

AmBank (M) Berhad **Pillar 3 Disclosures**

31 March 2016

Prepared by:

Checked by:

Reviewed by:

Zulfadli Jasman
Senior Executive
Date:

Roslina Kamaruzzaman
Senior Manager
Date:

Lim Kien Hock
Senior Vice President
Date:

**RWCAF - Pillar 3 Disclosures
31 March 2016**

Contents		Page
1.0	Scope of Application	1
2.0	Capital Management	3
3.0	Capital Structure	7
4.0	General Risk Management	15
5.0	Credit Risk Management	20
6.0	Credit Risk Exposure under the Standardised Approach	33
7.0	Credit Risk Mitigation	40
8.0	Off Balance Sheet Exposures and Counterparty Credit Risk	43
9.0	Securitisation	47
10.0	Operational Risk	52
11.0	Market Risk	54
12.0	Equities (Banking Book Positions)	58
13.0	Liquidity Risk and Funding Management	59
14.0	Attestation	61

1.0 Scope of Application

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

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

The Pillar 3 information has been provided in order to highlight the capital adequacy of the Group and the Bank. The information provided has been verified by the Group internal auditors and certified by the Chief Executive Officer.

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 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 (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 and its Group were computed in accordance to BNM's Risk Weighted Capital Adequacy Framework (General Requirements and Capital Components) (as applicable), 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 Capital Adequacy Framework (Basel II - Risk Weighted Assets).

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

Calendar year	Common Equity Tier 1 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.

With effect from 1 January 2016, pursuant to BNM's guidelines on Capital Adequacy Framework (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.

1.0 Scope of Application (Cont'd.)**Capital Adequacy Ratios (Cont'd.)**

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 Group are available on the Group's corporate website at www.ambankgroup.com.

1.1 Basis of Consolidation

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

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

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

1.1 Basis of Consolidation (Cont'd.)

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

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

2.0 Capital Management

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

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

The capital plan takes the following into account:

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

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

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

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

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

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

The Group operates processes and controls to monitor and manage capital adequacy across the organisation. Capital is maintained on the basis of the local regulator's requirement. 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.

2.0 Capital Management (Cont'd.)

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

Group CEOs Committee proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. For the current financial year ended 31 March 2016 ("FY 2016"), these ranges are 8.1% to 10.1% for the Common Equity Tier ("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 Group has been operating within these ranges.

The Capital and Balance Sheet Management Department, is responsible for the ongoing assessment of the demand for capital and the updating of the Group's capital plan.

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

Table 2.1: Capital Adequacy Ratio

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

	Group		Bank	
	2016	2015	2016	2015
Before deducting proposed dividends:				
CET 1 Capital ratio	11.701%	11.228%	11.082%	10.653%
Tier 1 Capital ratio	13.182%	13.021%	12.555%	12.446%
Total Capital ratio	16.435%	16.649%	15.770%	16.020%
After deducting proposed dividends:				
CET 1 Capital ratio	11.257%	10.599%	10.640%	10.023%
Tier 1 Capital ratio	12.738%	12.391%	12.114%	11.816%
Total Capital ratio	15.991%	16.019%	15.328%	15.390%

As part of an arrangement between the Bank and AmBank Islamic Berhad ("AmBank Islamic") in relation to two Restricted Investment Account ("RIA") agreement, the Bank records as "Investment Account" its exposure in the arrangement, whereas AmBank Islamic records its exposure as "financing and advances". The RIA is a contract based on Shariah concept of Mudarabah between the Bank and AmBank Islamic to finance a specific business venture whereby the Bank solely provides capital and the business ventures are managed solely by the AmBank Islamic as the entrepreneur. The RIA exposes the Bank to the risks and rewards of the financing, and accordingly the Bank 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 for the Group amounted to RM1,003,979,000 and RM1,473,000 (2015: RM1,363,811,000 and RM1,553,000) respectively. There was no individual allowance provided for the RIA financing.

Table 2.2 : Risk-Weighted Assets and Capital Requirements

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

2016 Exposure class	Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM")		Net exposures/ EAD after CRM	Risk weighted assets	Minimum capital requirement at 8%
	RM'000		RM'000	RM'000	RM'000
1. Credit risk					
On balance sheet exposures					
Sovereigns/Central banks	6,856,897		6,856,897	-	-
Banks, development financial institutions ("DFIs") and multilateral development banks ("MDBs")	7,120,476		7,120,476	1,464,431	117,154
Insurance companies, Securities firms and Fund managers	7,201		7,201	7,201	576
Corporates	33,694,177		32,590,599	26,380,795	2,110,464
Regulatory retail	20,825,718		19,849,971	15,555,106	1,244,408
Residential mortgages	11,137,520		11,114,976	3,932,125	314,570
Higher risk assets	99,589		99,589	149,384	11,951
Other assets	2,376,414		2,376,414	1,934,749	154,780
Securitisation exposures	53,432		53,432	13,607	1,089
Equity exposures	4,210		4,210	4,210	337
Defaulted exposures	669,831		654,999	738,328	59,066
Total on balance sheet exposures	82,845,465		80,728,764	50,179,936	4,014,395
Off balance sheet exposures					
Over the counter ("OTC") derivatives	4,380,669		4,380,669	1,759,451	140,756
Credit derivatives	42		42	21	2
Off balance sheet exposures other than OTC derivatives or Credit derivatives	9,040,740		8,362,439	7,288,856	583,108
Defaulted exposures	51,180		31,873	47,809	3,825
Total off balance sheet exposures	13,472,631		12,775,023	9,096,137	727,691
Total on and off balance sheet exposures	96,318,096		93,503,787	59,276,073	4,742,086
2. Large exposure risk requirement	-		-	-	-
3. Market risk	Long position	Short position			
Interest rate risk					
- General interest rate risk	90,788,748	89,353,232		1,843,501	147,480
- Specific interest rate risk	2,438,594	840,265		125,991	10,079
Foreign currency risk	94,516	64,978		94,516	7,561
Equity risk					
- General risk	142,335	10,790		131,545	10,524
- Specific risk	142,335	10,790		29,419	2,354
Option risk	644,033	469,892		6,200	496
Total	94,250,561	90,749,947		2,231,172	178,494
4. Operational risk				5,029,942	402,395
5. Total RWA and capital requirements				66,537,187	5,322,975

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 Group is as follows:

2015 Exposure class	Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM")		Net exposures/ EAD after CRM	Risk weighted assets	Minimum capital requirement at 8%
	RM'000		RM'000	RM'000	RM'000
1. Credit risk					
On balance sheet exposures					
Sovereigns/Central banks	6,443,021		6,443,021	-	-
Banks, development financial institutions ("DFIs") and multilateral development banks ("MDBs")	7,853,681		7,853,681	1,588,258	127,061
Insurance companies, Securities firms and Fund managers	35,068		35,068	35,068	2,805
Corporates	35,633,673		32,953,612	28,020,500	2,241,640
Regulatory retail	18,651,391		18,503,150	13,918,235	1,113,459
Residential mortgages	10,841,769		10,818,697	3,848,069	307,846
Higher risk assets	108,339		108,339	162,508	13,001
Other assets	3,086,190		3,086,190	2,686,930	214,954
Securitisation exposures	54,626		54,626	27,088	2,167
Equity exposures	5,395		5,395	5,395	432
Defaulted exposures	689,566		678,740	732,557	58,605
Total on balance sheet exposures	83,402,719		80,540,519	51,024,608	4,081,970
Off balance sheet exposures					
Over the counter ("OTC") derivatives	3,706,971		3,706,971	1,586,235	126,899
Credit derivatives	16		16	8	1
Off balance sheet exposures other than OTC derivatives or Credit derivatives	8,891,650		8,205,668	7,320,458	585,637
Defaulted exposures	34,631		31,881	47,777	3,822
Total off balance sheet exposures	12,633,268		11,944,536	8,954,478	716,359
Total on and off balance sheet exposures	96,035,987		92,485,055	59,979,086	4,798,329
2. Large exposure risk requirement				1,036	83
3. Market risk					
Interest rate risk					
- General interest rate risk	84,724,264	82,729,152		1,819,070	145,526
- Specific interest rate risk	2,971,911	909,130		146,730	11,738
Foreign currency risk	378,458	28,795		378,458	30,277
Equity risk					
- General risk	170,601	4,855		165,746	13,260
- Specific risk	170,601	4,855		257,840	20,627
Option risk	549,005	306,933		7,112	569
Total	88,964,840	83,983,720		2,774,956	221,997
4. Operational risk				5,012,317	400,985
5. Total RWA and capital requirements				67,767,395	5,421,394

For 2016 and 2015, the Group does not have Restricted Investment Account ("RIA") that qualifies as a risk absorbent.

3.0 Capital Structure

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

- CET 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 Additional Tier 1 and Tier 2 Capital instruments of the Group and 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. These Additional Tier 1 and Tier 2 Capital instruments qualify for the gradual phase-out treatment under the transitional arrangements of the Basel III accord. Under this treatment, the amount of capital instruments that can be recognised for the Group and the Bank shall be capped at 90% of the base in 2013 (as counted separately for Additional Tier 1 Capital and Tier 2 Capital respectively), with the cap reducing by 10% in each subsequent year. To the extent that an instrument is redeemed or derecognised after 1 January 2013, the amount serving as the base is not reduced.

3.1 CET 1 Capital

CET 1 Capital consists of the following:

a) Paid-up Ordinary Share Capital

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

b) Share Premium

Share premium is used to record premium arising from new shares issued by the Bank.

c) Retained Earnings

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

3.1 CET 1 Capital (Cont'd.)

d) Other Disclosed Reserves

Other disclosed reserves comprise the following:

i) Statutory Reserve

Statutory reserve is maintained in compliance with Section 47(2) f of the FSA and is not distributable as cash dividends.

ii) Merger Reserve

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

iii) Foreign Currency Translation Reserve/(Deficit)

Exchange gain (foreign currency translation reserve) and exchange losses (foreign currency translation deficit) arise from the translation of the financial statements of foreign operations, whose functional currencies are different from that of the Group's presentation currency.

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

This account comprises the unrealised fair value gains (available-for-sale reserve) and losses (available-for-sale deficit) 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.

v) Cash Flow Hedging Reserve/(Deficit)

This account relates to the amount of the hedging of the items that are not fair valued in the statement of financial position (including projected cash flows). Cash flow hedging gain as at the reporting period is classified as cash flow hedging reserve and cash flow hedging losses is classified as cash flow hedging deficit. The amount of the cash flow hedging reserve/(deficit) is derecognised in the calculation of CET 1 Capital.

3.2 Additional Tier 1 Capital

The amount of Additional Tier 1 Capital that can be recognised in the computation of the capital adequacy ratios of the Group and the Bank for 2013, has been capped at 90% of the total qualifying Additional Tier 1 balance outstanding as at 1 January 2013. For 2016, the amount of Additional Tier 1 Capital that can be recognised in the computation of the capital adequacy ratios are capped at 60% of the total qualifying Additional Tier 1 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 Additional Tier 1 Capital Instruments of the Group and the Bank. Details of the Additional Tier 1 Capital Instruments are outlined below.

Table 3.1: Additional Tier 1 Capital Instruments of the Group and the Bank and the Basel III Gradual Phase-Out Treatment

Base for Additional Tier 1 Capital Instruments outstanding on 1 January 2013	
Instruments	RM'000
Non-cumulative Non-voting Guaranteed Preference Shares	750,100
Innovative Tier 1 Capital - Tranche 1	300,000
Innovative Tier 1 Capital - Tranche 2	185,000
Non-Innovative Tier 1 Capital - Tranche 1	200,000
Non-Innovative Tier 1 Capital - Tranche 2	300,000
Total qualifying base	1,735,100

Calendar year	Cap on Additional Tier 1 Capital Instruments that can be recognised in capital adequacy computation each year	
	Cap (%)	Cap (RM'000)
2013	90%	1,561,590
2014	80%	1,388,080
2015	70%	1,214,570
2016	60%	1,041,060
2017	50%	867,550
2018	40%	694,040
2019	30%	520,530
2020	20%	347,020
2021	10%	173,510
2022	0%	-

3.2 Additional Tier 1 Capital (Cont'd.)

Innovative Tier 1 Capital

Innovative Tier 1 Capital comprises deeply subordinated debt instruments which despite their legal form, have loss absorbency qualities and can therefore be included as Tier 1 Capital. The Innovative Tier 1 securities in issue and their primary terms are as follows:

(a) Non-cumulative Non-voting Guaranteed Preference Shares

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

The salient features of the Hybrid Securities are as follows:

- (i) The Hybrid Securities bear non-cumulative dividends from the issue date to (but excluding) 27 January 2016 at 6.77% per annum and thereafter, a floating rate per annum equal to three (3) month USD LIBOR plus 2.90%, if not redeemed on 27 January 2016. The non-cumulative dividends are payable on a semi-annual basis.
- (ii) The Hybrid Securities are perpetual securities and have no fixed final redemption date. The Hybrid Securities may be redeemed in whole but not in part at the option of the issuer (but not the holders) in certain circumstances. In each case, not less than 30 nor more than 60 days' notice (which notice shall be irrevocable) must be given.

On 27 January 2016, AmBank had repaid in full the subordinated term loan to AMBB Capital (L) Ltd. AMBB Capital (L) Ltd used the proceeds received to redeem in full the Hybrid Securities on its first call date on 27 January 2016. The guarantee is automatically terminated upon redemption.

(b) Innovative Tier 1 Capital Securities

On 18 August 2009, the Bank issued up to RM485 million Innovative Tier I Capital Securities under its RM500 million Innovative Tier I Capital Securities ("ITICS") Programme. The ITICS bear a fixed interest (non-cumulative) rate at issuance date (interest rate is 8.25% per annum) and step up 100 basis points after the First Call Date (10 years after issuance date) and interest is payable semi annually in arrears. The maturity date is 30 years from the issue date. The ITICS facility is for a tenure of 60 years from the first issue date and has a principal stock settlement mechanism to redeem the ITICS via cash through the issuance of the Bank's ordinary shares. Upon BNM's approval, the Bank may redeem in whole but not in part the relevant tranche of the ITICS at any time on the 10th anniversary of the issue date of that tranche or on any interest payment date thereafter.

3.2 Additional Tier 1 Capital (Cont'd.)

Non-innovative Tier 1 Capital

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

- Non-Cumulative Perpetual Capital Securities ("NCPCS"), which are issued by the Bank and stapled to the Subordinated Notes described below; and
- Subordinated Notes ("SubNotes"), which are issued by AmPremier Capital Berhad ("AmPremier"), a wholly-owned subsidiary of the Bank.

Collectively known as "Stapled Capital Securities".

The proceeds from the NIT1 programme were used as working capital. The Stapled Capital Securities cannot be traded separately until the occurrence of certain assignment events. Upon occurrence of an assignment event, the Stapled Capital Securities will "unstaple", leaving the investors to hold only the NCPCS while ownership of the SubNotes will be assigned to the Bank pursuant to the forward purchase contract entered into by the Bank unless there is an earlier occurrence of any other events stated under the terms of the Stapled Capital Securities. If none of the assignment events as stipulated under the terms of the Stapled Capital Securities occur, the Stapled Capital Securities will unstaple on the 20th interest payment date or 10 years from the issuance date of the SubNotes.

The SubNotes have a fixed interest rate of 9.0% per annum. However, the NCPCS distribution will not begin to accrue until the SubNotes are re-assigned to the Bank as referred to above.

The NCPCS are issued in perpetuity unless redeemed under the terms of the NCPCS. The NCPCS are redeemable at the option of the Bank on the 20th interest payment date or 10 years from the issuance date of the SubNotes, or any NCPCS distribution date thereafter, subject to redemption conditions being satisfied. The SubNotes have a tenure of 30 years unless redeemed earlier under the terms of the SubNotes. The SubNotes are redeemable at the option of AmPremier on any interest payment date, which cannot be earlier than the occurrence of assignment events as stipulated under the terms of the Stapled Capital Securities.

The Stapled Capital Securities comply with BNM's Guidelines on Non-Innovative Tier 1 capital instruments. They constitute unsecured and subordinated obligations of the Bank. Claims in respect of the NCPCS rank pari passu and without preference among themselves and with the most junior class of preference shares of the Bank but in priority to the rights and claims of the ordinary shareholders of the Bank. The SubNotes rank pari passu and without preference among themselves and with the most junior class of notes or preference shares of AmPremier.

3.3 Tier 2 Capital

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

The amount of Tier 2 Capital issued prior to 2013 that can be recognised in the computation of the capital adequacy ratios of the Group and the Bank for 2013, has been capped at 90% of the total qualifying Tier 2 Capital 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 3.2 outlines the application of the grandfathering provisions in respect of the Tier 2 Capital Instruments for the Group and the Bank. Details of the Tier 2 Capital Instruments are outlined below.

Table 3.2: Tier 2 Capital Instruments of the Group and the Bank and the Basel III Gradual Phase-Out Treatment

Base for Tier 2 Capital Instruments outstanding on 1 January 2013		
Instruments	RM'000	
Medium Term Notes ("MTN") - Tranche 1	200,000	
MTN - Tranche 2	165,000	
MTN - Tranche 3	75,000	
MTN - Tranche 4	45,000	
MTN - Tranche 5	75,000	
MTN - Tranche 6	600,000	
MTN - Tranche 7	97,800	
MTN - Tranche 8	710,000	
Total qualifying base	1,967,800	

Calendar year	Cap on Tier 2 Capital Instruments that can be recognised in capital adequacy computation each year	
	Cap (%)	Cap (RM'000)
2013	90%	1,771,020
2014	80%	1,574,240
2015	70%	1,377,460
2016	60%	1,180,680
2017	50%	983,900
2018	40%	787,120
2019	30%	590,340
2020	20%	393,560
2021	10%	196,780
2022	0%	-

Medium Term Notes

In the financial year 2008, the Bank implemented a RM2.0 billion nominal value Medium Term Notes ("MTN") Programme whereby the proceeds raised from the MTN Programme had been utilised for the refinancing of existing subordinated debts and for general working capital requirements.

The MTN Programme has a tenure of up to 20 years from the date of the first issuance under the MTN Programme. The MTNs shall be issued for a maturity of up to 20 years as the Issuer may select at the point of issuance provided that no MTN shall mature after expiration of the MTN Programme.

3.3 Tier 2 Capital (Cont'd.)

Medium Term Notes (Cont'd.)

The MTNs issued under the MTN Programme was included as Tier 2 Capital under BNM's capital adequacy framework. Effective 1 January 2013, the MTNs are eligible for gradual phase-out treatment under the transitional arrangement of the Basel III accord, for recognition as Tier 2 Capital for capital adequacy calculation.

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

Issue Date	First Call Date	Tenure	Interest Rate	Nominal value outstanding (RM million)
9 April 2008	9 April 2018	15 years Non-Callable 10 years	6.25% per annum (step up by 0.5% per annum after its first call date).	600
16 October 2012	16 October 2017	10 years Non-Callable 5 years	4.45% per annum	710
Total				1,310

Basel III Subordinated Notes

On 30 December 2013, the Bank established a new Subordinated Notes programme of RM4.0 billion. The objective of the programme is to enable the issuance of Tier 2 Capital from time to time, for the purpose of enhancing the Bank's total capital position. The programme is set up in accordance to the requirements spelt out in the Capital Adequacy Framework (Capital Components) issued by BNM. Securities issued under this programme are fully Basel III compliant and qualified for recognition as Tier 2 Capital for the purpose of capital adequacy ratio computation.

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

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

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

Table 3.3: Capital Structure

The components of CET 1, Additional Tier 1, Tier 2, and Total Capital of the Group and the Bank are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
CET 1 Capital				
Ordinary shares	820,364	820,364	820,364	820,364
Share premium	942,844	942,844	942,844	942,844
Retained earnings	5,335,746	5,147,900	5,080,500	4,874,087
Available-for-sale reserve/(deficit)	11,751	1,207	11,951	1,323
Foreign currency translation reserve/(deficit)	63,306	50,537	61,296	50,585
Statutory reserve	980,969	980,969	980,969	980,969
Merger reserve	104,149	104,149	-	-
Cash flow hedging (deficit)/reserve	3,635	(481)	3,635	(481)
Qualifying minority interest	2	-	-	-
Less: Regulatory adjustments applied on CET 1 Capital				
Intangible assets	(350,753)	(334,749)	(344,944)	(327,689)
Deferred tax assets	(116,234)	(102,546)	(115,179)	(98,869)
55% of cumulative gains of available-for-sale financial instruments	(6,463)	(664)	(6,573)	(728)
Cash flow hedging (deficit)/reserve	(3,635)	481	(3,635)	481
Investment in ordinary shares of unconsolidated financial and insurance/takaful entities	-	(825)	(23,106)	(28,652)
Total CET 1 Capital	7,785,681	7,609,186	7,408,122	7,214,234
Additional Tier 1 Capital				
Additional Tier 1 Capital instruments (subject to gradual phase-out treatment)	985,000	1,214,570	985,000	1,214,570
Total Tier 1 Capital	8,770,681	8,823,756	8,393,122	8,428,804
Tier 2 Capital				
Tier 2 Capital instruments meeting all relevant criteria for inclusion	400,000	400,000	400,000	400,000
Tier 2 Capital instruments (subject to gradual phase-out treatment)	1,180,680	1,310,000	1,180,680	1,310,000
Qualifying CET 1, Additional Tier 1 and Tier 2 capital instruments held by third parties	1	-	-	-
Collective allowance and regulatory reserves	583,699	749,739	583,675	753,172
Less: Regulatory adjustments applied on Tier 2 Capital	-	(1,237)	(15,404)	(42,978)
Total Tier 2 Capital	2,164,380	2,458,502	2,148,951	2,420,194
Total Capital	10,935,061	11,282,258	10,542,073	10,848,998

The breakdown of the risk weighed assets ("RWA") in various categories of risk are as follows:

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Credit RWA	59,276,073	59,979,086	60,022,744	60,253,770
Market RWA	2,231,172	2,774,956	2,231,172	2,774,466
Operational RWA	5,029,942	5,012,317	4,595,005	4,694,931
Large exposure risk RWA for equity holdings	-	1,036	-	-
Total RWA	66,537,187	67,767,395	66,848,921	67,723,167

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 Group to set its risk/reward profile.

The Risk Appetite Framework is approved annually by the Board taking into account the Group's desired external rating and targeted profitability/return on equity ("ROE") and is reviewed periodically throughout the financial year by both the executive management and the Board to consider any fine tuning/amendments taking into account prevailing or expected changes to the environment that the 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 Group strategic goals are to sustain the top quartile ROE, and to maintain the credit rating of BBB+ or better (from international rating agencies) for the next one to two years. This is supported by sustainable asset quality and continued portfolio diversification within retail and non-retail businesses, with greater contribution from non-interest income, complemented by robust management of liquidity, disciplined execution of interest rate risk/rate of return risk in the balance sheet, and with support from strong level of capital.

The Group intends to maintain sufficient quantity and quality of capital in excess of Basel III requirement for CET 1 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 Loan Deposit Ratio is up to maximum 100% with continually improving current account and savings account ("CASA") deposit composition and market share.

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

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

Risk Management Governance

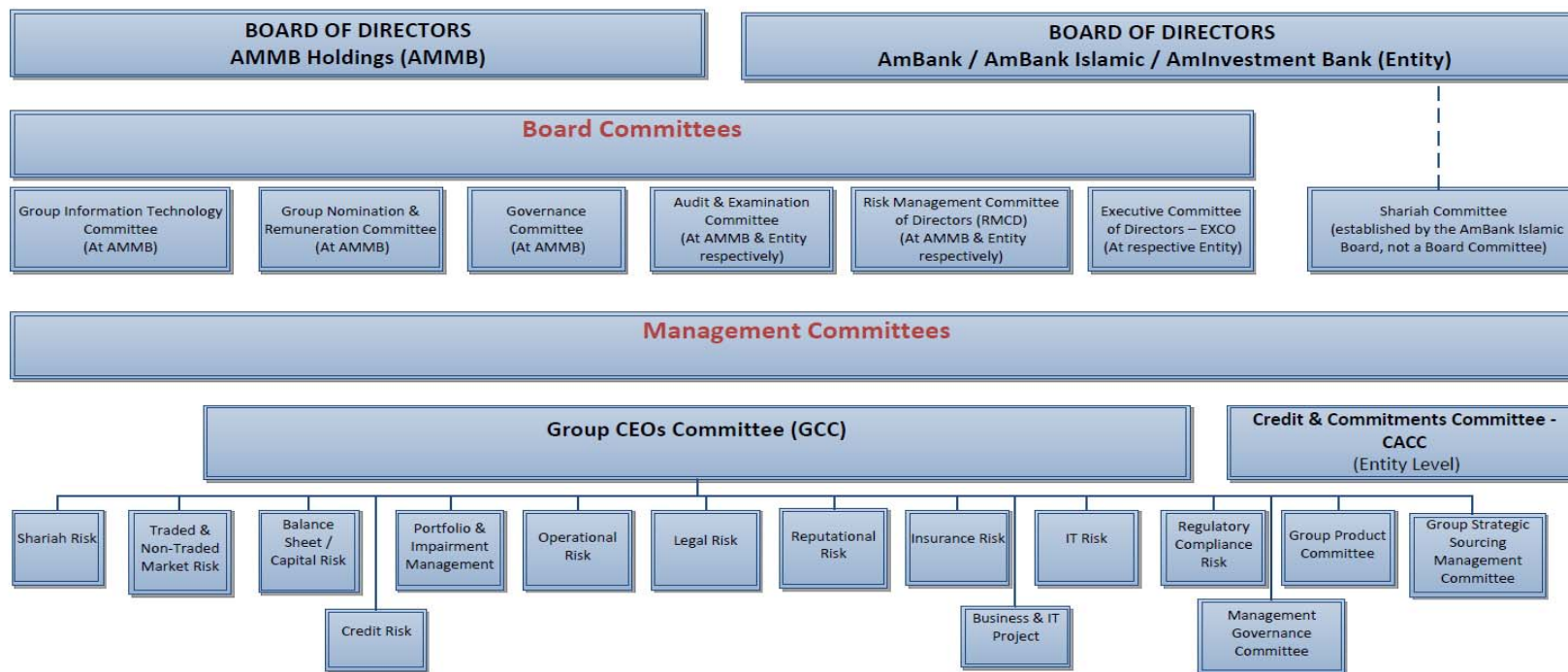
The Board is ultimately responsible for the management of risks within the Group. The RMCD is formed to assist the Board in discharging its duties in overseeing the overall management of all risks covering market risk, liquidity risk, credit risk, operational risk and regulatory compliance risk.

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

4.0 General Risk Management (Contd.)

Risk Management Governance (Contd.)

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



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 Bank'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 AMBB 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; and
- be incorporated into the AMMB Group's overall risk management strategy and governance frameworks.

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

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.

4.1.4 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 agencies' requirements, including maintaining appropriate buffers over minimum capital levels; and
- be consistent with the AMBB 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

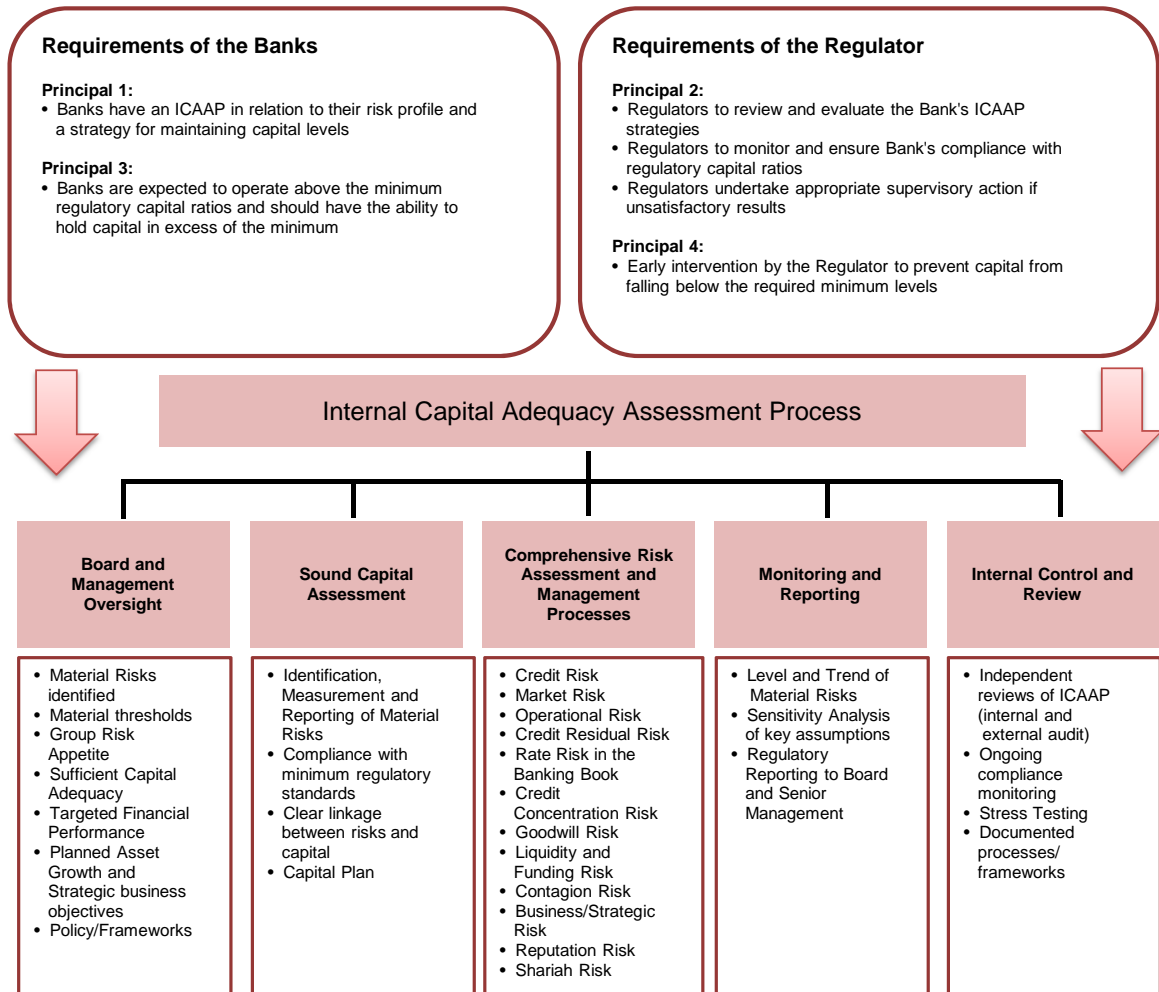
- The AMBB Group must have clearly articulated definitions of each material risk type to be included in the ICAAP; and
- processes to identify and determine the materiality of current risk types, change to existing risk types and new risk types must be established.

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

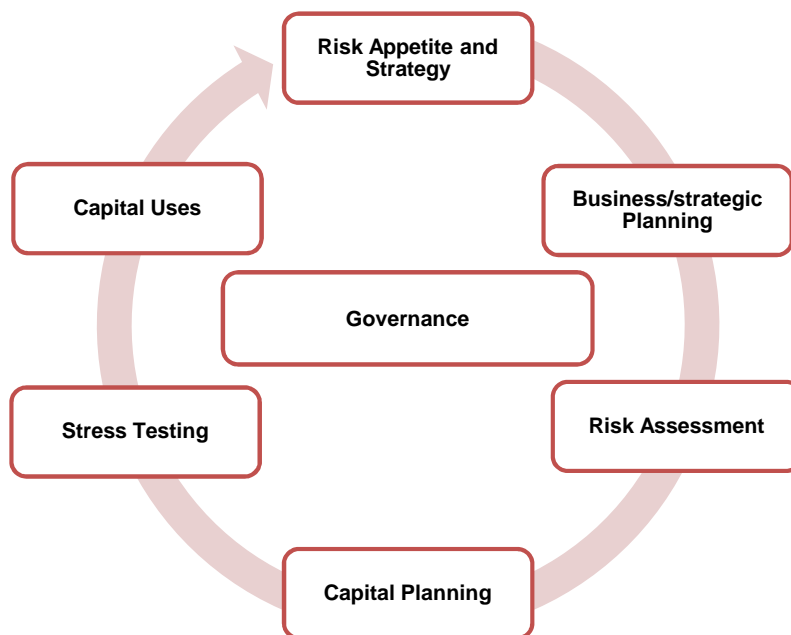
- significant departure from its ICAAP;
- concerns that the Board has about its capital adequacy along with proposed measures to address those concerns; and
- significant changes in its capital.

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

ICAAP Framework



Overview of ICAAP process and setting Internal Capital Targets



5.0 Credit Risk Management

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

Identification	<ul style="list-style-type: none"> • Identify/recognise credit risk on transactions and/or positions • Select asset and portfolio mix
Assessment/ Measurement	<ul style="list-style-type: none"> • Internal credit rating system • Probability of default ("PD") • Loss given default ("LGD") • Exposure at default ("EAD")
Control/ Mitigation	<ul style="list-style-type: none"> • Portfolio Limits, Counterparty Limits, • Benchmark Returns/ Wholesale Pricing • Collateral and tailored facility structures
Monitoring/ Review	<ul style="list-style-type: none"> • Monitor and report portfolio mix • Review customers under Classified Account • Review customers under Reschedule and Restructured Account • Undertake post mortem review

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

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

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

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

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

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

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

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

5.0 Credit Risk Management (Cont'd.)

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 the 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 meets to review the quality and diversification of the Group's loan/financing portfolio, approve new and amended credit risk policy, and review the portfolio risk profile against the Group Risk Appetite Framework ("GRAF").

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

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

5.1 Impairment

5.1.1 Definition of past due and impaired loans and advances

All loans and advances are categorised as either:

- neither past due nor impaired;
- past due but not impaired; or
- impaired

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

A loan is classified as impaired under the following circumstances:

- (a) where the principal or interest 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 loans where repayments are scheduled on intervals of 3 months or longer, the loan 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.

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 obligor and/or the banking institution. Instances of administrative defaults may be excluded from the historical default count, subject to appropriate policies and procedures established by the banking institution to evaluate and approve such cases.

5.1 Impairment (Cont'd)

5.1.1 Definition of past due and impaired loans and advances (Cont'd.)

- (d) a loan may also be classified as impaired:
- i. If it is probable that the bank will be unable to collect all amounts due (including both interest and principal) according to the contractual terms of the agreement; or
 - ii. Due to cross-default. Cross-default occurs when:
 - a default of a loan obligation of a customer triggers a default of another loan obligation of the same customer or
 - a default of a loan obligation of a customer triggers a default of a loan obligation of other customers within the same customer group.The Credit and Commitments Committee (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.
- (e) debt instruments (for example, fixed income securities, debt converted instrument etc.) shall be classified as impaired:
- i. when the coupon/interest 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 loan is deemed impaired when it is classified as rescheduled or restructured ("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.

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.)

5.1.2 Methodology for Determination of Individual and Collective Allowances (Cont'd.)

Individual Assessment (Cont'd.)

(b) Valuation of assets

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

Collective Assessment

Loans 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 loans⁵ net of individual impairment.

⁵ Excluding loans 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 Group is as follows:

2016															Total
	Agriculture	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Wholesale and retail trade and hotels and restaurants	Transport, storage and communication	Finance and insurance	Government and central banks	Real estate	Business activities	Education and health	Household	Others	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On balance sheet exposures															
Sovereigns/Central banks	-	-	-	-	-	-	-	-	6,856,897	-	-	-	-	-	6,856,897
Banks, DFIs and MDBs	-	-	-	-	-	-	-	7,048,909	-	-	-	71,567	-	-	7,120,476
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	-	7,201	-	-	-	-	-	-	7,201
Corporates	2,378,421	1,399,114	6,000,038	582,943	3,848,448	3,550,551	1,216,908	4,556,283	-	6,306,519	424,358	2,113,001	1,217,879	99,714	33,694,177
Regulatory retail	32,839	15,449	198,532	3,198	132,177	216,577	63,537	187,452	-	94,571	84,706	74,442	19,703,698	18,540	20,825,718
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	11,137,520	-	11,137,520
Higher risk assets	-	-	-	-	-	-	-	-	-	-	-	-	11,139	88,450	99,589
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	2,376,414	2,376,414
Securitisation exposures	-	-	-	-	-	-	-	31,181	-	22,251	-	-	-	-	53,432
Equity exposures	-	-	8	-	-	-	-	4,066	-	-	-	-	-	136	4,210
Defaulted exposures	2,679	388	51,767	345	32,027	36,669	8,173	7	-	98,583	2,677	5,987	419,082	11,447	669,831
Total for on balance sheet exposures	2,413,939	1,414,951	6,250,345	586,486	4,012,652	3,803,797	1,288,618	11,835,099	6,856,897	6,521,924	511,741	2,264,997	32,489,318	2,594,701	82,845,465
Off balance sheet exposures															
OTC derivatives	58,395	226,195	145,014	-	293	16,723	89,165	3,830,793	-	12,740	847	504	-	-	4,380,669
Credit derivatives	-	-	-	-	-	-	-	42	-	-	-	-	-	-	42
Off balance sheet exposures other than OTC derivatives or Credit derivatives	192,103	399,954	1,509,913	274,441	1,652,870	680,518	257,135	604,077	-	1,141,086	143,088	278,049	1,902,699	4,807	9,040,740
Defaulted exposures	-	-	1,832	-	688	43,007	500	5,000	-	-	3	1	32	117	51,180
Total for off balance sheet exposures	250,498	626,149	1,656,759	274,441	1,653,851	740,248	346,800	4,439,912	-	1,153,826	143,938	278,554	1,902,731	4,924	13,472,631
Total on and off balance sheet exposures	2,664,437	2,041,100	7,907,104	860,927	5,666,503	4,544,045	1,635,418	16,275,011	6,856,897	7,675,750	655,679	2,543,551	34,392,049	2,599,625	96,318,096

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

The distribution of credit exposures by sector of the Group is as follows (Cont'd.):

2015															Total
	Agriculture	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Wholesale and retail trade and hotels and restaurants	Transport, storage and communication	Finance and insurance	Government and central banks	Real estate	Business activities	Education and health	Household	Others	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On balance sheet exposures															
Sovereigns/Central banks	-	-	-	-	96,036	-	-	5,057,083	-	-	-	1,289,902	-	-	6,443,021
Banks, DFIs and MDBs	-	-	-	-	-	-	-	7,727,009	-	-	-	71,389	-	55,283	7,853,681
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	-	35,068	-	-	-	-	-	-	35,068
Corporates	2,460,675	1,548,624	6,046,116	1,269,253	3,445,741	3,895,351	1,479,358	4,552,583	-	5,479,681	860,617	2,129,663	2,356,251	109,760	35,633,673
Regulatory retail	52,503	12,496	170,765	2,431	153,223	216,655	60,231	222,068	-	77,698	81,611	89,677	17,476,113	35,920	18,651,391
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	10,841,769	-	10,841,769
Higher risk assets	-	-	-	-	-	-	-	-	-	-	-	-	18,868	89,471	108,339
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	3,086,190	3,086,190
Securitisation exposures	-	-	-	-	-	-	-	23,669	-	-	-	30,957	-	-	54,626
Equity exposures	-	-	7	-	-	-	-	5,227	-	-	-	-	-	161	5,395
Defaulted exposures	7,975	297	43,549	117	22,755	28,285	8,637	7,821	-	48,277	5,930	7,407	503,303	5,213	689,566
Total for on balance sheet exposures	2,521,153	1,561,417	6,260,437	1,271,801	3,717,755	4,140,291	1,548,226	17,630,528	-	5,605,656	948,158	3,618,995	31,196,304	3,381,998	83,402,719
Off balance sheet exposures															
OTC derivatives	3,161	185,794	125,565	-	6,474	4,125	68,813	3,259,513	-	8,953	41,354	629	-	2,590	3,706,971
Credit derivatives	-	-	-	-	-	-	-	16	-	-	-	-	-	-	16
Off balance sheet exposures other than OTC derivatives or Credit derivatives	161,327	515,681	1,416,233	173,741	1,835,231	631,725	223,814	619,903	-	883,965	123,555	292,832	2,001,447	12,196	8,891,650
Defaulted exposures	-	1,134	1,990	-	22,559	2,419	652	5,146	-	-	332	15	259	125	34,631
Total for off balance sheet exposures	164,488	702,609	1,543,788	173,741	1,864,264	638,269	293,279	3,884,578	-	892,918	165,241	293,476	2,001,706	14,911	12,633,268
Total on and off balance sheet exposures	2,685,641	2,264,026	7,804,225	1,445,542	5,582,019	4,778,560	1,841,505	21,515,106	-	6,498,574	1,113,399	3,912,471	33,198,010	3,396,909	96,035,987

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

The amounts of impaired and past due loans and advances, individual and collective allowances, charges for individual impairment provision and write offs during the year by sector of the Group 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 hotels 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	Unallocated RM'000	Total RM'000
Impaired loans and advances	2,272	84,987	155,617	265	45,620	29,332	18,272	477	193,236	5,830	3,738	547,732	6,025	-	1,093,403
Past due loans	9,219	28,564	200,427	1,085	70,843	79,496	63,451	4,147	236,525	24,924	18,039	6,151,931	35,471	-	6,924,122
Individual allowance	-	11,847	121,872	-	11,422	3,200	9,435	-	83,719	3,100	-	6,306	402	-	251,303
Collective allowance	-	-	-	-	-	-	-	-	-	-	-	-	-	730,849	730,849
Charges/(writeback) for individual allowance	-	5,898	22,534	-	11,261	1,188	9,487	-	58,673	(442)	(442)	2,822	402	-	111,381
Write-offs against individual allowance	-	-	10,663	-	2,249	6,134	2,370	-	-	266	536	5,317	-	-	27,535

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 hotels 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	Unallocated RM'000	Total RM'000
Impaired loans and advances	8,788	7,034	172,735	261	12,095	36,526	12,201	418	76,276	9,419	6,434	609,513	12,285	-	963,985
Past due loans	11,750	9,175	155,982	760	50,769	92,569	79,059	7,078	98,224	26,234	33,744	6,954,151	29,059	-	7,548,554
Individual allowance	-	5,949	110,001	-	2,410	8,146	2,318	-	25,046	3,808	978	8,801	-	-	167,457
Collective allowance	-	-	-	-	-	-	-	-	-	-	-	-	-	953,660	953,660
Charges/(writeback) for individual allowance	(11)	2,959	24,703	(21,240)	(64)	8,146	(3,319)	-	24,958	3,719	978	4,471	-	-	45,300
Write-offs against individual allowance	-	137	5,862	-	112	-	2,687	-	-	-	-	2,800	-	-	11,598

Table 5.3 : Geographical distribution of credit exposures

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

2016	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/Central banks	6,076,744	780,153	6,856,897
Banks, DFIs and MDBs	5,405,536	1,714,940	7,120,476
Insurance companies, Securities firms and Fund managers	7,201	-	7,201
Corporates	30,981,255	2,712,922	33,694,177
Regulatory retail	20,822,551	3,167	20,825,718
Residential mortgages	11,137,520	-	11,137,520
Higher risk assets	99,550	39	99,589
Other assets	2,281,888	94,526	2,376,414
Securitisation exposures	53,432	-	53,432
Equity exposures	4,210	-	4,210
Defaulted exposures	669,725	106	669,831
Total for on balance sheet exposures	77,539,612	5,305,853	82,845,465
Off balance sheet exposures			
OTC derivatives	4,380,669	-	4,380,669
Credit derivatives	42	-	42
Off balance sheet exposures other than OTC derivatives or Credit derivative	8,335,585	705,155	9,040,740
Defaulted exposures	51,180	-	51,180
Total for off balance sheet exposures	12,767,476	705,155	13,472,631
Total on and off balance sheet exposures	90,307,088	6,011,008	96,318,096

Table 5.3 : Geographical distribution of credit exposures (Cont'd.)

The geographic distribution of credit exposures of the Group is as follows (Cont'd.):

2015	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/Central banks	5,924,535	518,486	6,443,021
Banks, DFIs and MDBs	6,940,256	913,425	7,853,681
Insurance companies, Securities firms and Fund managers	35,068	-	35,068
Corporates	32,889,890	2,743,783	35,633,673
Regulatory retail	18,644,431	6,960	18,651,391
Residential mortgages	10,841,769	-	10,841,769
Higher risk assets	107,262	1,077	108,339
Other assets	2,881,212	204,978	3,086,190
Securitisation exposures	54,626	-	54,626
Equity exposures	5,395	-	5,395
Defaulted exposures	689,409	157	689,566
Total for on balance sheet exposures	79,013,853	4,388,866	83,402,719
Off balance sheet exposures			
OTC derivatives	3,706,966	5	3,706,971
Credit derivatives	16	-	16
Off balance sheet exposures other than OTC derivatives or Credit derivatives	8,189,026	702,624	8,891,650
Defaulted exposures	34,631	-	34,631
Total for off balance sheet exposures	11,930,639	702,629	12,633,268
Total on and off balance sheet exposures	90,944,492	5,091,495	96,035,987

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

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

2016	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans and advances	992,117	101,286	1,093,403
Past due loans	6,924,122	-	6,924,122
Individual allowance	241,839	9,464	251,303
Collective allowance	713,941	16,908	730,849

2015	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans and advances	963,985	-	963,985
Past due loans	7,548,554	-	7,548,554
Individual allowance	167,457	-	167,457
Collective allowance	939,685	13,975	953,660

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

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

2016	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No maturity specified RM'000	Total RM'000
On balance sheet exposures									
Sovereigns/Central banks	3,188,593	900,005	-	163,261	-	112,373	2,492,665	-	6,856,897
Banks, DFIs and MDBs	5,806,182	813,045	102,716	155,178	116,158	30,516	96,681	-	7,120,476
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	7,201	-	7,201
Corporates	9,419,863	2,474,496	1,257,199	753,743	3,653,481	4,252,646	11,882,749	-	33,694,177
Regulatory retail	1,254,071	62,963	88,100	198,669	1,929,858	3,376,442	13,915,615	-	20,825,718
Residential mortgages	312	317	995	4,592	54,524	125,471	10,951,309	-	11,137,520
Higher risk assets	26	-	4	71	488	394	10,156	88,450	99,589
Other assets	578,342	5,047	5,404	8,860	284,470	-	-	1,494,291	2,376,414
Securitisation exposures	40	-	-	-	-	-	53,392	-	53,432
Equity exposures	4,066	-	-	-	-	-	7	137	4,210
Defaulted exposures	96,692	26,814	16,581	8,476	93,014	44,899	383,355	-	669,831
Total for on balance sheet exposures	20,348,187	4,282,687	1,470,999	1,292,850	6,131,993	7,942,741	39,793,130	1,582,878	82,845,465
Off balance sheet exposures									
OTC derivatives	223,454	417,357	722,467	374,736	335,403	757,758	1,549,494	-	4,380,669
Credit derivatives	-	23	7	-	-	12	-	-	42
Off balance sheet exposures other than OTC derivatives or Credit derivatives	1,130,509	939,683	906,911	1,826,859	1,684,197	380,208	2,172,373	-	9,040,740
Defaulted exposures	14,495	1,181	23,543	10,248	280	-	1,433	-	51,180
Total for off balance sheet exposures	1,368,458	1,358,244	1,652,928	2,211,843	2,019,880	1,137,978	3,723,300	-	13,472,631
Total on and off balance sheet exposures	21,716,645	5,640,931	3,123,927	3,504,693	8,151,873	9,080,719	43,516,430	1,582,878	96,318,096

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 Group is as follows (Cont'd.):

2015	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No maturity specified RM'000	Total RM'000
On balance sheet exposures									
Sovereigns/Central banks	2,894,975	518,486	39,691	-	-	111,715	2,878,154	-	6,443,021
Banks, DFIs and MDBs	3,496,105	3,850,032	202,669	41,929	25,205	95,456	137,071	5,214	7,853,681
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	35,068	-	35,068
Corporates	8,923,385	2,251,727	1,377,906	1,991,449	3,983,711	3,614,180	13,491,315	-	35,633,673
Regulatory retail	1,325,324	61,134	102,687	218,663	1,922,213	3,575,152	11,446,218	-	18,651,391
Residential mortgages	711	279	1,062	3,697	56,218	126,460	10,653,342	-	10,841,769
Higher risk assets	1	25	14	59	479	1,444	16,846	89,471	108,339
Other assets	544,944	7,473	8,999	18,329	325,450	203,050	-	1,977,945	3,086,190
Securitisation exposures	6	-	-	-	-	-	54,620	-	54,626
Equity exposures	5,226	-	-	-	-	-	8	161	5,395
Defaulted exposures	65,930	7,662	8,745	11,612	71,348	98,102	426,167	-	689,566
Total for on balance sheet exposures	17,256,607	6,696,818	1,741,773	2,285,738	6,384,624	7,825,559	39,138,809	2,072,791	83,402,719
Off balance sheet exposures									
OTC derivatives	301,996	250,729	264,208	383,479	644,305	555,126	1,307,128	-	3,706,971
Credit derivatives	-	-	-	-	10	-	6	-	16
Off balance sheet exposures other than OTC derivatives or Credit derivatives	1,146,875	945,570	981,657	1,601,580	1,608,007	743,789	1,864,172	-	8,891,650
Defaulted exposures	3,734	8,497	806	18,598	300	-	2,696	-	34,631
Total for off balance sheet exposures	1,452,605	1,204,796	1,246,671	2,003,657	2,252,622	1,298,915	3,174,002	-	12,633,268
Total on and off balance sheet exposures	18,709,212	7,901,614	2,988,444	4,289,395	8,637,246	9,124,474	42,312,811	2,072,791	96,035,987

Table 5.6 : Reconciliation of changes to loans impairment allowances

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

	Collective impairment allowance		Individual impairment allowances	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Balance at beginning of the financial year	953,660	1,411,219	167,457	133,755
Charge to income statement, net	185,846	282,957	111,381	45,300
Amount transferred to AmBank Islamic	(17) **	(2,463) *	-	-
Amount written-off and others	(409,920)	(740,094)	(27,535)	(11,598)
Foreign exchange differences	1,280	2,041	-	-
Balance at end of the financial year ***	730,849	953,660	251,303	167,457

* In the financial year ended 31 March 2015, on 2 May 2014 upon expiry of the RIA contract entered into with AmBank Islamic in the financial year ended 31 March 2013, the Bank had derecognised the collective allowance previously recognised in its financial statements. Accordingly, AmBank Islamic now accounts for the collective allowance amounting to RM2,463,000 in its financial statements.

** On 31 December 2015, another new contract for the sum of RM300,000,000 was entered into by the Bank with AmBank Islamic. Arising from this new contract, AmBank Islamic transferred collective allowance of RM2,461,000 for the financing funded by the Bank. On 15 March 2016, AmBank early redeemed the RIA and derecognised the collective allowance previously recognised in its financial statements of RM2,478,000.

*** As at 31 March 2016, the gross exposure and collective allowance relating to the RIA financing for the Group and the Bank amounted to RM1,003,979,000 and RM1,473,000 (31 March 2015: RM1,363,811,000 and RM1,553,000) respectively are included in the Group and the Bank's collective allowance.

There was no individual allowance provided for the RIA financing for financial years 2016 and 2015.

	(Charge offs)/ recoveries	
	2016 RM'000	2015 RM'000
Bad debts written off during the financial year	(106,815)	(79,780)
Bad debt recoveries during the financial year	562,621	563,750

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:

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

The table below provides the External Credit Assessment Institutions (ECAIs) rating that broadly corresponds to the broad internal credit quality categories. 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 (1998-2013); 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 Group is as follows:

2016	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	Securitisation exposures	Equity exposures	Total exposures after netting and credit risk mitigation	Total risk weighted assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	6,857,547	5,088	-	2,856,573	-	-	-	441,665	-	-	10,160,873	-
20%	40,971	9,247,558	-	4,099,844	3,362	-	-	-	53,195	-	13,444,930	2,688,986
35%	-	-	-	-	-	10,853,793	-	-	-	-	10,853,793	3,798,828
50%	-	1,480,488	-	82,584	16,507	308,339	-	-	-	-	1,887,918	943,959
75%	-	-	-	-	22,117,096	-	-	-	-	-	22,117,096	16,587,822
100%	-	161	82,875	32,035,675	365,625	186,504	-	1,934,749	-	4,210	34,609,799	34,609,799
150%	-	-	4,702	208,623	104,413	-	111,403	-	-	-	429,141	643,712
1250%	-	-	-	-	-	-	-	-	237	-	237	2,967
Total	6,898,518	10,733,295	87,577	39,283,299	22,607,003	11,348,636	111,403	2,376,414	53,432	4,210	93,503,787	59,276,073
Deduction from capital base									-		-	

2015	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	Securitisation exposures	Equity exposures	Total exposures after netting and credit risk mitigation	Total risk weighted assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	6,443,021	5,101	-	2,627,395	-	-	-	399,260	-	-	9,474,777	-
20%	-	9,279,532	-	3,628,603	3,248	-	-	-	53,312	-	12,964,695	2,592,939
35%	-	-	-	-	-	10,417,502	-	-	-	-	10,417,502	3,646,126
50%	-	1,592,307	-	259,888	18,011	454,579	-	-	-	-	2,324,785	1,162,392
75%	-	-	-	-	19,764,726	-	-	-	-	-	19,764,726	14,823,544
100%	-	553	86,303	33,847,048	287,329	222,891	-	2,686,930	-	5,395	37,136,449	37,136,449
150%	-	-	-	165,464	114,132	-	121,211	-	-	-	400,807	601,210
1250%	-	-	-	-	-	-	-	-	1,314	-	1,314	16,426
Total	6,443,021	10,877,493	86,303	40,528,398	20,187,446	11,094,972	121,211	3,086,190	54,626	5,395	92,485,055	59,979,086
Deduction from capital base									-		-	

Table 6.2: Rated exposures according to ratings by ECAIs

2016		Ratings of corporate by approved ECAIs				
Exposure class	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
Insurance companies, Securities firms and Fund managers	87,877	-	-	-	-	87,877
Corporates	41,865,439	2,814,299	981,290	382	-	38,069,468
Total	41,953,316	2,814,299	981,290	382	-	38,157,345

2015		Ratings of corporate by approved ECAIs				
Exposure class	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
Insurance companies, Securities firms and Fund managers	86,303	-	-	-	-	86,303
Corporates	43,874,508	2,179,264	179,884	134	56	41,515,170
Total	43,960,811	2,179,264	179,884	134	56	41,601,473

Table 6.2: Rated exposures according to ratings by ECAIs (Cont'd.)

2016	Short term ratings of banking institutions and corporate by approved ECAIs					
	Moody's	P-1	P-2	P-3	Others	Unrated
Exposure class	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Banks, DFIs and MDBs	-	-	-	-	-	-
Total	-	-	-	-	-	-
2015						
2015	Short term ratings of banking institutions and corporate by approved ECAIs					
	Moody's	P-1	P-2	P-3	Others	Unrated
Exposure class	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Banks, DFIs and MDBs	-	-	-	-	-	-
Total	-	-	-	-	-	-

Table 6.2: Rated exposures according to ratings by ECAIs (Cont'd.)

2016	Ratings of sovereigns and central banks by approved ECAIs					
	Moody's S&P Fitch	Aaa to Aa3 AAA to AA- AAA to AA-	A1 to A3 A+ to A- A+ to A-	Baa1 to Baa3 BBB+ to BBB- BBB+ to BBB-	Ba1 to B3 BB+ to B- BB+ to B-	Unrated Unrated Unrated
Exposure class		RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Sovereigns and Central banks		6,898,518	780,153	6,118,365	-	-
Total		6,898,518	780,153	6,118,365	-	-

2015	Ratings of sovereigns and central banks by approved ECAIs					
	Moody's S&P Fitch	Aaa to Aa3 AAA to AA- AAA to AA-	A1 to A3 A+ to A- A+ to A-	Baa1 to Baa3 BBB+ to BBB- BBB+ to BBB-	Ba1 to B3 BB+ to B- BB+ to B-	Unrated Unrated Unrated
Exposure class		RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Sovereigns and Central banks		6,443,021	518,486	5,924,535	-	-
Total		6,443,021	518,486	5,924,535	-	-

Table 6.2: Rated exposures according to ratings by ECAIs (Cont'd.)

2016		Ratings of banking institutions by approved ECAIs					
Exposure class	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated	
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated	
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	Unrated	
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	
On and off balance sheet exposures							
Banks, DFIs and MDBs		10,733,295	4,452,366	1,772,489	882,076	-	3,626,364
Total		10,733,295	4,452,366	1,772,489	882,076	-	3,626,364

2015		Ratings of banking institutions by approved ECAIs					
Exposure class	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated	
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated	
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	Unrated	
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	
On and off balance sheet exposures							
Banks, DFIs and MDBs		10,877,493	4,136,402	2,560,872	845,387	49	3,334,783
Total		10,877,493	4,136,402	2,560,872	845,387	49	3,334,783

Table 6.3: Securitisation according to ratings by ECAs

2016	Ratings of securitisation by approved ECAs			
	Moody's	Aaa to Aa3	A1 to A3	Unrated
Exposure class	S&P	AAA to AA-	A+ to A-	Unrated
	Fitch	AAA to AA-	A+ to A-	Unrated
	RAM	AAA to AA3	A1 to A3	Unrated
	MARC	AAA to AA-	A+ to A-	Unrated
		RM'000	RM'000	RM'000
On and off balance sheet exposures				
Securitisation exposures	53,432	53,195	-	237
Total	53,432	53,195	-	237

2015	Ratings of securitisation by approved ECAs			
	Moody's	Aaa to Aa3	A1 to A3	Unrated
Exposure class	S&P	AAA to AA-	A+ to A-	Unrated
	Fitch	AAA to AA-	A+ to A-	Unrated
	RAM	AAA to AA3	A1 to A3	Unrated
	MARC	AAA to AA-	A+ to A-	Unrated
		RM'000	RM'000	RM'000
On and off balance sheet exposures				
Securitisation exposures	54,626	53,312	-	1,314
Total	54,626	53,312	-	1,314

7.0 Credit Risk Mitigation

Main types of collateral taken by the Group

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

- cash and term deposits
- exchange traded shares, bonds, sukuk, convertible bonds and marketable securities
- non-exchange traded debt securities/sukuk
- unit trusts (including Amanah Saham Nasional, Amanah Saham Bumiputera and mutual funds)
- non-exchange traded shares
- residential and non-residential property
- plantation land, mining land, quarry land and vacant land
- passenger vehicle, commercial vehicle, construction vehicle and vessel
- plant and machineries

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

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

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

Processes for collateral management

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

Guarantee Support

Guarantee support for lending proposals are an integral component in transaction structuring for the Group. The guarantee of a financially strong party can help improve the risk grade of a transaction through its explicit support of the borrower, where borrower’s risk grade will be enhanced with guarantor’s risk grade.

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

Use of credit derivatives and netting for risk mitigation

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

Transaction structuring to mitigate credit risk

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

Concentrations of credit risk mitigation

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

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

Table 7.1 : Credit Risk Mitigation

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

2016			
Exposures	Exposures before CRM RM'000	Exposures covered by guarantees RM'000	Exposures covered by eligible financial collateral RM'000
<i>Credit risk</i>			
<u>On balance sheet exposures</u>			
Sovereigns/Central banks	6,856,897	-	-
Banks, DFIs and MDBs	7,120,476	-	-
Insurance companies, Securities firms and Fund managers	7,201	-	-
Corporates	33,694,177	247,180	4,708,830
Regulatory retail	20,825,718	3,270	293,043
Residential mortgages	11,137,520	-	126,369
Higher risk assets	99,589	-	-
Other assets	2,376,414	-	-
Securitisation exposures	53,432	-	-
Equity exposures	4,210	-	-
Defaulted exposures	669,831	732	71,904
Total for on balance sheet exposures	82,845,465	251,182	5,200,146
<u>Off balance sheet exposures</u>			
OTC derivatives	4,380,669	-	-
Credit derivatives	42	-	-
Off balance sheet exposures other than OTC derivatives or Credit derivatives	9,040,740	1,814	1,286,500
Defaulted exposures	51,180	-	24,012
Total for off balance sheet exposures	13,472,631	1,814	1,310,512
Total on and off balance sheet exposures	96,318,096	252,996	6,510,658

Table 7.1 : Credit Risk Mitigation (Cont'd.)

The total exposures and eligible guarantees and collateral of the Group are as follows (Cont'd.):

2015			
Exposures	Exposures before CRM RM'000	Exposures covered by guarantees RM'000	Exposures covered by eligible financial collateral RM'000
<i>Credit risk</i>			
<u>On balance sheet exposures</u>			
Sovereigns/Central banks	6,443,021	-	-
Banks, DFIs and MDBs	7,853,681	-	-
Insurance companies, Securities firms and Fund managers	35,068	-	-
Corporates	35,633,673	91,241	6,256,551
Regulatory retail	18,651,391	2,423	279,967
Residential mortgages	10,841,769	-	125,998
Higher risk assets	108,339	-	-
Other assets	3,086,190	-	-
Securitisation exposures	54,626	-	-
Equity exposures	5,395	-	-
Defaulted exposures	689,566	1,943	64,298
Total for on balance sheet exposures	83,402,719	95,607	6,726,814
<u>Off balance sheet exposures</u>			
OTC derivatives	3,706,971	-	-
Credit derivatives	16	-	-
Off balance sheet exposures other than OTC derivatives or Credit derivatives	8,891,650	4,402	1,305,010
Defaulted exposures	34,631	35	6,685
Total for off balance sheet exposures	12,633,268	4,437	1,311,695
Total on and off balance sheet exposures	96,035,987	100,044	8,038,509

8.0 Off Balance Sheet exposures and Counterparty Credit Risk

8.1 Off Balance Sheet exposures

The Group's off balance sheet exposures consist of 3 main categories as follows:

- 1) Credit related exposures, e.g. guarantees given on behalf of customers, certain transaction-related contingent items, obligation under underwriting agreement, short term self liquidating trade-related contingencies, irrevocable commitment to extend credit and unutilised credit card line.
- 2) Derivatives Financial Instruments, e.g. forward exchange contracts (forward exchange contracts and cross currency swaps) interest rate related contracts (interest rate futures and interest rate swaps), equity related contracts (option and futures) and commodity related contract (option).
- 3) Other treasury-related exposures, e.g. forward purchase commitment.

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

8.2 Counterparty Credit Risk

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

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

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

Maximum pay out method is used for back to back and structured products where the underlying instrument structures are dynamic, i.e. not 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 GRAF.

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

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

Table 8.1: Off Balance Sheet Exposures

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

2016	Principal/ Notional amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
Direct credit substitutes	2,014,648		2,014,648	1,678,972
Transaction related contingent items	4,305,652		2,152,826	1,383,638
Short term self liquidating trade related contingencies	528,516		105,703	81,118
Assets sold with recourse	200		200	200
Forward asset purchases	856,526		82,275	65,604
Obligations under an on-going underwriting agreement	60,000		-	-
Foreign exchange related contracts				
One year or less	42,733,469	1,224,495	1,712,330	788,627
Over one year to five years	1,125,883	38,416	144,281	75,319
Over five years	1,980,369	281,465	656,786	359,512
Interest rate related contracts				
One year or less	8,175,391	3,740	15,068	5,163
Over one year to five years	31,003,999	174,684	943,333	300,595
Over five years	9,423,151	149,030	892,707	216,844
Equity and commodity related contracts				
One year or less	159,106	1,878	10,617	10,617
Over one year to five years	73,572	1,133	5,547	2,774
Credit derivative contracts				
One year or less	337,027	485	30	15
Over one year to five years	336,367	19,493	12	6
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	3,703,251		1,854,126	1,516,296
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	11,841,565		2,408,212	2,258,762
Unutilised credit card lines	2,369,650		473,930	352,075
Total	121,028,342	1,894,819	13,472,631	9,096,137

Table 8.1: Off Balance Sheet Exposures (Cont'd.)

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

2015	Principal/ Notional amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
Direct credit substitutes	788,743		788,743	708,022
Transaction related contingent items	5,609,010		2,804,505	2,016,836
Short term self liquidating trade related contingencies	634,176		126,835	99,942
Assets sold with recourse	200		200	200
Forward asset purchases	824,066		55,226	25,761
Obligations under an on-going underwriting agreement	250,000		-	-
Foreign exchange related contracts				
One year or less	33,934,956	784,769	1,160,541	618,669
Over one year to five years	2,500,277	203,211	350,443	104,415
Over five years	1,950,414	228,324	616,206	340,259
Interest rate related contracts				
One year or less	4,922,516	1,988	10,347	3,796
Over one year to five years	30,856,561	114,312	835,984	275,939
Over five years	8,433,307	68,173	644,172	195,048
Equity and commodity related contracts				
One year or less	606,219	1,504	29,503	20,073
Over one year to five years	69,830	1,757	4,549	2,275
Credit derivative contracts				
Over one year to five years	327,515	7,572	10	5
Over five years	326,889	33,133	6	3
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	3,993,436		2,022,254	1,824,186
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	12,491,550		2,511,436	2,218,208
Unutilised credit card lines	3,361,539		672,308	500,841
Total	111,881,204	1,444,743	12,633,268	8,954,478

Table 8.2 : Credit Derivatives Counterparty Credit Risk

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

Usage	Product	2016		2015	
		Sell Leg	Buy Leg *	Sell Leg	Buy Leg *
		Notional Exposure for Protection Sold RM'000	Notional Exposure for Protection Bought RM'000	Notional Exposure for Protection Sold RM'000	Notional Exposure for Protection Bought RM'000
Intermediation	Credit default swap	373,394	300,000	354,399	300,000

* Out of the total notional exposure for protection bought as at 31 March 2016, RM283,500,000 (2015: RM283,500,000) has no counterparty credit risk exposure because it is on a fully funded basis.

9.0 Securitisation

9.1 Objectives, roles and involvement

The Group has undertaken securitisations of its own originated assets, as well as advised on securitisations of third party assets as part of its structured finance/debt capital markets services for its clients. The Group's objectives in relation to securitisation activity include the following:

- increase the availability of different sources of funding;
- facilitate prudential balance sheet management;
- transfer of credit and market risk;
- obtain regulatory capital relief, if applicable;
- earn management fees on assets under management;
- earn other fees for products and services provided, e.g., liquidity, funding and credit support, structuring, arranging and underwriting services.

The Group is involved in the following types of securitisation activities:

- securitisation of assets originated by the Group. Such transactions provide diversity in the funding base for the Group entities. Such securitisations may or may not involve the transfer of credit risk and as such, may or may not provide regulatory capital relief;
- securitisation of third party-originated assets;
- facilities and services provided to securitisations - the Group provides various facilities to securitisations which include liquidity, funding and credit support as well as services such as structuring and arranging;
- investment in securities - the Group underwrites bonds issued from securitisation programmes and also purchases such bonds in the secondary markets.

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

Securitisation exposures held in the trading books of the Group are subjected to market risk capital charge using the Standardised Approach.

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

9.3 Governance

The Group's Capital Markets team is tasked with the structuring of securitisation transactions whilst the governance of these securitisation activities is overseen by the Board and Executive Committees, and managed in accordance with the credit risk and market risk frameworks.

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

9.4 Risk measurement and reporting of securitisation exposures

The Group relies on the external ratings assigned by recognised external credit assessment institutions in determining the capital charge requirement for rated securitisation exposures. The Group also assesses the performance information of the underlying pool on an ongoing basis e.g. 30/60/90 days past due, default rates, prepayment rates, etc, to gauge the stability of the model parameters to determine sufficiency of the buffers. The reporting for such exposures is dependent on the Group's ultimate position, whether acting as a third party investor to both on or off-balance sheet exposures.

9.5 Special Purpose Vehicle ("SPV") used in securitisation exercises

Third party exposures that have been securitised via SPVs include civil servant, personal loans and government-linked companies' staff housing loans.

9.6 Accounting Policies for Securitisation

The Group has sponsored SPVs involving assets of the Group. Such SPVs are consolidated where the Group has control as determined in accordance with MFRS 10, Consolidated Financial Statements.

Assets that have been transferred wholly or proportionately to an unconsolidated entity remain on the Group's statement of financial position, with a liability recognised for the proceeds received, unless:

- a) substantially all risks and rewards associated with the assets have been transferred, in which case, they are derecognised in full; or
- b) if a significant portion, but not all, of the risks and rewards have been transferred, the asset is derecognised entirely if the transferee has the ability to sell the financial asset, otherwise the asset continues to be recognised to the extent of the Group's continuing involvement.

9.7 Use of external rating agencies

The Group uses the services of both RAM and MARC and where applicable, international rating agencies for securitisation transactions purposes.

Table 9.1: Securitisation (Trading and Banking Book)

The securitised exposures of the Group are as follows:

2016				
Underlying asset	Total exposures securitised RM'000	Past due RM'000	Impaired RM'000	Gains/losses recognised during the financial year RM'000
<u>Traditional securitisation originated by the Group</u>				
Banking book				
Corporate loans	125,714	-	57,563	-
Mortgage loans	847,829	-	842,332	-
Total traditional securitisation	973,543	-	899,895	-
Total synthetic securitisation	-	-	-	-
Total traditional and synthetic securitisation	973,543	-	899,895	-

2015				
Underlying asset	Total exposures securitised RM'000	Past due RM'000	Impaired RM'000	Gains/losses recognised during the financial year RM'000
<u>Traditional securitisation originated by the Group</u>				
Banking book				
Corporate loans	165,580	-	100,918	-
Mortgage loans	801,925	-	792,193	-
Total traditional securitisation	967,505	-	893,111	-
Total synthetic securitisation	-	-	-	-
Total traditional and synthetic securitisation	967,505	-	893,111	-

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

2016 Securitisation exposures by exposure type	Exposure value of positions purchased or retained RM'000	Exposure after CRM RM'000	Exposures subject to deduction RM'000	Distribution of exposures after CRM according to applicable risk weights				Risk weighted assets RM'000
				Rated securitisation exposures or risk weights of guarantees/credit derivatives			Unrated (look-through)	
				20% RM'000	50% RM'000	1250% RM'000	Exposure amount RM'000	
Traditional securitisation originated by third party								
On Balance Sheet Exposures	53,195	53,195	-	53,195	-	-	-	10,639
Originated by the Group								
On Balance Sheet Exposures	237	237	-	-	-	237	-	2,968
Total traditional securitisation	53,432	53,432	-	53,195	-	237	-	13,607
Total synthetic securitisation	-	-	-	-	-	-	-	-
Total traditional and synthetic securitisation	53,432	53,432	-	53,195	-	237	-	13,607

2015 Securitisation exposures by exposure type	Exposure value of positions purchased or retained RM'000	Exposure after CRM RM'000	Exposures subject to deduction RM'000	Distribution of exposures after CRM according to applicable risk weights				Risk weighted assets RM'000
				Rated securitisation exposures or risk weights of guarantees/credit derivatives			Unrated (look-through)	
				20% RM'000	50% RM'000	1250% RM'000	Exposure amount RM'000	
Traditional securitisation originated by third party								
On Balance Sheet Exposures	53,312	53,312	-	53,312	-	-	-	10,662
Originated by the Group								
On Balance Sheet Exposures	1,314	1,314	-	-	-	1,314	-	16,426
Total traditional securitisation	54,626	54,626	-	53,312	-	1,314	-	27,088
Total synthetic securitisation	-	-	-	-	-	-	-	-
Total traditional and synthetic securitisation	54,626	54,626	-	53,312	-	1,314	-	27,088

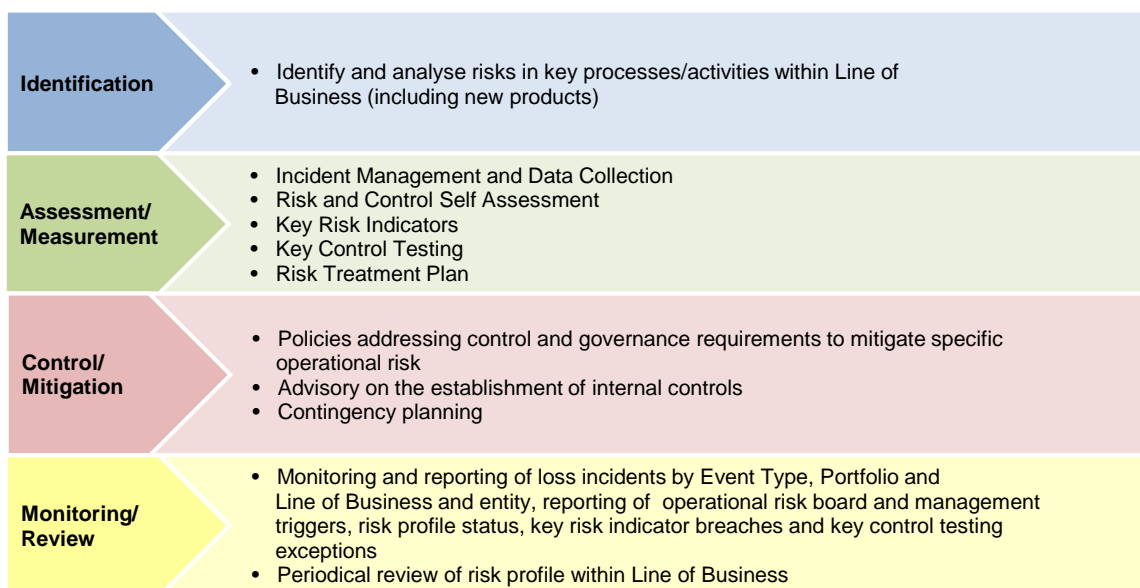
Table 9.3: Securitisation under the Standardised Approach for Trading Book Exposures

2016 Securitisation exposures by exposure type	Total exposure value of positions purchased or retained RM'000	Exposures subject to deduction RM'000	General risk charge RM'000	Specific risk charge RM'000	Risk weighted assets RM'000
<u>Traditional securitisation originated by third party</u>					
On balance sheet by exposure type - others	-	-	-	-	-
Total traditional securitisation	-	-	-	-	-
Total synthetic securitisation	-	-	-	-	-
Total traditional and synthetic securitisation	-	-	-	-	-

2015 Securitisation exposures by exposure type	Total exposure value of positions purchased or retained RM'000	Exposures subject to deduction RM'000	General risk charge RM'000	Specific risk charge RM'000	Risk weighted assets RM'000
<u>Traditional securitisation originated by third party</u>					
On balance sheet by exposure type - others	-	-	-	-	-
Total traditional securitisation	-	-	-	-	-
Total synthetic securitisation	-	-	-	-	-
Total traditional and synthetic securitisation	-	-	-	-	-

10.0 Operational Risk

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



Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external incidents which includes but is not limited to legal risk. It excludes strategic, systemic and reputational risk.

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

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

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

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

10.0 Operational Risk (Cont'd.)

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

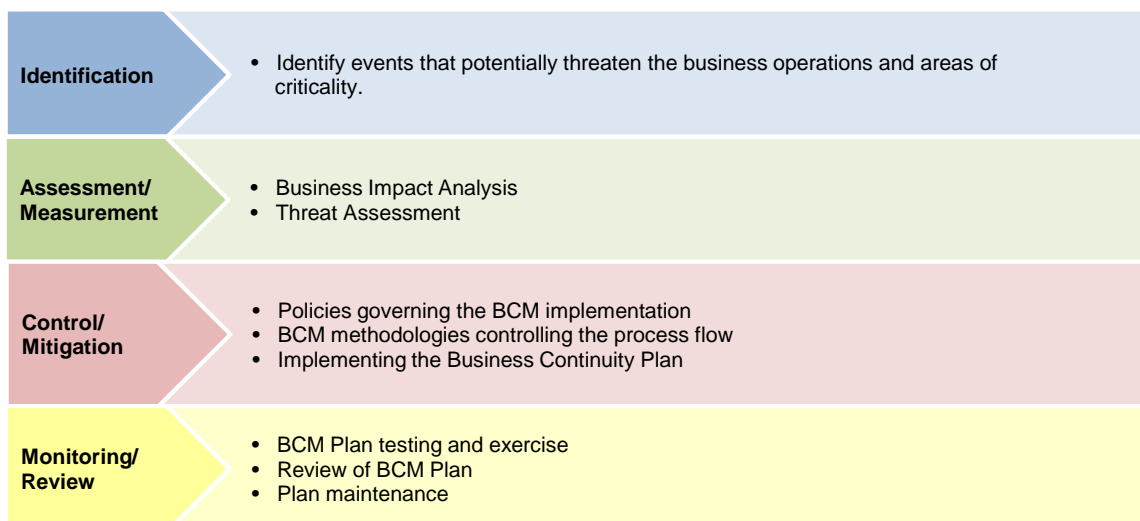
- the Incident Management and Data Collection (“IMDC”) module provides a common platform for reporting operational risk incidents that fall within one of the seven Event Types as stated in Basel II. IMDC also serves as a centralised database of operational risk incidents to model the potential exposure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

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.

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:



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

10.1 Business Continuity Management (Cont'd.)

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

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

10.2 Legal Risk

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

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

10.3 Regulatory Compliance Risk

The Group 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 Group by minimising financial, reputational and operational risks arising from legal and regulatory non-compliance.

The Group 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 the 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

Market risk is the risk of losses due to adverse changes in the level or volatility of market rates or prices, such as interest/profit rates, credit spreads, equity prices and foreign exchange rates. The Group differentiates between two types of market risk: Traded Market Risk ("TMR") and 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.



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 TMR 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 traded market risk are required to maintain risk exposures within approved risk limits. Business Units are required to provide an action plan to address any non-adherence to limits. The action plan must be approved by Senior Management.

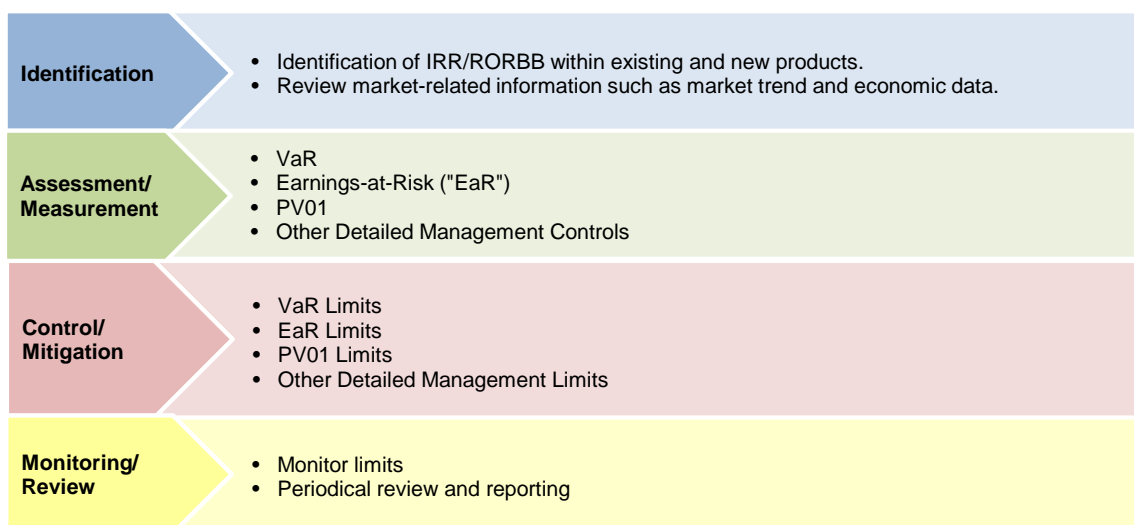
The Bank adopts the Standardised Approach for market risk capital charge computation. The capital charge serves as a buffer against losses from potential adverse market movements.

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

Interest Rate Risk/Rate of Return Risk in the Banking Book (“IRR/RORBB”)

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



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

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

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

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

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

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

11.2 Non-Traded Market Risk (Cont'd.)**Interest Rate Risk/Rate of Return Risk in the Banking Book ("IRR/RORBB") (Cont'd.)**

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

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

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

Table 11.1: Market Risk Sensitivity - IRR/RORBB

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

2016	Interest Rate/Rate of Return +100 bps RM'000	Interest Rate/Rate of Return -100 bps RM'000
Currency (MYR)		
Impact on Profit Before Taxation	102,240	(102,240)
Impact on Equity	(275,796)	315,635

2015	Interest Rate/Rate of Return +100 bps RM'000	Interest Rate/Rate of Return -100 bps RM'000
Currency (MYR)		
Impact on Profit Before Taxation	156,248	(156,248)
Impact on Equity	(231,823)	268,300

12.0 Equities (Banking Book Positions)

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

- equity investments that are taken for strategic and other objectives - Where an equity investment is undertaken for a strategic purpose, such investment will be made only after extensive analysis and due diligence. Equity investments undertaken for other business objectives are principally in conjunction with initiatives or measures promoted by the relevant regulatory authorities or trade bodies in which the Group will jointly with other financial institutions invest in such entities to attain various objectives, such as socio-economic development, promoting the further development of the financial market, the provision of facilities to improve customer service, and support for human capital development for the betterment of the Malaysian banking industry. The Board's approvals are required prior to committing to all forms of equity investment under this category and, where relevant, the necessary regulatory approval or notification will be obtained or met.
- equity investments on which capital gains are expected - These transactions are for proprietary trading.
- equity investments made as the result of a work out of a problem exposure - From time to time, the Group will take an equity stake in a customer as part of a work out arrangement for problem exposures. These investments are made only where there is no other viable option available and form an immaterial part of the Group's equity exposures.

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

Measurement of equity securities - Equity securities that have a quoted market price are carried at their fair value. Investments in unlisted securities are measured at cost less impairment loss (if any).

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

Table 12.1: Equity investments and capital requirement

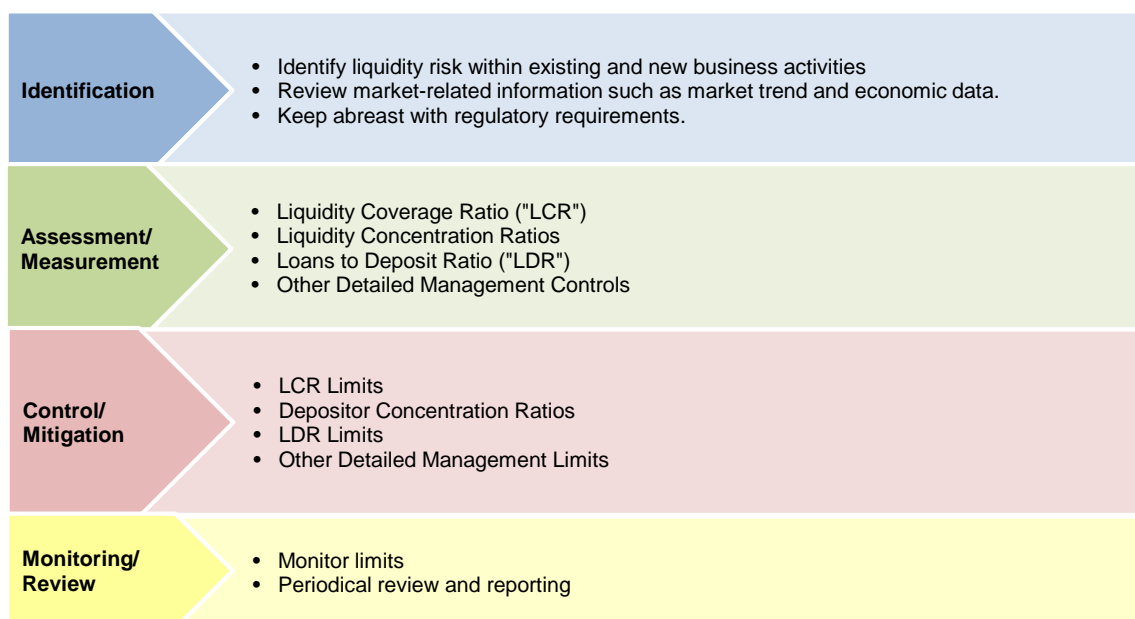
An analysis of equity investments by appropriate equity groupings and risk weighted assets of the Group are as follows:

Non traded equity investments	2016 RM'000	2015 RM'000
Value of quoted (publicly traded) equities	141,868	176,996
Value of unquoted (privately held) equities	87,550	88,573
Total	229,418	265,569
Net realised and unrealised (losses)/gains		
Cumulative realised gains from sales and liquidations	21,715	12,081
Total unrealised (losses)/gains	(901)	(9,183)
Total	20,814	2,898
Risk weighted assets		
Equity investments subject to a 100% risk weight	141,827	176,957
Equity investments subject to a 150% risk weight	131,386	132,917
Total	273,213	309,874
Total minimum capital requirement (8%)	21,857	24,790

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

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 Group's liquidity management and strategies policies and is responsible for setting liquidity limits, proposing liquidity risk policies and contingency funding plan and practices to be in compliance with local regulatory requirements, and monitor liquidity on an ongoing basis. The Capital and Balance Sheet Management department and Group Risk Management propose and oversee the implementation of policies and other controls relating to the above risks.

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

The Group has in place various liquidity measurements that provide the 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.)

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 lending/financing to customers. They are monitored using the unadjusted loans/financing to deposit ratio, which compares loans/financing and advances to customers as a percentage of customer deposit accounts.

As conservative liquidity management practice, part of the 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.

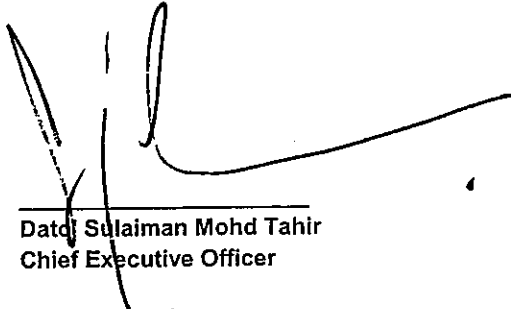
In preparation to the impending implementation of BNM's Basel III Net Stable Funding Ratio ("NSFR"), the Bank is already monitoring the NSFR and continues to pursue strategies to ensure the availability of cost effective liquidity.

14. Attestation

Chief Executive Officer Declaration

Risk Weighted Capital Adequacy Framework (Basel II) -- Disclosure Requirements (Pillar 3)

I hereby declare that the Risk Weighted Capital Adequacy Framework (Basel II) - Disclosures given in the Pillar 3 Report are, to the best of my knowledge and belief, accurate, complete and not misleading.



Datuk Sulaiman Mohd Tahir
Chief Executive Officer

Date: 05 MAY 2016