AmInvestment Bank Group

RWCAF - Pillar 3 Disclosures

31 March 2014

AmInvestment Bank Berhad Group
RWCAF - Pillar 3 Disclosures
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Contents

1.0 Scope of Application

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

The FSA and 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 FSA and IFSA have replaced the Banking and Financial Institutions Act 1989 and Islamic Banking Act 1983 respectively. On 27 June 2013, BNM has issued the Capital Adequacy Framework (Basel II – Risk Weighted Assets) and 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 banking subsidiaries of AMMB Holdings Berhad ("AMMB") to which the RWCAF framework apply are AmBank (M) Berhad ("AmBank"), AmInvestment Bank Berhad ("the Bank") and AmIslamic Bank Berhad ("AmIslamic Bank") – Which offers Islamic banking services.

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

BNM guidelines on capital adequacy require regulated banking subsidiaries to maintain an adequate level of capital to withstand any losses which may result from credit and other risks associated with financing operations. Each of these entities is independently held by AMMB as a regulated banking institution – there are no cross-shareholdings within or between these entities. Each entity's standalone and consolidated capital adequacy position and more detailed quantitative disclosures are provided within their respective published financial statements that are available via our website at www.ambankgroup.com.

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

The minimum regulatory capital adequacy requirementsfor 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	4.5%	6.0%	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.

1.1 Basis of Consolidation

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

For purposes of this Pillar 3 Disclosures, the consolidation basis used is the same as that used for regulatory capital adequacy purposes. The following table shows the differences between the scope of statutory and regulatory consolidation.

Type of entity	Accounting treatment	
	Statutory reporting	Basel III regulatory reporting
Subsidiaries licensed under FSA or IFSA or engaged in financial activities	Fully consolidated	Deducted from capital at the banking subsidiary entity level; Fully consolidated in the calculation of capital adequacy at the banking subsidiary consolidated level
Subsidiaries engaged in non-financial activities	Fully consolidated	Risk weighted at the banking subsidiary entity level; Consolidated in calculation of capital adequacy at the banking subsidiary consolidated level
Associates and jointly controlled entities which are licensed under FSA or IFSA or engaged in financial activities	Equity accounted	Deducted in calculation of capital
Associates and jointly controlled entities which are not licensed under FSA or IFSA and not engaged in financial activities	Equity accounted	Reported as investment and risk weighted

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

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

2.0 Capital Management

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

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

The capital plan takes the following into account:
(a) Regulatory capital requirements:
- forecast demand for capital to support the credit ratings; and
- increases in demand for capital due to business growth and market shocks.

(b) Or stresses:
- available supply of capital and capital raising options; and
- internal controls and governance for managing the Group's risk, performance and capital.

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

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

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

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

The capital that the Group is required to hold is determined by its balance sheet, off balance sheet, counterparty and other risk exposures after applying collateral and other mitigants, based on the Group's risk rating methodologies and systems. We discuss these outcomes with BNM on a regular basis as part of our normal regulatory liaison activities. BNM has the right to impose further capital requirements on Malaysian Financial Institutions via its Financial Market Supervision remit.

The Group operates processes and controls to monitor and manage capital adequacy across the organisation. Where we operate in other jurisdictions, capital is maintained on the basis of the local regulator's requirements. It is overseen by the Group Chief Executive Officers Committee ("Group CEOs Committee"). The Group Asset and Liability 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 Group's statement of financial position, capital and liquidity.

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

2.0 Capital Management (Contd.)

GALCO proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. For the current financial year ending 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 Group has been operating above these ranges.

A dedicated team, the Capital and Balance Sheet Management Department, is responsible for the ongoing assessment of the demand for capital and the updating of the Group’s capital plan.

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

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

Table 2.1: Capital Adequacy Ratios

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

	31.03.2014		31.03.2013	
	Group	**Bank**	**Group**	**Bank**
Before deducting proposed dividends:				
CET 1 Capital Ratio	24.652%	21.207%	24.385%	25.749%
Tier 1 Capital Ratio	24.652%	21.207%	24.385%	25.749%
Total Capital Ratio	24.652%	21.207%	24.385%	25.749%
After deducting proposed dividends:				
CET 1 Capital Ratio	24.652%	21.207%	24.385%	25.749%
Tier 1 Capital Ratio	24.652%	21.207%	24.385%	25.749%
Total Capital Ratio	24.652%	21.207%	24.385%	25.749%

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

	31.03.2014 Islamic Window	31.03.2013 Islamic Window
Before deducting proposed dividends:		
CET 1 Capital Ratio	75.606%	94.515%
Tier 1 Capital Ratio	75.606%	94.515%
Total Capital Ratio	75.606%	94.515%
After deducting proposed dividends:		
CET 1 Capital Ratio	75.606%	94.515%
Tier 1 Capital Ratio	75.606%	94.515%
Total Capital Ratio	75.606%	94.515%

Table 2.2 Risk-Weighted Assets and Capital Requirements

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

	MARCH 2014					
Exposure class		**Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM")**	**Net exposures/ EAD after CRM**	**Risk weighted assets**	**Total Risk Weighted Assets after effects of PSIA**	**Minimum capital requirement at 8%**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
1. **Credit risk**						
On balance sheet exposures						
Sovereigns/ Central banks		567,883	567,883	-	-	-
Banks, development financial institutions ("DFIs") & multilateral development banks ("MDBs")		875,054	875,054	175,023	175,023	14,002
Corporates		1,250,580	253,028	177,617	177,617	14,209
Regulatory retail		55,223	18,807	14,105	14,105	1,128
Higher risk assets		14,095	14,095	21,142	21,142	1,691
Other assets		808,812	808,812	808,798	808,798	64,704
Defaulted exposures		1	1	1	1	-
Total for on balance sheet exposures		3,571,648	2,537,680	1,196,686	1,196,686	95,734
Off balance sheet exposures:						
Off balance sheet exposures other than OTC derivatives or Credit derivatives		192,786	133,916	93,782	93,782	7,503
Total for off balance sheet exposures		192,786	133,916	93,782	93,782	7,503
Total on and off balance sheet exposures		3,764,434	2,671,596	1,290,468	1,290,468	103,237
2. **Large exposures risk requirement**		-	-	-		-
3. **Market risk**	**Long Position**	**Short Position**				
Interest rate risk /Rate of return risk						
- General interest rate risk/Rate of return risk	4,540	4,537		-		-
Foreign currency risk	8,536	-		8,536	8,536	683
Equity risk						
- General risk	659	637		22	22	2
- Specific risk	659	637		819	819	65
Option risk	21,375	-		29,391	29,391	2,351
Total	35,769	5,811		38,768	38,768	3,101
4. **Operational risk**				428,605	428,605	34,288
5. **Total RWA and capital requirements**				1,757,841	1,757,841	140,626

The Group did not have Profit-Sharing Investment Account ("PSIA") that qualifies as a risk absorbent during the comparative period.

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

	MARCH 2013				
Exposure class	**RM'000**	**Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM") RM'000**	**Net exposures/ EAD after CRM RM'000**	**Risk weighted assets RM'000**	**Minimum capital requirement at 8% RM'000**
1. **Credit risk**					
On balance sheet exposures					
Sovereigns/ Central banks		204,952	204,952	-	-
Banks, DFIs & MDBs		547,285	547,285	109,457	8,756
Corporates		992,276	223,060	223,060	17,845
Regulatory retail		33,086	6,457	4,843	387
Higher risk assets		14,211	14,211	21,317	1,705
Other assets		1,042,243	1,042,243	1,022,356	81,789
Equity exposures		16,135	16,135	16,135	1,291
Defaulted exposures		1,036	927	533	43
Total for on balance sheet exposures		2,851,224	2,055,270	1,397,701	111,816
Off balance sheet exposures:					
Off balance sheet exposures other than OTC derivatives or Credit derivatives		187,895	139,363	90,009	7,201
Total for off balance sheet exposures		187,895	139,363	90,009	7,201
Total on and off balance sheet exposures		3,039,119	2,194,633	1,487,710	119,017
2. **Large exposures risk requirement**		-	-	-	-
3. **Market risk**	**Long Position**	**Short Position**			
Interest rate risk /Rate of return risk					
- General interest rate risk/Rate of return risk	3,977	3,967		-	-
Foreign currency risk	5,139	4,026		5,139	411
Equity risk					
- General risk	4,082	5,829		2,271	182
- Specific risk	4,082	5,829		5,736	459
Total	17,280	19,651		13,146	1,052
4. **Operational risk**				470,556	37,644
5. **Total RWA and capital requirements**				1,971,412	157,713

The Group did not have Profit-Sharing Investment Account ("PSIA") that qualifies as a risk absorbent during the comparative period.

Table 2.2 Risk-Weighted Assets and Capital Requirements

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

		MARCH 2014					
	Exposure class		**Gross exposures/ EAD before CRM**	**Net exposures/ EAD after CRM**	**Risk weighted assets**	**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**
1.	**Credit risk**						
	On balance sheet exposures						
	Sovereigns/ Central banks		46	46	-	-	-
	Banks, DFIs & MDBs		480,387	480,387	96,077	96,077	7,686
	Other assets		15,898	15,898	15,898	15,898	1,272
	Total for on balance sheet exposures		496,331	496,331	111,975	111,975	8,958
	Off balance sheet exposures:						
	Off balance sheet exposures other than OTC derivatives or Credit derivatives		77,650	77,650	56,330	56,330	4,506
	Total for off balance sheet exposures		77,650	77,650	56,330	56,330	4,506
	Total on and off balance sheet exposures		573,981	573,981	168,305	168,305	13,464
2.	**Large exposures risk requirement**		-	-	-	-	-
		Long Position	**Short Position**				
3.	**Market risk**	-	-				
4.	**Operational risk**				42,678	42,678	3,414
5.	**Total RWA and capital requirements**				210,983	210,983	16,878

The Group did not have Profit-Sharing Investment Account ("PSIA") that qualifies as a risk absorbent during the comparative period.

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

	MARCH 2013				
Exposure class		**Gross exposures/ EAD before CRM**	**Net exposures/ EAD after CRM**	**Risk weighted assets**	**Minimum capital requirement at 8%**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
1. **Credit risk**					
On balance sheet exposures					
Sovereigns/ Central banks		56	56	-	-
Banks, DFIs & MDBs		191,705	191,705	38,341	3,067
Other assets		17,032	17,032	16,894	1,352
Total for on balance sheet exposures		208,793	208,793	55,235	4,419
Off balance sheet exposures:					
Off balance sheet exposures other than OTC derivatives or credit derivatives		77,650	77,650	56,330	4,506
Total for off balance sheet exposures		77,650	77,650	56,330	4,506
Total on and off balance sheet exposures		286,443	286,443	111,565	8,925
2. **Large exposures risk requirement**		-	-	-	-
	Long Position	**Short Position**			
3. **Market risk**	-	-			
4. **Operational risk**				44,921	3,594
5. **Total RWA and capital requirements**				156,486	12,519

The Group did not have Profit-Sharing Investment Account ("PSIA") that qualifies as a risk absorbent during the comparative period.

3.0 Capital Structure

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

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

3.1 Common Equity Tier 1 Capital

Common Equity Tier 1 Capital consists of the following:

(a) Paid-up Ordinary Share Capital

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

(b) Share Premium

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

(c) Retained Earnings

Retained earnings at the end of the financial year and eligible reserves are accumulated resources included in the shareholders' funds in an entity's statement of financial position, with certain regulatory adjustments applied. The retained earnings is included in 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.

(d) Other Disclosed Reserves

Other disclosed reserves comprise the following:

(i) Statutory Reserve

Statutory reserve is maintained in compliance with the provisions of the FSA and IFSA and is not distributable as cash dividends.

(ii) Capital Reserve and Merger Reserve

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

(iii) Foreign Exchange Translation Reserve

Foreign exchange translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations, whose functional currencies are different from that of the Group's presentation currency.

(iv) Unrealised Gains on Available-for-Sale Financial Instruments

This comprises the unrealised fair value gains and losses 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 per Common Equity Tier 1 Capital. Where the available-for-sale reserve is a net loss outstanding balance, the entire outstanding balance is deducted in Common Equity Tier 1 Capital.

3.2 Additional Tier 1 Capital

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

3.3 Tier 2 Capital

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

3.0 Capital Structure (Contd.)

Table 3.1: Capital Structure

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

	Group		Bank	
	31.03.14 RM'000	31.03.13 RM'000	31.03.14 RM'000	31.03.13 RM'000
CET1 Capital				
Ordinary shares	200,000	200,000	200,000	200,000
Retained earnings	38,006	90,519	57,377	118,307
Unrealised gains on financial investment available-for-sale ("AFS")	1,760	3,162	1,707	3,110
Foreign exchange translation reserve	34,517	29,988	-	-
Statutory reserve fund	200,000	200,000	200,000	200,000
Capital reserve	2,815	2,815		-
Merger reserve	7,656	7,656		-
Less : Regulatory adjustments applied on CET1 capital				
Goodwill	(11,243)	(11,243)	-	-
Other intangibles	(1,811)	(2,403)	(1,714)	(2,347)
Deferred tax assets	(14,164)	(14,750)	(14,164)	(11,512)
55% of cumulative gains of AFS financial instruments	(968)	(1,739)	(939)	(1,711)
Investments in ordinary shares of unconsolidated financial and insurance/ takaful entities	(333)	-	(20,408)	-
Deduction in excess of Tier 2*	(22,891)	(23,267)	(103,190)	(110,010)
CET1 Capital	**433,344**	**480,738**	**318,669**	**395,837**
Additional Tier 1 Capital				
Tier 1 Capital	**433,344**	**480,738**	**318,669**	**395,837**
Tier 2 Capital				
Collective impairment provisions and regulatory reserves #	4,085	2,789	4,085	2,789
Less : Regulatory adjustments applied on Tier 2 Capital	(4,085)	(2,789)	(4,085)	(2,789)
Tier 2 Capital	**-**	**-**	**-**	**-**
Total Capital	**433,344**	**480,738**	**318,669**	**395,837**

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

#Excludes collective allowance on impaired loans restricted from Tier 2 Capital of the Group and the Bank of RM787,973.(31 March 2013 : RM875,275)

3.0 Capital Structure (Contd.)

Table 3.1: Capital Structure (Contd.)

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

	Group		Bank	
	31.03.14	**31.03.13**	**31.03.14**	**31.03.13**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Credit risk	1,290,468	1,487,710	1,097,505	1,118,859
Market risk	38,768	13,146	38,766	9,366
Operational risk	428,605	470,556	366,407	409,052
Total risk weighted assets	1,757,841	1,971,412	1,502,678	1,537,277

(b) The components of Tier 1 Capital of the Islamic window of the Bank is as follows:

	31.03.14	31.03.13
	RM'000	**RM'000**
CET1 Capital		
Ordinary shares	30,000	30,000
Retained earnings	129,810	118,118
Less : Regulatory adjustments applied on CET1 Capital		
Other intangibles	(2)	(4)
Deferred tax assets	(292)	(212)
CET1 capital	**159,516**	**147,902**
Tier 2 capital	-	-
Total Capital	**159,516**	**147,902**

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

	31.03.14	31.03.13
	RM'000	**RM'000**
Credit risk	168,305	111,565
Operational risk	42,678	44,921
Total risk weighted assets	210,983	156,486

4.0 Risk Management Framework

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

The Risk Appetite Framework provides portfolio parameters for Credit Risk, Traded Market Risk, Non-Traded Market Risk and Operational Risk incorporating, inter alia, limit structures for countries, industries, single counterparty, 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 Group strategic goals are to sustain the top quartile return on equity (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 income, complemented by robust management of liquidity, disciplined execution of interest rate risk/rate of return risk in the balance sheet, and with support from strong level of capital.

The Group intends to maintain sufficient quantity and quality of capital in excess of Basel 3 requirement for Common Equity Tier 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 3 liquidity matrix (Net Stable Funds Ratio, and Liquidity Coverage Ratios). Our targeted Adjusted Loan Deposit Ratio is within 90% range with continually improving current account and savings account (“CASA”) deposit composition and market share.

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

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

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

Risk Management Governance

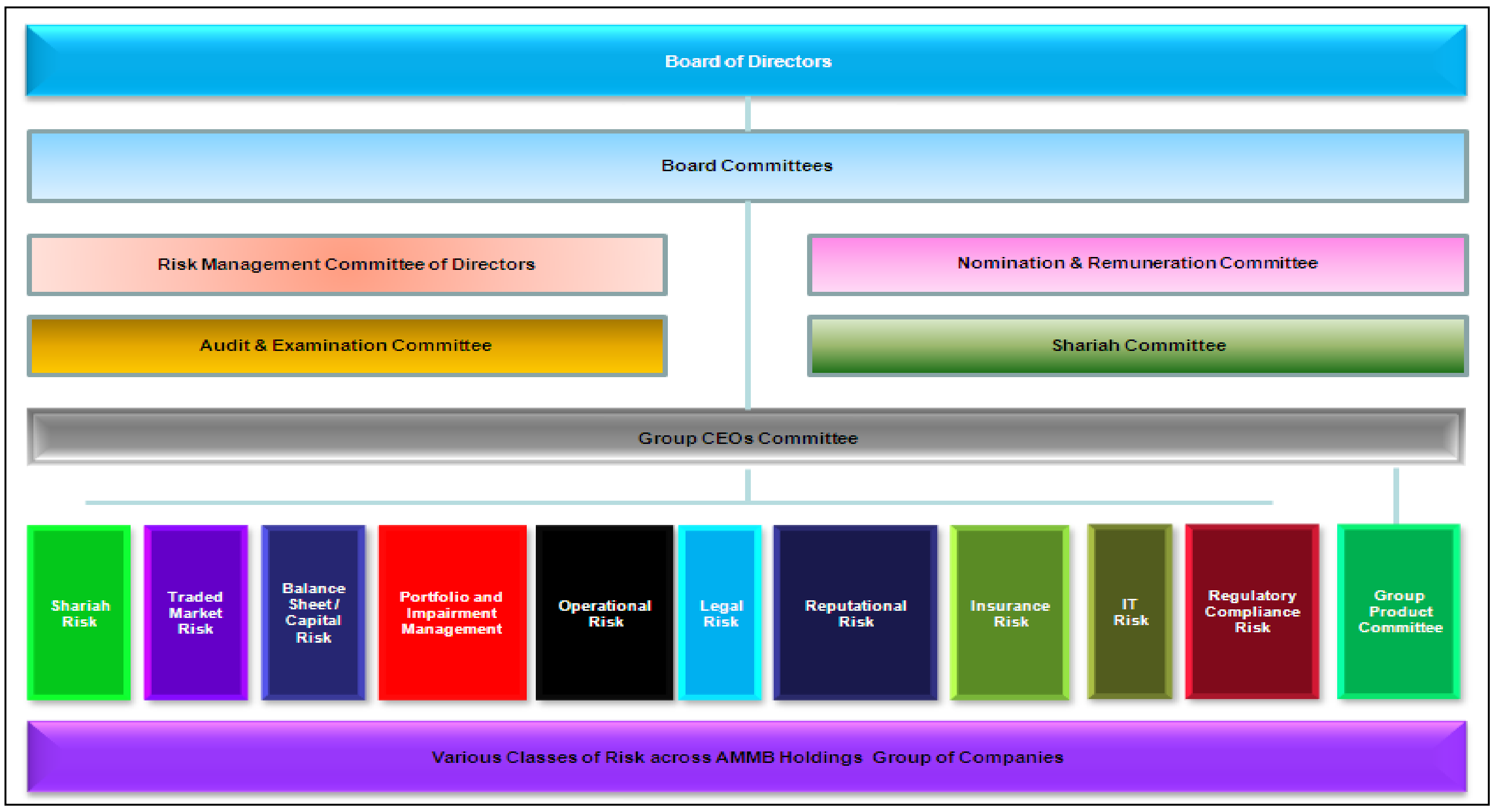
The Board is ultimately responsible for the management of risks within the Bank. The Risk Management Committee of Directors is formed to assist the Board of Directors in discharging its duties in overseeing the overall management of all risks covering market risk management, liquidity risk management,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

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

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

4.0 Risk Management Framework (Contd.)

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.



Strategic Risk
Strategic risk is the risk of not achieving the Group's corporate strategic goals. The Group's overall strategic planning reflects the Group's vision and mission, taking into consideration the Group'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 Group recognises 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 Group 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

The core objectives of the Group's Internal Capital Adequacy Assessment Process ("ICAAP") Policy are to:
- Protect the interests of depositors, creditors and shareholders;
- Ensure the safety and soundness of the Group's capital position; and
- Ensure that the capital base supports the Group's Risk Appetite, and strategic business objectives, in an efficient and effective manner.

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

The following key principles underpin the ICAAP.

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

4.1.2 Management Oversight
The ICAAP must be subject to Board and senior management oversight, form an integral part of the Group's capital management and decision making processes, and will:
- Undergo regular, effective and comprehensive review;
- Satisfy regulatory requirements;
- Be capable of independent assessment and validation;
- Be incorporated into the Group's overall risk management strategy and governance frameworks.

4.0 Risk Management Framework (Contd.)

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

The Group will have appropriately established capital targets for each major capital type; including:
- Minimums;
- Triggers; and
- Target operating ranges

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

4.1.5 Capital allocation:
- The Group's capital, excluding any amount held centrally for strategic contingencies (e.g. acquisitions) should be allocated to individual business units using regulatory capital allocation principles;
- 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.

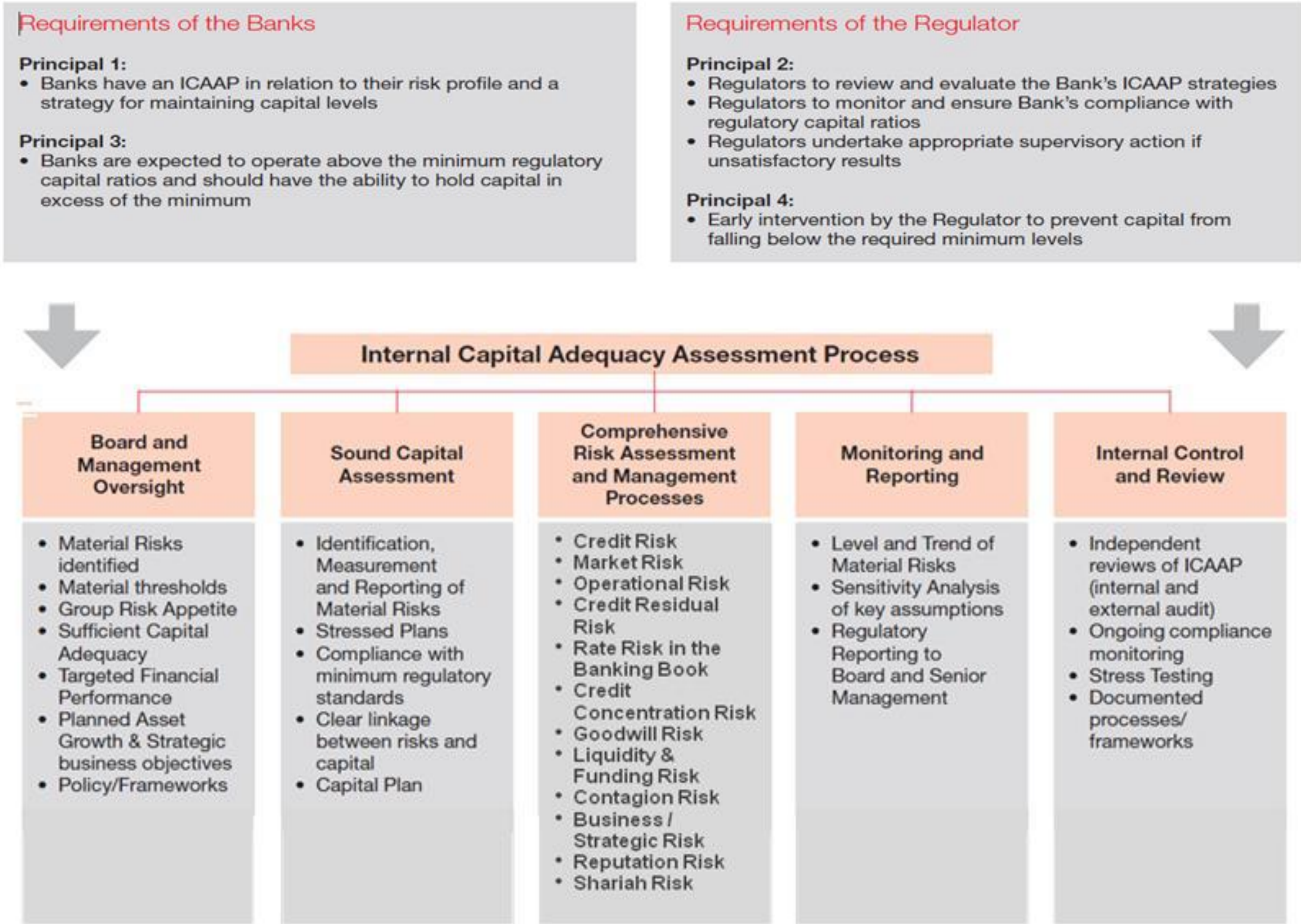
4.1.6 Material Risks
- The Group must have clearly articulated definitions of each material risk type to be included in the ICAAP; and
- Processes to identify and determine the materiality of current risk types, change to existing risk types and new risk types must be established.

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.

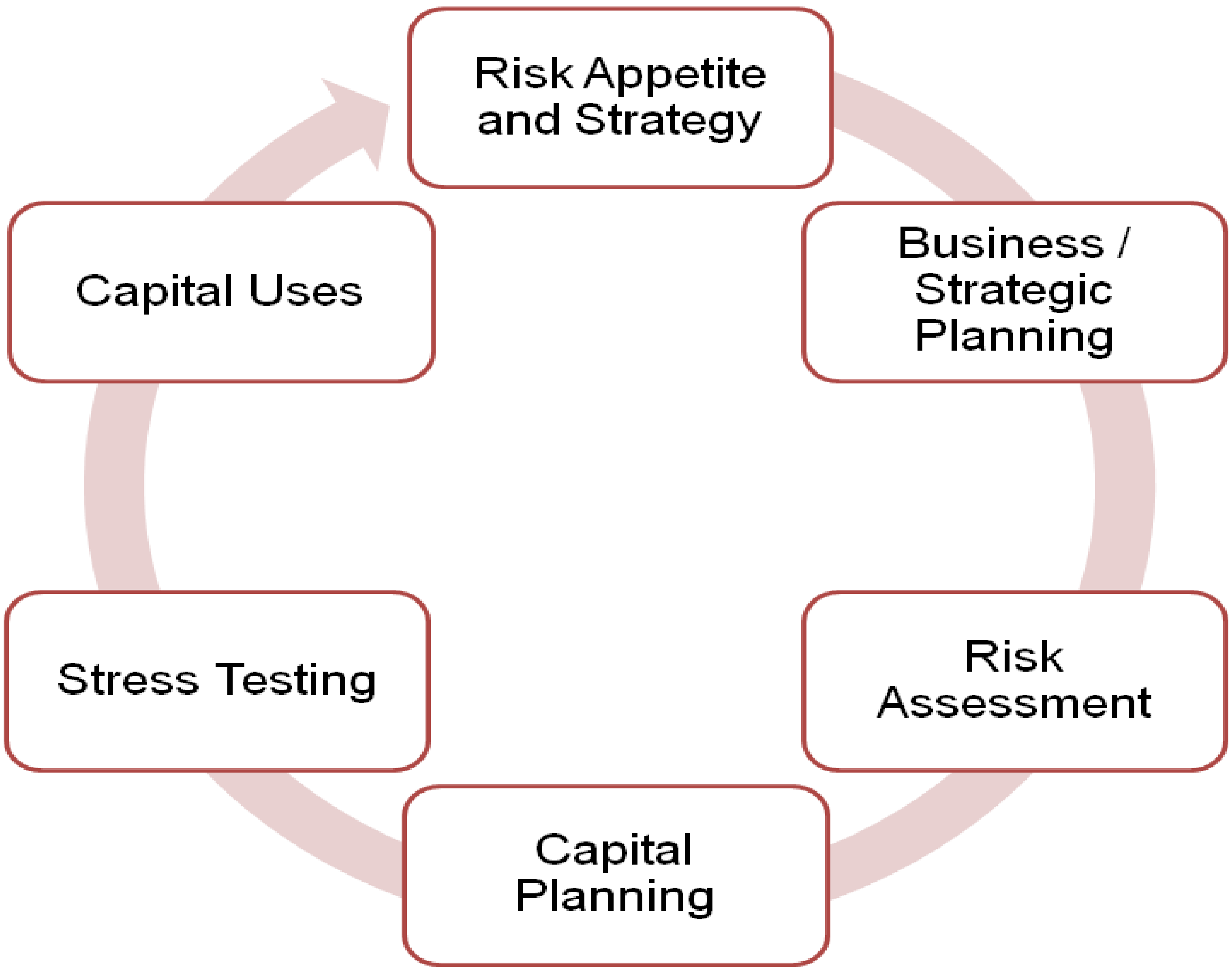
4.1.8 The cost of capital should be reviewed annually. The cost of capital should be set with reference to the Group's long term Return on Equity objectives.

4.0 Risk Management Framework (Contd.)

ICAAP Framework



Overview of ICAAP process and setting Internal Capital Targets



5.0 Credit Risk Management

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

Identification	• Identify/ recognise credit risk on transactions and/or positions • Selection of asset and portfolio mix
Assessment/ Measurement	• Internal credit rating system • Probability of default ("PD") • Loss given default ("LGD") • Exposure at default ("EAD")
Control/ Mitigation	• Portfolio Limits, Counterparty Limits, Benchmark Returns • Collateral & tailored facility structures
Monitoring/ Review	• Monitor and report protfolio 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 lending, securities and derivative exposures. The identification of credit risk is done by assessing the potential impact of internal and external factors on the Group transactions and/ or positions as well as Shariah compliance risk (please refer to Section 14 for discussion on Shariah Governance Structure).

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

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

- Concentration threshold/ review trigger on single counterparty credit;
- Asset writing strategies for group of customers;
- Setting Loan to Value limits for asset backed loans/ financing (i.e. exchange traded shares & other collateral); and
- Watch-list processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers.

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 meets to review the quality and diversification of the Group's loan/ financing portfolio, approve new and amended credit risk policy, and review the portfolio risk profile against the 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 Group 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 Loans

All loans, financing and advances are categorised as either:

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

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

A loan is classified as impaired under the following circumstances:

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

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

(c) for loans with repayment schedules on 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 classified according to Group's Credit Risk Rating Framework. Notwithstanding that, these loans shall be classified as impaired when the principal or interest/ profit or both is past due for more than 90 days or 3 months.

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

5.1.2 Methodology for Determination of Individual and Collective Allowances

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

Individual Assessment

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

(a) Trigger management

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

(b) Valuation of assets

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

Collective Assessment

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

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

Table 5.1: Distribution of gross credit exposures by sector

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

	MARCH 2014												
	Agriculture RM'000	**Manufacturing RM'000**	**Electricity, Gas and Water RM'000**	**Construction RM'000**	**Wholesale, Retail Trade, Restaurant and Hotel RM'000**	**Transport, Storage and Communication RM'000**	**Finance and Insurance RM'000**	**Real Estate RM'000**	**Business Activities RM'000**	**Education and Health RM'000**	**Household RM'000**	**Others RM'000**	**Total RM'000**
On balance sheet exposures													
Sovereigns/ Central banks	-	-	-	-	-	-	567,883	-	-	-	-	-	567,883
Banks, DFIs and MDBs	-	-	-	-	-	-	875,054	-	-	-	-	-	875,054
Corporates	11,302	12,838	-	-	1,093	-	-	18,631	49,123	401	1,154,875	2,317	1,250,580
Regulatory retail	-	-	-	-	-	-	-	-	-	-	55,223	-	55,223
Higher risk assets	-	-	-	-	-	-	-	-	-	-	-	14,095	14,095
Other assets	129	286	-	1,956	83	367	42,402	315	162,581	-	590,692	10,001	808,812
Defaulted exposures	-	-	-	-	-	-	-	-	-	-	1	-	1
Total for on balance sheet exposures	11,431	13,124	-	1,956	1,176	367	1,485,339	18,946	211,704	401	1,800,791	26,413	3,571,648
Off balance sheet exposures													
Off balance sheet exposures other than OTC derivatives or Credit derivatives	1,027	1,822	327	37,297	85	-	100	26,650	51,400	13,996	59,718	364	192,786
Total for off balance sheet exposures	1,027	1,822	327	37,297	85	-	100	26,650	51,400	13,996	59,718	364	192,786
Total on and off balance sheet exposures	**12,458**	**14,946**	**327**	**39,253**	**1,261**	**367**	**1,485,439**	**45,596**	**263,104**	**14,397**	**1,860,509**	**26,777**	**3,764,434**

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

	MARCH 2013													
	Agriculture	**Mining and Quarrying**	**Manufacturing**	**Electricity, Gas and Water**	**Construction**	**Wholesale, Retail Trade, Restaurant and Hotel**	**Transport, Storage and Communication**	**Finance and Insurance**	**Real Estate**	**Business Activities**	**Education and Health**	**Household**	**Others**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On balance sheet exposures														
Sovereigns/ Central banks	-	-	-	-	-	-	-	204,952	-	-	-	-	-	204,952
Banks, DFIs and MDBs	-	-	-	-	-	-	-	547,285	-	-	-	-	-	547,285
Corporates	5,874	-	5,576	-	-	3,951	-	-	23,654	135,109	1,655	809,851	6,606	992,276
Regulatory retail	-	-	-	-	-	-	-	-	-	-	-	33,086	-	33,086
Higher risk assets	-	-	-	-	-	-	-	-	-	-	-	-	14,211	14,211
Other assets	185	82	213	31	382	309	56	208,616	312	339,036	-	492,727	294	1,042,243
Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	16,135	16,135
Defaulted exposures	-	-	-	-	-	-	-	-	-	-	788	248	-	1,036
Total for on balance sheet exposures	6,059	82	5,789	31	382	4,260	56	960,853	23,966	474,145	2,443	1,335,912	37,246	2,851,224
Off balance sheet exposures														
Off balance sheet exposures other than OTC derivatives or Credit derivatives	514	-	-	-	82,256	12	-	101	360	51,074	9,623	42,482	1,473	187,895
Total for off balance sheet exposures	514	-	-	-	82,256	12	-	101	360	51,074	9,623	42,482	1,473	187,895
Total on and off balance sheet exposures	**6,573**	**82**	**5,789**	**31**	**82,638**	**4,272**	**56**	**960,954**	**24,326**	**525,219**	**12,066**	**1,378,394**	**38,719**	**3,039,119**

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

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

	MARCH 2014			
	Business Activities RM'000	**Household RM'000**	**Not allocated RM'000**	**Total RM'000**
Impaired loans, advances and financing	3,194	18,484	-	**21,678**
Individual allowances	2,407	11,920	-	**14,327**
Collective allowances	-	-	4,872	**4,872**
Charges for individual allowances	305	(11,624)	-	**(11,319)**

	MARCH 2013			
	Business Activities RM'000	**Household RM'000**	**Not allocated RM'000**	**Total RM'000**
Impaired loans, advances and financing	3,500	354	-	**3,854**
Individual allowances	2,712	119		**2,831**
Collective allowances	-	-	3,664	**3,664**
Charges for individual allowances	370	360	-	**730**

Table 5.3: Geographical distribution of credit exposures

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

	March 2014		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ Central banks	567,883	-	567,883
Banks, DFIs and MDBs	763,797	111,257	875,054
Corporates	1,250,580	-	1,250,580
Regulatory retail	55,223	-	55,223
Higher risk assets	14,089	6	14,095
Other assets	623,112	185,700	808,812
Defaulted exposures	1	-	1
Total for on balance sheet exposures	3,274,685	296,963	3,571,648
Off balance sheet exposures			
Off balance sheet exposures other than OTC derivatives or credit derivatives	192,786	-	192,786
Total for off balance sheet exposures	192,786	-	192,786
Total on and off balance sheet exposures	**3,467,471**	**296,963**	**3,764,434**

	March 2013		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ Central banks	204,952	-	204,952
Banks, DFIs and MDBs	531,037	16,248	547,285
Corporates	992,276	-	992,276
Regulatory retail	33,086	-	33,086
Higher risk assets	14,088	123	14,211
Other assets	691,443	350,800	1,042,243
Equity exposures	16,135	-	16,135
Defaulted exposures	1,036	-	1,036
Total for on balance sheet exposures	2,484,053	367,171	2,851,224
Off balance sheet exposures			
Off balance sheet exposures other than OTC derivatives or Credit derivatives	187,894	1	187,895
Total for off balance sheet exposures	187,894	1	187,895
Total on and off balance sheet exposures	**2,671,947**	**367,172**	**3,039,119**

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

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

	MARCH 2014		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans, advances & financing	3,194	18,484	21,678
Individual allowances	2,407	11,920	14,327
Collective allowances	4,872	-	4,872

	MARCH 2013		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans, advances & financing	3,854	-	3,854
Individual allowances	2,831	-	2,831
Collective allowances	3,664	-	3,664

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

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

	MARCH 2014								
	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 to 3 years RM'000	>3 to 5 years RM'000	> 5 years RM'000	No maturity specified RM'000	Total RM'000
On balance sheet exposures									
Sovereigns/ central banks	-	547,165	-	-	-	-	-	20,718	567,883
Banks, DFIs & MDBs	847,207	-	-	-	-	-	4,437	23,410	875,054
Corporates	346,044	235,756	535,903	48,748	46,683	33,645	2,142	1,659	1,250,580
Regulatory retail	-	-	333	547	781	53,562	-	-	55,223
Higher risk assets	-	-	-	-	-	-	2,076	12,019	14,095
Other assets	784,365	-	-	-	-	-	-	24,447	808,812
Defaulted exposures	-	-	-	-	-	1	-	-	1
Total for on balance sheet exposures	1,977,616	782,921	536,236	49,295	47,464	87,208	8,655	82,253	3,571,648
Off balance sheet exposures									
Off balance sheet exposures other than OTC derivatives or credit derivatives	54,642	8,180	17,859	1,230	787	110,088	-	-	192,786
Defaulted exposures									
Total for off balance sheet exposures	54,642	8,180	17,859	1,230	787	110,088	-	-	192,786
Total on and off balance sheet exposures	**2,032,258**	**791,101**	**554,095**	**50,525**	**48,251**	**197,296**	**8,655**	**82,253**	**3,764,434**

	MARCH 2013								
	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 to 3 years RM'000	>3 to 5 years RM'000	> 5 years RM'000	No maturity specified RM'000	Total RM'000
On balance sheet exposures									
Sovereigns/ Central banks	-	190,809	-	-	-	-	-	14,143	204,952
Banks, DFIs & MDBs	543,938	-	-	-	-	-	3,347	-	547,285
Corporates	401,744	171,858	259,349	111,395	2,220	41,581	2,747	1,382	992,276
Regulatory retail	2	-	156	363	1,583	30,982	-	-	33,086
Higher risk assets	-	-	-	-	-	-	2,200	12,011	14,211
Other assets	1,007,711	-	-	-	-	-	165	34,367	1,042,243
Equity exposures	-	-	-	-	-	-	-	16,135	16,135
Defaulted exposures	788	-	-	191	-	57	-	-	1,036
Total for on balance sheet exposures	1,954,183	362,667	259,505	111,949	3,803	72,620	8,459	78,038	2,851,224
Off balance sheet exposures									
Off balance sheet exposures other than OTC derivatives or Credit derivatives	52,910	1,964	7,524	1,588	497	123,312	-	100	187,895
Defaulted exposures									
Total for off balance sheet exposures	52,910	1,964	7,524	1,588	497	123,312	-	100	187,895
Total on and off balance sheet exposures	**2,007,093**	**364,631**	**267,029**	**113,537**	**4,300**	**195,932**	**8,459**	**78,138**	**3,039,119**

Table 5.6: Reconciliation of changes to loans/financing impairment allowances

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

	MARCH 2014	
	Individual impairment allowances RM'000	**Collective impairment allowances RM'000**
Balance at beginning of financial year	2,831	3,664
Charge for the year – net	11,319	1,208
Exchange differences	177	-
Balance at end of financial year	14,327	4,872

	(Charge off)/recoveries RM'000
Bad debts written off during the year	-
Bad debt recoveries during the year	1
	1

	MARCH 2013	
	Individual impairment allowances RM'000	**Collective impairment allowances RM'000**
Balance at beginning of financial year	3,561	4,116
Charge for the year – net	(730)	(450)
Exchange differences	-	(2)
Balance at end of financial year	2,831	3,664

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

6.0 Credit Risk Exposure under Standardised Approach

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

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

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

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

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

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

	MARCH 2014								
	Exposures after netting and credit risk mitigation								
Risk Weights	**Sovereigns & Central banks RM'000**	**Banks, DFIs and MDBs RM'000**	**Corporates RM'000**	**Regulatory retail RM'000**	**Higher risk assets RM'000**	**Other assets RM'000**	**Equity exposures RM'000**	**Total Exposures after Netting & CRM RM'000**	**Total Risk Weighted Assets RM'000**
0%	567,883	-	75,411	-	-	14	-	643,308	-
20%	-	875,013	26,650	-	-	-	-	901,663	180,332
50%	-	41	37,297	-	-	-	-	37,338	18,669
75%	-	-	-	19,469	-	-	-	19,469	14,602
100%	-	-	246,924	-	-	808,798	-	1,055,722	1,055,722
150%	-	-	-	1	14,095	-	-	14,096	21,143
Total	567,883	875,054	386,282	19,470	14,095	808,812	-	2,671,596	1,290,468
Deduction from Capital Base	-	-	-	-	-	-	-	-	

	MARCH 2013								
	Exposures after netting and credit risk mitigation								
Risk Weights	**Sovereigns & Central banks RM'000**	**Banks, DFIs and MDBs RM'000**	**Corporates RM'000**	**Regulatory retail RM'000**	**Higher risk assets RM'000**	**Other assets RM'000**	**Equity exposures RM'000**	**Total Exposures after Netting & CRM RM'000**	**Total Risk Weighted Assets RM'000**
0%	204,952	-	-	-	-	14	-	204,966	-
20%	-	547,285	26,650		-	24,841	-	598,776	119,755
50%	-	-	56,394	-	-	-	-	56,394	28,197
75%	-	-	-	7,379	-	-	-	7,379	5,534
100%	-	-	279,245	139	-	1,017,388	16,135	1,312,907	1,312,907
150%	-	-	-	-	14,211	-	-	14,211	21,317
Total	204,952	547,285	362,289	7,518	14,211	1,042,243	16,135	2,194,633	1,487,710
Deduction from Capital Base	-	-	-	-	-	-	-	-	

Table 6.2: Rated Exposures according to Ratings by ECAIs

	MARCH 2014					
	Ratings of Corporate by Approved ECAIs					
Exposure class	**Moodys**	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Ba3**	**B1 to C**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	RAM	**AAA to AA3**	**A to A3**	**BBB1 to BB3**	**B1 to D**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	Rating & Investment Information Inc.	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
Corporates	1,430,779	-	-	-	-	1,430,779
Total	1,430,779	-	-	-	-	1,430,779

	MARCH 2013					
	Ratings of Corporate by Approved ECAIs					
Exposure class	**Moodys**	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Ba3**	**B1 to C**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	RAM	**AAA to AA3**	**A to A3**	**BBB1 to BB3**	**B1 to D**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	Rating & Investment Information Inc.	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
Corporates	1,169,987	-	3,052	-	-	1,166,935
Total	1,169,987	-	3,052	-	-	1,166,935

Table 6.2: Rated Exposures according to Ratings by ECAIs (Contd)

	MARCH 2014						
	Ratings of Sovereigns and Central Banks by Approved ECAIs						
Exposure Class	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	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central banks	567,883	-	567,883	-	-	-	-
Total	**567,883**	-	**567,883**	-	-	-	-

	MARCH 2013						
	Ratings of Sovereigns and Central Banks by Approved ECAIs						
Exposure Class	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	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central banks	204,952	-	204,952	-	-	-	-
Total	**204,952**	-	**204,952**	-	-	-	-

	MARCH 2014						
	Ratings of Banking Institutions by Approved ECAIs						
Exposure class	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
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ 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	RM'000
On and off balance sheet exposures							
Banks, DFIs and MDBs	875,054	-	-	-	-	-	875,054
Total	**875,054**	-	**-**	-	-	-	875,054.00

	MARCH 2013						
	Ratings of Banking Institutions by Approved ECAIs						
Exposure class	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
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ 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	RM'000
On and off balance sheet exposures							
Banks, DFIs and MDBs	**547,285**	-	1,850	325,680	-	-	219,755
Total	**547,285**	-	**1,850**	325,680	-	-	219,755.00

7.0 Credit Risk Mitigation

Main types of collateral taken by the Group
Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations. Types of collateral typically taken by the Bank include:

- Cash and term deposits
- Exchange traded shares, bonds, sukuk, convertible bonds and marketable securities
- Non-exchange traded debt securities/ sukuk
- Unit trusts (including Amanah Saham Nasional, Amanah Saham Bumiputera and mutual funds)

Where the customer risk profile is considered very sound, a transaction may be provided on an "unsecured" basis, i.e., not be supported by collateral.

The Bank has internal policy to determine the criteria for acceptable financial asset as collateral. This is to ensure the collateral can be liquidated in a timely manner if required.

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

Guarantee Support
Currently, the Bank does not use guarantee support for risk mitigation.

Use of credit derivatives and netting for risk mitigation
Currently, the Bank does not use credit derivatives 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 loan/ financing is extended, amortisation schedules and loan/ financing covenants. These assist in managing credit risk and in providing early warning signals, whereby should loan/ financing covenants be breached, the 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 loan/ financing to Value metrics.

The main types of collateral undertaken by the Bank are exchange traded shares and unit trusts.

Table 7.1: Credit Risk Mitigation

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

	MARCH 2014	
Exposures	**Exposures before CRM RM'000**	**Exposures covered by Eligible Financial Collateral RM'000**
Credit risk		
On balance sheet exposures		
Sovereigns/ Central banks	567,883	-
Banks, DFIs And MDBs	875,054	-
Corporates	1,250,580	1,060,108
Regulatory retail	55,223	36,736
Higher risk assets	14,095	-
Other assets	808,812	-
Defaulted exposures	1	-
Total for on balance sheet exposures	3,571,648	1,096,844
Off balance sheet exposures		
Off balance sheet exposures other than OTC derivatives or Credit derivatives	192,786	63,162
Total for off balance sheet exposures	192,786	63,162
Total on and off balance sheet exposures	**3,764,434**	**1,160,006**

	MARCH 2013	
Exposures	**Exposures before CRM RM'000**	**Exposures covered by Eligible Financial Collateral RM'000**
Credit risk		
On balance sheet exposures		
Sovereigns/ Central banks	204,952	-
Banks, DFIs And MDBs	547,285	-
Corporates	992,276	877,666
Regulatory retail	33,086	37,510
Higher risk assets	14,211	-
Other assets	1,042,243	-
Equity exposures	16,135	-
Defaulted exposures	1,036	109
Total for on balance sheet exposures	2,851,224	915,285
Off balance sheet exposures		
Off balance sheet exposures other than OTC derivatives or Credit derivatives	187,895	-
Total for off balance sheet exposures	187,895	-
Total on and off balance sheet exposures	**3,039,119**	**915,285**

8.0 Off Balance Sheet exposures and Counterparty Credit Risk

8.1 Off Balance Sheet exposures

The Group's off balance sheet exposures consist of 3 main categories as follows:
(1) Credit related exposures, e.g. guarantees given on behalf of customers, underwriting liabilities and irrevocable commitment to extend credit
(2) Derivatives Financial Instruments, e.g. foreign exchange related contract (forwards exchange contracts), equity related contracts (futures and contract for differences).
(3) Other treasury-related exposures, e.g. forward purchase commitment

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

8.2 Counterparty Credit Risk

Market related credit risk is present in market instruments (derivatives and forward contracts), and comprises counterparty risk (default at the end of contract) and pre-settlement risk (default at any time during the life of contract). Market related credit risk requires a different method in calculating the pre-settlement risk because actual and potential market movements impact the Group's exposure. The markets covered by this treatment for transactions entered by the Group includes 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 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 mark-to-market is essentially the current replacement cost of the contract, and can be positive or negative. Where it is positive, i.e. in the money, the Group has credit exposure against the counterparty; if it is negative, i.e. out of the money, the negative value will be used.

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

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

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

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

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

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

Table 8.1: Off Balance Sheet Exposures

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

Description	MARCH 2014			
	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	114,947	-	114,947	74,979
Assets sold with recourse	100		100	100
Obligations under underwriting agreements	21,375		-	-
Foreign exchange related contracts				
One year or less	4,537	-	-	-
Equity and commodity related contracts				
One year or less	642	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	19		259	257
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	387,900		77,480	17,160
Total	**529,520**	**-**	**192,786**	**92,496**

Description	MARCH 2013			
	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	130,205	-	130,205	82,607
Assets sold with recourse	100		100	100
Foreign exchange related contracts				
One year or less	3,977	-	-	-
Equity and commodity related contracts				
One year or less	5,822	7	1	1
Over five years	21	2	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	19		9	7
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	287,902		57,580	7,294
Total	**428,046**	**9**	**187,895**	**90,009**

Table 8.2 : Credit Derivatives Counterparty Credit Risk (“CCR”)

As at the balance sheet date, the Group does not have any credit derivatives.

9.0 Securitisation

The Group and the Bank do not have any securitisation exposure in its trading and banking books nor did it undertake any securitisation activities during the current financial period and for year ended 31 March 2014.

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 & governance requirements to mitigate specific operational risk • Advisory on the establishment of internal controls • Contingency planning
Monitoring/ Review	• Monitoring and reporting of loss incidents by Event Type, Portfolio and Line of Business and entity, reporting of 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 legal risk and Shariah compliance risk (Please refer to Chapter 14 for discussion on Shariah Governance Structure). 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.

The strategy for managing operational risk in the Group is anchored on the three lines of defence concept which are as follows:

- The first line of defence is accountable for implementing the operational risk framework and policies, 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 and RMCD.
- Group Internal Audit acts as the third and final line of defence by providing independent assurance on the internal control effectiveness through periodic audit programme.

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

- The Incident Management and Data Collection ("IMDC") module provides a common platform for reporting an operational risk incident that falls within one of the seven Event Types as stated in Basel II. IMDC also serves as a centralised database of operational risk incidents to model the potential exposure to future operational risks and estimate the amount of economic capital charge.
- The Risk and Control Self Assessment ("RCSA") is a process of continual assessment of risks and controls effectiveness. By using structured questionnaires to assess and measure key risk and its corresponding controls effectiveness, RCSA provides risk profiling across the Group.
- The Key Risk Indicators ("KRI") module provides early warning of increasing risk and/ or control failures by monitoring the changes of the underlying risk measurements.
- 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 Group obtains third party insurance cover to cover major operational risks where cost-effective premiums can be obtained. In addition, a comprehensive Business Continuity Management is established to ensure critical business functions can be maintained, or restored in a timely manner, in the event of material disruptions from internal or external events.

10.0 Operational Risk (Contd.)

The ultimate authority for all operational risk management matters is delegated by the Board of Directors to the CEO Committee. It is in turn, supported by the Group CEOs Committee an executive committee which comprises senior management members of various business divisions and support units, Group Chief Risk Officer and Head of Operational Risk. The RMCD, CEO Committee and the 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 Group 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 threaten the business operations and areas ofctriticality.
Assessment/ Measurement	• Business Impact Analysis • Threat Assessmnent
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 Group's operations and establishment of critical functions recovery against downtimes. BCM builds the resilience and recovery capability to safeguard the interest of Group's stakeholders by protecting our brand and reputation.

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

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

10.2 Legal Risk

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

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

10.3 Regulatory Compliance Risk

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

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

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

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

11.0 Market Risk Management

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

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 Limits • Loss Limits (Annual/ Monthly/Daily) • Concentration Limits • Greek Limits (Delta/ Gamma/ Delta-Gamma/ Vega/ Theta) • Present Value of One Basis Point Limits ("PV01") • Stealth Limits • Position Size Limits • Maximum Tenor Limits • Maximum Holding Period • Minimum Holding Period • Approved Instruments/ Currencies/ Countries • Other Detailed Management Limits
Monitoring/ Review	• Monitor limits • Periodical review and reporting

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

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

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

Apart from VaR, ALL and HSL, additional sensitivity controls (e.g. Greeks 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 Group adopts the Standardised Approach for market risk capital charge computation. The capital charge serves as a buffer against losses from potential adverse market movements.

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

11.0 Market Risk Management (Contd.)

11.2 Non-Traded Market Risk

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

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

Identification	• Identify IRR/ RORBB within existing and new products • Review market-related information such as market trend and economic data
Assessment/ Measurement	• VaR • EaR • PV01 • Other Detailed Management Controls
Control/ Mitigation	• VaR Limits • EaR Limits • PV01 Limits • Other Detailed Management Controls
Monitoring/ Review	•Monitor ing of limits •Periodical review and reporting

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

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

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

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

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

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

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

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

IRR/ RORBB is calculated daily and reported to Group CEOs Committee.

11.0 Market Risk Management (Contd.)

Table 11.1 : Market Risk Sensitivity-Interest Rate Risk / Rate of Return Risk in the Banking Book (IRR / RORBB)

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

Impact on Profit or Loss

	2014		2013	
Currency	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**
MYR	**3,712**	**(3,712)**	**4,391**	**(4,391)**

Impact on Equity

	2014		2013	
Currency	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**
MYR	**(1,423)**	**1,832**	**(2,144)**	**2,619**

Note:
The sensitivity above excluded non interest sensitive items. The Group manages interest rate risk in the banking book by including all asset and liabilities, adjusted by internal Fund Transfer Pricing ("FTP") practices.

12.0 Equities (Banking Book Positions)

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

- Equity investments that are taken for strategic and other objectives – Where an equity investment is undertaken for a strategic purpose, such investment will be made only after extensive analysis and due diligence. Equity investments undertaken for other business objectives are principally in conjunction with initiatives or measures promoted by the relevant regulatory authorities or trade bodies in which the Group will jointly with other financial institutions invest in such entities to attain various objectives, such as socio-economic development, promoting the further development of the financial market, the provision of facilities to improve customer service, and support for human capital development for the betterment of the Malaysian banking industry. The Board of Directors' approvals are required prior to committing to all forms of equity investment under this category and, where relevant, the necessary regulatory approval or notification will be obtained or met.

- Equity investments on which capital gains are expected – These transactions are for proprietary trading.

- Equity investments made as the result of a work out of a problem exposure – From time to time, the Group will take an equity stake in a customer as part of a work out arrangement for problem exposures. These investments are made only where there is no other viable option available and form an immaterial part of the Group's equity exposures.

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

Measurement of equity securities – Equity securities that have a quoted market price are carried at their fair value. Fair value is determined based upon current bid prices. Investments in unlisted securities are measured at cost less impairment loss (if any).

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

Table 12.1: Equity investments and capital requirement

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

	MARCH 2014	MARCH 2013
Non traded equity investments	**RM'000**	**RM'000**
Value of quoted (publicly traded) equities	-	16,135
Value of unquoted (privately held) equities	13,995	14,111
Total	13,995	30,246
Net realised and unrealised gains/ (losses)		
Cumulative realised gains/ (losses) from sales and liquidations	152	220
Total unrealised gains/ (losses)	(1,403)	825
Total	(1,251)	1,045
Risk Weighted Assets		
Equity investments subject to a 100% risk weight	-	16,135
Equity investments subject to a 150% risk weight	20,993	21,167
Total	20,993	37,302
Total minimum capital requirement (8%)	1,679	2,984

13.0 Liquidity Risk and Funding Management

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

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

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

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

The Board of Directors provides the liquidity risk management oversight while the Group CEOs Committee is the responsible governing body that approves the Group's liquidity management and strategies policies, and is responsible for setting liquidity limits, proposing liquidity risk policies and contingency funding plan, and practices to be in compliance with local regulatory requirements, and monitor liquidity on an ongoing basis. The Capital and Balance Sheet Management Department and Group Risk Management propose and oversee the implementation of policies and other controls relating to the above risks.

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

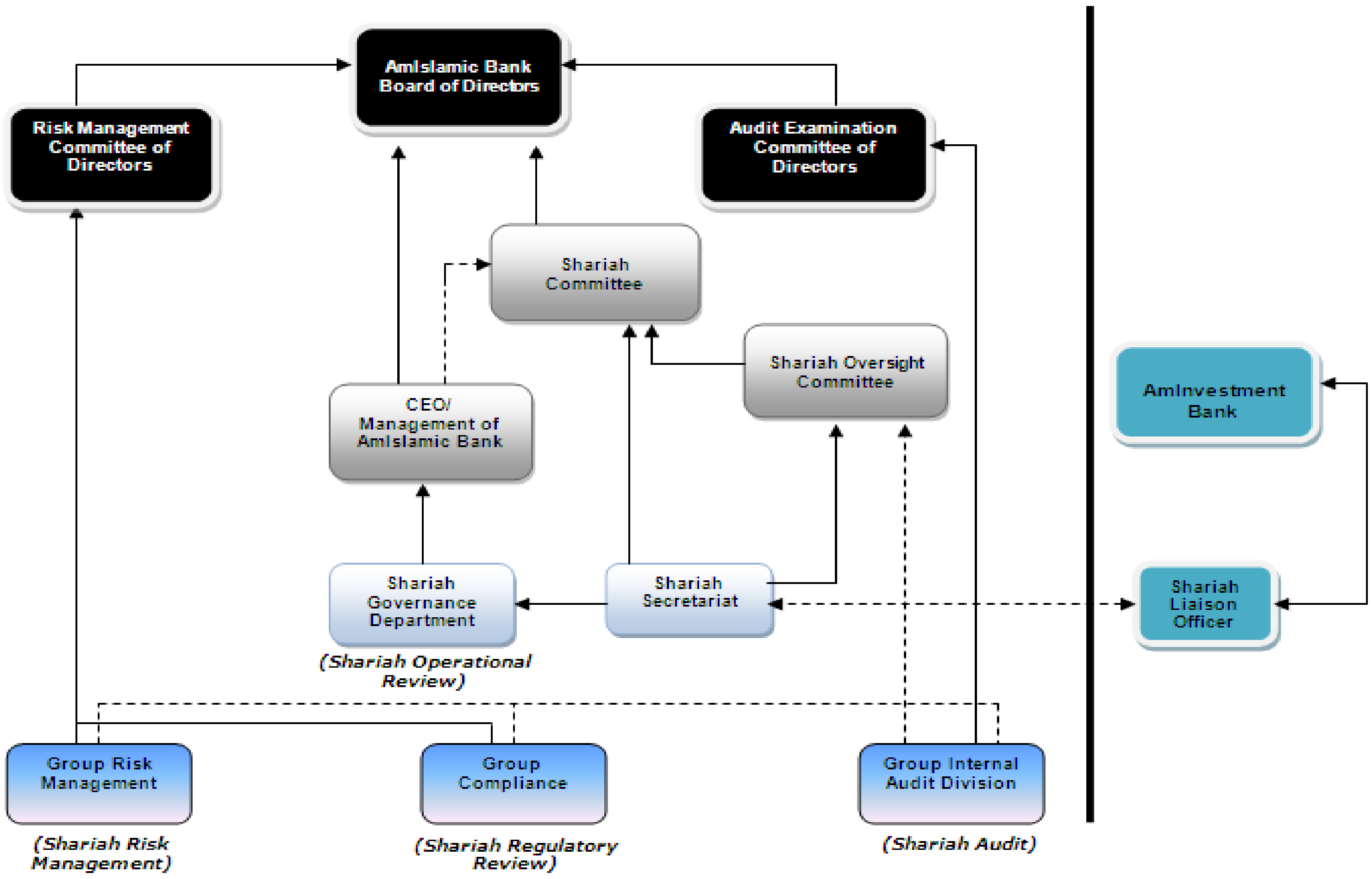
Stress testing is undertaken to assess and plan for the impact for various scenarios which may put the Group's liquidity at risk. The stress testing output contributes to the development of the liquidity risk limits and the Group's Contingency Funding Plan.

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

Given the universal banking model of the Group, the centralisation of treasury functions and deposit gathering within AmBank, a related company and the Bank, the adjusted LDR is not relevant to the activities undertaken by the Bank. The Bank is predominantly funded via AmBank and thus its liquidity risks are captured within AmBank's liquidity risk

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

14.0 Shariah Governance Structure



A Shariah governance framework is put in place in the organisational structure of the Group for its Islamic banking operations, which includes establishment of the Shariah Committee for AmIslamic 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 IFSA.

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

The Bank, (through Shariah liason officer) at respective LOB's, if any or at Islamic Markets Department (IMD) leverages on the on the Shariah Secretariat of AmIslamic Bank in referring matters to the Shariah Committee. The Bank also has the option to engage external Shariah Advisor registered and approved by the Securities Commission Malaysia. The Bank Islamic window i.e Islamic Markets Department is a licensed institution approved by Bank Negara Malaysia to carry out Islamic Banking Scheme.

Board of Directors
The Board of Directors 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 of Directors in ensuring Islamic Banking operations of AmBank Group is Shariah compliant through oversight of the Shariah Audit function perfomed by Group Internal Audit Division.

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 Board of Directors 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 AmIslamic Bank's Board of Directors and this provides for the independence of the Shariah Committee in exercising their duties.

14.0 Shariah Governance Structure (Contd.)

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; 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 on Shariah issues and to take necessary measures for implementation of Shariah 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 mitigate Shariah risk.

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 perform 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 systems internal controls, 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 & 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 AmIslamic 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.