AmIslamic Bank Berhad

(Company No. 295576–U)
(Incorporated in Malaysia)

CAFIB - Pillar 3 Disclosures

31 March 2014

Table of Contents | **Page**

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") – Disclosure Requirements ("Pillar 3") is applicable to all banking institutions licensed under the Financial Services Act 2013 ("FSA") and all Islamic banks licensed under the Islamic Financial Services Act 2013 ("IFSA") 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 IFSA have come into effect on 30 June 2013, providing for the regulation and supervision of financial institutions, payment systems and other relevant entities and the oversight of the money market and foreign exchange market, to promote financial stability and for related, consequential or incidental matters. The IFSA have replaced the Islamic Banking Act 1983 ("IBA"). On 27 June 2013, BNM has issued the Capital Adequacy Framework for Islamic Banks (Basel II – Risk Weighted Assets) which provide the framework and guidelines on computation of risk weighted assets ("RWA"), replacing the previous Guidelines on Risk Weighted Capital Adequacy Framework (Basel II – Risk Weighted Assets Computation) issued on 19 April 2007.

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

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

1.0 Scope of Application (Contd.)

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

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

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

2.0 Capital Management

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

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

2.0 Capital Management (Contd.)

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 Bank’s risk, performance and capital.

The Bank uses internal models and other quantitative techniques in its internal risk and capital assessment. The models help to estimate potential future losses arising from credit, market and other risks, and using regulatory formulae to simulate the amount of capital required to support them. In addition, the models enable the Bank to gain a deeper understanding of its risk profile, for example 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 Bank’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 Bank and how these events could be mitigated. The Bank’s target capital levels are set taking into account its risk appetite and its risk profile under future expected and stressed economic scenarios.

The Bank’s assessment of risk appetite is closely integrated with Bank'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 Bank’s business activities.

2.0 Capital Management (Contd.)

The Bank 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 Bank's management disciplines.

The capital that the Bank 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 Bank'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.

The Bank 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 Chief Executive Officers Committee ("Group CEOs Committee"). The Group Assets and Liabilities Committee ("GALCO"), which is a sub-committee within the Group CEOs Committee, is the governance committee within the Group CEOs Committee that is responsible for managing the Bank's statement of financial position, capital and liquidity.

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

GALCO proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. For the current financial year ended 31 March 2014 ("FY 2014"), these ranges are 7.5% to 9.5% for the Common Equity Tier 1 capital ratio, 9.5% to 11.5% for the Tier 1 Capital Ratio, and 13.5% to 15.5% for the Total Capital ratio. The Bank has been generally operating within these ranges.

A dedicated team, the Capital and Balance Sheet Management Department, is responsible for the on-going assessment of the demand for capital and the updating of the Bank's capital plan.

2.0 Capital Management (Contd.)

Appropriate policies are also in place governing the transfer of capital within the Bank. 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 AMMB and its group entities when due.

Table 2.1: Capital Adequacy Ratios

The capital adequacy ratios of the Bank are as follows:

	Bank	
	2014	**2013**
Before deducting proposed dividends:		
Common Equity Tier 1	9.830%	9.470%
Tier 1 capital ratio	9.830%	9.470%
Total capital ratio	15.807%	14.620%
After deducting proposed dividends:		
Common Equity Tier 1	9.203%	9.470%
Tier 1 capital ratio	9.203%	9.470%
Total capital ratio	15.180%	14.620%

On 28 December 2012, as part of an arrangement between AmBank (M) Berhad (“AmBank”) and the Bank in relation to a Restricted Profit Sharing Investment Account (“PSIA”) agreement, AmBank records as deposits and placements with banks and other financial institutions its exposure in the arrangement, whereas the Bank records its exposure as financing and advances. The PSIA is a contract based on Shariah concept of Mudharabah between AmBank and the Bank to finance a specific business venture where by AmBank solely provides capital and the business ventures are managed solely by the Bank as the entrepreneur. The PSIA exposes AmBank to the risks and rewards of the financing, and accordingly AmBank accounts for all impairment allowances and risk weighted assets arising from the PSIA financing.

As at 31 March 2014, the gross exposure and collective allowance relating to the PSIA financing were RM450.1 million and RM2.5 million respectively (31 March 2013: RM500.9 million and RM2.1 million respectively). There was no individual allowance provided for the PSIA financing. PSIA assets excluded from the risk weighted capital adequacy computation of the Bank amounted to RM450.1 million and the risk weight on these PSIA assets are accounted for in the computation of capital adequacy of AmBank.

Table 2.2: Risk Weighted Assets and Capital Requirements

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

2014

Exposure Class		Gross Exposures/ Exposure At Default ("EAD") before Credit Risk Mitigation ("CRM")	Net Exposures/ EAD after CRM	Risk Weighted Assets	Risk Weighted Assets Absorbed by PSIA	Total Risk Weighted Assets after effects of PSIA	Minimum Capital Requirement at 8%
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
1. **Credit Risk**							
On-Balance Sheet Exposures							
Sovereigns/Central Banks		6,696,281	6,696,281	-	-	-	-
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDBs")		2,467,105	2,467,105	656,193	-	656,193	52,495
Corporates		12,464,229	12,061,855	9,593,137	450,133	9,143,004	731,440
Regulatory Retail		13,363,958	13,351,249	10,211,982	-	10,211,982	816,958
Residential Mortgages		130,614	130,597	45,851	-	45,851	3,668
Higher Risk Assets		-	-	-	-	-	-
Other Assets		234,411	234,411	234,411	-	234,411	18,753
Defaulted Exposures		216,258	213,480	264,644	-	264,644	21,172
Total for On-Balance Sheet Exposures		**35,572,856**	**35,154,978**	**21,006,218**	**450,133**	**20,556,085**	**1,644,486**
Off-Balance Sheet Exposures							
Over the counter ("OTC") Derivatives		48,718	48,718	31,638	-	31,638	2,531
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		1,951,044	1,804,168	1,735,157	-	- 1,735,157	138,813
Defaulted Exposures		88	86	129	-	129	10
Total for Off-Balance Sheet Exposures		**1,999,850**	**1,852,972**	**1,766,924**	**-**	**1,766,924**	**141,354**
Total On and Off-Balance Sheet Exposures		**37,572,706**	**37,007,950**	**22,773,142**	**450,133**	**22,323,009**	**1,785,840**
2. **Large Exposure Risk Requirement**							
3. **Market Risk**	**Long Position**	**Short Position**					
Rate of Return Risk							
- General profit rate risk	1,364,685	1,104,465		30,265	-	30,265	2,421
- Specific profit rate risk	260,195	-		11,588	-	11,588	927
Foreign Currency Risk	26,878	272		26,878	-	26,878	2,150
Total	**1,651,758**	**1,104,737**		**68,731**	**-**	**68,731**	**5,498**
4. **Operational Risk**				1,515,669	-	1,515,669	121,254
5. **Total RWA and Capital Requirements**				24,357,542	450,133	23,907,409	1,912,592

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 Bank are as follows:

2013

Exposure Class		Gross Exposures/ Exposure At Default ("EAD") before Credit Risk Mitigation ("CRM")	Net Exposures/ EAD after CRM	Risk Weighted Assets	Risk Weighted Assets Absorbed by PSIA	Total Risk Weighted Assets after effects of PSIA	Minimum Capital Requirement at 8%
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
1. **Credit Risk**							
On-Balance Sheet Exposures							
Sovereigns/Central Banks		6,062,718	6,062,718	-	-	-	-
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDBs")		1,948,473	1,948,473	394,247	-	394,247	31,540
Corporates		9,932,971	9,788,718	8,085,735	500,866	7,584,869	606,790
Regulatory Retail		13,155,072	13,142,161	10,037,300	-	10,037,300	802,984
Residential Mortgages		147,218	147,188	51,849	-	51,849	4,148
Other Assets		240,332	240,332	237,848	-	237,848	19,028
Defaulted Exposures		204,858	202,541	250,127	-	250,127	20,010
Total for On-Balance Sheet Exposures		**31,691,642**	**31,532,131**	**19,057,106**	**500,866**	**18,556,240**	**1,484,500**
Off-Balance Sheet Exposures							
Over the counter ("OTC") Derivatives		51,471	51,471	28,935	-	28,935	2,315
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		2,020,450	1,913,280	1,854,574	-	1,854,574	148,366
Defaulted Exposures		9,218	8,970	13,454	-	13,454	1,076
Total for Off-Balance Sheet Exposures		**2,081,139**	**1,973,721**	**1,896,963**	**-**	**1,896,963**	**151,757**
Total On and Off-Balance Sheet Exposures		**33,772,781**	**33,505,852**	**20,954,069**	**500,866**	**20,453,203**	**1,636,257**
2. **Large Exposure Risk Requirement**							
3. **Market Risk**	**Long Position**	**Short Position**					
Rate of Return Risk							
- General profit rate risk	1,935,655	630,342		414,905	-	414,905	33,193
- Specific profit rate risk	1,305,282	-		163,048	-	163,048	13,044
Foreign Currency Risk	5,167	-		5,167	-	5,167	413
Equity Risk				-			-
- General risk	-	-		-			-
- Specific risk	-	-		-			-
Option Risk	-	-		-			-
Total	**3,246,104**	**630,342**		**583,120**	**-**	**583,120**	**46,650**
4. **Operational Risk**				1,406,226	-	1,406,226	112,498
5. **Total RWA and Capital Requirements**				22,943,415	500,866	22,442,549	1,795,405

The Bank does not have Profit-Sharing Investment Account ("PSIA") that qualifies as a risk absorbent as at 31 March 2012.

3.0 Capital Structure

Table 3.2 Capital Structure summarises the capital position of the Bank. Under basel III, the capital structure of the Bank includes capital under the following headings:

- Common Equity Tier 1 capital;
- Additional Tier 1 capital; and
- Tier 2 capital

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

3.1 Common Equity Tier 1 Capital

Common Equity Tier 1 Capital consists of the following:

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.

3.1 Tier 1 Capital (Contd.)

Share Premium

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

Retained Earnings

Retained earnings at the end of the financial year and eligible reserves are accumulated resources included in the shareholder's funds in an entity’s statement of financial position, with certain regulatory adjustments applied. The retained earnings is included in Common Equity Tier 1 Capital net of any interim and/or final dividend declared, and net of any interim losses. Quarterly interim profits have been included in Common Equity Tier 1 Capital subject to review/ audit by the external auditors.

Other Disclosed Reserves

Other disclosed reserves comprise the following:

- **Statutory Reserve**

  Statutory reserve is maintained in compliance with the provisions of IBA and is not distributable as cash dividends. When Islamic Financial Services Act ("IFSA") 2013 came into effect to replace the repealed IBA, the maintenance of this reserve is in accordance with Section 57(2)f of the IFSA.

- **Available-for-Sale Reserve**

  This comprises the unrealised fair value gains and losses on financial investments available-for-sale. Where the available-for-sale reserve is a net gain outstanding balance, the banking subsidiary can recognise 45% of the total outstanding balance as part of CET 1 Capital. Where the available-for-sale reserve is a net loss outstanding balance, the entire outstanding balance is deducted in CET 1 Capital.

3.2 Additional Tier 1 Capital

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

3.3 Tier 2 Capital

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

The amount of Tier 2 Capital Instruments that can be recognized in the computation of the capital adequacy ratios of the Bank has been capped at 90% of the total qualifying Tier 2 balance outstanding as at 1 January 2013. For 2014, the amount of such Tier 2 Capital that can be recognised in the computation of the capital adequacy ratios is capped at 80% of the total qualifying Tier 2 Capital balance outstanding as at 1 January 2013. This is in accordance to the transitional gradual phase-out treatment under the Basel III regime. Table 3.1 outlines the application of the grandfathering provisions in respect of the Tier 2 Capital instruments for the Bank, details of the Tier 2 Capital Instruments are outlined below.

Table 3.1 Tier 2 Capital Instruments of the Bank and the Basel III Gradual Phase-Out Treatment

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

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

3.3 Tier 2 Capital (Contd.)

Subordinated Sukuk Musharakah

On 30 September 2011, the Bank implemented a new Subordinated Sukuk Musharakah programme (“Sukuk Musharakah”) of up to RM2.0 billion. The purpose of the programme is to increase the Bank’s Tier 2 Capital.

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

On the same date, RM600.0 million Subordinated Securities were issued under this programme.The first tranche of the Sukuk Musharakah carries a profit rate of 4.40% per annum and is payable on a semi-annual basis.

On 31 January 2012, the Bank issued the second tranche of the Sukuk Musharakah of RM200.0 million. The second tranche carries a profit rate of 4.35% per annum, and is payable on a semi-annual basis.

On 24 December 2012, the Bank issued the third tranche of the Sukuk Musharakah of RM200.0 million. The third tranche carries a profit rate of 4.45% per annum, and is payable on a semi-annual basis.

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

The Bank has repurchased from the market and subsequently cancelled RM200.0 million of the Subordinated Sukuk Musharakah between 19 December 2013 and 20 January 2014. The repurchases were granted prior approval by BNM and represent the portion of the Subordinated Sukuk Musharakah that do not qualify for recognition as Tier 2 Capital in the computation of capital adequacy ratio for the calendar years 2013 and 2014, under the Basel III pronouncements. The nominal value purchased by tranche, and the remaining outstanding balance as at 31 March 2014, are as follows:

RM'000	At 31 March 2013	Nominal value pruchase and cancelled in FYE 2014	At 31 March 2014
First Tranche	600,000	120,000	480,000
Second Tranche	200,000	10,000	190,000
Third Tranche	200,000	70,000	130,000
Total	1,000,000	200,000	800,000

3.3 Tier 2 Capital (Contd.)

Basel III Subordinated Sukuk Murabahah

On 28 February 2014, the Bank has implemented a new Subordinated Sukuk Murabahah programme of RM3.0 billion. The objective of the programme is to enable the issuance of Tier 2 capital from time to time, for the purpose of enhancing the Bank's total capital position. The programme is set-up in accordance to the requirements spelt out in the CAFIB (Capital Components) issued by BNM, and the securities issued under this programme are fully Basel III-compliant.

The programme has a tenor of thirty (30) years from the date of the first issuance under the programme. Each issuance of Tier 2 Subordinated Notes under this programme shall have a tenor of at least five (5) years from the issue date, and is callable on any coupon payment date after a minimum period of five (5) years from the date of issuance of each tranche. The Tier 2 Subordinated Notes have been assigned a credit rating of AA3 by RAM Rating Services Berhad ("RAM").

On 28 February 2014, the Bank has issued the first tranche of Tier 2 Subordinated Sukuk Murabahah under this programme, of RM200.0 million. The profit rate of this tranche is at 5.07%, payable on a semi-annual basis.

Subsequently, on 25 March 2014, the Bank has issued the second tranche of Tier 2 Subordinated Sukuk Murabahah under this programme, of RM150.0 million. The profit rate of this tranche is at 5.05%, payable on a semi-annual basis.

The full amount of both tranches issued qualify for recognition of capital adequacy ratio computation.

3.3 Tier 2 Capital (Contd.)

Table 3.2: Capital Structure

The components of Common Equity Tier 1, Additional Tier 1, Tier 2, Total Capital and Risk Weighted Assets ("RWA") are as follows:

	31 March 2014 RM'000	31 March 2013 RM'000
Common Equity Tier 1 ("CET1") Capital		
Ordinary shares	462,922	462,922
Share premium	724,185	724,185
Retained earnings	698,125	521,327
Available-for-sale reserve	(18,442)	(7,256)
Statutory reserve	483,345	424,266
Profit equalisation reserve	1,260	1,313
Less : Regulatory adjustments applied on CET1 Capital		
- Intangible assets	(26)	(50)
- Profit equalisation reserve	(1,260)	(1,313)
CET1 Capital	2,350,109	2,125,394
Additional Tier 1 Capital		
Additional Tier 1 capital instruments (subject to gradual phase-out treatment)	-	-
Less : Regulatory adjustments applied on Tier 1 Capital	-	-
Tier 1 Capital	2,350,109	2,125,394
Tier 2 Capital		
Tier 2 capital instruments meeting all relevant criteria for inclusion	350,000	-
Tier 2 capital instruments (subject to gradual phase-out treatment)	800,000	900,000
Collective allowance and regulatory reserves	279,038	255,665
Less : Regulatory adjustments applied on Tier 2 Capital		-
Tier 2 Capital	1,429,038	1,155,665
Total Capital	3,779,147	3,281,059

	31 March 2014 RM'000	31 March 2013 RM'000
Credit RWA	22,773,142	20,954,069
Less : Credit RWA absorbed by PSIA	(450,133)	(500,866)
Total Credit RWA	22,323,009	20,453,203
Market RWA	68,731	583,120
Operational RWA	1,515,669	1,406,226
Total Risk Weighted Assets	23,907,409	22,442,549

4.0 General Risk Management

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

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

The Risk Appetite Framework provides portfolio parameters for Credit Risk, Traded Market Risk, Non-Traded Market Risk and Operational Risk incorporating, inter alia, limit structures for countries, industries, single counterparty, 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.

Board Approved Risk Appetite Statement

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

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

We enforce conservative approach to liquidity management, maintaining stable and diversified funding base consistent with Basel III liquidity matrix (Net Stable Funds Ratio, and Liquidity Coverage Ratios). Our targeted Adjusted Financing Deposit Ratio is within 90% range with continually improving current account and savings account ("CASA") deposit composition and market share.

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

4.0 General Risk Management (Contd.)

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

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

Risk Management Governance

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

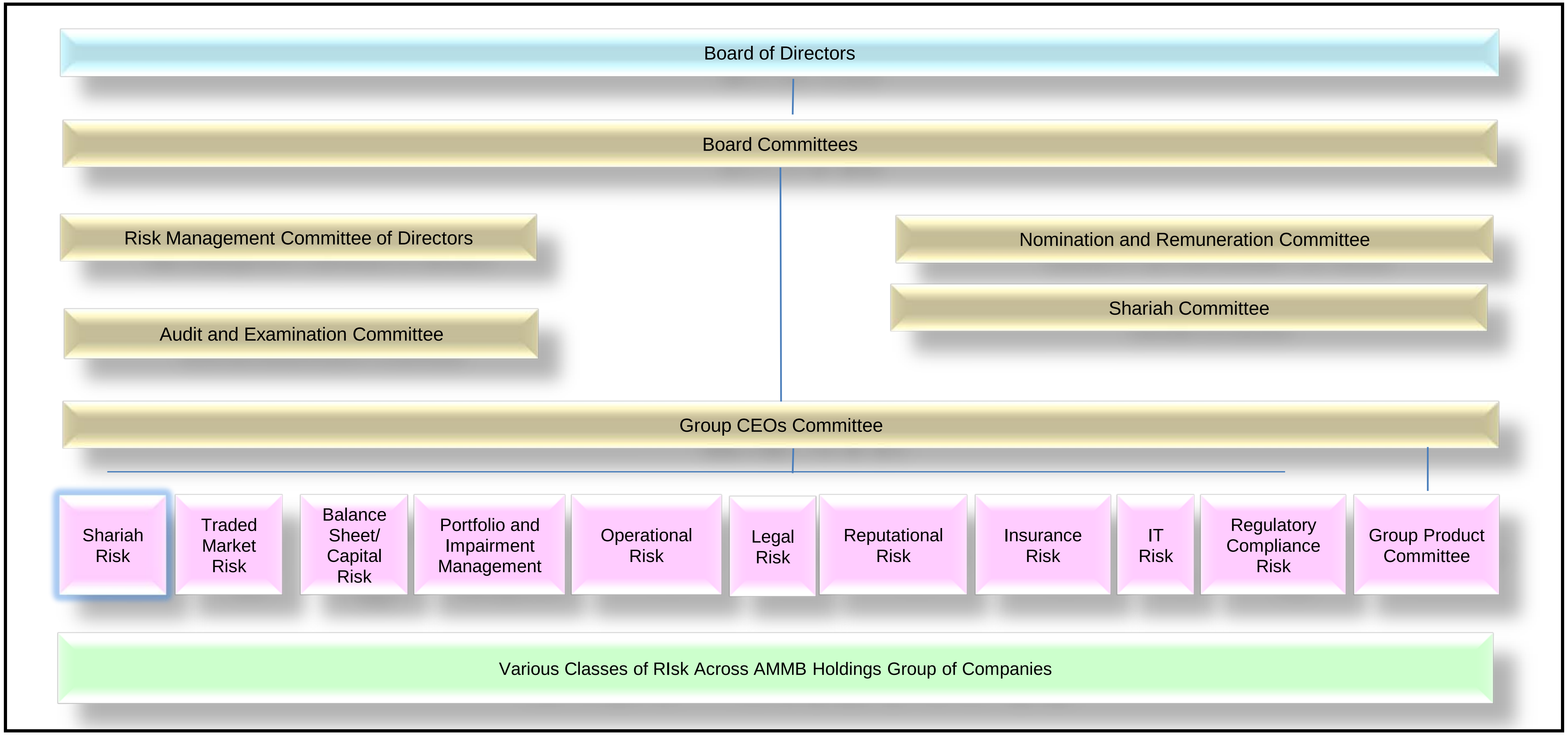
The Board has also established the Group CEOs Committee to assist it in managing the risks and businesses of the AMMB Group. The committee addresses all classes of risk within its Board delegated mandate: balance sheet risk, credit risk, legal risk, operational risk, market risk, Shariah risk, compliance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

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

4.0 General Risk Management (Contd.)

Risk Management Governance

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



4.0 General Risk Management (Contd.)

Strategic Risk

Strategic risk is the risk of not achieving the Bank's corporate strategic goals. The Bank's overall strategic planning reflects the Bank's vision and mission, taking into consideration the Bank's internal capabilities and external factors.

The Board is actively involved in setting of strategic goals, and is regularly updated on matters affecting corporate strategy implementation and corporate projects/ initiatives.

Reputational Risk

The Bank recognizes that maintaining its reputation among clients, investors, regulators and the general public is an important aspect of minimizing legal and operational risk. Maintaining our reputation depends on a large number of factors, including the selection of our clients and business partners and the conduct of our business activities.

The Bank seeks to maintain its reputation by screening potential clients and business partners and by conducting our business activities in accordance with high ethical standards and regulatory requirements.

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
- the Board and Management's targeted financial performance, and
- the Group's planned asset growth and strategic business objectives.

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

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 Bank’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; and
- stressed capital plans; with clearly documented assumptions consistent with the Group’s strategic planning cycles.

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

- meet minimum prudential requirements in all jurisdictions in which the Group operates, also any rating agency requirements, including maintaining appropriate buffers over minimum capital levels.
- 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.

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

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

- minimums;
- triggers; and
- target operating ranges

4.1.5 Capital allocation:

- the Group’s capital, excluding any amount held centrally for strategic contingencies (fro example, acquisitions) should be allocated to individual business units using regulatory capital allocation principles;
- capital allocation should be consistent with the Group’s regulatory capital measurement framework and risk adjusted performance requirements; and
- the Group should only retain capital that is required to meet its economic, operational, prudential and strategic requirements. Consideration should be given to returning capital in excess of that required to shareholders.

4.1.6 Material Risks

- the Group must have clearly articulated definitions of each material risk type to be included in the ICAAP; and
- processes to identify and determine the materiality of current risk types, change to existing risk types and new risk types must be established.

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

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

4.1.8 The cost of capital should be reviewed annually. The cost of capital should be set with reference to the Group’s long term ROE objectives.

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

ICAAP Framework

Requirements of the Banks

Principle 1:
- Banks to have an ICAAP in relation to their risk profile and a strategy for maintaining capital levels

Principle 3:
- Banks are expected to operate above the minimum regulatory capital ratios and should have the ability to hold capital in excess of the minimum

Requirements of the Regulator

Principle 2:
- Regulators to review and evaluate the Bank's ICAAP strategies
- Regulators to monitor and ensure Bank's compliance with regulatory capital ratios
- Regulators undertake appropriate supervisory action if unsatisfactory results

Principle 4:
- Early intervention by the Regulator to prevent capital from falling below the required minimum levels

Internal Capital Adequacy Assessment Process

Board and Management Oversight
- Material risks identified
- Material thresholds
- Group Risk Appetite
- Sufficient Capital Adequacy
- Targeted Financial Performance
- Planned Asset Growth & Strategic business objectives
- Policy/ Frameworks

Sound Capital Assessment
- Identification, Measurement and reporting of Material Risks
- Stressed Plans
- Compliance with Minimum regulatory standards
- Clear linkage between risks and capital
- Capital Plan

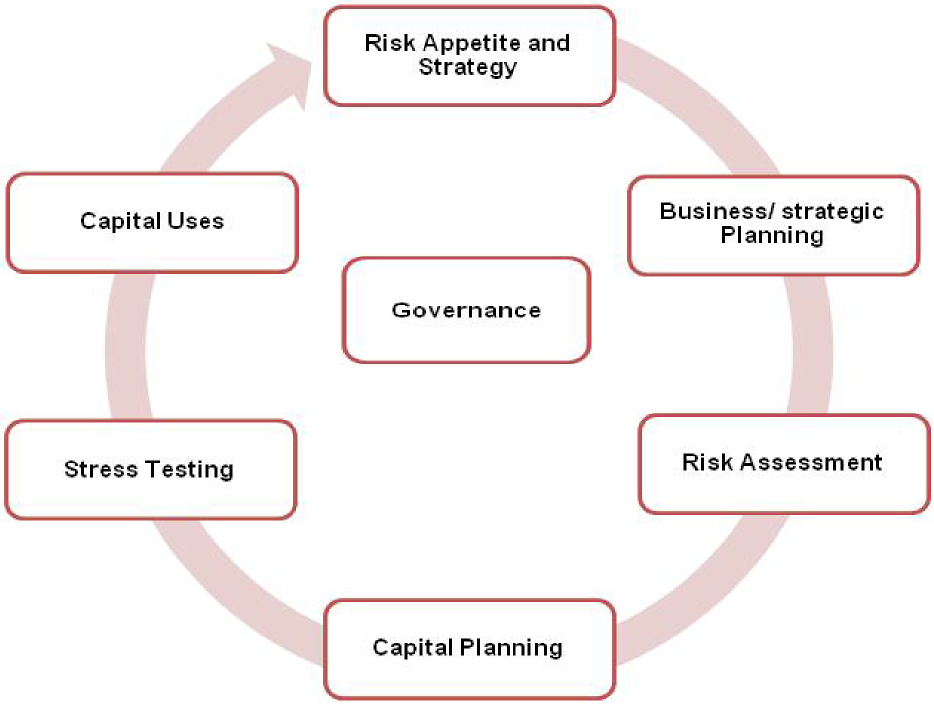
Comprehensive Risk Assessment and Management Processes
- Credit Risk
- Market Risk
- Operational Risk
- Credit Residual Risk
- Rate Risk in Banking Book
- Credit Concentration Risk
- Goodwill Risk
- Liquidity & Funding Risk
- Contagion Risk
- Business/ Strategic Risk
- Reputation Risk
- Shariah Risk

Monitoring and Reporting
- Leval and Trend of Material Risks
- Sensitivity Analysis of key assumptions
- Regulatory Reporting to Board and Senior Management

Internal Control & Review
- Independent reviews of ICAAP (internal and external audit)
- Ongoing compliance monitoring
- Stress Testing
- Documented Processes/ frameworks

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

Overview of ICAAP process and setting Internal Capital Targets



5.0 Credit Risk Management

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

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

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

The primary objective of credit risk management is to maintain accurate risk recognition - identification and measurement, to ensure that credit risk exposure is in line with the Bank's Risk Appetite Framework and related credit policies.

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

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

5.0 Credit Risk Management (Contd.)

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

- improvement in the accuracy of individual obligor risk ratings;
- enhance pricing models;
- facilitate financing loss provision calculation;
- stress testing; and
- enhance portfolio management.

Financing activities are guided by internal credit policies and Risk Appetite Framework that are approved by the Board. The Bank’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 Bank’s optimal portfolio mix. Credit risk portfolio management strategies include, amongst others:

- concentration threshold/ review trigger:
  - single counterparty credit;
  - industry sector; and
  - country
- asset writing strategies for industry sectors and portfolio composition (by Risk Grade and Security Indicator);
- setting financing to value limits for asset backed financing (that is, 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 Bank requires for the risk undertaken, taking into account operating expenses and cost of capital.

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

The Group CEOs Committee regularly meet to review the quality and diversification of the Bank’s financing portfolio, approve new and amended credit risk policy, review the portfolio risk profile against the Group Risk Appetite Framework.

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

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

5.0 Credit Risk Management (Contd.)

5.1 Impairment

5.1.1 Definition of Past Due and Impaired Financing

All 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 profit) due under the contractual terms are received late or missed.

A financing is classified as impaired under the following circumstances:

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

(b) the financing exhibits weaknesses that render a classification appropriate to the Bank’s Credit Risk Rating Framework, which requires it to fall under impaired financing as required under the Bank’s Classified Account Management Policy.

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

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.*

5.1 Impairment (Contd.)

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, that is, 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

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

Table 5.1: Distribution of gross credit exposures by sector

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

2014	Primary agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Real Estate RM'000	Business Activity RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On-Balance Sheet Exposures														
Sovereigns/Central Banks	-	-	-	-	53,899	-	-	5,670,892	-	-	671,357	-	300,133	6,696,281
Banks, DFIs and MDBs	-	-	-	-	-	-	-	2,467,105	-	-	-	-	-	2,467,105
Corporates	931,522	64,052	2,250,763	209,693	3,003,810	831,259	906,489	720,258	2,161,546	758,680	393,135	187,512	45,510	12,464,229
Regulatory Retail	34,371	11,844	59,483	1,199	61,452	55,682	28,090	1,569	5,785	18,365	52,546	13,033,572	-	13,363,958
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	-	130,614	-	130,614
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	234,411	234,411
Defaulted Exposures	642	70	10,361	14	19,748	8,529	4,215	852	1,495	2,334	2,040	165,958	-	216,258
Total for On Balance Sheet Exposures	966,535	75,966	2,320,607	210,906	3,138,909	895,470	938,794	8,860,676	2,168,826	779,379	1,119,078	13,517,656	580,054	35,572,856
Off-Balance Sheet Exposures														
OTC Derivatives	-	-	2	-	-	-	-	48,716	-	-	-	-	-	48,718
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	140,455	3,510	414,704	20,780	465,766	184,016	106,979	34,460	248,674	91,317	30,334	209,449	600	1,951,044
Defaulted Exposures	-	-	-	-	6	9	-	34	-	-	-	39	-	88
Total for Off-Balance Sheet Exposures	140,455	3,510	414,706	20,780	465,772	184,025	106,979	83,210	248,674	91,317	30,334	209,488	600	1,999,850
Total On and Off-Balance Sheet Exposures	**1,106,990**	**79,476**	**2,735,313**	**231,686**	**3,604,681**	**1,079,495**	**1,045,773**	**8,943,886**	**2,417,500**	**870,696**	**1,149,412**	**13,727,144**	**580,654**	**37,572,706**

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

The distribution of credit exposures by sector of the Bank are as follows (Contd.):

2013	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Real Estate RM'000	Business Activity RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On-Balance Sheet Exposures														
Sovereigns/Central Banks	-	-	-	-	-	-	-	5,406,689	-	-	355,896	-	300,133	6,062,718
Banks, DFIs and MDBs	-	-	-	-	-	-	-	1,948,473	-	-	-	-	-	1,948,473
Corporates	563,394	61,426	2,300,884	224,944	2,118,925	666,721	667,547	507,362	1,804,427	421,844	444,466	121,666	29,365	9,932,971
Regulatory Retail	33,220	9,456	72,531	1,191	69,491	87,909	48,703	2,451	15,771	43,661	42,418	12,728,089	181	13,155,072
Residential Mortgages	-	-	-	-	-	-	-	-			-	147,218	-	147,218
Other Assets	-	-	-	-	-	-	-	-			-	-	240,332	240,332
Defaulted Exposures	200	4,026	30,013	46	6,417	9,298	1,896	-	32,881	6,101	2,566	111,414	-	204,858
Total for On-Balance Sheet Exposures	596,814	74,908	2,403,428	226,181	2,194,833	763,928	718,146	7,864,975	1,853,079	471,606	845,346	13,108,387	570,011	31,691,642
Off-Balance Sheet Exposures														
OTC Derivatives	-	-	1	-	-	-	-	51,470	-	-	-	-	-	51,471
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	82,047	17,891	577,091	35,609	404,505	188,205	67,179	58,065	267,204	82,433	65,207	174,708	306	2,020,450
Defaulted Exposures	-	-	8,652	-	51	471	-	-	-	44		-	-	9,218
Total for Off-Balance Sheet Exposures	82,047	17,891	585,744	35,609	404,556	188,676	67,179	109,535	267,204	82,477	65,207	174,708	306	2,081,139
Total On and Off-Balance Sheet Exposures	**678,861**	**92,799**	**2,989,172**	**261,790**	**2,599,389**	**952,604**	**785,325**	**7,974,510**	**2,120,283**	**554,083**	**910,553**	**13,283,095**	**570,317**	**33,772,781**

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

The amounts of impaired and past due financing, individual and collective allowances, charges for individual impairment allowances and write offs during the year by sector of the Bank are as follows:

2014	**Agriculture RM'000**	**Mining and Quarrying RM'000**	**Manufacturing RM'000**	**Electricity, Gas and Water RM'000**	**Construction RM'000**	**Wholesale and Retail Trade and Hotel and restaurants RM'000**	**Transport, Storage and Communication RM'000**	**Finance and Insurance RM'000**	**Real Estate RM'000**	**Business Activities RM'000**	**Education and Health RM'000**	**Household RM'000**	**Others RM'000**	**Not Allocated RM'000**	**Total RM'000**
Impaired financing	1,395	127	32,191	57	12,029	10,680	5,480	614	3,240	6,275	4,734	271,681	12	-	**348,515**
Past due financing	34,124	3,234	53,945	722	61,036	30,707	202,829	7,175	41,504	29,572	26,352	4,369,633	221	-	**4,861,054**
Individual allowances	-	-	17,770	-	780	205	422	-	35	258	-	-	-	-	**19,470**
Collective allowances	-	-	-	-	-	-	-	-	-	-	-	-	-	534,465	**534,465**
Charges/(Writeback) for individual	-	20	48,515	-	780	1,467	4,618	-	(5,394)	258	3,304	-	-	-	**53,568**
Write-offs against individual allowances	-	20	36,812	-	-	1,262	4,196	-	-	-	6,259	-	-	-	**48,549**

2013	**Agriculture RM'000**	**Mining and Quarrying RM'000**	**Manufacturing RM'000**	**Electricity, Gas and Water RM'000**	**Construction RM'000**	**Wholesale and Retail Trade and Hotel and restaurants RM'000**	**Transport, Storage and Communication RM'000**	**Finance and Insurance RM'000**	**Real Estate RM'000**	**Business Activities RM'000**	**Education and Health RM'000**	**Household RM'000**	**Others RM'000**	**Not Allocated RM'000**	**Total RM'000**
Impaired financing	359	22	16,725	106	1,997	7,599	211	-	9,124	4,375	13,017	214,908	-	-	**268,443**
Past due financing	21,636	691	33,817	515	29,647	31,255	12,375	613	38,015	22,207	90,646	4,366,487	743	-	**4,648,647**
Individual allowances	-	-	6,067	-	-	-	-	-	5,429	-	2,955	-	-	-	**14,451**
Collective allowances	-	-	-	-	-	-	-	-	-	-	-	-	-	490,410	**490,410**
Charges for individual allowances	-	-	8,031	-	-	-	-	-	5,429	-	(289)	-	-	-	**13,171**
Write-offs against individual allowances	-	-	15,044	-	-	-	-	-	-	-	-	-	-	-	**15,044**

The comparatives for collective assessment allowance have been restated for the effects of the change in accounting policy on collective assessment allowance for financing and advances during the financial year. Details of the restatement are as set out in Note 47 to the financial statements for the financial year ended 31 March 2013.

Table 5.3: Geographical distribution of credit exposures

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

2014	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	6,696,281	-	6,696,281
Banks, DFIs and MDBs	2,442,270	24,835	2,467,105
Corporates	12,464,229	-	12,464,229
Regulatory Retail	13,363,958	-	13,363,958
Residential Mortgages	130,614	-	130,614
Other Assets	234,411	-	234,411
Defaulted Exposures	216,258	-	216,258
Total for On Balance Sheet Exposures	35,548,021	24,835	35,572,856
Off-Balance Sheet Exposures			
OTC Derivatives	48,718	-	48,718
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	1,951,044	-	1,951,044
Defaulted Exposures	88	-	88
Total for Off-Balance Sheet Exposures	1,999,850	-	1,999,850
Total On and Off-Balance Sheet Exposures	**37,547,871**	**24,835**	**37,572,706**

Table 5.3: Geographical distribution of credit exposures

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

2013	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	6,062,718	-	6,062,718
Banks, DFIs and MDBs	1,942,836	5,637	1,948,473
Corporates	9,907,228	25,743	9,932,971
Regulatory Retail	13,155,072	-	13,155,072
Residential Mortgages	147,218	-	147,218
Other Assets	240,332	-	240,332
Defaulted Exposures	204,858	-	204,858
Total for On-Balance Sheet Exposures	31,660,262	31,380	31,691,642
Off-Balance Sheet Exposures			
OTC Derivatives	51,471	-	51,471
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	2,020,450	-	2,020,450
Defaulted Exposures	9,218	-	9,218
Total for Off-Balance Sheet Exposures	2,081,139	-	2,081,139
Total On and Off-Balance Sheet Exposures	**33,741,401**	**31,380**	**33,772,781**

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

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

2014	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
Impaired financing	348,515	-	348,515
Past due financing	4,861,054	-	4,861,054
Individual allowances	19,470	-	19,470
Collective allowances	534,465	-	534,465

2013	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
Impaired financing	268,443	-	268,443
Past due financing	4,648,647	-	4,648,647
Individual allowances	14,451	-	14,451
Collective allowances	490,410	-	490,410

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 Bank is as follows:

2014	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No Maturity specified RM'000	Total RM'000
On-Balance Sheet Exposures									
Sovereigns/Central Banks	3,501,254	1,578,574	100,269	-	-	176,567	1,339,617	-	6,696,281
Banks, DFI and MDB	989,290	1,052,546	-	125,202	-	-	14,221	285,846	2,467,105
Corporates	3,538,054	851,902	494,091	598,021	1,549,050	2,026,612	3,406,499	-	12,464,229
Regulatory Retail	301,390	12,370	24,842	77,362	801,540	1,869,171	10,277,283	-	13,363,958
Residential Mortgages	30	26	9	70	1,746	4,519	124,214	-	130,614
Other Assets	510	1,044	1,627	3,475	-	111,583	-	116,172	234,411
Defaulted Exposures	18,723	2,524	4,030	6,565	42,226	29,227	112,963	-	216,258
Total for On-Balance Sheet Exposures	8,349,251	3,498,986	624,868	810,695	2,394,562	4,217,679	15,274,797	402,018	35,572,856
Off-Balance Sheet Exposures									
OTC Derivatives	10,030	121	8,120	10,761	19,686	-	-	-	48,718
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	236,927	74,013	171,475	462,859	360,143	106,517	539,110	-	1,951,044
Defaulted Exposures	39	3	-	-	34	-	12	-	88
Total for Off-Balance Sheet Exposures	246,996	74,137	179,595	473,620	379,863	106,517	539,122	-	1,999,850
Total On and Off-Balance Sheet Exposures	**8,596,247**	**3,573,123**	**804,463**	**1,284,315**	**2,774,425**	**4,324,196**	**15,813,919**	**402,018**	**37,572,706**

Table 5.5: Residual contractual maturity by major types of credit exposure (Contd.)

The residual contractual maturity by major types of gross credit exposures of the Bank is as follows (Contd.):

2013	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No Maturity specified RM'000	Total RM'000
On-Balance Sheet Exposures									
Sovereigns/Central Banks	3,204,803	1,731,018	-	-	-	170,446	956,451	-	6,062,718
Banks, DFI and MDB	1,029,280	776,920	-	-	121,811	-	20,462	-	1,948,473
Corporates	3,129,843	884,892	437,074	376,697	1,004,075	1,039,927	3,060,463	-	9,932,971
Regulatory Retail	348,031	9,132	21,278	60,768	871,372	1,641,456	10,203,035	-	13,155,072
Residential Mortgages	31	22	20	53	1,568	4,161	141,363	-	147,218
Other Assets	8,220	822	1,299	2,861	-	118,230	-	108,900	240,332
Defaulted Exposures	37,147	5,791	3,167	3,736	32,239	40,550	82,228	-	204,858
Total for On-Balance Sheet Exposures	7,757,355	3,408,597	462,838	444,115	2,031,065	3,014,770	14,464,002	108,900	31,691,642
Off-Balance Sheet Exposures									
OTC Derivatives	3,185	9,074	3,347	9,891	25,974	-	-	-	51,471
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	290,507	171,953	182,234	342,556	344,801	59,327	629,072	-	2,020,450
Defaulted Exposures	304	7,401	1,237	238	35	-	3	-	9,218
Total for Off-Balance Sheet Exposures	293,996	188,428	186,818	352,685	370,810	59,327	629,075	-	2,081,139
Total On and Off-Balance Sheet Exposures	**8,051,351**	**3,597,025**	**649,656**	**796,800**	**2,401,875**	**3,074,097**	**15,093,077**	**108,900**	**33,772,781**

Table 5.6: Reconciliation of changes to financing impairment allowances

The reconciliation of changes to financing impairment allowances of the Bank are as follows:

2014	Individual impairment allowances RM'000	Collective impairment allowances RM'000
Balance at 1 April	14,451	490,410
Charge for the year – net	53,568	240,823
Amount written-off	(48,549)	(196,768)
Balance at 31 March	19,470	534,465

2013	Individual impairment allowances RM'000	Collective impairment allowances RM'000
Balance at 1 April	16,324	460,411
Charge for the year – net	13,171	195,964
Transferred to AmBank *	-	(1,871)
Amount written-off	(15,044)	(164,094)
Balance at 31 March	14,451	490,410

2014	(Charge off)/recoveries RM'000
Bad debts written off during the year	(4,702)
Bad debt recoveries during the year	90,622

2013	(Charge off)/recoveries RM'000
Bad debts written off during the year	(8,500)
Bad debt recoveries during the year	73,048

* As at 31 March 2014, the gross exposure and collective allowance relating to the PSIA financing amounted to RM450.1 million and RM2.5 million respectively (31 March 2013: RM500.9 million and RM2.1 million respectively). The collective allowance was recognised in the financial statements of AmBank.

6.0 Credit Risk Exposure under the Standardised Approach

The Bank 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
- 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 Bank is as follows:

2014

Risk Weights	Exposures after Netting and Credit Risk Mitigation										
	Sovereigns and Central Banks	Public Sector Entities	Banks, DFIs and MDBs	Insurance Companies, Securities Firms and Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Total Exposures after Netting and 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
0%	6,696,281	-	14,221	-	2,024,387	-	-	-	-	8,734,889	-
20%	-	-	1,901,125	-	552,567	439	-	-	-	2,454,131	490,826
35%	-	-	-	-	-	-	129,678	-	-	129,678	45,387
50%	-	-	586,014	-	41,429	8,388	3,604	-	-	639,435	319,718
75%	-	-	-	-	-	12,762,736	-	-	-	12,762,736	9,572,052
100%	-	-	-	60	11,062,521	870,917	3,019	-	234,411	12,170,928	12,170,928
150%	-	-	-	-	31,642	81,970	-	2,542	-	116,154	174,231
Average Risk Weight											
Total	6,696,281	-	2,501,360	60	13,712,546	13,724,450	136,301	2,542	234,411	37,007,951	22,773,142
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	

Table 6.1: Credit exposures by risk weights under the Standardised Approach (Contd.)

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

2013

Risk Weights	Exposures after Netting and Credit Risk Mitigation									
	Sovereigns and Central Banks	Banks, DFIs and MDBs	Insurance Companies, Securities Firms and Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Total Exposures after Netting and 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
0%	6,062,718	14,825	-	1,410,058	-	-	-	2,485	7,490,086	-
20%	-	1,908,611	-	362,134	160	-	-	-	2,270,905	454,181
35%	-	-	-	-	-	144,996	-	-	144,996	50,749
50%	-	70,096	-	42,852	13,879	4,901	-	-	131,728	65,863
75%	-	-	-	-	12,595,849	-	-	-	12,595,849	9,446,887
100%	-	-	150	9,723,502	780,060	2,525	-	237,848	10,744,085	10,744,085
150%	-	-	-	78,370	46,149	-	3,684	-	128,203	192,304
Average Risk Weight										
Total	6,062,718	1,993,532	150	11,616,916	13,436,097	152,422	3,684	240,333	33,505,852	20,954,069
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	

Table 6.2: Rated Exposures according to Ratings by ECAIs

2014

Exposure Class	Ratings of Corporate by Approved ECAIs				
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	Rating & Investment information, Inc.	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
		RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures					
Credit Exposures (using Corporate Risk Weights)					
Insurance Companies, Securities Firms and Fund managers	**60**	-	-	-	60
Corporates	**14,260,889**	**321,800**	**40,055**	**-**	**13,899,034**
Total	**14,260,949**	**321,800**	**40,055**	**-**	**13,899,094**

2013

Exposure Class	Ratings of Corporate by Approved ECAIs				
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	Rating & Investment information, Inc.	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
		RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures					
Credit Exposures (using Corporate Risk Weights)					
Insurance Companies, Securities Firms and Fund managers	**150**	-	-	-	150
Corporates	**11,868,152**	237,669	32,781	12,372	11,585,330
Total	**11,868,302**	**237,669**	**32,781**	**12,372**	**11,585,480**

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

2014

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment information, Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks	6,696,281	-	6,696,281	-	-	-	-
Total	6,696,281	-	6,696,281	-	-	-	-

2013

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment information, Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks	6,062,718	-	6,062,718	-	-	-	-
Total	6,062,718	-	6,062,718	-	-	-	-

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

2014

Exposure Class		Ratings of Banking Institutions by Approved ECAIs			
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	Rating & Investment information, Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
		RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures					
Banks, DFIs and MDBs	2,501,359	24,429	12,770	-	2,464,160
Total	2,501,359	24,429	12,770	-	2,464,160

2013

Exposure Class		Ratings of Banking Institutions by Approved ECAIs			
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	Rating & Investment information, Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
		RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures					
Banks, DFIs and MDBs	1,993,531	229,536	50,189	266,785	1,447,022
Total	1,993,531	229,536	50,189	266,785	1,447,022

7.0 Credit Risk Mitigation

Main Types of Collateral Taken by The Bank

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

- Cash and term deposits
- Exchange traded shares, sukuk 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

The Bank can only accept Shariah approved asset as collateral.

Where the customer risk profile is considered very sound (or by nature of the product, for instance small limit products such as credit cards), a transaction may be provided on an "unsecured" basis, that is, not be supported by collateral.

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

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 Bank has standard collateral instruments, and where applicable, security interest are registered.

Guarantee Support

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

7.0 Credit Risk Mitigation (Contd.)

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 customer is not recognised as part of the risk grade enhancement.

Use of Credit Derivatives and Netting for Risk Mitigation

Currently, the Bank does not use credit derivatives and netting for risk mitigation. Under certain specific circumstances, the Bank adopts netting to compute net exposure.

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 financing is extended, amortisation schedules and financing covenants. These assist in managing credit risk and in providing early warning signals, whereby should financing covenants be breached, the Bank and the customer can work together to address the underlying causes and as appropriate, restructure facilities.

Concentrations of Credit Risk Mitigation

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

The main types of collateral undertaken by the Bank 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 Bank are as follows:

Exposures 2014	Exposures before 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	6,696,281	-	-
Banks, DFIs and MDBs	2,467,105	-	-
Corporates	12,464,229	1,034,403	1,324,960
Regulatory Retail	13,363,958	434	22,915
Residential Mortgages	130,614	-	202
Other Assets	234,411	-	-
Defaulted Exposures	216,258	280	4,147
Total On-Balance Sheet Exposures	35,572,856	1,035,117	1,352,224
Off-Balance Sheet Exposures			
OTC Derivatives	48,718	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	1,951,044	6,939	317,155
Defaulted Exposures	88	-	3
Total Off-Balance Sheet Exposures	1,999,850	6,939	317,158
Total On and Off-Balance Sheet Exposures	**37,572,706**	**1,042,056**	**1,669,382**

Exposures 2013	Exposures before 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	6,062,718	-	-
Banks, DFIs and MDBs	1,948,473	-	-
Corporates	9,932,971	515,950	989,285
Regulatory Retail	13,155,072	160	28,543
Residential Mortgages	147,218	-	272
Other Assets	240,332	-	-
Defaulted Exposures	204,858	-	9,901
Total for On-Balance Sheet Exposures	31,691,642	516,110	1,028,001
Off-Balance Sheet Exposures			
OTC Derivatives	51,471	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	2,020,450	6,466	283,260
Defaulted Exposures	9,218	1	248
Total for Off-Balance Sheet Exposures	2,081,139	6,467	283,508
Total On and Off-Balance Sheet Exposures	**33,772,781**	**522,577**	**1,311,509**

8.0 Off Balance Sheet Exposures and Counterparty Credit Risk

8.1 Off Balance Sheet exposures

The Bank's off balance sheet exposure consists of the following:

- credit related exposures, for example, direct credit substitute, certain transaction-related contingent items, short term self liquidating trade-related contingencies, obligations under underwriting agreements, irrevocable commitment to extend credit and unutilised credit card lines.

- derivatives financial instruments, for example equity and commodity related contracts (option).

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

8.2 Counterparty Credit Risk

Market related credit risk is present in market instruments (derivatives and forward contracts), and comprises counterparty risk (default at the end of contract) and pre-settlement risk (default at any time during the life of contract). Market related credit risk requires a different method in calculating the pre-settlement risk because actual and potential market movements impact the Bank's exposure. The markets covered by this treatment for transactions entered by the Bank include profit 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, that is in the money, the Bank has credit exposure against the counterparty; if it is negative, that is out of the money, the negative value will be used.

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

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

8.2 Counterparty Credit Risk (Contd.)

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

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

Other than credit limit setting and related duration setting of such limits, the Bank'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 Bank 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 Bank are as follows:

2014

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	128,226		128,226	110,245
Transaction related contingent items	706,662		353,331	242,731
Short term self liquidating trade related contingencies	60,205		12,041	9,143
Forward asset purchases	170,000		170	34
Obligations under an on-going underwriting agreement	25,000		-	-
Foreign exchange related contracts	1,110,511	7,096	24,295	19,427
One year or less	1,110,511	7,096	24,295	19,427
Equity related contracts	64,108	43	1,966	983
One year or less	64,108	43	1,966	983
Other commodity contracts	373,900	560	22,456	11,228
One year or less	53,805	80	2,770	1,385
Over one year to five years	320,095	480	19,686	9,843
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,024,041		512,021	478,904
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	4,113,057		822,612	802,474
Unutilised credit card lines	613,662		122,732	91,755
Total	8,389,372	7,699	1,999,850	1,766,924

2013

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	121,738		121,738	99,559
Transaction related contingent items	580,655		290,327	223,299
Short term self liquidating trade related contingencies	58,850		11,770	10,552
Obligations under an on-going underwriting agreement	80,000		-	-
Foreign exchange related contracts	623,738	5,470	17,086	11,742
One year or less	623,738	5,470	17,086	11,742
Equity related contracts	64,640	607	3,193	1,597
Over one year to five years	64,640	607	3,193	1,597
Other commodity contracts	515,736	1,847	31,192	15,596
One year or less	159,844	419	8,411	4,206
Over one year to five years	355,892	1,428	22,781	11,390
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,066,005		533,003	510,465
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	4896985		979397	954379
Unutilised credit card lines	467164		93433	69774
Total	8,475,511	7,924	2,081,139	1,896,963

9.0 Securitisation

The Bank does not have any securitisation exposure in its trading book and banking book nor does it undertake any securitisation activities during the financial year ended 31 March 2014 and 31 March 2013.

10.0 Operational Risk

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

Identification	• Identify and analyse risks in key processes/activities within Line of Business (including new products)
Assessment/ Measurement	• Incident Management and Data Collection • Risk and Control Self Assessment • Key Risk Indicators • Key Control testing
Control/ Mitigation	• Policies addressing control and governance requirements to mitigate specific operational risk • Advisory on establishment of internal control • Contingency planning
Monitoring/ Review	• Monitoring and reporting of loss incidents by Event Type, Portfolio and Line of Business and entity, reporting of GRAF management triggers, risk profile status, key risk indicator breaches and key control testing exceptions. • Periodical review of risk profile within Line of Business

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external incidents which includes but is not limited to legal risk and Shariah compliance risk (please refer to Chapter 14 for discussion on Shariah Governance Sturcture). It excludes strategic, systemic and reputational risk.

Operational Risk Appetite ("ORA") is integral part of the Group's operational risk management framework, which sets the acceptable tolerance levels for operational risk. The ORA statements and measurements are classified based on operational risk loss event types, which are grouped into five (5) categories as below and monitored via Incident Management and Data Collection, Key Risk Indicator and Key Control Testing.

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

10.0 Operational Risk (Contd.)

The strategy for managing operational risk in the Bank 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, operational risk tools, 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 Group CEOs Committee, 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 Bank. 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 Bank.
- The Key Risk Indicators (“KRI”) module provides early warning of increasing risk and/or control failures by monitoring the changes of the underlying risk measurements.

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

As part of the risk transfer strategy, the Bank obtains third party protection to cover the Bank’s major operational risks. 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.

10.0 Operational Risk (Contd.)

The ultimate authority for all operational risk management matters is delegated by the Board to Group CEOs Committee. The RMCD and Group CEOs Committee 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 Bank adopts Basic Indicator Approach for the operational risk capital charge computation.

10.1 Business Continuity Management

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

Identification	• Identify events that potentially theaten the business operations and areas of criticality
Assessment/ Measurement	• Business Impact Analysis • Threat Assessment
Control/ Mitigation	• Policies governing the BCM implementation • BCM methodologies controlling the process flow • Implementing the Business Continuity Plan
Monitoring/ Review	• BCM Plan testing and exercise • Review of BCM Plan • Plan maintenance

The BCM function forms an integral part of Operational Risk Management. It places the importance of maintaining a BCM framework and policies to identify events that could potentially threaten the Bank's operations and establishment of critical functions recovery against downtime. BCM builds the resilience and recovery capability to safeguard the interest of the Bank's stakeholders by protecting our brand and reputation.

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

The Bank is continuously reviewing the level of business operations resiliency and conduct periodical testing to enhance the BCM capability throughout all critical departments and branches across the region. Training is an on-going agenda to heighten the BCM awareness and inculcate a business resilience culture.

10.2 Legal Risk

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

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

Regulatory Compliance Risk

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

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

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

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

11.0 Market Risk Management

Market risk is the risk of losses due to adverse changes in the level or volatility of market rates or prices, such as interest/profit rates, credit spreads, equity prices and foreign exchange rates. The Group differentiates between two categories of market risk: Traded Market Risk (“TMR”) and Non-Traded Market Risk (“NTMR”). Assessment, control and monitoring of these risks are the responsibility of Group Market Risk (“GMR”). (Please refer to section 14 for discussion on Shariah Governance Structure)

11.1 Traded Market Risk

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

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

11.1 Traded Market Risk (Contd.)

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

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

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

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

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

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

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

11.2 Non-Traded Market Risk

Rate of Return Risk in Banking Book ("RORBB")

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

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

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

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

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

11.2 Non-Traded Market Risk (Contd.)

Rate of Return Risk in Banking Book (Contd.)

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

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

Key assumptions in the gap and sensitivity analysis relate to the behaviour of profit rates and spreads, changes in financing and deposit product balances due to behavioural characteristics under different profit rate environments. Material assumptions include the repricing characteristics and the stickiness of indeterminate or non-maturity deposits.

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

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

RORBB is calculated daily and reported to Group CEOs Committee.

Market Risk Sensitivity

(i) Rate of Return Risk

Rate of return risk ("ROR") is that the value of a financial instrustment will fluctuate due to changes in market profit rate and is managed through gap and sensitivity analysis. Profit rate movements also affect the Bank's income and expense from assets and liabilities as well as capital fund. The Bank has adopted profit rate risk hedging measures to cushion the profit rate volatility.

11.2 Non-Traded Market Risk (Contd.)

Rate of Return Risk in Banking Book (Contd.)

The following table demonstrates the sensitivity of the Bank's profit before zakat and taxation and equity to a reasonable possible change in rate of return with all other variables remaining constant.

	2014		2013	
	Rate of Return	Rate of Return	Rate of Return	Rate of Return
	+ 100 bps	- 100 bps	+ 100 bps	- 100 bps
MYR	RM'000	RM'000	RM'000	RM'000
Impact on profit before zakat and taxation	(1,552)	1,552	(10,392)	10,392
Impact on equity	(291,755)	318,315	(307,157)	335,186

12.0 Equities (Banking Book Positions)

The Bank did not have any equity investment as at 31 March 2014 and 31 March 2013.

13.0 Liquidity Risk and Funding Management

Liquidity risk is the risk that the organisation either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can only access these financial resources at an unreasonable cost. Liquidity risk exposure arises mainly from the deposit taking and borrowing activities and market disruption, and to a lesser extent, significant drawdown of funds from previously contracted financing and purchase commitments. Funding risk is the risk of on going ability to raise sufficient funds to finance actual and proposed business activities at a reasonable cost. Funding and liquidity risk are interrelated as improper funding risk management may lead to liquidity problem while, insufficient liquidity risk management may also give rise to funding risk.

13.0 Liquidity Risk and Funding Management (Contd.)

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

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

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

The Board of Directors provides the liquidity risk management oversight while the Group CEOs Committee is the responsible governing body that approves the Bank's liquidity management and strategic 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 on going basis. The Capital and Balance Sheet Management Department and Group Risk Management propose and oversee the implementation of policies and other controls relating to the above risks.

13.0 Liquidity Risk and Funding Management (Contd.)

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

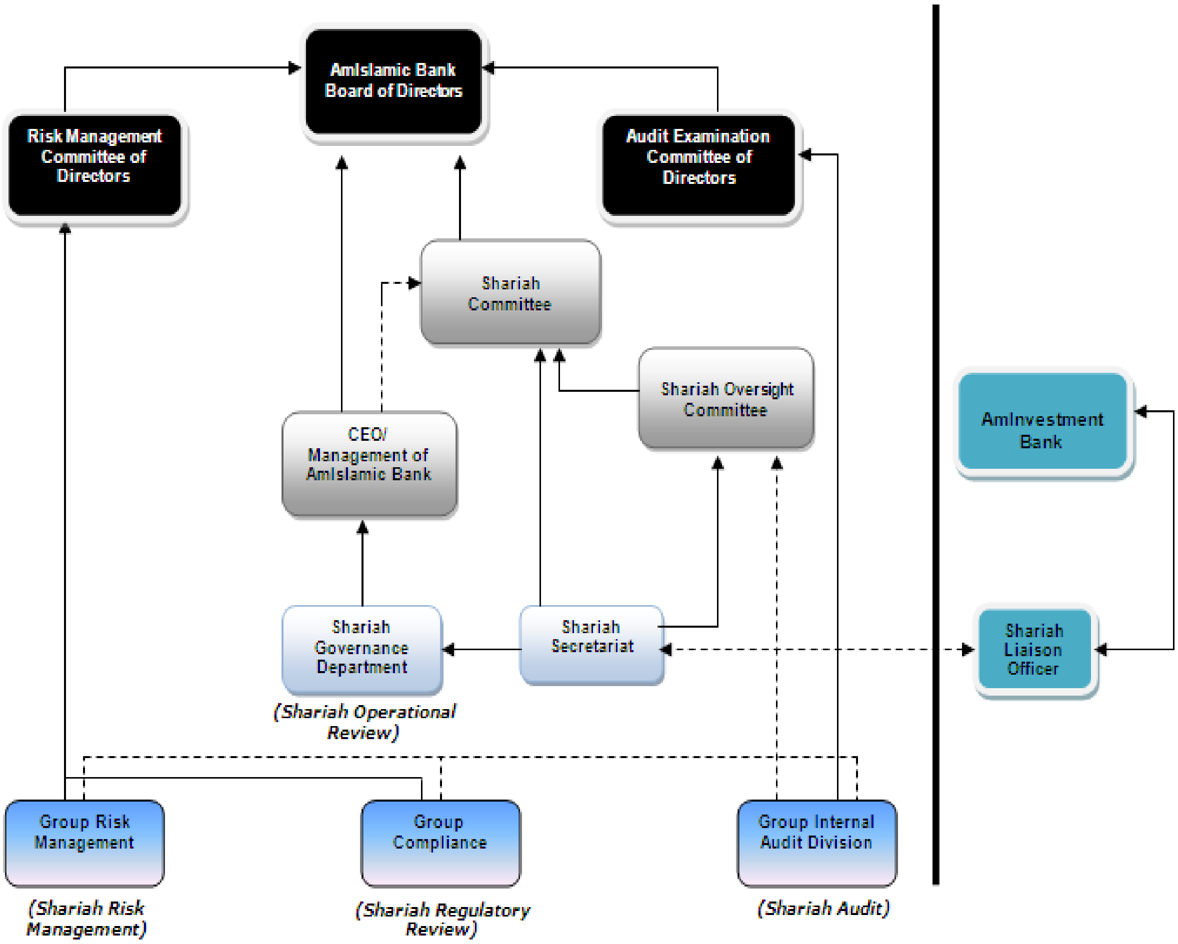
Stress testing is undertaken to assess and plan for the impact for various scenarios which may put the Bank's liquidity at risk. The stress testing output contributes to the development of the liquidity risk limits and the Bank's Contingency Funding Plan.

The Bank stresses the importance of customer deposit accounts as a source of funds to fund financing to customers. They are monitored using the adjusted financing to deposit ratio, which compares financing to customers as a percentage of customer deposit accounts, together with term funding with a remaining term to maturity in excess of three years.

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

In preparation to the impending implementation of Basel III liquidity metrics, the Bank is already monitoring the LCR and Net Stable Funding Ratio ("NSFR") and continue to pursue strategies to ensure availability of cost effective liquidity. Subject to finalisation of the detailed regulations, the Bank is confident of meeting BNM's requirements on Basel III liquidity metrics in accordance with its recently approved timetable for implementation.

14.0 Shariah Governance Structure



58

14.0 Shariah Governance Structure (Contd.)

A Shariah governance framework is put in place in the organisational structure of the AMMB Group for Islamic banking operations, which includes establishment of the Shariah Committee for the Bank in line with the requirement of BNM's "Shariah Governance Framework for Islamic Financial Institutions". Requirements on Shariah compliance have been further strengthened with the coming into force of the Islamic Financial Services Act, 2013 ("IFSA").

The Bank's Shariah Governance Structure leverages on the AMMB Group's shared platforms such as Group Risk Management Department, Group Compliance Department, and Group Internal Audit Division for key Shariah functions. As a prudential measure, the Bank has continued to enhance its overall Shariah governance in line with the regulatory policies and requirements under IFSA.

Board of Directors

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

Audit Examination Committee

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

14.0 Shariah Governance Structure (Contd.)

Risk Management Committee of Directors

RMCD is a Board committee responsible for assisting the Board in ensuring risk management and control process is in place and functioning, including Shariah risk management through Group Risk Management Department and Shariah regulatory review through Group Compliance Department.

Shariah Committee

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

The Shariah Committee reports functionally to the Bank's Board of Directors and this provides for the independence of the Shariah Committee in exercising their duties.

Shariah Oversight Committee

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

Chief Executive Officer/Management

The CEO/ Management is responsible to make reference to the Shariah Committee / Shariah Oversight Committee on Shariah issues and to take necessary measures for implementation of Shariah Committee/ Shariah Oversight Committee's advice and decisions. The CEO / Management is also responsible in setting the infrastructure and providing the environment and adequate resources to support the Shariah governance framework. This includes putting in place adequate systems and controls in order to ensure compliance with Shariah and to mitigate Shariah risk.

14.0 Shariah Governance Structure (Contd.)

Shariah Governance Department

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

Group Internal Audit Division

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

Group Compliance Department

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

Group Risk Management Department

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

14.1 Shariah non-compliant income

The governance structure and control has been emplaced by the Bank as to facilitate all business activities, products and services offered, and legal in order to mitigate Shariah non-compliant incidents.

For any reported Shariah-non compliant incident, the matter will be deliberated with Shariah Oversight Committee for confirmation as to whether the non-compliant event is either actual or potential Shariah non-compliance. Upon confirmation by the Shariah Oversight Committee and where certain amount of income is to be de-recognised, the amount will be treated in the manner as advised by the Shariah Oversight Committee and the Shariah Committee, including channelling to *Baitulmal* and other identified charitable bodies.

As at 31 March 2014, there is no record of Shariah non-compliant event reported and therefore no Shariah non-compliant income declared.