

AmBank Islamic Berhad

(Incorporated in Malaysia)

CAFIB - Pillar 3 Disclosure

31 March 2016

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1.0 Scope of Application

The Bank Negara Malaysia's ("BNM") Risk Weighted Capital Adequacy Framework - (Basel II) and Capital Adequacy Framework for Islamic Bank - ("CAFIB") – 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 following information has been provided in order to highlight the capital adequacy of the Bank. The information provided has been verified by the Group internal auditors and certified by the Chief Executive Officer.

Capital Adequacy Ratios

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

With effect from 1 January 2013 to 31 December 2015, the capital adequacy ratios are computed in accordance to BNM's guidelines on Capital Adequacy Framework for Islamic Banks (Capital Components) issued by the Prudential Financial Policy Department on 28 November 2012, which is based on the Basel III capital accord. Prior to that, the capital adequacy ratios of the Bank were computed in accordance to BNM's Risk Weighted and Capital Adequacy Framework for Islamic Banks (General Requirements and Capital Components), which are based on the Basel II capital accord. The Bank has adopted the Standardised Approach for Credit and Market Risks and the Basic Indicator Approach for Operational Risk, based on BNM's Guidelines on Risk Weighted Capital Adequacy Framework (Basel II – Risk Weighted Assets).

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

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

* The minimum regulatory capital adequacy requirements as stipulated in the above table have not factored in capital conservation buffer of 2.5% of total risk weighted assets ("RWA") and countercyclical capital buffer ranging between 0% and 2.5% of total RWA and additional buffer requirements that may be specified by BNM.

1.0 Scope of Application (Cont'd.)

With effect from 1 January 2016, pursuant to BNM's guidelines on Capital Adequacy Framework for Islamic Banks (Capital Components) issued on 13 October 2015, the minimum capital adequacy ratio to be maintained under the guidelines remained at 4.5% for CET1 Capital, 6.0% for Tier 1 Capital and 8% for Total Capital ratio. Banking institutions are also required to maintain capital buffers. The capital buffers shall comprise the sum of the following:

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

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

	CCB
Calendar year 2016	0.625%
Calendar year 2017	1.25%
Calendar year 2018	1.875%
Calendar year 2019 onwards	2.5%

Frequency of Disclosure

Full disclosure requirements under the BNM guidelines are made on an annual and semi-annual basis except for disclosures under paragraph 10.1 of the guidelines and all qualitative disclosures which are made on an annual basis if there are no material changes in the interim reporting periods.

Medium and Location of Disclosure

These Pillar 3 disclosures of the Bank is available on the AmBank Group's corporate website at www.ambankgroup.com.

2.0 Capital Management

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

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

The capital plan takes the following into account:

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

The Bank uses internal models and other quantitative techniques in its internal risk and capital assessment. The models help to estimate potential future losses arising from credit, market and other risks, and using regulatory formulae to simulate the amount of capital required to support them. In addition, the models enable the Bank to gain a deeper understanding of its risk profile, 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 Bank's internal capital assessment considers the impact of extreme but plausible scenarios on its risk profile and capital position. They provide an insight into the potential impact of significant adverse events on the Bank and how these events could be mitigated. The Bank's target capital levels are set taking into account its risk appetite and its risk profile under future expected and stressed economic scenarios.

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

2.0 Capital Management (Cont'd.)

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

The capital that the Bank is required to hold is determined by its statement of financial position, commitments and contingencies, counterparty and other risk exposures after applying collateral and other mitigants, based on the Bank's risk rating methodologies and systems. BNM has the right to impose further capital requirements on Malaysian Financial Institutions.

The Bank operates processes and controls to monitor and manage capital adequacy across the organisation. Capital is maintained on the basis of the local regulator's requirements. It is overseen by the Group Chief Executive Officers Committee ("Group CEOs Committee"). The Group CEOs Committee is also responsible for managing the Group's statement of financial position, capital and liquidity.

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

Group CEOs Committee proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. For the current financial year ended 31 March 2016 ("FY 2016"), these ranges are 8.1% to 10.1% for the CET 1 Capital ratio, 9.6% to 11.6% for the Tier 1 Capital ratio, and 14.0% to 16.0% for the Total Capital ratio. The Bank has been generally operating within these ranges.

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

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

2.0 Capital Management (Cont'd.)

Table 2.1: Capital Adequacy Ratios

The capital adequacy ratios of the Bank are as follows:

	Bank	
	2016	2015
Common Equity Tier 1 Capital ratio	9.846%	9.200%
Tier 1 Capital ratio	9.846%	9.200%
Total Capital ratio	15.320%	14.371%

As part of an arrangement between AmBank (M) Berhad ("AmBank") and the Bank in relation to two Restricted Investment Account ("RIA") agreement, AmBank records as "Investment Account" its exposure in the arrangement, whereas the Bank records its exposure as "financing and advances". The RIA is a contract based on Shariah concept of Mudarabah between AmBank and the Bank to finance a specific business venture whereby AmBank solely provides capital and the business ventures are managed solely by the Bank as the entrepreneur. The RIA exposes AmBank to the risks and rewards of the financing, and accordingly AmBank accounts for all impairment allowances and risk weighted assets arising from the RIA arrangement.

As at 31 March 2016, the gross exposure and collective allowance relating to the RIA financing were RM1,004.0 million and RM1.5 million respectively (31 March 2015: RMRM1,363.8 million and RM1.6 million respectively). There was no individual allowance provided for the RIA financing. RIA assets excluded from the risk weighted capital adequacy computation of the Bank for 31 March 2016 amounted to RM1,004.0 million and the risk weight on these RIA assets are accounted for in the computation of capital adequacy of AmBank.

Table 2.2: Risk Weighted Assets and Capital Requirements

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

2016

Exposure Class		Gross Exposures/ Exposure At Default ("EAD") before Credit Risk Mitigation ("CRM")	Net Exposures/ EAD after CRM	Risk Weighted Assets	Risk Weighted Assets Absorbed by RIA	Total Risk Weighted Assets after effects of RIA	Minimum Capital Requirement at 8%
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
1. Credit Risk							
On-Balance Sheet Exposures							
Sovereigns/Central Banks		5,151,579	5,151,579	-	-	-	-
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDBs")		2,352,284	2,352,284	534,118	-	534,118	42,729
Corporates		17,204,019	16,954,120	12,898,558	1,003,979	11,894,579	951,566
Regulatory Retail		12,835,263	12,811,911	10,121,367	-	10,121,367	809,709
Residential Mortgages		209,656	209,640	78,054	-	78,054	6,244
Other Assets		213,254	213,254	213,254	-	213,254	17,060
Defaulted Exposures		477,525	475,442	657,802	-	657,802	52,624
Total for On-Balance Sheet Exposures		38,443,580	38,168,230	24,503,153	1,003,979	23,499,174	1,879,932
Off-Balance Sheet Exposures							
Over the counter ("OTC") Derivatives		132,577	132,577	81,149	-	81,149	6,492
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		1,798,885	1,685,265	1,528,101	-	1,528,101	122,248
Defaulted Exposures		578	169	254	-	254	20
Total for Off-Balance Sheet Exposures		1,932,040	1,818,011	1,609,504	-	1,609,504	128,760
Total On and Off-Balance Sheet Exposures		40,375,620	39,986,241	26,112,657	1,003,979	25,108,678	2,008,692
2. Large Exposure Risk Requirement							
3. Market Risk							
	Long Position	Short Position					
Rate of Return Risk							
- General profit rate risk	2,256,739	2,101,692		228,463	-	228,463	18,277
- Specific profit rate risk	186,166	20,561		15,230	-	15,230	1,218
Foreign Currency Risk	52,538	141		52,538	-	52,538	4,203
Total	2,495,443	2,122,394		296,231	-	296,231	23,698
4. Operational Risk							
				1,519,148	-	1,519,148	121,532
5. Total RWA and Capital Requirements				27,928,036	1,003,979	26,924,057	2,153,922

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

The breakdown of risk weighted assets ("RWA") by exposures in major risk category of the Bank are as follows:

2015

Exposure Class		Gross Exposures/ Exposure At Default ("EAD") before Credit Risk Mitigation ("CRM")	Net Exposures/ EAD after CRM	Risk Weighted Assets	Risk Weighted Assets Absorbed by RIA	Total Risk Weighted Assets after effects of RIA	Minimum Capital Requirement at 8%
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
1. Credit Risk							
On-Balance Sheet Exposures							
Sovereigns/Central Banks		5,774,979	5,774,979	-	-	-	-
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDBs")		3,598,897	3,598,897	769,085	-	769,085	61,527
Corporates		16,167,057	15,570,668	12,187,668	1,363,811	10,823,857	865,908
Regulatory Retail		13,554,097	13,544,051	10,355,040	-	10,355,040	828,403
Residential Mortgages		119,330	119,313	41,884	-	41,884	3,351
Other Assets		260,888	260,888	260,888	-	260,888	20,871
Defaulted Exposures		473,991	472,395	653,526	-	653,526	52,282
Total for On-Balance Sheet Exposures		39,949,239	39,341,191	24,268,091	1,363,811	22,904,280	1,832,342
Off-Balance Sheet Exposures							
Over the counter ("OTC") Derivatives		113,798	113,798	79,124	-	79,124	6,330
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		1,682,902	1,553,632	1,433,782	-	1,433,782	114,703
Defaulted Exposures		7,055	6,555	9,833	-	9,833	787
Total for Off-Balance Sheet Exposures		1,803,755	1,673,985	1,522,739	-	1,522,739	121,820
Total On and Off-Balance Sheet Exposures		41,752,994	41,015,176	25,790,830	1,363,811	24,427,019	1,954,162
2. Large Exposure Risk Requirement							
3. Market Risk							
	Long Position	Short Position					
Rate of Return Risk							
- General profit rate risk	1,749,946	1,635,030		209,117	-	209,117	16,729
- Specific profit rate risk	152,592	30,655		3,816	-	3,816	305
Foreign Currency Risk	17,696	-		17,696	-	17,696	1,416
Total	1,920,234	1,665,685		230,629	-	230,629	18,450
4. Operational Risk							
				1,553,441	-	1,553,441	124,275
5. Total RWA and Capital Requirements				27,574,900	1,363,811	26,211,089	2,096,887

3.0 Capital Structure

The capital structure of the Bank includes capital under the following headings:

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

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

3.1 Common Equity Tier 1 Capital

Common Equity Tier 1 Capital consists of the following:

Paid-up Ordinary Share Capital

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

3.1 Common Equity Tier 1 Capital (Cont'd.)

Share Premium

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

Retained Earnings

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

Other Disclosed Reserves

Other disclosed reserves comprise the following:

- **Statutory Reserve**

Statutory reserve is maintained in compliance with Section 57(2)f of the IFSA and is not distributable as cash dividends.

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

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

Profit Equalisation Reserve ("PER")

PER is the amount appropriated out of the total Islamic banking gross income in order to maintain a certain level of return to Investment Account Holders ("IAH") which is as stipulated by BNM's Guidelines on Profit Equalisation Reserve. PER is allocated from retained profits and classified as a separate reserve in equity and is non-distributable. The amount of the PER is derecognised in the calculation of CET 1 Capital. The Bank has discontinued with the application of PER since 30 September 2015.

3.2 Additional Tier 1 Capital

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

3.3 Tier 2 Capital

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

The amount of Tier 2 Capital Instruments issued prior to 2013 that can be recognized in the computation of the capital adequacy ratios of the Bank has been capped at 90% of the total qualifying Tier 2 balance outstanding as at 1 January 2013. For 2016, the amount of such Tier 2 Capital that can be recognised in the computation of the capital adequacy ratios is capped at 60% of the total qualifying Tier 2 Capital balance outstanding as at 1 January 2013. This is in accordance to the transitional gradual phase-out treatment under the Basel III regime. Table 3.1 outlines the application of the grandfathering provisions in respect of the Tier 2 Capital instruments for the Bank, details of the Tier 2 Capital Instruments are outlined below.

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

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

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

3.3 Tier 2 Capital (Cont'd.)

Basel II Subordinated Sukuk Musharakah

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

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

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

The salient features of the Sukuk Musharakah issued under the Subordinated Sukuk Musharakah programme and outstanding as at 31 March 2016 are as follows:

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

3.3 Tier 2 Capital (Cont'd.)

Basel III Subordinated Sukuk Murabahah

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

The programme has a tenure of thirty (30) years from the date of the first issuance under the programme. Each issuance of Tier 2 Subordinated Sukuk under this programme shall have a tenure of at least five (5) years from the issue date, and is callable on any profit payment date after a minimum period of five (5) years from the date of issuance of each tranche.

The salient features of the Sukuk Murabahah issued under this programme and outstanding as at 31 March 2016 are as follows:

Issue Date	First Call Date	Tenor	Profit Rate	Nominal value outstanding (RM million)
28 February 2014	28 February 2019	10 years Non-Callable 5 years	5.07% per annum	200
25 March 2014	25 March 2019	10 years Non-Callable 5 years	5.05% per annum	150
21 December 2015	21 December 2020	10 years Non-Callable 5 years	5.35% per annum	250
Total				600

3.3 Tier 2 Capital (Cont'd.)

Table 3.2: Capital Structure

The components of Common Equity Tier 1 Capital, Tier 2, Total Capital of the Bank are as follows:

	31 March 2016	31 March 2015
	RM'000	RM'000
<u>Common Equity Tier 1 ("CET1") Capital</u>		
Ordinary shares	462,922	462,922
Share premium	724,185	724,185
Retained earnings	982,055	747,523
Available-for-sale deficit	(1,589)	(6,592)
Statutory reserve	483,345	483,345
Profit equalisation reserve	-	3,904
Less : Regulatory adjustments applied on CET1 Capital		
- Intangible assets	(14)	(20)
- Profit equalisation reserve	-	(3,904)
CET1 Capital/ Tier 1 Capital	2,650,904	2,411,363
<u>Tier 2 Capital</u>		
Tier 2 Capital instruments meeting all relevant criteria for inclusion	600,000	350,000
Tier 2 Capital instruments (subject to gradual phase-out treatment)	600,000	700,000
Collective allowance and regulatory reserves	273,963	305,338
Tier 2 Capital	1,473,963	1,355,338
Total Capital	4,124,867	3,766,701

The breakdown of the risk-weighted in various categories of risk are as follows:

	31 March 2016	31 March 2015
	RM'000	RM'000
Credit RWA	26,112,657	25,790,830
Less : Credit RWA absorbed by RIA	(1,003,979)	(1,363,811)
Total Credit RWA	25,108,678	24,427,019
Market RWA	296,231	230,629
Operational RWA	1,519,148	1,553,441
Total Risk Weighted Assets	26,924,057	26,211,089

4.0 General Risk Management

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

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

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

Board Approved Risk Appetite Statement

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

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

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

The AMMB Group manages Operational Risk by setting the operational risk appetite statements and measurements that the AMMB Group is willing to tolerate to support its business strategies and objectives. The AMMB 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 AMMB 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.

4.0 General Risk Management (Cont'd.)

Board Approved Risk Appetite Statement (Cont'd.)

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

Risk Management Governance

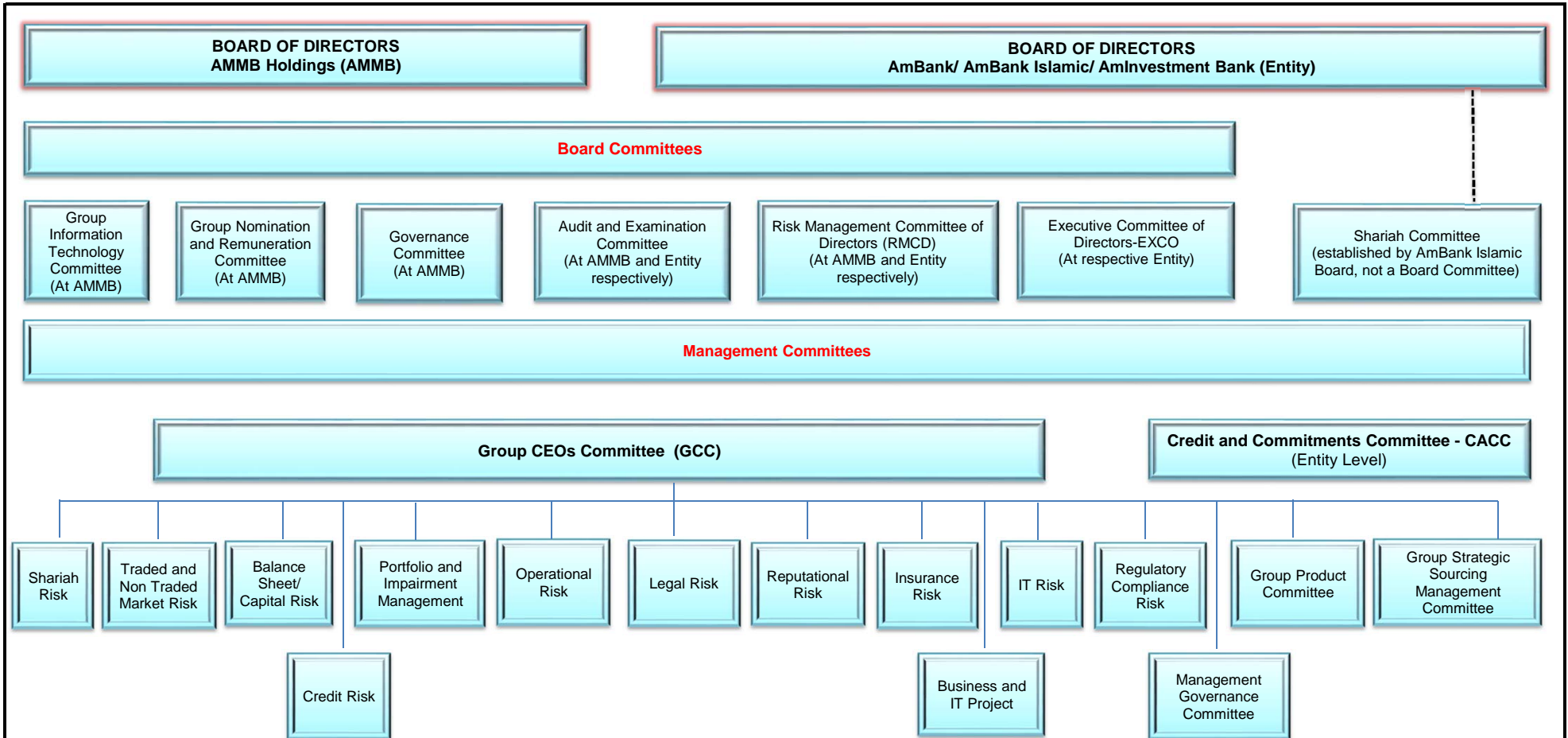
The Board is ultimately responsible for the management of risks within the AMMB Group. The RMCD is formed to assist the Board in discharging its duties in overseeing the overall management of all risks covering market risk, liquidity risk, credit risk and operational risk and regulatory compliance risk.

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

4.0 General Risk Management (Cont'd.)

Risk Management Governance

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



4.1 Internal Capital Adequacy Assessment Process

The core objectives of the AMMB 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 AMMB Group's capital position; and
- ensure that the capital base supports the AMMB 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 AMMB Group's Risk Appetite as set and approved by the Board.

The following key principles underpin the ICAAP.

4.1.1 The AMMB Group must maintain an approved, documented, risk based and auditable ICAAP. The aim is to ensure the AMMB 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 AMMB Group, consistent with:

- Group Risk Appetite, including the AMMB Group's target credit rating category;
- regulatory capital requirements ;
- the Board and Management's targeted financial performance, and
- the AMMB 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 AMMB 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 AMMB Group's overall risk management strategy and governance frameworks.

4.1.3 Capital Management Plan and Framework

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

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

4.1 Internal Capital Adequacy Assessment Process (Cont'd.)

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

- meet minimum prudential requirements in all jurisdictions in which the AMMB Group operates, also any rating agency requirements, including maintaining appropriate buffers over minimum capital levels; and
- be consistent with the AMMB Group's overall risk profile and financial positions, taking into account its strategic focus and business plan.

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

- minimums;
- triggers; and
- target operating ranges.

4.1.5 Capital allocation:

- the AMMB 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 AMMB Group's regulatory capital measurement framework and risk adjusted performance requirements; and
- the AMMB 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

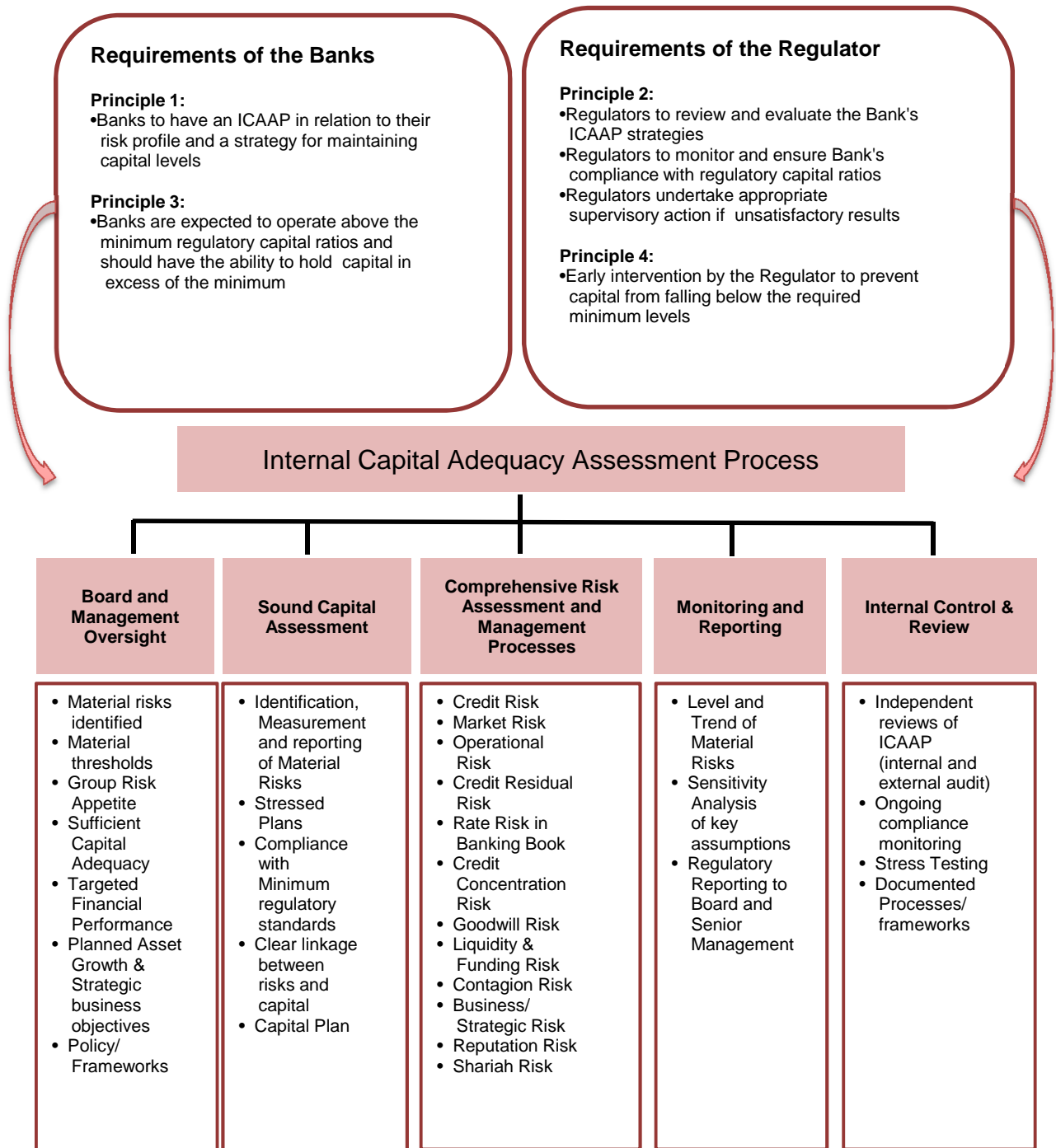
- the AMMB Group must have clearly articulated definitions of each material risk type to be included in the ICAAP; and
- processes to identify and determine the materiality of current risk types, change to existing risk types and new risk types must be established.

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.

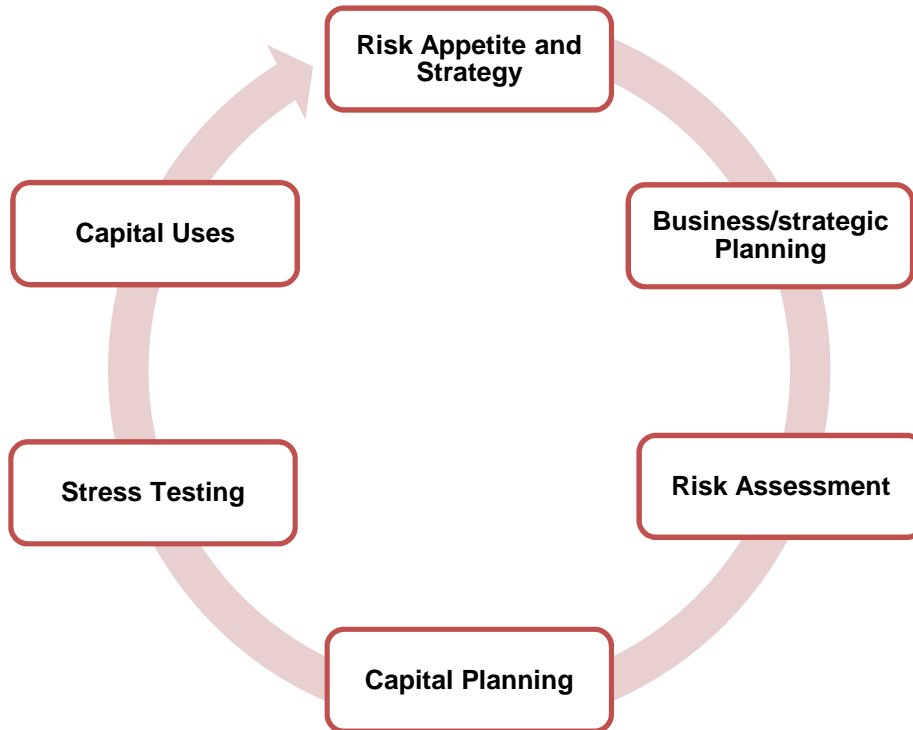
4.1 Internal Capital Adequacy Assessment Process (Cont'd.)

ICAAP Framework



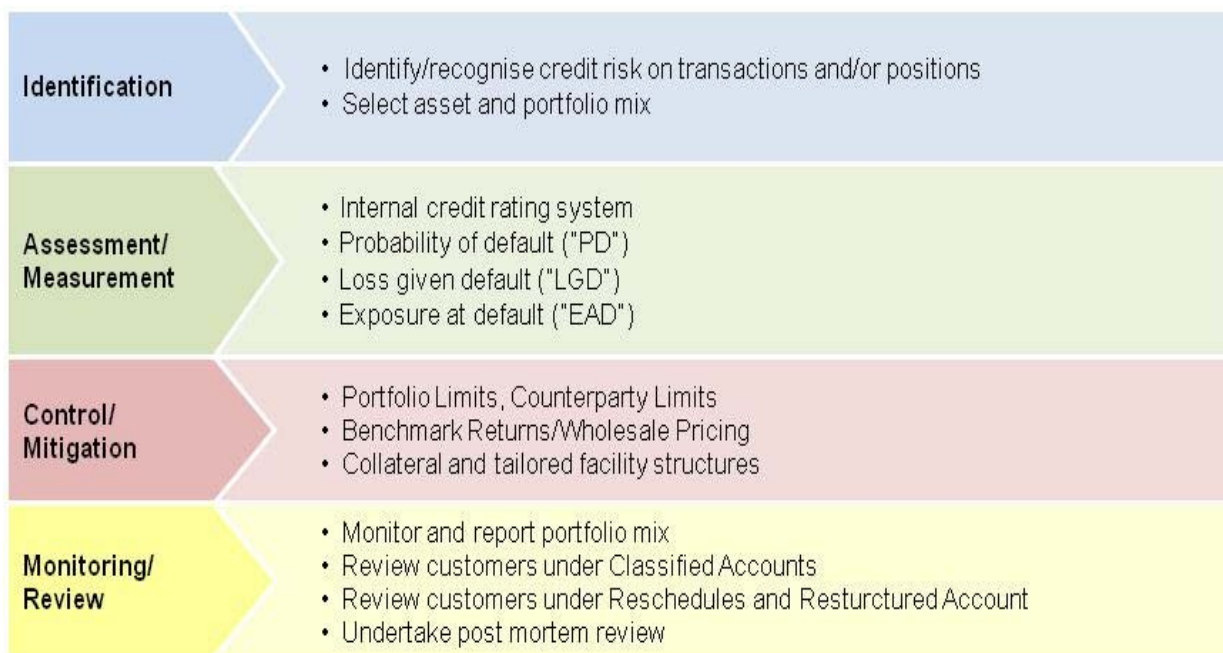
4.1 Internal Capital Adequacy Assessment Process (Cont'd.)

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:



Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its payment obligations. Exposure to credit risk arises from financing, securities and derivative exposures. The identification of credit risk is done by assessing the potential impact of internal and external factors on the Bank's transactions and/or positions as well as Shariah compliance risk. (Please refer to Section 14 for discussion on Shariah Governance Structure).

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

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

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

5.0 Credit Risk Management (Cont'd.)

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

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

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

- concentration threshold/review trigger:
 - single counterparty credit;
 - industry sector; and
 - country.
- setting Financing to Value limits for asset backed financing (i.e., property exposures and other collateral);
- Classified Account processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers;
- Rescheduled and Restructured ("R&R") Account Management sets out the controls in managing R&R financing pursuant to the BNM's revised policy on Classification and Impairment Provisions for Loan/Financing issued in April 2015; and
- setting Guidelines on Wholesale Pricing/Benchmark Returns which serve as a guide to the minimum returns the Bank requires for the risk undertaken, taking into account operating expenses and cost of capital.

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

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

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

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

5.1 Impairment

5.1.1 Definition of Past Due and Impaired financing and advances

All financing and advances are categorised as either:

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

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

A financing is classified as impaired under the following circumstances:

- (a) where the principal or profit or both is past due¹ or the amount outstanding is in excess of approved limit (for revolving facilities), each for more than 90 days or 3 months on any material obligation²; or
- (b) for financing where repayments are scheduled on intervals of 3 months or longer, the financing is to be classified as impaired 1+30 days or 1day+1 month past due (the 30-days grace period is to allow for exclusion of administrative default³)
- (c) for trade bills/facilities, an account is deemed defaulted and impaired when the past due is 90 days from due date of the bill
- (d) a financing may also be classified as impaired:
 - i. if it is probable that the bank will be unable to collect all amounts due (including both profit and principal) according to the contractual terms of the agreement
 - ii. due to cross-default. Cross-default occurs when:
 - a default of a financing obligation of a customer triggers a default of another financing obligation of the same customer; or
 - a default of a financing obligation of a customer triggers a default of a financing obligation of other customers within the same customer group.

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

Or

- iii. if deemed appropriate by the Watchlist Committee.

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

² Material obligation as determined by Management. Current" material" threshold is set at more than RM200.00.

³ Administrative defaults include cases where exposures become overdue because of oversight on the part of the obligator and/or the banking institution. Instances of administrative defaults may be excluded from the historical default count, subject to appropriate policies and procedures established by the banking institution to evaluate and approve such cases.

5.1 Impairment (Cont'd.)

5.1.1 Definition of Past Due and Impaired financing and advances (Cont'd.)

- (e) debt instruments (for example, fixed income securities, debt converted instrument etc.) shall be classified as impaired
 - i. when the coupon /profit payment or face/nominal value redemption is one (1) day past due after the grace period, where there is a stipulated grace period within the contractually agreed terms; or
 - ii. when an event of default ("EOD") has been declared by the Trustee/Facility Agent⁴ for reasons other than payment in default (as outlined in the Trust Deeds Guidelines issued by the Securities Commission of Malaysia); or
 - iii. where it is deemed appropriate to classify as impaired and approved by the Watchlist Committee.
- (f) the financing is deemed impaired when it is classified as R&R in the Central Credit Reference Information System ("CCRIS").

5.1.2 Methodology for Determination of Individual and Collective Allowances

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

Individual Assessment

Individual assessment is divided into 2 main processes – detection of an event(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.

⁴ *In cases where the bond/sukuk holdings are not governed by a Trust Deed, the Facility Agent may declare, if so requested in writing by the bond/sukuk holders by way of Special Resolution that an EOD has occurred (subject to the Agency Agreement between issuers and facility agent), notwithstanding the stated maturity of the bond/sukuk.*

5.1 Impairment (Cont'd.)

Collective Assessment

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

With effect from 31 December 2015, the Bank is required to maintain, in aggregate, collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding financing⁵ net of individual impairment.

⁵ Excluding financing with an explicit guarantee from the Government of Malaysia.

Table 5.1: Distribution of gross credit exposures by sector

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

2016	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Government and Central Banks RM'000	Real Estate RM'000	Business Activity RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On-Balance Sheet Exposures															
Sovereigns/Central Banks	-	-	-	-	-	-	-	-	5,151,579	-	-	-	-	-	5,151,579
Banks, DFIs and MDBs	-	-	-	-	-	-	-	2,352,284	-	-	-	-	-	-	2,352,284
Corporates	1,546,426	1,935,165	2,709,646	112,641	3,013,758	933,884	914,749	1,557,903	-	2,515,573	405,614	1,401,908	112,917	43,835	17,204,019
Regulatory Retail	18,513	3,300	43,812	724	47,330	39,583	15,465	271	-	18,900	16,049	30,386	12,596,767	4,163	12,835,263
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	-	-	209,656	-	209,656
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	213,254	213,254
Defaulted Exposures	88	2,784	870	5,916	3,610	4,458	4,373	-	-	334,305	828	1,021	117,989	1,283	477,525
Total for On Balance Sheet Exposures	1,565,027	1,941,249	2,754,328	119,281	3,064,698	977,925	934,587	3,910,458	5,151,579	2,868,778	422,491	1,433,315	13,037,329	262,535	38,443,580
Off-Balance Sheet Exposures															
OTC Derivatives	-	-	669	-	375	10,805	-	118,880	-	-	1,229	619	-	-	132,577
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	150,072	9,202	357,691	18,195	432,596	199,269	85,850	21,863	-	124,753	98,280	8,827	292,219	68	1,798,885
Defaulted Exposures	-	189	-	-	-	119	-	-	-	270	-	-	-	-	578
Total for Off-Balance Sheet Exposures	150,072	9,391	358,360	18,195	432,971	210,193	85,850	140,743	-	125,023	99,509	9,446	292,219	68	1,932,040
Total On and Off-Balance Sheet Exposures	1,715,099	1,950,640	3,112,688	137,476	3,497,669	1,188,118	1,020,437	4,051,201	5,151,579	2,993,801	522,000	1,442,761	13,329,548	262,603	40,375,620

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

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

2015	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Government and Central Banks RM'000	Real Estate RM'000	Business Activity RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On-Balance Sheet Exposures															
Sovereigns/Central Banks	-	-	-	-	55,076	-	-	-	5,719,903	-	-	-	-	-	5,774,979
Banks, DFIs and MDBs	-	-	-	-	-	-	-	3,598,897	-	-	-	-	-	-	3,598,897
Corporates	1,413,869	2,193,270	2,186,637	126,074	3,186,066	910,208	851,709	1,194,702	-	2,529,576	431,222	955,314	152,959	35,451	16,167,057
Regulatory Retail	19,443	5,121	48,233	960	49,078	46,047	33,952	1,219	-	22,588	15,452	46,893	13,263,681	1,430	13,554,097
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	-	-	119,330	-	119,330
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	260,888	260,888
Defaulted Exposures	479	3	3,714	7,703	11,341	5,761	504	83	-	315,464	94	1,787	121,901	5,157	473,991
Total for On-Balance Sheet Exposures	1,433,791	2,198,394	2,238,584	134,737	3,301,561	962,016	886,165	4,794,901	5,719,903	2,867,628	446,768	1,003,994	13,657,871	302,926	39,949,239
Off-Balance Sheet Exposures															
OTC Derivatives	-	-	156	-	-	-	-	113,527	-	-	115	-	-	-	113,798
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	123,353	69,929	321,793	16,179	407,791	133,712	71,524	9,374	-	153,657	92,113	19,296	263,216	965	1,682,902
Defaulted Exposures	-	-	352	-	6,485	9	-	-	-	110	99	-	-	-	7,055
Total for Off-Balance Sheet Exposures	123,353	69,929	322,301	16,179	414,276	133,721	71,524	122,901	-	153,767	92,327	19,296	263,216	965	1,803,755
Total On and Off-Balance Sheet Exposures	1,557,144	2,268,323	2,560,885	150,916	3,715,837	1,095,737	957,689	4,917,802	5,719,903	3,021,395	539,095	1,023,290	13,921,087	303,891	41,752,994

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

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

2016	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and Restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Not Allocated RM'000	Total RM'000
Impaired financing	150	3,450	29,434	16,233	4,813	4,350	6,998	-	378,700	2,670	3,305	154,228	869	-	605,200
Past due financing	8,205	3,455	32,107	16,310	23,095	9,607	10,953	377	420,180	29,360	11,374	3,255,326	15,816	-	3,836,165
Individual allowances	-	646	26,562	10,016	-	89	3,546	-	22,856	-	-	-	-	-	63,715
Collective allowances	-	-	-	-	-	-	-	-	-	-	-	-	-	329,392	329,392
Charges/(Writeback) for individual	-	646	8,325	(3,015)	(166)	76	3,906	-	17,635	76	113	(8)	-	-	27,588
Write-offs against individual allowances	-	-	9,114	-	5,278	2,551	11,120	-	-	1,088	113	684	-	-	29,948

2015	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and Restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Not Allocated RM'000	Total RM'000
Impaired financing	354	7	34,143	21,100	9,590	6,763	12,076	33	322,332	4,211	6,169	188,040	1,637	-	606,455
Past due financing	9,692	267	61,845	81	46,489	25,479	21,719	117	245,431	23,256	19,005	3,845,999	13,554	-	4,312,934
Individual allowances	-	-	27,351	13,031	5,444	2,564	10,760	-	5,221	1,012	-	692	-	-	66,075
Collective allowances	-	-	-	-	-	-	-	-	-	-	-	-	-	458,453	458,453
Charges for individual allowances	-	-	9,581	13,031	4,664	2,367	10,359	-	5,186	754	-	692	-	-	46,634
Write-offs against individual allowances	-	-	-	-	-	8	21	-	-	-	-	-	-	-	29

Table 5.3: Geographical distribution of credit exposures

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

2016	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	5,151,579	-	5,151,579
Banks, DFIs and MDBs	2,330,683	21,601	2,352,284
Corporates	17,204,019	-	17,204,019
Regulatory Retail	12,835,263	-	12,835,263
Residential Mortgages	209,656	-	209,656
Other Assets	213,254	-	213,254
Defaulted Exposures	477,525	-	477,525
Total for On Balance Sheet Exposures	38,421,979	21,601	38,443,580
Off-Balance Sheet Exposures			
OTC Derivatives	132,577	-	132,577
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	1,798,885	-	1,798,885
Defaulted Exposures	578	-	578
Total for Off-Balance Sheet Exposures	1,932,040	-	1,932,040
Total On and Off-Balance Sheet Exposures	40,354,019	21,601	40,375,620

Table 5.3: Geographical distribution of credit exposures

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

2015	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	5,774,979	-	5,774,979
Banks, DFIs and MDBs	3,598,117	780	3,598,897
Corporates	16,167,057	-	16,167,057
Regulatory Retail	13,554,097	-	13,554,097
Residential Mortgages	119,330	-	119,330
Other Assets	260,888	-	260,888
Defaulted Exposures	473,991	-	473,991
Total for On-Balance Sheet Exposures	39,948,459	780	39,949,239
Off-Balance Sheet Exposures			
OTC Derivatives	113,798	-	113,798
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	1,682,902	-	1,682,902
Defaulted Exposures	7,055	-	7,055
Total for Off-Balance Sheet Exposures	1,803,755	-	1,803,755
Total On and Off-Balance Sheet Exposures	41,752,214	780	41,752,994

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

The amounts of impaired and past due financing which reside in Malaysia, individual and collective allowances of the Bank are as follows:

2016	Total
	RM'000
Impaired financing	605,200
Past due financing	3,836,165
Individual allowances	63,715
Collective allowances	329,392

2015	Total
	RM'000
Impaired financing	606,455
Past due financing	4,312,934
Individual allowances	66,075
Collective allowances	458,453

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

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

2016	>6 months							No Maturity specified RM'000	Total RM'000
	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000		
On-Balance Sheet Exposures									
Sovereigns/Central Banks	3,883,604	-	-	-	-	125,337	1,142,638	-	5,151,579
Banks, DFI and MDB	732,384	1,540,032	-	-	-	-	79,868	-	2,352,284
Corporates	4,803,397	1,529,321	952,030	617,548	3,263,987	2,480,238	3,557,498	-	17,204,019
Regulatory Retail	255,249	9,265	25,956	70,967	897,563	2,647,876	8,928,387	-	12,835,263
Residential Mortgages	12	12	32	128	2,796	5,477	201,199	-	209,656
Other Assets	681	1,760	2,399	5,464	12,140	105,347	-	85,463	213,254
Defaulted Exposures	312,788	2,509	1,170	32,011	23,317	33,740	71,990	-	477,525
Total for On-Balance Sheet Exposures	9,988,115	3,082,899	981,587	726,118	4,199,803	5,398,015	13,981,580	85,463	38,443,580
Off-Balance Sheet Exposures									
OTC Derivatives	5,765	14,060	13,458	52,689	-	18,606	27,999	-	132,577
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	235,425	118,457	180,526	320,515	248,304	124,984	570,674	-	1,798,885
Defaulted Exposures	-	189	-	389	-	-	-	-	578
Total for Off-Balance Sheet Exposures	241,190	132,706	193,984	373,593	248,304	143,590	598,673	-	1,932,040
Total On and Off-Balance Sheet Exposures	10,229,305	3,215,605	1,175,571	1,099,711	4,448,107	5,541,605	14,580,253	85,463	40,375,620

Table 5.5: Residual contractual maturity by major types of credit exposure (Cont'd.)

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

2015	>6 months							No Maturity specified RM'000	Total RM'000
	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000		
On-Balance Sheet Exposures									
Sovereigns/Central Banks	4,468,613	-	-	-	-	-	1,306,366	-	5,774,979
Banks, DFI and MDB	1,334,046	2,165,119	-	-	-	-	99,732	-	3,598,897
Corporates	3,688,257	1,625,186	1,875,477	293,169	2,000,321	2,703,410	3,981,237	-	16,167,057
Regulatory Retail	279,140	5,757	22,510	55,954	766,975	2,101,194	10,322,567	-	13,554,097
Residential Mortgages	50	20	72	131	2,169	3,526	113,362	-	119,330
Other Assets	698	1,427	2,215	4,699	127,656	-	-	124,193	260,888
Defaulted Exposures	329,292	898	2,435	3,253	23,843	28,925	85,345	-	473,991
Total for On-Balance Sheet Exposures	10,100,096	3,798,407	1,902,709	357,206	2,920,964	4,837,055	15,908,609	124,193	39,949,239
Off-Balance Sheet Exposures									
OTC Derivatives	30,525	559	13,876	27,434	-	2,906	38,498	-	113,798
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	226,503	85,850	181,338	307,277	319,709	136,499	425,726	-	1,682,902
Defaulted Exposures	-	4,833	676	110	99	977	360	-	7,055
Total for Off-Balance Sheet Exposures	257,028	91,242	195,890	334,821	319,808	140,382	464,584	-	1,803,755
Total On and Off-Balance Sheet Exposures	10,357,124	3,889,649	2,098,599	692,027	3,240,772	4,977,437	16,373,193	124,193	41,752,994

Table 5.6: Reconciliation of changes to financing impairment allowances

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

2016	Individual impairment allowances RM'000	Collective impairment allowances RM'000
Balance at 1 April	66,075	458,453
Charge for the year – net	27,588	77,975
Transferred from AmBank **	-	17
Foreign exchange differences	-	(5)
Amount written-off	(29,948)	(207,048)
Balance at 31 March	63,715	329,392

2015	Individual impairment allowances RM'000	Collective impairment allowances RM'000
Balance at 1 April	19,470	534,465
Charge for the year – net	46,634	224,295
Transferred from AmBank *	-	2,463
Amount written-off	(29)	(302,770)
Balance at 31 March	66,075	458,453

2016	(Charge off)/recoveries RM'000
Bad debts written off during the year	(15,223)
Bad debt recoveries during the year	124,971

2015	(Charge off)/recoveries RM'000
Bad debts written off during the year	(7,902)
Bad debt recoveries during the year	147,282

* During the financial year ended 31 March 2015, upon expiry of the RIA on 2 May 2014, which was entered into with AmBank in the financial year 31 March 2013, AmBank had derecognised the collective allowance previously recognised in its financial statements. Accordingly, the Bank accounted for the collective allowance in its financial statements.

** During the current financial year,

- on 31 December 2015, another new contract for the sum of RM300.0 million was entered into by the Bank with AmBank. Arising from this new contract, the Bank transferred collective allowance of approximately RM2.46 million for the financing funded to AmBank. On 15 March 2016, AmBank early redeemed the RIA and derecognised the collective allowance previously recognised in its financial statements of RM2.48 million. Accordingly, the Bank accounted for the collective allowance in its financial statements.

As at 31 March 2016, the gross exposure and collective allowance relating to the RIA financing amounted to RM1,004.0 million and RM1.5 million respectively (31 March 2015: RM1,363.8 million and RM1.6 million respectively). There was no individual allowance provided for the RIA financing.

6.0 Credit Risk Exposure under the Standardised Approach

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

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

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

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

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

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

2016

Risk Weights	Exposures after Netting and Credit Risk Mitigation									
	Sovereigns and Central Banks	Banks, DFIs and MDBs	Insurance Companies, Securities Firms and Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Total Exposures after Netting and Credit Risk Mitigation	Total Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	5,151,579	19,828	-	3,090,516	-	-	-	-	8,261,923	-
20%	-	2,109,683	-	1,311,569	508	-	-	-	3,421,760	684,352
35%	-	-	-	-	-	179,034	-	-	179,034	62,662
50%	-	332,040	-	2,930	9,713	32,693	-	-	377,376	188,688
75%	-	-	-	-	11,050,726	-	-	-	11,050,726	8,288,044
100%	-	-	-	13,984,625	2,107,386	3,179	-	213,254	16,308,444	16,308,444
150%	-	-	-	328,573	58,405	-	-	-	386,978	580,467
Average Risk Weight										
Total	5,151,579	2,461,551	-	18,718,213	13,226,738	214,906	-	213,254	39,986,241	26,112,657

Table 6.1: Credit exposures by risk weights under the Standardised Approach (Cont'd.)

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

2015

Risk Weights	Exposures after Netting and Credit Risk Mitigation									
	Sovereigns and Central Banks	Banks, DFIs and MDBs	Insurance Companies, Securities Firms and Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Total Exposures after Netting and Credit Risk Mitigation	Total Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	5,774,979	19,696	-	2,542,580	-	-	-	-	8,337,255	-
20%	-	3,402,267	-	1,097,097	219	-	-	-	4,499,583	899,917
35%	-	-	-	-	-	118,508	-	-	118,508	41,478
50%	-	250,076	-	47,180	6,637	2,490	-	-	306,383	153,191
75%	-	-	-	-	13,019,836	-	-	-	13,019,836	9,764,877
100%	-	-	5,704	13,223,590	845,316	2,601	-	260,888	14,338,099	14,338,099
150%	-	-	-	334,802	56,953	-	3,757	-	395,512	593,268
Average Risk Weight										
Total	5,774,979	3,672,039	5,704	17,245,249	13,928,961	123,599	3,757	260,888	41,015,176	25,790,830

Table 6.2: Rated Exposures according to Ratings by ECAIs

2016

Exposure Class	Ratings of Corporate by Approved ECAIs				
	Moody's S&P Fitch RAM MARC	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA-	A1 to A3 A+ to A- A+ to A- A to A3 A+ to A-	Baa1 to Ba3 BBB+ to BB- BBB+ to BB- BBB1 to BB3 BBB+ to BB-	Unrated Unrated Unrated Unrated Unrated
		RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures					
Credit Exposures (using Corporate Risk Weights)					
Corporates	19,079,599	1,058,765	452,413	-	17,568,421
Total	19,079,599	1,058,765	452,413	-	17,568,421

2015

Exposure Class	Ratings of Corporate by Approved ECAIs				
	Moody's S&P Fitch RAM MARC	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA-	A1 to A3 A+ to A- A+ to A- A to A3 A+ to A-	Baa1 to Ba3 BBB+ to BB- BBB+ to BB- BBB1 to BB3 BBB+ to BB-	Unrated Unrated Unrated Unrated Unrated
		RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures					
Credit Exposures (using Corporate Risk Weights)					
Insurance Companies, Securities Firms and Fund managers	5,704	-	-	-	5,704
Corporates	17,968,242	816,195	37,937	-	17,114,110
Total	17,973,946	816,195	37,937	-	17,119,814

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

2016

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>On and Off-Balance Sheet Exposures</u>						
Sovereigns and Central Banks	5,151,579	-	5,151,579	-	-	-
Total	5,151,579	-	5,151,579	-	-	-

2015

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>On and Off-Balance Sheet Exposures</u>						
Sovereigns and Central Banks	5,774,979	-	5,774,979	-	-	-
Total	5,774,979	-	5,774,979	-	-	-

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

2016

Exposure Class	Ratings of Banking Institutions by Approved ECAIs				
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures					
Banks, DFIs and MDBs	2,461,551	667,433	99,783	101,416	1,592,919
Total	2,461,551	667,433	99,783	101,416	1,592,919

2015

Exposure Class	Ratings of Banking Institutions by Approved ECAIs				
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures					
Banks, DFIs and MDBs	3,672,039	798,270	122,935	46,304	2,704,529
Total	3,672,039	798,270	122,935	46,304	2,704,529

7.0 Credit Risk Mitigation

Main Types of Collateral Taken by The Bank

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

- Cash and term deposits
- Exchange traded shares, sukuk and marketable securities
- Non-exchange traded debt securities/ sukuk
- Unit trusts (including Amanah Saham Nasional, Amanah Saham Bumiputera and mutual funds)
- Non-exchange traded shares
- Residential and non-residential property
- Plantation land, mining land, quarry land and vacant land
- Passenger vehicle, commercial vehicle, construction vehicle and vessel
- Plant and machineries

The Bank can only accept Shariah approved asset as collateral.

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

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

The Group Collateral Policy, issued in August 2015, is the internally recognised collateral framework for financing purposes as well as for regulatory capital.

Processes for Collateral Management

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

7.0 Credit Risk Mitigation (Cont'd.)

Guarantee Support

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

Guarantees that are recognised for risk grading purposes may be provided by parties that include associated entities, banks or sovereigns. Credit policy provides threshold parameters to determine acceptable counterparties in achieving risk grade enhancement of the transaction. Guarantee by a counterparty with lower rating than the customer is not recognised as part of the risk grade enhancement.

Use of Credit Derivatives and Netting for Risk Mitigation

Currently, the Bank does not use credit derivatives and netting for risk mitigation.

Transaction Structuring to Mitigate Credit Risk

Besides tangible security and guarantee support described above, credit risk mitigation techniques are used in structuring transactions. These include duration limits managing the number of years the financing is extended, amortisation schedules and financing covenants. These assist in managing credit risk and in providing early warning signals, whereby should financing covenants be breached, the Bank and the customer can work together to address the underlying causes and as appropriate, restructure facilities.

Concentrations of Credit Risk Mitigation

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

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

Table 7.1: Credit Risk Mitigation

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

Exposures	2016		
	Exposures before CRM RM'000	Exposures covered by guarantees/credit derivatives RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit Risk			
<u>On-Balance Sheet Exposures</u>			
Sovereigns/Central Banks	5,151,579	-	-
Banks, DFIs and MDBs	2,352,284	-	-
Corporates	17,204,019	1,610,453	1,092,008
Regulatory Retail	12,835,263	507	38,870
Residential Mortgages	209,656	-	142
Other Assets	213,254	-	-
Defaulted Exposures	477,525	24	102,788
Total On-Balance Sheet Exposures	38,443,580	1,610,984	1,233,808
<u>Off-Balance Sheet Exposures</u>			
OTC Derivatives	132,577	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	1,798,885	42,232	220,824
Defaulted Exposures	578	-	459
Total Off-Balance Sheet Exposures	1,932,040	42,232	221,283
Total On and Off-Balance Sheet Exposures	40,375,620	1,653,216	1,455,091

Exposures	2015		
	Exposures before CRM RM'000	Exposures covered by guarantees/credit derivatives RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit Risk			
<u>On-Balance Sheet Exposures</u>			
Sovereigns/Central Banks	5,774,979	-	-
Banks, DFIs and MDBs	3,598,897	-	-
Corporates	16,167,057	1,172,445	1,309,732
Regulatory Retail	13,554,097	219	21,254
Residential Mortgages	119,330	-	183
Other Assets	260,888	-	-
Defaulted Exposures	473,991	243	3,297
Total for On-Balance Sheet Exposures	39,949,239	1,172,907	1,334,466
<u>Off-Balance Sheet Exposures</u>			
OTC Derivatives	113,798	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	1,682,902	10,665	270,418
Defaulted Exposures	7,055	-	5,919
Total for Off-Balance Sheet Exposures	1,803,755	10,665	276,337
Total On and Off-Balance Sheet Exposures	41,752,994	1,183,572	1,610,803

8.0 Off Balance Sheet Exposures and Counterparty Credit Risk

8.1 Off Balance Sheet exposures

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

- credit related exposures, e.g. direct credit substitute, certain transaction-related contingent items, short term self liquidating trade-related contingencies, obligations under underwriting agreements, irrevocable commitment to extend credit and unutilised credit card lines
- derivatives financial instruments, e.g. equity and commodity related contracts (option).

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

8.2 Counterparty Credit Risk

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

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

8.2 Counterparty Credit Risk (Cont'd.)

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

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

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

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

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

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

Table 8.1: Off-Balance Sheet Exposures

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

2016

Description	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Direct credit substitutes	235,448		235,448	223,829
Transaction related contingent items	746,826		373,413	253,638
Short term self liquidating trade related contingencies	121,004		24,201	23,570
Forward asset purchases	10,460		1,900	1,900
Foreign exchange related contracts	1,679,198	55,282	85,971	57,846
One year or less	1,679,198	55,282	85,971	57,846
Profit rate related contracts	1,250,000	1,991	46,606	23,303
Over one year to five years	900,000	1,991	18,606	9,303
Over five years	350,000	-	28,000	14,000
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	999,782		499,891	413,291
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	2,846,242		569,249	540,865
Unutilised credit card lines	476,806		95,361	71,262
Total	8,365,766	57,273	1,932,040	1,609,504

2015

Description	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Direct credit substitutes	107,926		107,926	89,554
Transaction related contingent items	746,892		373,446	250,557
Short term self liquidating trade related contingencies	80,959		16,192	15,105
Foreign exchange related contracts	1,154,993	25,602	53,879	46,313
One year or less	1,154,993	25,602	53,879	46,313
Profit rate related contracts	530,000	1,504	41,404	23,554
Over one year to five years	180,000	1,504	2,906	2,306
Over five years	350,000	-	38,498	21,248
Other commodity contracts	363,034	363	18,514	9,257
One year or less	363,034	363	18,514	9,257
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	977,474		488,737	440,592
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	2,923,931		584,786	558,955
Unutilised credit card lines	594,355		118,871	88,852
Total	7,479,564	27,469	1,803,755	1,522,739

9.0 Securitisation

The Bank did not have any securitisation exposure in its trading book and banking book nor did it undertake any securitisation activities during the financial year ended 31 March 2016 and 31 March 2015.

10.0 Operational Risk

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

Identification	<ul style="list-style-type: none"> Identify and analyse risks in key processes/activities within Line of Business (including new products)
Assessment/ Measurement	<ul style="list-style-type: none"> Incident Management and Data Collection Risk and Control Self Assessment Key Risk Indicators Key Control Testing Risk Treatment Plan
Control/ Mitigation	<ul style="list-style-type: none"> Policies addressing control and governance requirements to mitigate specific operational risk Advisory on establishment of internal control Contingency planning
Monitoring/ Review	<ul style="list-style-type: none"> Monitoring and reporting of loss incidents by Event Type, Portfolio and Line of Business and entity, reporting of operational risk board and management triggers, risk profile status, key risk indicator breaches and key control testing exceptions. Periodical review of risk profile within Line of Business

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

Operational Risk Appetite (“ORA”) is set as part of overall Group Risk Appetite Framework (“GRAF”), which sets the acceptable tolerance levels of operational risk that the Bank is willing to accept, taking into consideration of the relevant financial and non-financial risk or return attributes in order to support the achievement of Bank’s strategic plan and business objectives. The ORA statements and measurements are classified based on operational loss event types, which are grouped into five (5) categories as below and monitored via Incident Management and Data Collection, Key Risk Indicator and Key Control Testing.

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

10.0 Operational Risk (Cont'd.)

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

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

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

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

As part of the on-going process to improve the management of operational risks, a dedicated IT Risk Unit which focuses on the management of IT-related risks, was set-up in July 2015.

10.0 Operational Risk (Cont'd.)

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

10.1 Business Continuity Management

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

Identification	<ul style="list-style-type: none"> Identify events that potentially threaten the business operations and areas of criticality
Assessment/ Measurement	<ul style="list-style-type: none"> Business Impact Analysis Threat Assessment
Control/ Mitigation	<ul style="list-style-type: none"> Policies governing the BCM implementation BCM methodologies controlling the process flow Implementing the Business Continuity Plan
Monitoring/ Review	<ul style="list-style-type: none"> BCM Plan testing and exercise Review of BCM Plan Plan maintenance

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

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

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

10.2 Legal Risk

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

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

10.3 Regulatory Compliance Risk

The Bank has established a compliance policy which sets out the roles and responsibilities of the Board, Senior Management, Business Units, Group Shared Services, Group Compliance and Group Internal Audit to oversee the management of compliance risk with the aim to promote the safety of the Bank by minimising financial, reputational and operational risks arising from legal and regulatory non-compliance.

The Bank has put in place the processes to manage the compliance functions in identifying, assessing and monitoring the following activities:

- Management of AML/CFT ongoing due diligence via tracking, monitoring and reporting of suspicious transactions
- Management of new regulations including timely dissemination, engagement and monitoring
- Undertake periodic compliance assessment including onsite, offsite, thematic and initial one-off onsite validation
- Review of new or variation to existing products and services

Training is provided to employees of AMMB Group on relevant legal and regulatory requirements governing its activities and guidance on implementation of internal controls to manage compliance risk.

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 profit rates, credit spreads, equity prices and foreign exchange rates. The Bank differentiates between two types of market risk: Traded Market Risk (“TMR”) and Non-Traded Market Risk (“NTMR”). Assessment, control and monitoring of these risks are the responsibilities of Investment Banking and Markets Risk (“IBMR”).

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.



11.1 Traded Market Risk (Cont'd.)

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

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

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

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

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

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

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

11.2 Non-Traded Market Risk

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

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



RORBB arises from changes in market profit rates that impact core net 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 profit margins and implied volatilities on profit rate options. The provision of retail and wholesale banking products and services (primarily financing and deposit-taking activities) creates profit rate sensitive positions in the Bank's statement of financial position.

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

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

11.2 Non-Traded Market Risk (Cont'd.)

Rate of Return Risk in Banking Book (Cont'd.)

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

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

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

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

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

RORBB exposures are monitor by IBMR and positions reported to the Group CEOs Committee, RMCD and the Board.

11.2 Non-Traded Market Risk (Cont'd.)**Rate of Return Risk in Banking Book (Cont'd.)**

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

	2016		2015	
	Rate of Return	Rate of Return	Rate of Return	Rate of Return
	+ 100 bps RM'000	- 100 bps RM'000	+ 100 bps RM'000	- 100 bps RM'000
MYR				
Impact on profit before zakat and taxation	(7,912)	7,912	(3,624)	3,624
Impact on equity	(260,620)	286,976	(312,389)	343,626

12.0 Equities (Banking Book Positions)

The Bank did not have any equity investment as at 31 March 2016 and 31 March 2015.

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 management is the on going ability to raise sufficient funds to finance actual and proposed business activities at a reasonable cost. Improper funding risk management may lead to liquidity problem. On the other hand, insufficient liquidity risk management may also give rise to funding risk.

13.0 Liquidity Risk and Funding Management (Cont'd.)

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



The liquidity risk management of the Bank is aligned to BNM's Liquidity Coverage Ratio ("LCR") issued by BNM on 31 March 2015. The primary objective of the Bank's liquidity risk management is to ensure the availability of sufficient funds at a reasonable cost to honour all financial commitments when they fall due. This objective is partly managed through maintenance of a portfolio of high-quality liquid assets to protect against adverse funding conditions and support day-to-day operations. The secondary objective is to ensure an optimal funding structure and to balance the key liquidity risk management objectives, which includes diversification of funding sources, customer base and maturity period.

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

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

13.0 Liquidity Risk and Funding Management (Cont'd.)

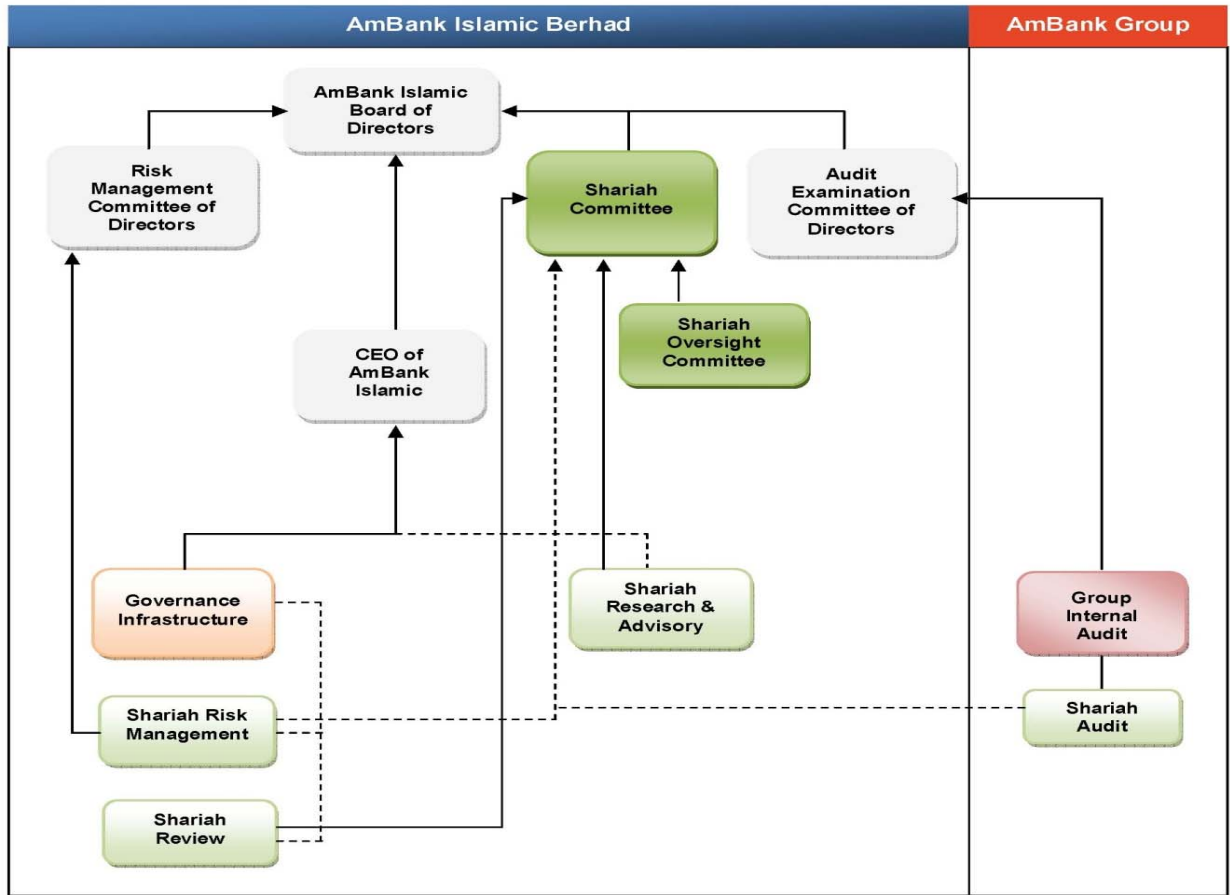
The Bank has put in place a Contingency Funding Plan to identify early warning signals of possible liquidity problem. The Contingency Funding Plan also sets out the detailed responsibilities among the relevant departments in the event of actual liquidity crises occurring to ensure orderly execution of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

Stress testing is undertaken to assess and plan for the impact for various scenarios which may put the Bank's liquidity at risk. The Bank further stresses the importance of customer deposit accounts as a source of funds to finance financing to customers. They are monitored using the unadjusted financing to deposit ratio, which compares financing and advances to customers as a percentage of customer deposit accounts.

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

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

14.0 Shariah Governance Structure



The AMMB Group has established a sound and robust Shariah governance structure for its Islamic banking operations in accordance with the requirements of BNM’s "Shariah Governance Framework for Islamic Financial Institutions". This is to ensure the operations and business activities of the Bank comply with Shariah principles and its requirements as prescribed by the Islamic Financial Services Act, 2013.

Apart from Shariah Research and Advisory, Shariah Risk Management and Shariah Review functions which reside in the Bank, the Bank’s Shariah governance structure leverages on the AMMB Group platform of Group Internal Audit Division for Shariah Audit function.

Board of Directors

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

14.0 Shariah Governance Structure (Cont'd.)

Audit Examination Committee of Directors

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

Risk Management Committee of Directors

RMCD is a Board committee responsible for assisting the Board in ensuring risk management and control process are in place and functioning, including Shariah risk management.

Shariah Committee

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

Shariah Oversight Committee

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

Management

Management is responsible to make reference to the Shariah Committee and/or Shariah Oversight Committee on Shariah matters and to take necessary measures for implementation. The Management is also responsible in setting the infrastructure and providing the environment and adequate resources to support the Shariah governance structure. This includes putting in place adequate systems and controls in order to ensure compliance with Shariah and to mitigate Shariah non-compliance risk.

Shariah Research and Advisory

The Shariah Research and Advisory Department is accountable to the Shariah Committee and is responsible for providing day-to-day Shariah advisory, conducting Shariah research, formulating Shariah policies and acting as Secretariat to the Shariah Committee and the Shariah Oversight Committee.

14.0 Shariah Governance Structure (Cont'd.)

Shariah Risk Management

The Shariah Risk Management (“SRM”) function is accountable to the RMCD. The SRM is a function to systematically identify, measure, monitor and control Shariah non-compliance risks to mitigate any possible non-compliance events.

The Shariah Risk Management is executed through the three lines of defence in managing Shariah risk. The three lines of defence are: 1st-The Business and Support Units; 2nd- Shariah Risk Management, Shariah Review, Shariah Research and Advisory, Compliance; 3rd - Shariah Audit.

Shariah Review

The Shariah Review function is accountable to the Shariah Committee. The objective of the Shariah review function is to provide reasonable self-assurance for the Bank in its daily activities and operations thus to add value and improve the degree of Shariah awareness and compliance.

Shariah Audit

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

14.1 Shariah Non-Compliant Income

During the year, the Bank had strengthened its Shariah governance framework and reviewed a number of business areas to consciously identify weaknesses vis-à-vis Shariah requirements. As a result of the exercise, eight (8) transactions, including those which originated in the previous year, were discovered to be Shariah non-compliant (“SNC”). This resulted in de-recognition of income amounting to RM9,740,145.75 which was subsequently purified. Pursuant to these incidents, the Bank will continuously enhance its controls to mitigate such recurrences, including improvements in systems, documentation and process flows.