgages	6,860,275	-	6,860,275
Higher Risk Assets	216,710	850	217,560
Other Assets	1,442,090	-	1,442,090
Securitisation	137,943	-	137,943
Equity	62,374	-	62,374
Defaulted Exposures	2,276,362	-	2,276,362
Total for On Balance Sheet Exposures	**75,813,457**	**1,682,235**	**77,495,692**
Off-Balance Sheet Exposures			
OTC Derivatives	1,478,374	-	1,478,374
Credit Derivatives	1,045	-	1,045
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	6,880,856	45,539	6,926,395
Defaulted Exposures	89,268	-	89,268
Total for Off-Balance Sheet Exposures	**8,449,543**	**45,539**	**8,495,082**
Total On and Off-Balance Sheet Exposures	**84,263,000**	**1,727,774**	**85,990,774**

Table 5.4 : Geographical distribution of Impaired and past due loans, advances and financing, Individual and collective allowances

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

2011	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans, advances & financing	2,123,247	-	2,123,247
Past due loans	13,042,515	-	13,042,515
Individual allowances	341,071	-	341,071
Collective allowances	1,643,896	3,494	1,647,390

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

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

2011	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 to 3 years RM'000	>3 to 5 years RM'000	> 5 years RM'000	No Maturity specified RM'000	Total RM'000
On Balance Sheet Exposures									
Sovereigns/ Central Banks	6,567,706	2,000,308	-	-	25,491	50,106	125,818	143,811	8,913,240
Banks, Development Financial Institutions & Multilateral Development Banks	3,502,313	2,717,606	291,907	4,334	140,749	752,534	111,900	112,113	7,633,456
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	18,968	36,000	-	-	54,968
Corporates	4,187,357	1,917,732	1,695,266	1,311,230	5,264,278	3,636,500	6,861,928	-	24,874,291
Regulatory Retail	1,520,539	38,979	72,078	238,698	1,909,145	5,040,704	16,202,990	-	25,023,133
Residential Mortgages	3,010	880	4,267	7,873	38,811	80,966	6,724,468	-	6,860,275
Higher Risk Assets	18,490	-	4	35,075	8,360	27,570	39,061	89,000	217,560
Other Assets	92,530	33	56,818	2,244	52,958	1,386	-	1,236,121	1,442,090
Securitisation	42	-	-	-	-	108,710	29,191	-	137,943
Equity	6,801	-	-	-	18,887	-	-	36,686	62,374
Defaulted Exposures	856,493	32,502	29,077	17,375	181,392	222,884	936,586	53	2,276,362
Total for On Balance Sheet Exposures	**16,755,281**	**6,708,040**	**2,149,417**	**1,616,829**	**7,659,039**	**9,957,360**	**31,031,942**	**1,617,784**	**77,495,692**
Off-Balance Sheet Exposures									
OTC Derivatives	106,677	96,509	32,116	35,233	378,295	498,603	330,941	-	1,478,374
Credit Derivatives	-	-	50	-	995	-	-	-	1,045
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	1,650,481	645,969	1,066,536	1,533,269	973,252	245,511	811,377	-	6,926,395
Defaulted Exposures	15,714	23,101	5,095	12,480	9,090	21,562	2,226	-	89,268
Total for Off-Balance Sheet Exposures	**1,772,872**	**765,579**	**1,103,797**	**1,580,982**	**1,361,632**	**765,676**	**1,144,544**	**-**	**8,495,082**
Total On and Off-Balance Sheet Exposures	**18,528,153**	**7,473,619**	**3,253,214**	**3,197,811**	**9,020,671**	**10,723,036**	**32,176,486**	**1,617,784**	**85,990,774**

Table 5.6 : Reconciliation of changes to loans impairment allowances exposure

The reconciliation of changes to loans impairment allowances of the Group are as follows:

2011	Individual impairment allowances RM'000	Collective impairment allowances RM'000
Balance at 1 April	452,386	1,797,171
Charge for the year – net	92,381	784,839
Amount written-off	(202,499)	(472,658)
Repurchase of loan	-	4,142
Transfer from debt converted instrument	12,356	-
Arising from disposal of subsidiary	(13,553)	(465,603)
Exchange differences	-	(501)
Balance at 31 March	**341,071**	**1,647,390**

2011	(Charge offs)/ recoveries RM'000
Bad debts written off during the year	(106,733)
Bad debt recoveries during the year	532,056

6.0 Credit Risk Exposure under the Standardised Approach

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

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

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

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

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

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

2011	Exposures after Netting and Credit Risk Mitigation												
Risk Weights	Sovereigns & Central Banks	Public Sector Entities	Banks, MDBs and FDIs	Insurance Cos, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residental Mortgages	Higher Risk Assets	Other Assets	Securitisation	Equity	Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	8,632,200	-	-	-	-	-	-	-	316,498	-	-	8,948,698	-
20%	-	-	7,281,299	-	1,852,965	10,248	-	-	2,784	109,134	-	9,256,430	1,851,286
35%	-	-	-	-	-	-	4,491,048	-	-	-	-	4,491,048	1,571,867
50%	-	-	1,662,142	46,472	638,483	239,147	2,369,758	-	-	10,137	-	4,966,139	2,483,070
75%	-	-	-	-	-	25,843,658	380	-	-	-	-	25,844,038	19,383,028
100%	77,948	-	7,588	41,296	25,811,247	47,742	184,489	-	1,122,808	-	62,374	27,355,492	27,355,492
150%	-	-	-	-	1,377,785	516,239	-	218,121	-	-	-	2,112,145	3,168,217
1250%	-	-	-	-	-	-	-	-	-	18,672	-	18,672	-
Total	**8,710,148**	**-**	**8,951,029**	**87,768**	**29,680,480**	**26,657,034**	**7,045,675**	**218,121**	**1,442,090**	**137,943**	**62,374**	**82,992,662**	**55,812,960**
Deduction from Capital Base										18,672		18,672	

2010	Exposures after Netting and Credit Risk Mitigation												
Risk Weights	Sovereigns & Central Banks	Public Sector Entities	Banks, MDBs and FDIs	Insurance Cos, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residental Mortgages	Higher Risk Assets	Other Assets	Securitisation	Equity	Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	12,093,403	-	-	-	-	-	-	-	323,174	50	-	12,416,627	-
20%	-	83,064	5,201,432	-	2,355,901	16,710	-	-	1,551	292,072	-	7,950,730	1,590,146
35%	-	-	-	-	-	-	3,503,056	-	-	-	-	3,503,056	1,226,070
50%	-	-	1,143,386	-	685,864	232,118	3,361,200	-	-	15,073	-	5,437,641	2,718,821
75%	-	-	-	-	-	34,606,416	444	-	-	-	-	34,606,860	25,955,145
100%	-	-	3,254	800,826	21,754,714	53,043	201,092	-	1,158,938	-	66,546	24,038,413	24,038,413
150%	-	-	-	-	2,882,091	760,040	-	212,730	-	19,536	-	3,874,397	5,811,595
Total	**12,093,403**	**83,064**	**6,348,072**	**800,826**	**27,678,570**	**35,668,327**	**7,065,792**	**212,730**	**1,483,663**	**326,731**	**66,546**	**91,827,724**	**61,340,190**
Deduction from Capital Base										50		50	

Table 6.2: Rated Exposures according to Ratings by ECAIs

2011	Ratings of Corporate by Approved ECAIs					
Exposure Class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment information Inc.	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Credit Exposures (using Corporate Risk Weights)						
Insurance Cos., Securities Firms & Fund managers	87,768	-	46,472	8,496	-	32,800
Corporates	29,680,480	1,343,329	589,398	123,669	5,446	27,618,638
Total	**29,768,248**	**1,343,329**	**635,870**	**132,165**	**5,446**	**27,651,438**

2011	Ratings of Sovereigns and Central Banks by Approved ECAIs					
Exposure Class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Rating & Investment information Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Sovereigns and Central Banks	8,710,148	4,500	-	-	-	8,705,648
Total	**8,710,148**	**4,500**	**-**	**-**	**-**	**8,705,648**

2011	Ratings of Banking Institutions by Approved ECAIs					
Exposure Class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Rating & Investment information Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Banks, MDBs and FDIs	8,951,029	1,538,447	143,449	85,828	68	7,183,237
Total	**8,951,029**	**1,538,447**	**143,449**	**85,828**	**68**	**7,183,237**

Table 6.3: Securitisation according to Ratings by ECAIs

2011	Ratings of Securitisation by Approved ECAIs			
Exposure Class	Moodys	Aaa to Aa3	A1 to A3	Unrated
	S&P	AAA to AA-	A+ to A-	Unrated
	Fitch	AAA to AA-	A+ to A-	Unrated
	RAM	AAA to AA3	A1 to A3	Unrated
	MARC	AAA to AA-	A+ to A-	Unrated
	Rating & Investment information Inc.	AAA to AA-	A+ to A-	Unrated
		RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures				
Securitisation	137,943	109,134	10,137	18,672
Total	**137,943**	**109,134**	**10,137**	**18,672**

Note: All securitisations are for periods exceeding 12 months.

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

Where the customer risk profile is considered very sound (or by nature of the product, for instance small limit products such as credit cards), a transaction may be provided on an "unsecured" basis, i.e., not be 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. Thus both the PD and LGD estimates are used in assessing and monitoring 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 proposals are an integral component in transaction structuring for the Group. The guarantee of a financially strong party can help improve the Probability of Default of a transaction through its explicit support of the borrower, where borrower's risk grade will be replaced 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 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 is extended, amortisation schedules and loan covenants. These assist in managing credit risk and in providing early warning signals, whereby should loan covenants be breached, the Group and the customer can work together to address the underlying causes and as appropriate, restructure facilities.

Concentrations of credit risk mitigation

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

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

Table 7.1 : Credit Risk Mitigation

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

2011 Exposures	Exposures before Credit Risk Mitigations ("CRM") RM'000	Exposures covered by Guarantees / Credit Derivatives RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit Risk			
On Balance Sheet Exposures			
Sovereigns/ Central Banks	8,913,240	-	285,557
Banks, Development Financial Institutions & Multilateral Development Banks	7,633,456	-	-
Insurance Cos., Securities Firms & Fund Managers	54,968	-	-
Corporates	24,874,291	43,131	2,182,808
Regulatory Retail	25,023,133	191,841	133,977
Residential Mortgages	6,860,275	-	11,426
Higher Risk Assets	217,560	-	-
Other Assets	1,442,090	-	-
Securitisation	137,943	-	-
Equity	62,374	-	-
Defaulted Exposures	2,276,362	22,238	65,280
Total for On Balance Sheet Exposures	77,495,692	257,210	2,679,048
Off-Balance Sheet Exposures			
OTC Derivatives	1,478,374	-	-
Credit Derivatives	1,045	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	6,926,395	2,097	317,310
Defaulted Exposures	89,268	-	1,753
Total for Off-Balance Sheet Exposures	8,495,082	2,097	319,063
Total On and Off-Balance Sheet Exposures	**85,990,774**	**259,307**	**2,998,111**

8.0 Off-Balance Sheet exposures and Counterparty Credit Risk

8.1 Off-Balance Sheet exposures

The Group's 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 rate related contracts (interest rates futures and interest 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 Group Risk Appetite Framework.

8.2 Counterparty Credit Risk

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

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

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

- The MTM is essentially the current replacement cost of the contract, and can be positive or negative. Where it is positive, i.e. in the money, the Group has credit exposure against the counterparty; if it is negative, i.e. out of the money, the negative value will be used.
- The PCRE factors recognize that prices change over the remaining period to maturity, and that risk increases with time. The PCRE factors are mandated for regulatory capital purposes.

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

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

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

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

Table 8.1: Off-Balance Sheet Exposures

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

2011 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	2,259,750		2,178,611	1,886,616
Transaction related contingent Items	1,869,799		975,469	881,252
Short Term Self Liquidating trade related	615,999		123,200	123,761
Forward Asset Purchases	424,290		14,821	6,228
Obligations under an on-going underwriting	260,000		-	-
Foreign exchange related contracts				
One year or less	28,584,266	83,225	214,374	154,875
Over one year to five years	929,849	23,831	125,379	78,059
Over five years	151,265	-	-	-
Interest/Profit rate related contracts				
One year or less	5,870,000	6,171	17,327	6,556
Over one year to five years	27,256,982	203,205	740,086	334,006
Over five years	3,900,759	39,882	330,941	143,257
Equity related contracts				
One year or less	601,986	26,137	21,074	10,473
Over one year to five years	521,072	8,726	29,191	17,330
Credit Derivative Contracts				
One year or less	76,473	132	50	25
Over one year to five years	252,433	5,364	995	497
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	4,498,060		888,393	766,187
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	10,796,440		2,170,507	2,018,435
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness and others	31,406		200	200
Unutilised credit card lines	3,322,322		664,464	496,776
Total	**92,223,151**	**396,673**	**8,495,082**	**6,924,533**

Table 8.1: Off-Balance Sheet Exposures (Contd.)

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

2010 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	2,018,273		1,959,143	1,757,459
Transaction related contingent Items	1,812,955		936,042	879,324
Short Term Self Liquidating trade related	473,429		94,686	95,417
Assets sold with recourse	335,852		335,852	253,809
Forward Asset Purchases	912,336		28,996	14,880
Obligations under an on-going underwriting	689,500			
Foreign exchange related contracts				
One year or less	3,792,088	40,382	57,734	31,628
Over one year to five years	481,496	6,726	48,830	31,328
Interest/Profit rate related contracts				
One year or less	4,300,000	6,183	15,660	7,722
Over one year to five years	23,727,526	171,816	669,377	259,890
Over five years	3,305,524	105,727	353,144	177,025
Equity related contracts				
One year or less	30,521			
Over one year to five years	258,652	9,348	21,897	14,133
Other Commodity Contracts				
Over one year to five years	75,500	3,461	9,501	1,900
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,950,158		422,590	346,632
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	13,242,262			
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	39,798		150	150
Unutilised credit card lines	4,192,748		838,550	627,089
Total	**61,638,618**	**343,643**	**5,792,152**	**4,498,386**

Table 8.2 : Credit Derivatives Counterparty Credit Risk

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

No.	Transaction Date	Usage	Name of Product	Counterparty	Notional Exposure RM'000	Protection	Remark
1	1 June 2010	Intermediation	Credit Linked Note ("CLN") - First to Default	UBS	252,433	Seller	AmBank is the protection seller, and the risk is passed through to customer through CLN issuance. Overall, AmBank is not taking the credit risk of the underlying asset. Only counterparty risk.
2	6 August 2010	Intermediation	CLN - Morgan Stanley	UBS	76,473	Seller	AmBank is the protection seller, and the risk is passed through to customer through CLN issuance. Overall, AmBank is not taking the credit risk of the underlying asset. Only counterparty risk.

9.0 Securitisation

9.1 Definition of Securitisation

Securitisation is a financial technique where the cash flow from an asset or a pool of assets is used to service obligations to, typically, at least 2 different classes or tranches of creditors, who are holders of debt securities with each class or tranche reflecting a different degree of credit risk.

Securitisation takes many forms and may be categorised as traditional or synthetic, depending on legal ownership of the pool of assets.

- Traditional securitisations involve the transfer of ownership via equitable assignment of the underlying asset pool into a Special Purpose Vehicle ("SPV") which finances the purchase by issuing debt instruments to investors. The debt securities are commonly referred to as Asset-Backed Securities ("ABS").
- Synthetic securitisations also transfer the credit risk of an underlying pool of assets to third parties. However, legal ownership of the assets remains with the originator.

9.2 Objectives, roles and involvement

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 risk;
- obtain regulatory relief;

The Group is involved in securitisation of assets that provide diversity in its funding base and may be traditional or synthetic. Such securitisations may or may not involve the transfer of credit risk and as such, may or may not provide regulatory capital relief.

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

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

9.2.2 Governance

The governance of 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 govern under the limits set for the banking book and trading book respectively.

9.2.3 Risk measurement and reporting of securitisation exposures

The Group relies on the external rating assigned by recognised external credit assessment institution in determining the capital charge requirement for rated securitisation exposures. The Group also assess to performance information of the underlying pools on an ongoing basis e.g. 30/60/90 day past due, default rates, prepayment rates & etc to gauge the stability of the model parameters to determine sufficiency of the buffers.

9.2 Objectives, roles and involvement (Contd.)

9.2.4 Special Purpose Vehicles ("SPV") used in securitisation exercises

For all traditional securitisation transactions where the Group acts as the sponsor[3] , such transactions will be structured to comply with the Securities Commission's Guidelines on the Offering of Asset-Backed Securities ("ABS Guidelines") and, where applicable, the BNM's Prudential Standards on Securitisation Transactions. The SPVs used and to be used by the Group complies with the requirements of the ABS Guidelines.

Third party exposures that have been securitised via such SPVs include civil servant and government link company staff housing loans and unsecured personal loans/ financing granted to members of co-operatives.

9.2.5 Accounting Policies for Securitisation

Securitisation of the Group originated assets – For accounting purposes, the Group consolidates SPVs when the substance of the relationship indicates that the Group controls them. In assessing control, all relevant factors are considered, including qualitative and quantitative aspects. For example:

Qualitative factors – in substance:

- the activities of the SPV are being conducted on behalf of the Group according to the Group's specific business needs so that it obtains benefit from the SPV's operation. This might be evidenced, for example, by the Group providing a significant level of support to the SPV; and
- the Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPV.

Quantitative factors – hereinafter referred to as 'the majority of risks and rewards of ownership'. In substance:

- the Group has rights to obtain the majority of the benefits of the SPV and therefore may be exposed to risks incidental to the activities of the SPV; and
- the Group retains the majority of the residual or ownership risks related to the SPV or its assets in order to obtain benefits from its activities.

The Group reassesses the required consolidation accounting tests whenever there is a change in the substance of the relationship between the Group entity and an SPV, for example, when the nature of the Group entity's involvement or the governing rules, contractual arrangements or capital structure of the SPV change.

The transfer of assets to an SPV may give rise to the full or partial derecognition of the financial assets concerned. Only in the event that derecognition is achieved are sales and any resultant gains on sales recognised in the financial statements. In a traditional securitisation, assets are sold to an SPV and no gain or loss on sale is recognised at inception.

Full derecognition occurs when the Group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the assets, and transfers substantially all the risks and rewards of ownership. The risks include credit, interest rate, currency, prepayment and other price risks.

Partial derecognition occurs when the Group sells or otherwise transfers financial assets in such a way that some but not substantially all of the risks and rewards of ownership are transferred but control is retained. These financial assets are recognised on the balance sheet to the extent of the Group's continuing involvement.

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3 *per the BNM's clarification, a banking institution is considered a sponsor if it in fact or in substance, it manages or advises the programme, places securities into the market or provides liquidity and or credit enhancements. This is applicable if the Group entity acts as a sponsor to an ABCP (CP with maturity of one year or less) conduit or similar programmes.*

9.2 Objectives, roles and involvement (Contd.)

9.2.5 Accounting Policies for Securitisation (Contd.)

Loans, credit cards, debt securities and trade receivables that have been securitised under arrangements by which the Group retains a continuing involvement in such transferred assets do not generally qualify for derecognition. Continuing involvement may entail retaining the rights to future cash flows arising from the assets after investors have received their contractual terms (for example, interest rate strips); providing subordinated interest; liquidity support; continuing to service the underlying asset; or entering into derivative transactions with the securitisation vehicles. As such, the Group continues to be exposed to risks associated with these transactions.

Where assets have been derecognised in whole or in part, the rights and obligations that the Group retains from its continuing involvement in securitisations are initially recorded as an allocation of the fair value of the financial asset between the part that is derecognised and the part that continues to be recognised on the date of transfer.

Securitisation in the management of the Group's credit portfolio – For risk mitigation using synthetic securitisation, the underlying assets remain on the Group's balance sheet for accounting purposes. The accounting treatment of the assets will depend on their nature. They could include loans and receivables, available for sale securities or derivatives. The most common form of synthetic securitisation is via a credit default swap, which is treated as a derivative and recognised in the profit and loss statement at fair value.

For investment in securitisation exposures, if the instrument includes a credit default swap, the exposure will be fair valued through the profit and loss statement. Other securitisation exposures will be fair valued through the balance sheet unless the Group makes an election at the time of purchase to fair value through profit or loss.

Provision of securitisation services including funding and management of conduit vehicles – In general, facilities provided to securitisations are treated the same way as facilities to any other borrower or counterparty. Fee income from these services is recognised on an accrual basis. Liquidity and funding facilities are treated as commitments to provide finance, with fee and margin income recognised on an accrual basis. Warehouse and term funding facilities are treated as loans.

9.2.6 Use of external rating agencies Use of external rating agencies

The Group uses the services of both RAM Rating Services Berhad and Malaysian Rating Corporation Berhad for securitisation transactions purposes.

Table 9.1: Securitisation (Trading and Banking Book)

The securitised exposures of the Group are as follows:

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	1,245,892	**-**	**1,220,344**	**-**
Mortgage loans	540,349	**-**	**205,500**	**-**
Total Traditional Securitisation	**1,786,241**	**-**	**1,425,844**	**-**
Total Synthetic Securitisation	**-**	**-**	**-**	**-**
Total Traditional & Synthetic Securitisation	**1,786,241**	**-**	**1,425,844**	**-**

For financial year ended 31 March 2011, there were no Securitisation Activities for the Trading and Banking Books.

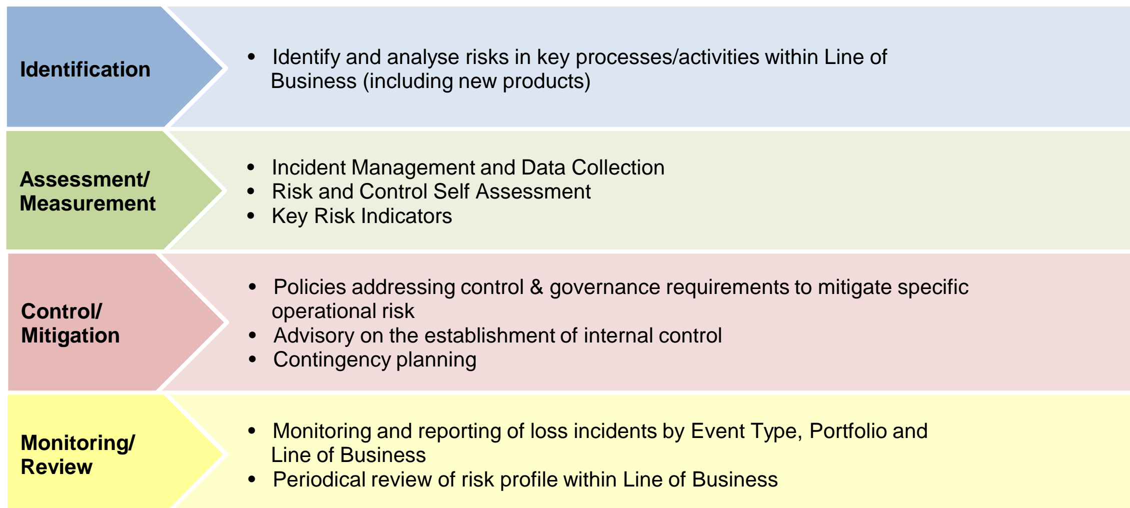
Table 9.2: Securitisation under the Standardised Approach for Banking Book Exposures

Securitisation Exposures by Exposure Type	Exposure Value of Positions Purchased or Retained RM'000	Exposure after CRM RM'000	Exposures subject to deduction RM'000	Distribution of Exposures after CRM according to Appplicable Risk Weights			Risk Weighted Assets RM'000
				Rated Securitisation Exposures or Risk weights of Guarantees/ Credit Derivatives		Unrated (Look-Through)	
				20% RM'000	50% RM'000	Exposure Amount RM'000	
Traditional Securitisation							
Originated by Third Party							
On Balance Sheet Exposures	119,271	119,271	-	109,134	10,137	-	26,895
Originated by the Group							
On Balance Sheet Exposures	18,672	18,672	18,672	-	-	-	-
Total Traditional Securitisation	**137,943**	**137,943**	**18,672**	**109,134**	**10,137**	**-**	**26,895**
Total Synthetic Securitisation	-	-	-	-	-	-	-
Total Traditional & Synthetic Securitisation	**137,943**	**137,943**	**18,672**	**109,134**	**10,137**	**-**	**26,895**

For financial year ended 31 March 2011, there were no Securitisation under the Standardised Approach for Trading Book Exposures.

10.0 Operational Risk

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



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 legal risk. It excludes strategic, systemic and reputational risk.

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 accountable for implementing the operational risk framework and policies, embedding appropriate internal controls into processes and maintaining business resilience for key activities. The responsibility for managing day-to-day operational risk rests with each Line of Business.
- In the second line, Group Operational Risk is responsible for exercising governance over operational risk through the management of the operational risk framework, policy development, quality assurance of internal controls, operational risk measurement and capital allocation, fraud strategy and reporting of operational risk issues to GOLRC, CEO Committee and RMCD.
- 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 an operational risk incident that falls within one of the seven Event Types as stated in Basel II. IMDC also serves as a centralised database of operational risk incidents to model the potential exposure to future operational risks and estimate the amount of economic capital charge.
- The Risk and Control Self Assessment ("RCSA") is a process of continual assessment of risks and controls effectiveness. By using structured questionnaires to assess and measure key risk and its corresponding controls effectiveness, RCSA provides risk profiling across the 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.

10.0 Operational Risk (Contd.)

As part of the risk transfer strategy, the Group obtains third party insurance cover to cover the Group's major operational risks where cost-effective premiums can be obtained. In addition, a comprehensive Business Continuity Management is established to ensure critical business functions can be maintained, or restored in a timely manner, in the event of material disruptions from internal or external events.

The ultimate authority for all operational risk management matters is delegated by the Board of Directors to the CEO Committee. It is in turn, supported by the GOLRC, comprising senior management members of various business divisions and support units. The RMCD, CEO Committee and the GOLRC are the main reporting and escalation committees for operational risk matters. These matters include significant operational risk incidences or findings, deliberations on regulatory and supervisory changes and their impact on operational risk and deliberation and endorsement of operational risk mitigation measures and risk management strategies.

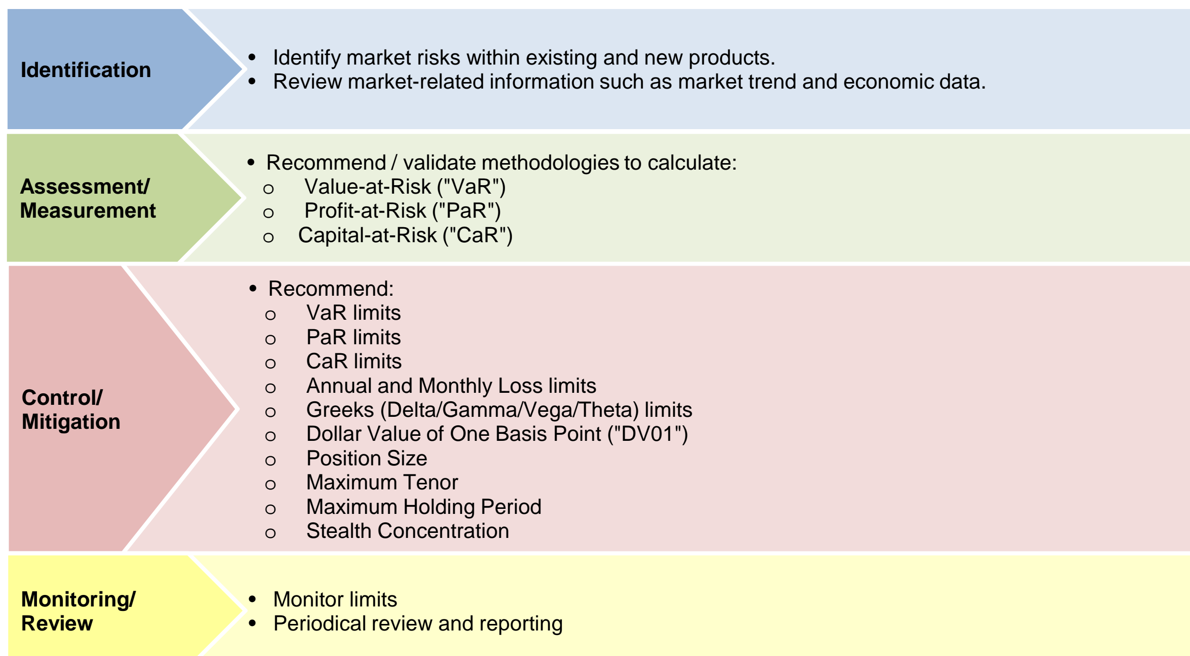
The Group adopts Basic Indicator Approach for the operational risk capital charge computation.

11.0 Market Risk

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 types of market risk: Traded Market Risk ("TMR") and Interest Rate Risk/Rate of Return Risk in the Banking Book ("IRR/RORBB"). Assessment, control and monitoring of these risks are the responsibility of the Market Risk Unit ("MRU").

11.1 Traded Market Risk ("TMR")

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



TMR arises from transactions in which the Group acts as principal with clients or the market. It involves taking positions in fixed income, equity or foreign exchange. The objectives of TMR management are to understand, accurately measure and to work with the business to ensure exposures are managed within Board and Executive Management approved limit structures. This is done via robust measurement, setting of limits, limit monitoring and collaboration and agreement with business units on business strategies.

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

VaR, PaR, CaR and sensitivity analysis are used to measure, monitor and control TMR exposures. VaR is a quantitative measure which applies recent historic market conditions to estimate potential losses in market value, at a certain confidence level and over a specified holding period. PaR comprises VaR and a loss limit threshold. Loss limit thresholds are intended to trigger management discussion on appropriate mitigation measures to be taken, once certain loss levels are reached.

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

Apart from VaR, PaR and CaR, additional sensitivity analysis limits (i.e. Greeks/DV01) and indicators are used to monitor changes in portfolio value under potential market conditions such as shifts in currency rates, equity prices and interest/profit rates.

MRU monitors and reports risk exposures against limits on a daily basis. Portfolio market risk positions are also reported to GTMRC, RMCD and the Board of Directors. Furthermore, policies and procedures are in place to ensure prompt action is taken in the event of limit breaches. Business Units exposed to traded market risk are required to maintain risk exposures within their respective thresholds. When risk limits are exceeded, Business Units are required to reduce their exposures immediately to a level below the thresholds unless senior management are consulted and approve alternative strategies to minimise potential losses.

The Group adopts the Standardised Approach for market risk capital charge computation. This serves as a financial buffer to withstand adverse market movements.

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

12.0 Equities (Banking Book Positions)

Equity risk is the potential loss that may be incurred on equity investments in the banking book. The 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 of Directors' 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 originated and managed by dedicated equity finance teams. These transactions represent funding solutions for known customers of the Group and are governed by specific policies. The Group ensures that the investment in these entities does not constitute a controlling interest in the relevant business.
- 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. Fair value is determined based upon current bid prices. If a market for a financial asset is not active, fair value is determined based upon a valuation technique. This includes the use of recent arms-length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants to price similar instruments. Where fair value is not determined based upon an actively traded market price, judgement is required to take into consideration the impact of liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. In the event that the fair value of an unlisted security cannot be measured reliably, these investments are measured at cost.

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

For the periods reported the book value of certain unlisted investments are measured at cost because the fair value cannot be reliably measured. These investments represent minority interests in companies for which active markets do not exist and quote prices are not available. For all other equity exposures book value equals fair value.

Fair value should not differ to the quoted share price. Should a quoted share price not be available, it is estimated using the techniques referred to above.

Table 12.1: Equity investments and capital requirement

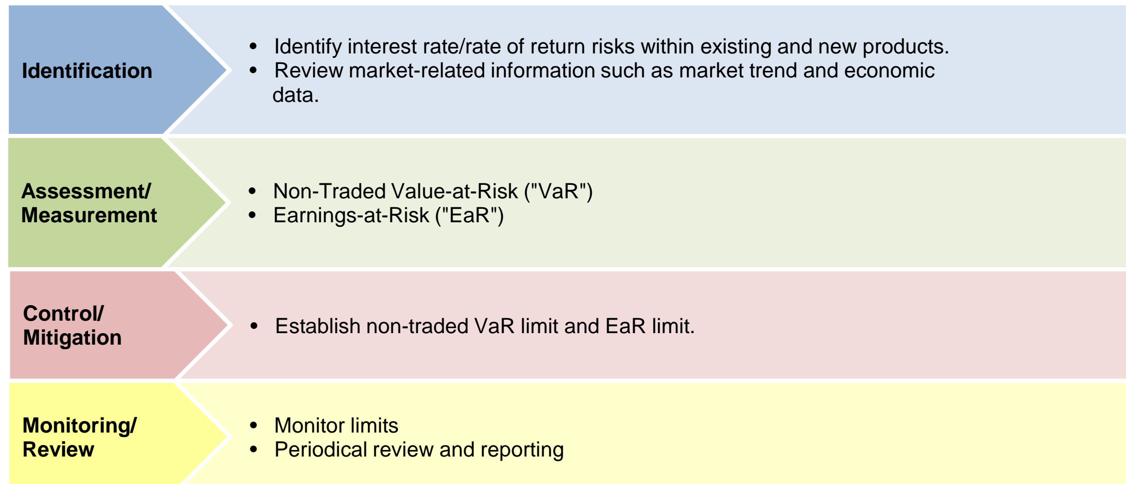
An analysis of equity investments by appropriate equity groupings and risk weighted assets of the Group are as follows:

Non Traded Equity Investments	**2011 RM'000**
Value of quoted (publicly traded) equities	51,419
Value of unquoted (privately held) equities	87,738
Total	**139,157**
Net Realised and Unrealised Gains/(Losses)	
Cumulative realised gains/ (losses) from sales and liquidations	1,361
Total unrealised gains/ (losses)	5,120
Total	**6,481**
Risk Weighted Assets	
Equity investments subject to a 100% risk weight	50,104
Equity investments subject to a 150% risk weight	133,579
Total	**183,683**
Total Minimum Capital Requirement (8%)	**14,695**

13.0 Non-Traded Market Risk

13.1 Interest Rate Risk/Rate of Return Risk in the Banking Book

The Interest Rate Risk/Rate of Return Risk in the Banking Book ("IRR/RORBB") risk management process is depicted in the table below:



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 margin and implied volatilities on interest/profit rate options. The provision of retail and wholesale banking products and services (primarily lending 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 interest/profit rate and funding risk, and to manage the market value of the Group's capital.

The Board's oversight of IRR/RORBB is supported by the Group Asset & Liability Committee ("GALCO"). GALCO is responsible for the alignment of Group-wide risk appetite and funding needs, taking into consideration Group-wide business strategies. GALCO consistently manages 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 interest/ profit rate risk is maintained. The Group has successfully engaged long-term borrowings and written interest/profit rate swaps to reduce longer tenor interest/profit rate risk, and maintained a comfortable gapping profile as a result. In accordance with Group's policy, positions are monitored on a monthly basis and hedging strategies are used 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 interest/profit rate risk which applies recent historic market conditions to estimate the potential loss in market value, at a certain confidence level and over a specified holding period.

The Group complements VaR by stress testing interest/ profit rate risk 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.

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 incorporates 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.

13.1 Interest Rate Risk/Rate of Return Risk in the Banking Book (Contd.)

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

IRR/RORBB is calculated monthly and reported to GALCO.

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

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

2011 Currency (MYR)	Interest Rate / Rate of Return +100 bps RM'000	Interest Rate / Rate of Return -100 bps RM'000
Impact on Profit Before Taxation	155,679	(155,679)
Impact on Equity	51,803	(50,731)

13.3 Liquidity and Funding Risk

Liquidity risk is the risk that the organisation either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can only access these financial resources at an unreasonable cost. Liquidity risk exposure arises mainly from the deposit taking and borrowing activities, and to a lesser extent, significant drawdown of funds from previously contracted financing and purchase commitments.

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

In the event of actual liquidity crisis occurring, a Contingency Funding Plan provides a formal process to identify a liquidity crisis and detailing responsibilities among the relevant departments to ensure orderly execution of procedures to restore the liquidity position and confidence in the organization.

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

The Group stresses the importance of customer deposit accounts as a source of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans/financing and advances to customers as a percentage of customer deposit accounts, together with term funding with a remaining term to maturity in excess of one year.