

AMMB Banking Group **Pillar 3 Disclosure**

31 March 2016

RWCAF- Pillar 3 Disclosure (Applicable to the regulated banking subsidiaries of the Group) For 31 March 2016

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1.0 Scope of Application

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

The banking subsidiaries of AMMB Holdings Berhad ("AMMB") to which the RWCAF framework apply are AmBank (M) Berhad ("AmBank"), AmlInvestment Bank Berhad ("AmlInvestment Bank") and AmBank Islamic Berhad ("AmBank Islamic") – which offers Islamic banking services.

The following information has been provided in order to highlight the capital adequacy of our regulated banking subsidiaries and a pro-forma view of the Group position on an aggregated basis. The information provided has been verified by the Group internal auditors and certified by the Group Chief Executive Officer.

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

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

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

| Calendar year | Common Equity Tier 1 ("CET1") Capital ratio | Tier 1 Capital ratio | Total Capital ratio |
|---------------|---|----------------------|---------------------|
| 2013 | 3.5% | 4.5% | 8.0% |
| 2014 | 4.0% | 5.5% | 8.0% |
| 2015 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 for its banking subsidiaries remained at 4.5% for CET1 capital, 6.0% for Tier 1 capital and 8% for total capital ratio. The Group's banking subsidiaries are also required to maintain capital buffers. The capital buffers shall comprise the sum of the following:

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

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

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

The Company being a financial holding company ("FHC") will be required to comply with the above BNM's guideline issued on 13 October 2015 on minimum capital adequacy ratios at the consolidated level for FHC effective 1 January 2019.

1.0 Scope of Application (Cont'd.)**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

The Pillar 3 disclosures of the Group is available on our corporate website at www.ambankgroup.com.

1.1 Basis of Consolidation

For statutory accounting purposes, the consolidated financial statements of AMMB comprise the financial statements of the Company 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 Disclosures, the consolidation basis used is the same as that used for regulatory capital adequacy purposes. The following table shows the differences between the scope of statutory and regulatory consolidation.

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

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

Any such transfers would require the approvals of the respective 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 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 and 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 requirements. It is overseen by the Group Chief Executive Officers Committee ("Group CEOs Committee"). The Group CEOs Committee is also responsible for managing the Group's statement of financial position, capital and liquidity.

A strong governance and process framework is embedded in the capital planning and assessment methodology. Overall responsibility for the effective management of risk rests with the Board. The Risk Management Committee of Directors ("RMCD") is specifically delegated the task of reviewing all risk management issues including oversight of the 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 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 Ratios

The capital adequacy ratios of our regulated banking subsidiaries and a pro-forma Group view are as follows:

| | 31.03.16 | | | Group * |
|--------------------------------------|----------|----------------|-------------------|---------|
| | AmBank | AmBank Islamic | AmInvestment Bank | |
| Before deducting proposed dividends: | | | | |
| CET1 Capital ratio | 11.082% | 9.846% | 33.574% | 11.530% |
| Tier 1 Capital ratio | 12.555% | 9.846% | 33.574% | 12.568% |
| Total Capital ratio | 15.770% | 15.320% | 33.574% | 16.405% |
| After deducting proposed dividends: | | | | |
| CET1 Capital ratio | 10.640% | 9.846% | 31.204% | 11.183% |
| Tier 1 Capital ratio | 12.114% | 9.846% | 31.204% | 12.221% |
| Total Capital ratio | 15.328% | 15.320% | 31.204% | 16.058% |
| | | | | |
| | 31.03.15 | | | |
| | AmBank | AmBank Islamic | AmInvestment Bank | Group * |
| Before deducting proposed dividends: | | | | |
| CET1 Capital ratio | 10.653% | 9.200% | 24.196% | 10.975% |
| Tier 1 Capital ratio | 12.446% | 9.200% | 24.196% | 12.245% |
| Total Capital ratio | 16.020% | 14.371% | 24.196% | 16.233% |
| After deducting proposed dividends: | | | | |
| CET1 Capital ratio | 10.023% | 9.200% | 22.820% | 10.508% |
| Tier 1 Capital ratio | 11.816% | 9.200% | 22.820% | 11.778% |
| Total Capital ratio | 15.390% | 14.371% | 22.820% | 15.766% |

Notes:

- (i) The Group has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk. With effect from 1 January 2013, the capital adequacy ratios are computed in accordance with BNM's guidelines on Capital Adequacy Framework (Capital Components) issued on 28 November 2012, which is based on the Basel III capital accord.
- (ii) Group* figures presented in this Report represent an **aggregation** of the consolidated capital positions and risk weighted assets ("RWA") of our regulated banking institutions. The consolidated positions of each entity are published at www.ambankgroup.com.

Table 2.2 Risk-Weighted Assets and Capital Requirements

The aggregated breakdown of RWA by exposures in major risk category of AMMB Banking Group is as follows:

| 31 MARCH 2016 | | | | | | | |
|--|-------------------|--|---------------------------------|----------------------|--------------------------------------|---|-----------------------------------|
| Exposure class | RM'000 | Gross exposures/ Exposure at default ("EAD") before credit risk mitigation | Net exposures/ EAD after CRM | Risk weighted assets | Risk Weighted Assets Absorbed by RIA | Total Risk Weighted Assets after effects of RIA | Minimum capital requirement at 8% |
| | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 1. Credit risk | | | | | | | |
| On balance sheet exposures | | | | | | | |
| Sovereigns/ central banks | | 12,011,366 | 12,011,366 | - | - | - | - |
| Banks, development financial institutions ("DFIs") and multilateral development banks ("MDBs") | | 9,938,209 | 9,938,209 | 2,091,639 | - | 2,091,639 | 167,331 |
| Insurance companies, Securities firms and Fund managers | | 7,201 | 7,201 | 7,201 | - | 7,201 | 576 |
| Corporates | | 51,251,650 | 49,695,524 | 39,354,722 | 1,003,979 | 38,350,743 | 3,068,059 |
| Regulatory retail | | 33,688,061 | 32,665,429 | 25,679,133 | - | 25,679,133 | 2,054,330 |
| Residential mortgages | | 11,347,176 | 11,324,616 | 4,010,179 | - | 4,010,179 | 320,814 |
| Higher risk assets | | 111,409 | 111,409 | 167,113 | - | 167,113 | 13,369 |
| Other assets | | 3,453,413 | 3,453,413 | 3,011,746 | - | 3,011,746 | 240,939 |
| Securitisation exposures | | 53,432 | 53,432 | 13,607 | - | 13,607 | 1,089 |
| Equity exposures | | 4,210 | 4,210 | 4,210 | - | 4,210 | 337 |
| Defaulted exposures | | 1,147,366 | 1,130,451 | 1,396,145 | - | 1,396,145 | 111,691 |
| Total for on balance sheet exposures | | 123,013,493 | 120,395,260 | 75,735,695 | 1,003,979 | 74,731,716 | 5,978,535 |
| Off balance sheet exposures: | | | | | | | |
| Over the counter ("OTC") derivatives | | 4,513,246 | 4,513,246 | 1,840,600 | - | 1,840,600 | 147,248 |
| Credit derivatives | | 42 | 42 | 21 | - | 21 | 2 |
| Off balance sheet exposures other than OTC derivatives or Credit derivatives | | 10,897,557 | 10,076,020 | 8,832,482 | - | 8,832,482 | 706,598 |
| Defaulted exposures | | 51,758 | 32,042 | 48,063 | - | 48,063 | 3,845 |
| Total for off balance sheet exposures | | 15,462,603 | 14,621,350 | 10,721,166 | - | 10,721,166 | 857,693 |
| Total on and off balance sheet exposures | | 138,476,096 | 135,016,610 | 86,456,861 | 1,003,979 | 85,452,882 | 6,836,228 |
| 2. Large exposures risk requirement | | | | | | | |
| 3. Market risk | | | | | | | |
| Interest rate risk /Rate of return risk | | | | | | | |
| - General interest rate risk/Rate of return risk | 93,046,824 | 91,456,261 | | 2,071,964 | - | 2,071,964 | 165,757 |
| - Specific interest rate risk/Rate of return risk | 2,624,760 | 860,826 | | 141,221 | - | 141,221 | 11,297 |
| Foreign currency risk | 174,367 | 65,119 | | 174,367 | - | 174,367 | 13,950 |
| Equity risk | | | | | | | |
| - General risk | 142,867 | 11,304 | | 131,563 | - | 131,563 | 10,525 |
| - Specific risk | 142,867 | 11,304 | | 30,081 | - | 30,081 | 2,407 |
| Option risk | 657,381 | 469,892 | | 24,554 | - | 24,554 | 1,964 |
| Total | 96,789,066 | 92,874,706 | | 2,573,750 | - | 2,573,750 | 205,900 |
| 4. Operational risk | | | | 6,902,371 | - | 6,902,371 | 552,190 |
| 5. Total RWA and capital requirements | | | | 95,932,982 | 1,003,979 | 94,929,003 | 7,594,318 |

As part of an arrangement between AmBank and AmBank Islamic in relation to Restricted Investment Account ("RIA") agreements, AmBank 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 AmBank and AmBank Islamic to finance a specific business venture where AmBank solely provides capital and the business ventures are managed solely by AmBank Islamic as the entrepreneur. The RIA exposes AmBank to the risks and rewards of the financing, and accordingly AmBank accounts for all impairment allowances and risk-weighted assets arising from the RIA arrangement.

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

Table 2.2 Risk-Weighted Assets and Capital Requirements

The aggregated breakdown of RWA by exposures in major risk category of AMMB Banking Group is as follows:

| | | 31 MARCH 2015 | | | | | | |
|--|-------------------|---|---------------------------------|----------------------|--------------------------------------|---|-----------------------------------|--|
| Exposure class | RM'000 | Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM") | Net exposures/ EAD after CRM | Risk weighted assets | Risk Weighted Assets Absorbed by RIA | Total Risk Weighted Assets after effects of RIA | Minimum capital requirement at 8% | |
| | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | |
| 1. Credit risk | | | | | | | | |
| On balance sheet exposures | | | | | | | | |
| Sovereigns/ central banks | | 12,225,767 | 12,225,767 | - | - | - | - | |
| Banks, development financial institutions ("DFIs") and multilateral development banks ("MDBs") | | 12,408,855 | 12,408,855 | 2,594,507 | - | 2,594,507 | 207,561 | |
| Insurance companies, Securities firms and Fund managers | | 35,068 | 35,068 | 35,068 | - | 35,068 | 2,805 | |
| Corporates | | 52,163,610 | 48,697,187 | 40,305,638 | 1,363,811 | 38,941,827 | 3,115,346 | |
| Regulatory retail | | 32,239,542 | 32,051,629 | 24,276,596 | - | 24,276,596 | 1,942,128 | |
| Residential mortgages | | 10,961,099 | 10,938,010 | 3,889,953 | - | 3,889,953 | 311,196 | |
| Higher risk assets | | 120,233 | 120,233 | 180,349 | - | 180,349 | 14,428 | |
| Other assets | | 4,068,190 | 4,068,190 | 3,668,927 | - | 3,668,927 | 293,514 | |
| Securitisation exposures | | 54,626 | 54,626 | 27,088 | - | 27,088 | 2,167 | |
| Equity exposures | | 5,395 | 5,395 | 5,395 | - | 5,395 | 432 | |
| Defaulted exposures | | 1,163,558 | 1,151,136 | 1,386,084 | - | 1,386,084 | 110,887 | |
| Total for on balance sheet exposures | | 125,445,943 | 121,756,096 | 76,369,605 | 1,363,811 | 75,005,794 | 6,000,464 | |
| Off balance sheet exposures: | | | | | | | | |
| Over the counter ("OTC") derivatives | | 3,820,769 | 3,820,769 | 1,665,359 | - | 1,665,359 | 133,229 | |
| Credit derivatives | | 16 | 16 | 8 | - | 8 | 1 | |
| Off balance sheet exposures other than OTC derivatives or Credit derivatives | | 10,720,143 | 9,871,131 | 8,832,374 | - | 8,832,374 | 706,590 | |
| Defaulted exposures | | 41,686 | 38,436 | 57,610 | - | 57,610 | 4,609 | |
| Total for off balance sheet exposures | | 14,582,614 | 13,730,352 | 10,555,351 | - | 10,555,351 | 844,429 | |
| Total on and off balance sheet exposures | | 140,028,557 | 135,486,448 | 86,924,956 | 1,363,811 | 85,561,145 | 6,844,893 | |
| 2. Large exposures risk requirement | | | | | | | | |
| | | | | 1,474 | - | 1,474 | 118 | |
| 3. Market risk | | | | | | | | |
| Interest rate risk /Rate of return risk | | | | | | | | |
| - General interest rate risk/Rate of return risk | 86,476,527 | 84,366,499 | | 2,028,187 | - | 2,028,187 | 162,255 | |
| - Specific interest rate risk/Rate of return risk | 3,124,503 | 939,785 | | 150,546 | - | 150,546 | 12,044 | |
| Foreign currency risk | 512,639 | 28,797 | | 512,639 | - | 512,639 | 41,011 | |
| Equity risk | | | | | | | | |
| - General risk | 171,042 | 5,313 | | 165,763 | - | 165,763 | 13,261 | |
| - Specific risk | 171,042 | 5,313 | | 258,396 | - | 258,396 | 20,672 | |
| Option risk | 549,005 | 306,933 | | 7,112 | - | 7,112 | 569 | |
| Total | 91,004,758 | 85,652,640 | | 3,122,643 | - | 3,122,643 | 249,812 | |
| 4. Operational risk | | | | | | | | |
| | | | | 6,946,680 | - | 6,946,680 | 555,734 | |
| 5. Total RWA and capital requirements | | | | | | | | |
| | | | | 96,995,753 | 1,363,811 | 95,631,942 | 7,650,557 | |

3.0 Capital Structure

Table 3.3 Capital Structure summarises the aggregated capital position of the Group. The capital structure includes capital under the following headings:

- Common Equity Tier 1 ("CET1") 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 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 each banking entity (and its consolidated group level) 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 entity to continue trading. It can only be redeemed on the winding up of the entity.

(b) Share Premium

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

(c) Retained Earnings

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

(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 Section 57(2) f of IFSA and is not distributable as cash dividends.

(ii) Capital Reserve and Merger Reserve

The capital reserve and merger reserve of the banking subsidiaries 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)

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

(e) Cash Flow Hedging Reserve/(Deficit)

Cash flow hedging reserve/(deficit) comprises the portion of the gains/(losses) on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. 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.

(f) Profit Equalisation Reserve ("PER")

Profit equalisation reserve is the amount appropriated out of the total Islamic banking gross income in order to maintain a certain level of return to Investment Account Holders ("IAH") which is as stipulated by BNM's Guidelines on Profit Equalisation Reserve. Profit equalisation reserve is allocated from retained profits and classified as a separate reserve in equity and is non-distributable. The amount of the profit equalisation reserve is derecognised in the calculation of CET1 Capital. AmBank Islamic has discontinued with the application of PER since 30 September 2015.

(g) Regulatory Reserve

Regulatory reserve is maintained in accordance with paragraph 13.1 of the the BNM's Policy Document on Classification and Impairment Provisions for Loans/Financing as an additional credit risk absorbent. The amount of the regulatory reserve is derecognised in the calculation of CET1 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 banking subsidiaries, at both the entity and consolidated level for 2013, has been capped at 90% of the total qualifying Additional Tier 1 Capital 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 Capital balance outstanding as at 1 January 2013. This is in accordance with the transitional gradual phase-out treatment under the Basel III regime. As at 1 January 2013 and at present, only AmBank has Additional Tier 1 Capital Instrument in issuance. Table 3.1 outlines the application of the grandfathering provisions in respect of the Additional Tier 1 Capital Instruments of AmBank. Details of the Additional Tier 1 Capital Instruments are outlined below.

Table 3.1 Additional Tier 1 Capital Instruments of AmBank 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% | 0 |

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 AmBank 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 AmBank. The gross proceeds from the issuance was on-lent to AmBank in the form of a subordinated term loan on 27 January 2006 for the purpose of supplementing AmBank'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 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 or 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, AmBank issued up to RM485 million Innovative Tier I Capital Securities under its RM500 million Innovative Tier I Capital Securities ("ITICS") Programme. The ITICS bears a fixed interest (non-cumulative) rate at issuance date (interest rate is 8.25% per annum) and step up 100 basis points after the First Call Date (10 years after issuance date) and interest is payable semi-annually in arrears. The maturity date is 30 years from the issue date. The ITICS facility is for a tenor of 60 years from the first issue date and has a principal stock settlement mechanism to redeem the ITICS via cash through the issuance of AmBank's ordinary shares. Upon BNM's approval, AmBank 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.

Non-innovative Tier 1 Capital

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

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

(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 AmBank pursuant to the forward purchase contract entered into by AmBank 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 AmBank 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 AmBank 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 tenor 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 AmBank. Claims in respect of the NCPCS rank pari passu and without preference among themselves and with the most junior class of preference shares of AmBank but in priority to the rights and claims of the ordinary shareholders of AmBank. 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 impairment provisions and regulatory reserves (subject to a maximum of 1.25% of total credit risk weighted assets determined under the Standardised Approach) and subordinated debt instruments.

The amount of Tier 2 Capital issued prior to 2013 that can be recognised in the computation of the capital adequacy ratios of the banking subsidiaries, at both the entity and consolidated level 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 with the transitional gradual phase-out treatment under the Basel III regime. Tables 3.2(a) and 3.2(b) outline the application of the grandfathering provisions in respect of the Tier 2 Capital Instruments for AmBank and AmBank Islamic respectively. AmInvestment Bank does not have any Tier 2 Capital Instruments in issuance as at 1 January 2013 and at present. Details of the Tier 2 Capital Instruments are outlined below.

Table 3.2(a) Tier 2 Capital Instruments of AmBank 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% | 0 |

Table 3.2(b) Tier 2 Capital Instruments of AmBank Islamic and the Basel III Gradual Phase-Out Treatment

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

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

Medium Term Notes

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

The MTN Programme has a tenor of up to 20 years from the date of the first issuance under the MTN Programme. The 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.

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 | Tenor | 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 II Subordinated Sukuk Musharakah

On 30 September 2011, AmBank Islamic implemented a Subordinated Sukuk Musharakah programme ("Sukuk Musharakah") of up to RM2.0 billion. The purpose of the programme is to increase AmBank Islamic's Tier 2 Capital.

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

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

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

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

Basel III Subordinated Notes

On 30 December 2013, AmBank 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 AmBank'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 tenor 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 tenor 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 | Tenor | 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 |

Basel III Subordinated Sukuk Murabahah

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

The programme has a tenor of 30 years from the date of the first issuance under the programme. Each issuance of Tier 2 SubNotes under this programme shall have a tenor 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 Sukuk Murabahah issued under this programme and outstanding as at 31 March 2016 are as follows:

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

Table 3.3: Capital Structure

The aggregated components of CET1 Capital, Additional Tier 1 Capital, Tier 2 Capital and Total Capital of the Group are as follows:

| | 31.03.16 | | | Group * RM'000 |
|---|-------------------|-----------------------------|---------------------------------|-------------------|
| | AmBank RM'000 | AmBank Islamic RM'000 | AmlInvestment Bank RM'000 | |
| <u>CET1 Capital</u> | | | | |
| Ordinary shares | 820,364 | 462,922 | 200,000 | 1,483,286 |
| Share premium | 942,844 | 724,185 | - | 1,667,029 |
| Retained earnings | 5,080,500 | 982,055 | 99,023 | 6,421,500 |
| Available-for-sale reserve/(deficit) | 11,951 | (1,589) | - | 10,162 |
| Foreign exchange translation reserve | 61,296 | - | - | 65,471 |
| Statutory reserve | 980,969 | 483,345 | 200,000 | 1,664,314 |
| Regulatory reserve | - | - | 2,800 | 2,800 |
| Capital reserve | - | - | - | 2,815 |
| Merger reserve | - | - | - | 111,805 |
| Cash flow hedging reserve | 3,635 | - | - | 3,635 |
| Qualifying minority interest | - | - | - | 2 |
| Less: Regulatory adjustments applied on CET1 capital | | | | |
| Intangible assets | (344,944) | (14) | (2,542) | (353,350) |
| Deferred tax assets | (115,179) | - | (4,899) | (121,133) |
| Profit equalisation reserve | - | - | - | - |
| Cash flow hedging reserve | (3,635) | - | - | (3,635) |
| 55% of cumulative gains of AFS reserve | (6,573) | - | - | (6,463) |
| Regulatory reserve | - | - | (2,800) | (2,800) |
| Investment in ordinary shares of unconsolidated financial and insurance/ takaful entities | (23,106) | - | (8,321) | - |
| Deduction in excess of Tier 2 capital** | - | - | (1,477) | - |
| CET1 Capital | 7,408,122 | 2,650,904 | 481,784 | 10,945,438 |
| <u>Additional Tier 1 Capital</u> | | | | |
| Additional Tier 1 Capital instruments (subject to gradual phase-out treatment) | 985,000 | - | - | 985,000 |
| Tier 1 Capital | 8,393,122 | 2,650,904 | 481,784 | 11,930,438 |
| <u>Tier 2 Capital</u> | | | | |
| Tier 2 Capital instruments meeting all relevant criteria for inclusion | 400,000 | 600,000 | - | 1,000,000 |
| Tier 2 Capital instruments (subject to gradual phase-out treatment) | 1,180,680 | 600,000 | - | 1,780,680 |
| Qualifying CET1, Additional Tier 1 and Tier 2 capital instruments held by third parties | - | - | - | 1 |
| Collective allowance and regulatory reserve | 583,675 | 273,963 | 4,071 | 861,733 |
| Less: Regulatory adjustments applied on Tier 2 Capital | (15,404) | - | (4,071) | - |
| Tier 2 Capital | 2,148,951 | 1,473,963 | - | 3,642,414 |
| Total Capital | 10,542,073 | 4,124,867 | 481,784 | 15,572,852 |
| Credit RWA | 60,022,744 | 26,112,657 | 1,096,673 | 86,456,861 |
| Less: Credit RWA absorbed by Restricted Investment Account | - | (1,003,979) | - | (1,003,979) |
| Total Credit RWA | 60,022,744 | 25,108,678 | 1,096,673 | 85,452,882 |
| Market RWA | 2,231,172 | 296,231 | 35,738 | 2,573,750 |
| Operational RWA | 4,595,005 | 1,519,148 | 302,599 | 6,902,371 |
| Total Risk Weighted Assets | 66,848,921 | 26,924,057 | 1,435,010 | 94,929,003 |

* Group figures presented in this Report represents an aggregation of the consolidated capital position and RWA of our regulated banking subsidiaries.

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

Table 3.3: Capital Structure

The aggregated components of CET1 Capital, Additional Tier 1 Capital, Tier 2 Capital and Total Capital of the Group are as follows:

| | 31.03.15 | | | Group * |
|---|-------------------|-----------------------------|---------------------------------|-------------------|
| | AmBank RM'000 | AmBank Islamic RM'000 | AmlInvestment Bank RM'000 | |
| <u>CET1 Capital</u> | | | | |
| Ordinary shares | 820,364 | 462,922 | 200,000 | 1,483,286 |
| Share premium | 942,844 | 724,185 | - | 1,667,029 |
| Retained earnings | 4,874,087 | 747,523 | 82,533 | 5,953,934 |
| Available-for-sale reserve/(deficit) | 1,323 | (6,592) | 1,024 | (4,309) |
| Foreign exchange translation reserve | 50,585 | - | - | 87,982 |
| Statutory reserve | 980,969 | 483,345 | 200,000 | 1,664,314 |
| Regulatory reserve | - | - | 2,800 | 2,800 |
| Profit equalisation reserve | - | 3,904 | - | 3,904 |
| Capital reserve | - | - | - | 2,815 |
| Merger reserve | - | - | - | 111,805 |
| Cash flow hedging deficit | (481) | - | - | (481) |
| Less: Regulatory adjustments applied on CET1 capital | | | | |
| Intangible assets | (327,689) | (20) | (1,710) | (337,689) |
| Deferred tax assets | (98,869) | - | (2,782) | (105,328) |
| Profit equalisation reserve | - | (3,904) | - | (3,904) |
| Cash flow hedging deficit | 481 | - | - | 481 |
| 55% of cumulative gains of AFS reserve | (728) | - | (563) | (1,256) |
| Regulatory reserve | - | - | (2,800) | (2,800) |
| Investment in ordinary shares of unconsolidated financial and insurance/ takaful entities | (28,652) | - | (52,370) | (12,846) |
| Deduction in excess of Tier 2 capital** | - | - | (74,446) | (13,922) |
| CET1 Capital | 7,214,234 | 2,411,363 | 351,686 | 10,495,815 |
| <u>Additional Tier 1 Capital</u> | | | | |
| Additional Tier 1 Capital instruments (subject to gradual phase-out treatment) | 1,214,570 | - | - | 1,214,570 |
| Tier 1 Capital | 8,428,804 | 2,411,363 | 351,686 | 11,710,385 |
| <u>Tier 2 Capital</u> | | | | |
| Tier 2 Capital instruments meeting all relevant criteria for inclusion | 400,000 | 350,000 | - | 750,000 |
| Tier 2 Capital instruments (subject to gradual phase-out treatment) | 1,310,000 | 700,000 | - | 2,010,000 |
| Collective allowance and regulatory reserve | 753,172 | 305,338 | 4,111 | 1,059,188 |
| Less: Regulatory adjustments applied on Tier 2 Capital | (42,978) | - | (4,111) | (5,348) |
| Tier 2 Capital | 2,420,194 | 1,355,338 | - | 3,813,840 |
| Total Capital | 10,848,998 | 3,766,701 | 351,686 | 15,524,225 |
| Credit RWA | 60,253,770 | 25,790,830 | 1,122,413 | 86,924,956 |
| Less: Credit RWA absorbed by Restricted Investment Account | - | (1,363,811) | - | (1,363,811) |
| Total Credit RWA | 60,253,770 | 24,427,019 | 1,122,413 | 85,561,145 |
| Market RWA | 2,774,466 | 230,629 | 16,101 | 3,122,643 |
| Operational RWA | 4,694,931 | 1,553,441 | 314,533 | 6,946,680 |
| Large exposure risk RWA for equity holdings | - | - | 438 | 1,474 |
| Total Risk Weighted Assets | 67,723,167 | 26,211,089 | 1,453,485 | 95,631,942 |

* Group figures presented in this Report represents an aggregation of the consolidated capital position and RWA of our regulated banking subsidiaries.

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

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 Common Equity Tier 1, 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 Shariah risk by ensuring that its operations, business, affairs and activities are in compliance with rulings of the BNM's Shariah Advisory Council ("SAC") and AmBank Islamic's Shariah Committee.

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

Risk Management Governance

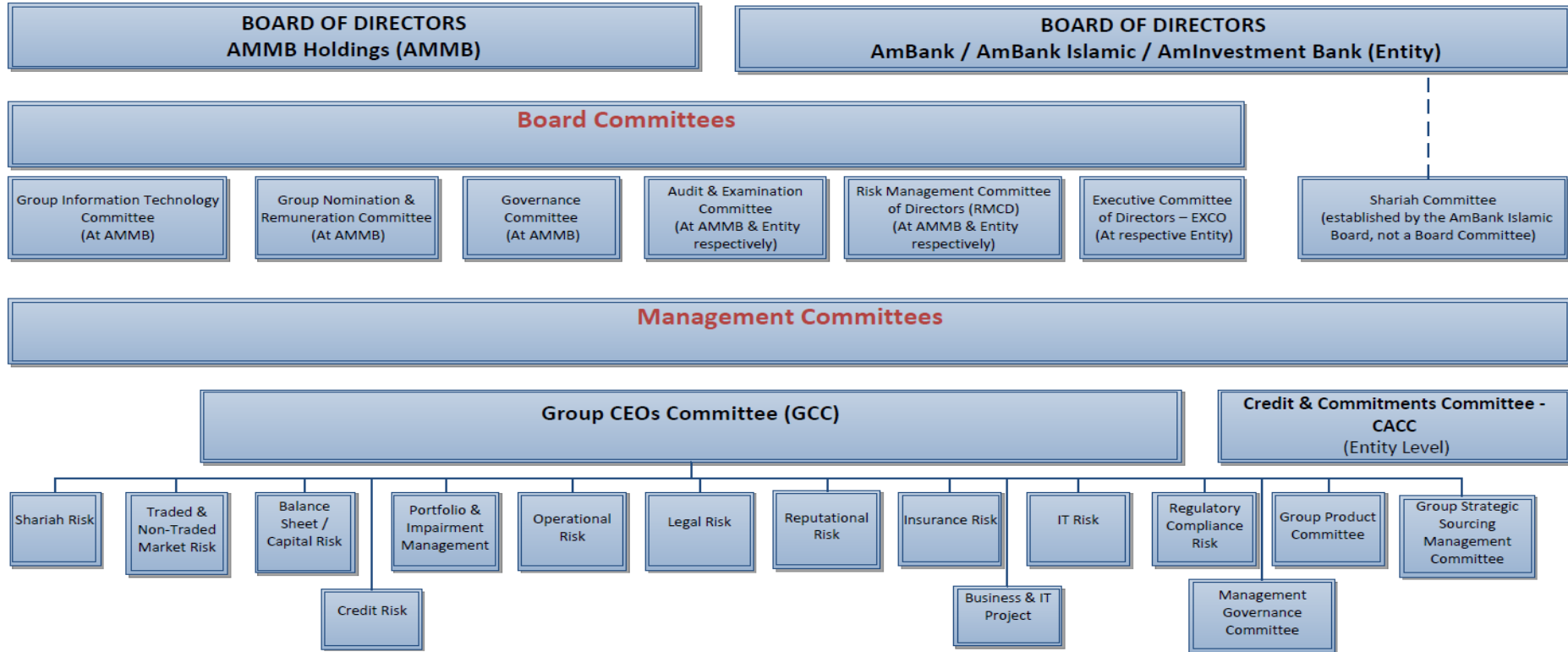
The Board is ultimately responsible for the management of risks within the Group. The RMCD is formed to assist the Board in discharging its duties in overseeing the overall management of all risks covering market risk, liquidity risk, credit risk, operational risk and regulatory compliance risk.

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 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 Group's Internal Capital Adequacy Assessment Process ("ICAAP") Policy are to:

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

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

The following key principles underpin the ICAAP.

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

- Group Risk Appetite, including the Group's target credit rating category;
- Regulatory Capital requirements;
- The Board and Management's targeted financial performance, and
- The Group's planned asset growth and strategic business objectives.

4.1.2 Management Oversight

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

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

4.1.3 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 Group is in compliance with minimum regulatory standards.

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

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

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

- Minimums;
- Triggers; and
- Target operating ranges

4.1.5 Capital allocation:

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

4.1.6 Material Risks

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

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

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

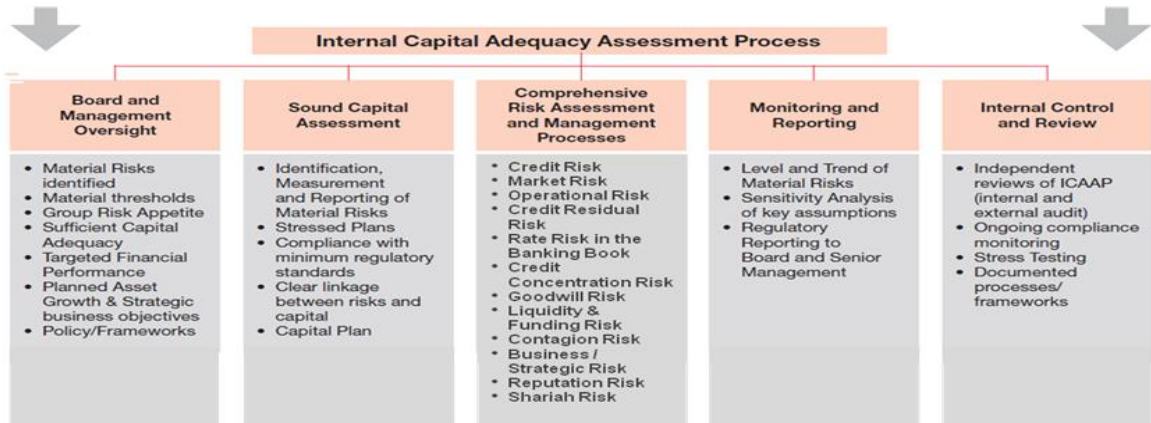
ICAAP Framework

Requirements of the Banks

- Principal 1:**
- Banks have an ICAAP in relation to their risk profile and a strategy for maintaining capital levels
- Principal 3:**
- Banks are expected to operate above the minimum regulatory capital ratios and should have the ability to hold capital in excess of the minimum

Requirements of the Regulator

- Principal 2:**
- Regulators to review and evaluate the Bank's ICAAP strategies
 - Regulators to monitor and ensure Bank's compliance with regulatory capital ratios
 - Regulators undertake appropriate supervisory action if unsatisfactory results
- Principal 4:**
- Early intervention by the Regulator to prevent capital from falling below the required minimum levels



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 customer under Classified Account Review customers under Rescheduled 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/financing, 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 as well as Shariah compliance risk (please refer to Section 14 for discussion on Shariah Governance Structure).

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

For non-retail credits, risk recognition begins with an assessment of the financial standing of the borrower or counterparty using 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/ financing loss provision calculation;
- stress-testing; and
- enhancement to portfolio management.

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

- Concentration threshold/ review trigger:
 - single counterparty credit;
 - industry sector; and
 - country
- Setting Loan/Financing to Value limits for asset backed loans/financing (i.e., property exposures and other collateral);
- Classified Account processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers;
- Rescheduled and Restructured ("R&R") Account Management sets out the controls in managing R&R loan/financing pursuant to the BNM's revised policy on Classification and Impairment Provisions for Loans/ Financing 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.

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

The Group CEOs Committee regularly 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/financing delinquency buckets and exposures by industry sectors are reported monthly by Group Risk to executive management and to all meetings of the Board.

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

5.1 Impairment

5.1.1 Definition of Past Due and Impaired Loans, Financing and Advances

All loans, financing and advances are categorised as either:

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

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

A loan is classified as impaired under the following circumstances:

- (a) When 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/financing where repayments are scheduled on intervals of 3 months or longer, the loan/financing is to be classified as impaired 1+30 days or 1 day+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 default and impaired when the past due is 90 days from due date of the bill.
- (d) A loan/financing may also be classified as impaired:
 - i. If it is probable that the bank will be unable to collect all amounts due (including both interest/ profit 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/financing obligation of a borrower triggers a default of another loan/financing obligation of the same borrower or
 - a default of a loan/financing obligation of a borrower triggers a default of a loan/financing obligation of other borrowers within the same borrower 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) In the case of stock broking and futures broking:
 - i. For margin financing, it is impaired when there is shortfall to market value i.e. the collateral value is lower than the outstanding balance.
 - ii. For futures business, the account is impaired when the overlosses are not remedied within 30 days and are not secured against dealer's retention funds.
- (g) The loan/ financing 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.
- (b) Valuation of assets
Financial assets which are triggered by the impairment triggers will be measured for evidence of high likelihood of impairment i.e. estimated recoveries (based on the discounted cash flow projection method and taking into account economic conditions) is less than carrying value or fair value is less than the carrying value.

Collective Assessment

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

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

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

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

³Administrative 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.

⁴In 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.

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

Table 5.1: Distribution of gross credit exposures by sector

The aggregated distribution of credit exposures by sector of AMMB Banking Group is as follows:

| 31 MARCH 2016 | | | | | | | | | | | | | | | |
|--|-----------------------|-----------------------------------|-------------------------|--|------------------------|--|--|------------------------------------|---|-----------------------|----------------------------------|-----------------------------------|---------------------|------------------|--------------------|
| | Agriculture RM'000 | Mining and Quarrying RM'000 | Manufacturing RM'000 | Electricity, Gas and Water RM'000 | Construction RM'000 | Wholesale, Retail Trade, Restaurant and Hotel RM'000 | Transport, Storage and Communication RM'000 | Finance and Insurance RM'000 | Government and Central Banks RM'000 | Real Estate RM'000 | Business Activities RM'000 | Education and Health RM'000 | Household RM'000 | Others RM'000 | Total RM'000 |
| On balance sheet exposures | | | | | | | | | | | | | | | |
| Sovereigns/ Central banks | - | - | - | - | - | - | - | - | 12,011,366 | - | - | - | - | - | 12,011,366 |
| Banks, DFIs and MDBs | - | - | - | - | - | - | - | 9,866,642 | - | - | - | 71,567 | - | - | 9,938,209 |
| Insurance companies, Securities firms and Fund managers | - | - | - | - | - | - | - | 7,201 | - | - | - | - | - | - | 7,201 |
| Corporates | 3,925,707 | 3,334,279 | 8,709,684 | 695,584 | 6,862,206 | 4,484,435 | 2,131,657 | 6,192,045 | - | 8,826,325 | 834,987 | 3,560,504 | 1,550,688 | 143,549 | 51,251,650 |
| Regulatory retail | 51,352 | 18,749 | 242,344 | 3,922 | 179,507 | 256,160 | 79,002 | 187,723 | - | 113,471 | 100,755 | 104,828 | 32,327,545 | 22,703 | 33,688,061 |
| Residential mortgages | - | - | - | - | - | - | - | - | - | - | - | - | 11,347,176 | - | 11,347,176 |
| Higher risk assets | - | - | - | - | - | - | - | - | - | - | - | - | 11,139 | 100,270 | 111,409 |
| Other assets | - | - | - | - | - | - | - | - | - | - | - | - | 647,540 | 2,805,873 | 3,453,413 |
| Specialised Financing/ Securitisation exposures | - | - | - | - | - | - | - | 31,181 | - | 22,251 | - | - | - | - | 53,432 |
| Equity exposures | - | - | 8 | - | - | - | - | 4,066 | - | - | - | - | - | 136 | 4,210 |
| Defaulted exposures | 2,767 | 3,172 | 52,637 | 6,261 | 35,637 | 41,127 | 12,546 | 7 | - | 432,888 | 3,505 | 7,008 | 537,081 | 12,730 | 1,147,366 |
| Total for on balance sheet exposures | 3,979,826 | 3,356,200 | 9,004,673 | 705,767 | 7,077,350 | 4,781,722 | 2,223,205 | 16,288,865 | 12,011,366 | 9,394,935 | 939,247 | 3,743,907 | 46,421,169 | 3,085,261 | 123,013,493 |
| Off balance sheet exposures | | | | | | | | | | | | | | | |
| OTC derivatives | 58,395 | 226,195 | 145,683 | - | 668 | 27,528 | 89,165 | 3,949,673 | - | 12,740 | 2,076 | 1,123 | - | - | 4,513,246 |
| Credit derivatives | - | - | - | - | - | - | - | 42 | - | - | - | - | - | - | 42 |
| Off balance sheet exposures other than OTC derivatives or Credit derivatives | 342,175 | 409,156 | 1,867,604 | 292,636 | 2,106,630 | 879,787 | 342,985 | 626,040 | - | 1,267,689 | 241,368 | 293,296 | 2,223,316 | 4,875 | 10,897,557 |
| Defaulted exposures | - | 189 | 1,832 | - | 688 | 43,126 | 500 | 5,000 | - | 270 | 3 | 1 | 32 | 117 | 51,758 |
| Total for off balance sheet exposures | 400,570 | 635,540 | 2,015,119 | 292,636 | 2,107,986 | 950,441 | 432,650 | 4,580,755 | - | 1,280,699 | 243,447 | 294,420 | 2,223,348 | 4,992 | 15,462,603 |
| Total on and off balance sheet exposures | 4,380,396 | 3,991,740 | 11,019,792 | 998,403 | 9,185,336 | 5,732,163 | 2,655,855 | 20,869,620 | 12,011,366 | 10,675,634 | 1,182,694 | 4,038,327 | 48,644,517 | 3,090,253 | 138,476,096 |

Table 5.1: Distribution of gross credit exposures by sector

The aggregated distribution of credit exposures by sector of AMMB Banking Group is as follows:

| 31 MARCH 2015 | | | | | | | | | | | | | | |
|--|------------------|----------------------|-------------------|----------------------------|------------------|---|--------------------------------------|-----------------------|------------------|---------------------|----------------------|-------------------|------------------|--------------------|
| | Agriculture | Mining and Quarrying | Manufacturing | Electricity, Gas and Water | Construction | Wholesale, Retail Trade, Restaurant and Hotel | Transport, Storage and Communication | Finance and Insurance | Real Estate | Business Activities | Education and Health | Household | Others | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| On balance sheet exposures | | | | | | | | | | | | | | |
| Sovereigns/ Central banks | - | - | - | - | 151,112 | - | - | 10,278,397 | - | - | 1,796,258 | - | - | 12,225,767 |
| Banks, DFIs and MDBs | - | - | - | - | - | - | - | 12,282,183 | - | - | 71,389 | - | 55,283 | 12,408,855 |
| Insurance companies, Securities firms and Fund managers | - | - | - | - | - | - | - | 35,068 | - | - | - | - | - | 35,068 |
| Corporates | 3,875,404 | 3,741,894 | 8,232,753 | 1,395,327 | 6,631,807 | 4,805,559 | 2,331,067 | 5,823,425 | 8,014,784 | 1,292,913 | 3,146,169 | 2,726,954 | 145,554 | 52,163,610 |
| Regulatory retail | 71,946 | 17,617 | 218,998 | 3,391 | 202,301 | 262,702 | 94,183 | 223,287 | 100,286 | 97,063 | 136,570 | 30,773,848 | 37,350 | 32,239,542 |
| Residential mortgages | - | - | - | - | - | - | - | - | - | - | - | 10,961,099 | - | 10,961,099 |
| Higher risk assets | - | - | - | - | - | - | - | - | - | - | - | 18,868 | 101,365 | 120,233 |
| Other assets | - | - | - | - | - | - | - | 31,346 | - | - | - | 515,170 | 3,521,674 | 4,068,190 |
| Securitisation exposures | - | - | - | - | - | - | - | 23,669 | - | - | 30,957 | - | - | 54,626 |
| Equity exposures | - | - | 7 | - | - | - | - | 5,227 | - | - | - | - | 161 | 5,395 |
| Defaulted exposures | 8,454 | 300 | 47,263 | 7,820 | 34,096 | 34,046 | 9,141 | 7,904 | 363,741 | 6,024 | 9,194 | 625,205 | 10,370 | 1,163,558 |
| Total for on balance sheet exposures | 3,955,804 | 3,759,811 | 8,499,021 | 1,406,538 | 7,019,316 | 5,102,307 | 2,434,391 | 28,710,506 | 8,478,811 | 1,396,000 | 5,190,537 | 45,621,144 | 3,871,757 | 125,445,943 |
| Off balance sheet exposures | | | | | | | | | | | | | | |
| OTC derivatives | 3,161 | 185,794 | 125,721 | - | 6,474 | 4,125 | 68,813 | 3,373,040 | 8,953 | 41,469 | 629 | - | 2,590 | 3,820,769 |
| Credit derivatives | - | - | - | - | - | - | - | 16 | - | - | - | - | - | 16 |
| Off balance sheet exposures other than OTC derivatives or Credit derivatives | 284,680 | 585,610 | 1,738,026 | 189,920 | 2,293,086 | 765,437 | 295,338 | 629,377 | 1,039,212 | 267,568 | 321,872 | 2,296,856 | 13,161 | 10,720,143 |
| Defaulted exposures | - | 1,134 | 2,342 | - | 29,044 | 2,428 | 652 | 5,146 | 110 | 431 | 15 | 259 | 125 | 41,686 |
| Total for off balance sheet exposures | 287,841 | 772,538 | 1,866,089 | 189,920 | 2,328,604 | 771,990 | 364,803 | 4,007,579 | 1,048,275 | 309,468 | 322,516 | 2,297,115 | 15,876 | 14,582,614 |
| Total on and off balance sheet exposures | 4,243,645 | 4,532,349 | 10,365,110 | 1,596,458 | 9,347,920 | 5,874,297 | 2,799,194 | 32,718,085 | 9,527,086 | 1,705,468 | 5,513,053 | 47,918,259 | 3,887,633 | 140,028,557 |

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

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

| 31 MARCH 2016 | | | | | | | | | | | | | | | |
|--|-------------|----------------------|---------------|----------------------------|--------------|---|--------------------------------------|-----------------------|-------------|---------------------|----------------------|-----------|--------|---------------|------------|
| | Agriculture | Mining and Quarrying | Manufacturing | Electricity, Gas and Water | Construction | Wholesale, Retail Trade, Restaurant and Hotel | Transport, Storage and Communication | Finance and Insurance | Real Estate | Business Activities | Education and Health | Household | Others | Not allocated | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Impaired loans, advances and financing | 2,422 | 88,437 | 185,051 | 16,498 | 50,433 | 33,682 | 25,270 | 477 | 571,936 | 10,751 | 7,043 | 701,960 | 6,895 | - | 1,700,855 |
| Past due loans / financing | 17,424 | 32,019 | 232,534 | 17,395 | 93,938 | 89,103 | 74,404 | 4,524 | 656,705 | 54,284 | 29,413 | 9,407,257 | 51,287 | - | 10,760,287 |
| Individual allowance | - | 12,493 | 148,434 | 10,017 | 11,422 | 3,289 | 12,980 | - | 106,575 | 5,351 | - | 6,306 | 402 | - | 317,269 |
| Collective allowance | - | - | - | - | - | - | - | - | - | - | - | - | - | 1,061,513 | 1,061,513 |
| Charges / (writeback) for individual allowance | - | 6,544 | 30,859 | (3,015) | 11,095 | 1,264 | 13,393 | - | 76,308 | (406) | (329) | 2,814 | 402 | - | 138,929 |
| Write-offs against individual allowance | - | - | 19,777 | - | 7,527 | 8,685 | 13,490 | - | - | 1,354 | 649 | 6,001 | - | - | 57,483 |

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

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

| 31 MARCH 2015 | | | | | | | | | | | | | | | |
|--|-------------|----------------------|---------------|----------------------------|--------------|---|--------------------------------------|-----------------------|-------------|---------------------|----------------------|------------|--------|---------------|------------|
| | Agriculture | Mining and Quarrying | Manufacturing | Electricity, Gas and Water | Construction | Wholesale, Retail Trade, Restaurant and Hotel | Transport, Storage and Communication | Finance and Insurance | Real Estate | Business Activities | Education and Health | Household | Others | Not allocated | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Impaired loans, advances and financing | 9,142 | 7,041 | 206,878 | 21,361 | 21,685 | 43,289 | 24,277 | 451 | 398,608 | 15,921 | 12,603 | 797,553 | 13,922 | - | 1,572,731 |
| Past due loans / financing | 21,442 | 9,442 | 217,827 | 841 | 97,258 | 118,048 | 100,778 | 7,195 | 343,655 | 49,490 | 52,749 | 10,456,534 | 42,613 | - | 11,517,872 |
| Individual allowance | - | 5,949 | 137,352 | 13,032 | 7,854 | 10,710 | 13,078 | - | 30,267 | 7,111 | 978 | 9,493 | - | - | 235,823 |
| Collective allowance | - | - | - | - | - | - | - | - | - | - | - | - | - | 1,413,424 | 1,413,424 |
| Charges / (writeback) for individual allowance | (11) | 2,959 | 34,284 | (8,209) | 4,600 | 10,513 | 7,040 | - | 30,144 | 4,358 | 978 | 4,371 | - | - | 91,027 |
| Write-offs against individual allowance | - | 137 | 5,862 | - | 112 | 8 | 2,708 | - | - | 1,676 | - | 2,800 | - | - | 13,303 |

Table 5.3: Geographical distribution of credit exposures

The aggregated geographic distribution of credit exposures of AMMB Banking Group is as follows:

| | 31 MARCH 2016 | | |
|--|-----------------------|----------------------------|--------------------|
| | In Malaysia RM'000 | Outside Malaysia RM'000 | Total RM'000 |
| On balance sheet exposures | | | |
| Sovereigns/ Central banks | 11,231,213 | 780,153 | 12,011,366 |
| Banks, DFIs and MDBs | 8,179,591 | 1,758,618 | 9,938,209 |
| Insurance companies, Securities firms and Fund managers | 7,201 | - | 7,201 |
| Corporates | 48,538,728 | 2,712,922 | 51,251,650 |
| Regulatory retail | 33,684,894 | 3,167 | 33,688,061 |
| Residential mortgages | 11,347,176 | - | 11,347,176 |
| Higher risk assets | 111,363 | 46 | 111,409 |
| Other assets | 3,353,782 | 99,631 | 3,453,413 |
| Securitisation exposures | 53,432 | - | 53,432 |
| Equity exposures | 4,210 | - | 4,210 |
| Defaulted exposures | 1,147,260 | 106 | 1,147,366 |
| Total for on balance sheet exposures | 117,658,850 | 5,354,643 | 123,013,493 |
| Off balance sheet exposures | | | |
| OTC derivatives | 4,513,246 | - | 4,513,246 |
| Credit derivatives | 42 | - | 42 |
| Off balance sheet exposures other than OTC derivatives or Credit derivatives | 10,192,402 | 705,155 | 10,897,557 |
| Defaulted exposures | 51,758 | - | 51,758 |
| Total for off balance sheet exposures | 14,757,448 | 705,155 | 15,462,603 |
| Total on and off balance sheet exposures | 132,416,298 | 6,059,798 | 138,476,096 |

| | 31 MARCH 2015 | | |
|--|-----------------------|----------------------------|--------------------|
| | In Malaysia RM'000 | Outside Malaysia RM'000 | Total RM'000 |
| On balance sheet exposures | | | |
| Sovereigns/ Central banks | 11,707,281 | 518,486 | 12,225,767 |
| Banks, DFIs and MDBs | 11,377,395 | 1,031,460 | 12,408,855 |
| Insurance companies, Securities firms and Fund managers | 35,068 | - | 35,068 |
| Corporates | 49,419,827 | 2,743,783 | 52,163,610 |
| Regulatory retail | 32,232,582 | 6,960 | 32,239,542 |
| Residential mortgages | 10,961,099 | - | 10,961,099 |
| Higher risk assets | 119,150 | 1,083 | 120,233 |
| Other assets | 3,862,688 | 205,502 | 4,068,190 |
| Securitisation exposures | 54,626 | - | 54,626 |
| Equity exposures | 5,395 | - | 5,395 |
| Defaulted exposures | 1,163,401 | 157 | 1,163,558 |
| Total for on balance sheet exposures | 120,938,512 | 4,507,431 | 125,445,943 |
| Off balance sheet exposures | | | |
| OTC derivatives | 3,820,764 | 5 | 3,820,769 |
| Credit derivatives | 16 | - | 16 |
| Off balance sheet exposures other than OTC derivatives or Credit derivatives | 10,017,519 | 702,624 | 10,720,143 |
| Defaulted exposures | 41,686 | - | 41,686 |
| Total for off balance sheet exposures | 13,879,985 | 702,629 | 14,582,614 |
| Total on and off balance sheet exposures | 134,818,497 | 5,210,060 | 140,028,557 |

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

The aggregated amounts of impaired and past due loans, advances and financing, individual and collective allowances by geographic distribution of AMMB Banking Group is as follows:

| 31 MARCH 2016 | | | |
|--|-------------------------------|------------------------------------|-------------------------|
| | In Malaysia RM'000 | Outside Malaysia RM'000 | Total RM'000 |
| Impaired loans, advances and financing | 1,599,569 | 101,286 | 1,700,855 |
| Past due loans / financing | 10,760,287 | - | 10,760,287 |
| Individual allowance | 307,805 | 9,464 | 317,269 |
| Collective allowance | 1,044,605 | 16,908 | 1,061,513 |

| 31 MARCH 2015 | | | |
|--|-------------------------------|------------------------------------|-------------------------|
| | In Malaysia RM'000 | Outside Malaysia RM'000 | Total RM'000 |
| Impaired loans, advances and financing | 1,572,731 | - | 1,572,731 |
| Past due loans / financing | 11,517,872 | - | 11,517,872 |
| Individual allowance | 235,823 | - | 235,823 |
| Collective allowance | 1,399,449 | 13,975 | 1,413,424 |

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

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

| | 31 MARCH 2016 | | | | | | | | Total RM'000 |
|---|-------------------------|-----------------------------------|------------------------------------|-------------------------------------|---------------------------------|----------------------------------|---------------------|------------------------------------|--------------------|
| | 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 | |
| On balance sheet exposures | | | | | | | | | |
| Sovereigns/ central banks | 7,072,496 | 900,005 | - | 163,261 | - | 237,710 | 3,637,894 | - | 12,011,366 |
| Banks, DFIs and MDBs | 7,004,015 | 2,353,077 | 102,716 | 155,178 | 116,158 | 30,516 | 176,549 | - | 9,938,209 |
| Insurance companies, Securities firms and Fund managers | - | - | - | - | - | - | 7,201 | - | 7,201 |
| Corporates | 14,223,655 | 4,005,282 | 2,209,229 | 1,374,699 | 7,265,129 | 6,733,409 | 15,440,247 | - | 51,251,650 |
| Regulatory retail | 1,509,320 | 72,232 | 114,553 | 269,840 | 2,827,969 | 6,050,145 | 22,844,002 | - | 33,688,061 |
| Residential mortgages | 324 | 329 | 1,027 | 4,720 | 57,320 | 130,948 | 11,152,508 | - | 11,347,176 |
| Higher risk assets | 26 | - | 4 | 71 | 488 | 394 | 10,156 | 100,270 | 111,409 |
| Other assets | 1,421,420 | 6,807 | 7,803 | 14,324 | 296,610 | 105,347 | - | 1,601,102 | 3,453,413 |
| Securitisation exposures | 40 | - | - | - | - | - | 53,392 | - | 53,432 |
| Equity exposures | 4,066 | - | - | - | - | - | 7 | 137 | 4,210 |
| Defaulted exposures | 409,480 | 29,323 | 17,760 | 40,487 | 116,332 | 78,639 | 455,345 | - | 1,147,366 |
| Total for on balance sheet exposures | 31,644,842 | 7,367,055 | 2,453,092 | 2,022,580 | 10,680,006 | 13,367,108 | 53,777,301 | 1,701,509 | 123,013,493 |
| Off balance sheet exposures | | | | | | | | | |
| OTC derivatives | 229,219 | 431,417 | 735,925 | 427,425 | 335,403 | 776,364 | 1,577,493 | - | 4,513,246 |
| Credit derivatives | - | 23 | 7 | - | - | 12 | - | - | 42 |
| Off balance sheet exposures other than OTC derivatives or Credit derivatives | 1,365,935 | 1,061,827 | 1,087,985 | 2,151,379 | 1,943,473 | 511,950 | 2,775,008 | - | 10,897,557 |
| Defaulted exposures | 14,495 | 1,370 | 23,543 | 10,637 | 280 | - | 1,433 | - | 51,758 |
| Total for off balance sheet exposures | 1,609,649 | 1,494,637 | 1,847,460 | 2,589,441 | 2,279,156 | 1,288,326 | 4,353,934 | - | 15,462,603 |
| Total on and off balance sheet exposures | 33,254,491 | 8,861,692 | 4,300,552 | 4,612,021 | 12,959,162 | 14,655,434 | 58,131,235 | 1,701,509 | 138,476,096 |

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

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

| | 31 MARCH 2015 | | | | | | | | Total RM'000 |
|---|-------------------------|-----------------------------------|------------------------------------|-------------------------------------|---------------------------------|----------------------------------|---------------------|------------------------------------|--------------------|
| | 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 | |
| On balance sheet exposures | | | | | | | | | |
| Sovereigns/ central banks | 7,363,872 | 518,486 | 39,691 | - | - | 111,715 | 4,192,003 | - | 12,225,767 |
| Banks, DFIs and MDBs | 5,786,428 | 6,015,151 | 202,669 | 41,929 | 25,205 | 95,456 | 236,803 | 5,214 | 12,408,855 |
| Insurance companies, Securities firms and Fund managers | - | - | - | - | - | - | 35,068 | - | 35,068 |
| Corporates | 12,611,990 | 3,879,843 | 3,253,383 | 2,286,742 | 6,341,510 | 6,317,590 | 17,472,552 | - | 52,163,610 |
| Regulatory retail | 1,604,464 | 66,964 | 125,313 | 274,956 | 2,689,845 | 5,709,215 | 21,768,785 | - | 32,239,542 |
| Residential mortgages | 761 | 299 | 1,134 | 3,828 | 58,387 | 129,986 | 10,766,704 | - | 10,961,099 |
| Higher risk assets | 1 | 25 | 14 | 59 | 479 | 1,444 | 16,846 | 101,365 | 120,233 |
| Other assets | 1,244,268 | 8,900 | 11,214 | 23,028 | 453,106 | 203,050 | - | 2,124,624 | 4,068,190 |
| Securitisation exposures | 6 | - | - | - | - | - | 54,620 | - | 54,626 |
| Equity exposures | 5,226 | - | - | - | - | - | 8 | 161 | 5,395 |
| Defaulted exposures | 395,222 | 8,560 | 11,180 | 14,865 | 95,191 | 127,028 | 511,512 | - | 1,163,558 |
| Total for on balance sheet exposures | 29,012,238 | 10,498,228 | 3,644,598 | 2,645,407 | 9,663,723 | 12,695,484 | 55,054,901 | 2,231,364 | 125,445,943 |
| Off balance sheet exposures | | | | | | | | | |
| OTC derivatives | 332,521 | 251,288 | 278,084 | 410,913 | 644,305 | 558,032 | 1,345,626 | - | 3,820,769 |
| Credit derivatives | - | - | - | - | 10 | - | 6 | - | 16 |
| Off balance sheet exposures other than OTC derivatives or Credit derivatives | 1,424,378 | 1,034,971 | 1,165,335 | 1,911,504 | 1,949,721 | 906,960 | 2,327,274 | - | 10,720,143 |
| Defaulted exposures | 3,734 | 13,330 | 1,482 | 18,708 | 399 | 977 | 3,056 | - | 41,686 |
| Total for off balance sheet exposures | 1,760,633 | 1,299,589 | 1,444,901 | 2,341,125 | 2,594,435 | 1,465,969 | 3,675,962 | - | 14,582,614 |
| Total on and off balance sheet exposures | 30,772,871 | 11,797,817 | 5,089,499 | 4,986,532 | 12,258,158 | 14,161,453 | 58,730,863 | 2,231,364 | 140,028,557 |

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

The reconciliation of changes to aggregated loan/financing impairment allowances of AMMB Banking Group is as follows:

| | 31 MARCH 2016 | |
|---|---|---|
| | Individual impairment allowance RM'000 | Collective impairment allowance RM'000 |
| Balance at beginning of the financial year | 235,823 | 1,413,424 |
| Charge for the year – net | 138,929 | 263,782 |
| Amount written-off | (57,483) | (616,968) |
| Amount transferred to AmBank Islamic | - | (17) ** |
| Amount transferred from AmBank | - | 17 ** |
| Exchange differences | - | 1,275 |
| Balance at end of the financial year *** | 317,269 | 1,061,513 |
| | | (Charge off)/ recoveries |
| | | RM'000 |
| Bad debts written off during the year | | (122,038) |
| Bad debt recoveries during the year | | 687,592 |

| | 31 MARCH 2015 | |
|---|--|--|
| | Individual impairment allowances RM'000 | Collective impairment allowances RM'000 |
| Balance at beginning of the financial year | 167,552 | 1,950,556 |
| Charge for the year – net | 91,027 | 504,522 |
| Disposal of subsidiary | (9,906) | - |
| Amount written-off | (13,303) | (1,043,652) |
| Amount transferred to AmBank Islamic | - | (2,463) * |
| Amount transferred from AmBank | - | 2,463 * |
| Exchange differences | 453 | 1,998 |
| Balance at end of the financial year *** | 235,823 | 1,413,424 |
| | | (Charge off)/ recoveries |
| | | RM'000 |
| Bad debts written off during the year | | (88,757) |
| Bad debt recoveries during the year | | 711,032 |

* 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, AmBank had derecognised the collective allowance previously recognised in its financial statements. Accordingly, AmBank Islamic now accounts for the collective allowance in its financial statements.

** on 31 December 2015, another new contract for the sum of RM300,000,000 was entered into by AmBank with AmBank Islamic. Arising from this new contract, AmBank Islamic transferred collective allowance of RM2,461,000 for the financing funded by AmBank. 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 amounted to RM1,003,979,000 and RM1,473,000 (31 March 2015: RM1,363,811,000 and RM1,553,000) respectively.

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

6.0 Credit Risk Exposure under Standardised Approach

Depending on the exposure class, the following ratings by the following 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 (1997-2013); and is incorporated in the Credit Risk Rating Policy.

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

6.0 Credit Risk Exposure under the Standardised Approach

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

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

| 31 MARCH 2016 | | | | | | | | | | | | | |
|--|------------------------------|----------------------|---|------------|-------------------|-----------------------|--------------------|--------------|--------------------------|------------------|---------------------------------------|----------------------------|--|
| Exposures after netting and credit risk mitigation | | | | | | | | | | | | | |
| Risk weights | 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 CRM | 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% | 12,012,016 | 24,916 | - | 6,022,526 | - | - | - | 441,667 | - | - | 18,501,125 | - | |
| 20% | 40,971 | 11,822,690 | - | 5,418,075 | 3,870 | - | - | - | 53,195 | - | 17,338,801 | 3,467,760 | |
| 35% | - | - | - | - | - | 11,032,827 | - | - | - | - | 11,032,827 | 3,861,490 | |
| 50% | - | 1,812,528 | - | 100,015 | 26,220 | 341,032 | - | - | - | - | 2,279,795 | 1,139,898 | |
| 75% | - | - | - | - | 33,172,210 | - | - | - | - | - | 33,172,210 | 24,879,157 | |
| 100% | - | 161 | 82,875 | 46,101,979 | 2,473,012 | 189,683 | - | 3,011,746 | - | 4,210 | 51,863,666 | 51,863,666 | |
| 150% | - | - | 4,702 | 537,196 | 162,828 | - | 123,223 | - | - | - | 827,949 | 1,241,923 | |
| 1250% | - | - | - | - | - | - | - | - | 237 | - | 237 | 2,967 | |
| Total | 12,052,987 | 13,660,295 | 87,577 | 58,179,791 | 35,838,140 | 11,563,542 | 123,223 | 3,453,413 | 53,432 | 4,210 | 135,016,610 | 86,456,861 | |

| 31 MARCH 2015 | | | | | | | | | | | | | |
|--|------------------------------|----------------------|---|------------|-------------------|-----------------------|--------------------|--------------|--------------------------|------------------|---------------------------------------|----------------------------|--|
| Exposures after netting and credit risk mitigation | | | | | | | | | | | | | |
| Risk weights | 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 CRM | 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% | 12,225,767 | 24,797 | - | 5,245,411 | - | - | - | 399,263 | - | - | 17,895,238 | - | |
| 20% | - | 13,485,048 | - | 4,752,350 | 3,467 | - | - | - | 53,312 | - | 18,294,177 | 3,658,836 | |
| 35% | - | - | - | - | - | 10,536,010 | - | - | - | - | 10,536,010 | 3,687,604 | |
| 50% | - | 1,995,411 | - | 330,482 | 24,648 | 457,069 | - | - | - | - | 2,807,610 | 1,403,804 | |
| 75% | - | - | - | - | 32,791,674 | - | - | - | - | - | 32,791,674 | 24,593,755 | |
| 100% | - | 553 | 92,007 | 47,227,192 | 1,132,645 | 225,492 | - | 3,668,927 | - | 5,395 | 52,352,211 | 52,352,211 | |
| 150% | - | - | - | 500,266 | 171,086 | - | 136,862 | - | - | - | 808,214 | 1,212,320 | |
| 1250% | - | - | - | - | - | - | - | - | 1,314 | - | 1,314 | 16,426 | |
| Total | 12,225,767 | 15,505,809 | 92,007 | 58,055,701 | 34,123,520 | 11,218,571 | 136,862 | 4,068,190 | 54,626 | 5,395 | 135,486,448 | 86,924,956 | |

Table 6.2: Rated Exposures according to Ratings by ECAIs

| 31 MARCH 2016 | | | | | | |
|---|-------------------|------------------|------------------|-------------|----------|-------------------|
| Ratings of Corporate by Approved ECAIs | | | | | | |
| | 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 | B1 to D | Unrated |
| | MARC | AAA to AA- | A+ to A- | BBB+ to BB- | B+ to D | Unrated |
| Exposure class | RM'000 | 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 | 61,345,854 | 3,873,064 | 1,433,703 | 382 | - | 56,038,705 |
| Total | 61,433,731 | 3,873,064 | 1,433,703 | 382 | - | 56,126,582 |

| 31 MARCH 2015 | | | | | | |
|---|-------------------|------------------|----------------|-------------|-----------|-------------------|
| Ratings of Corporate by Approved ECAIs | | | | | | |
| | 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 | B1 to D | Unrated |
| | MARC | AAA to AA- | A+ to A- | BBB+ to BB- | B+ to D | Unrated |
| | RII | AAA to AA- | A+ to A- | BBB+ to BB- | B+ to D | Unrated |
| Exposure class | RM'000 | 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 | 92,007 | - | - | - | - | 92,007 |
| Corporates | 62,338,535 | 2,995,459 | 217,821 | 134 | 56 | 59,125,065 |
| Total | 62,430,542 | 2,995,459 | 217,821 | 134 | 56 | 59,217,072 |

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

| 31 MARCH 2016 | | | | | | |
|---|-------------------|----------------|-------------------|-----------|----------|----------|
| Ratings of Sovereigns and Central Banks by Approved ECAIs | | | | | | |
| 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 | |
| Exposure Class | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>On and Off-Balance Sheet Exposures</u> | | | | | | |
| Sovereigns and Central banks | 12,052,987 | 780,153 | 11,272,834 | - | - | - |
| Total | 12,052,987 | 780,153 | 11,272,834 | - | - | - |

| 31 MARCH 2015 | | | | | | |
|---|-------------------|----------------|-------------------|-----------|----------|----------|
| Ratings of Sovereigns and Central Banks by Approved ECAIs | | | | | | |
| 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 | |
| RII | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | Unrated | |
| Exposure Class | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>On and Off-Balance Sheet Exposures</u> | | | | | | |
| Sovereigns and Central banks | 12,225,767 | 518,486 | 11,707,281 | - | - | - |
| Total | 12,225,767 | 518,486 | 11,707,281 | - | - | - |

| 31 MARCH 2016 | | | | | | |
|---|-------------------|------------------|------------------|------------------|----------|------------------|
| Ratings of Banking Institutions by Approved ECAIs | | | | | | |
| 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 | |
| Exposure class | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>On and off balance sheet exposures</u> | | | | | | |
| Banks, DFIs and MDBs | 13,660,295 | 5,119,799 | 1,883,304 | 1,105,003 | - | 5,552,189 |
| Total | 13,660,295 | 5,119,799 | 1,883,304 | 1,105,003 | - | 5,552,189 |

| 31 MARCH 2015 | | | | | | |
|---|-------------------|------------------|------------------|------------------|-----------|------------------|
| Ratings of Banking Institutions by Approved ECAIs | | | | | | |
| 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 | |
| RII | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | Unrated | |
| Exposure class | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>On and off balance sheet exposures</u> | | | | | | |
| Banks, DFIs and MDBs | 15,505,808 | 4,934,672 | 2,697,113 | 1,428,843 | 49 | 6,445,131 |
| Total | 15,505,808 | 4,934,672 | 2,697,113 | 1,428,843 | 49 | 6,445,131 |

Table 6.3: Securitisation according to Ratings by ECAs

| 31 MARCH 2016 | | | | |
|--|---------------|---------------|----------|------------|
| Ratings of Securitisation by Approved ECAs | | | | |
| Exposure class | Moody's | Aaa to Aa3 | A1 to A3 | Unrated |
| | S&P | AAA to AA- | A+ to A- | Unrated |
| | Fitch | AAA to AA- | A+ to A- | Unrated |
| | RAM | AAA to AA3 | A1 to A3 | Unrated |
| | MARC | AAA to AA- | A+ to A- | Unrated |
| | RM'000 | 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 |

| 31 MARCH 2015 | | | | |
|--|---------------|---------------|----------|--------------|
| Ratings of Securitisation by Approved ECAs | | | | |
| Exposure class | Moody's | Aaa to Aa3 | A1 to A3 | Unrated |
| | S&P | AAA to AA- | A+ to A- | Unrated |
| | Fitch | AAA to AA- | A+ to A- | Unrated |
| | RAM | AAA to AA3 | A1 to A3 | Unrated |
| | MARC | AAA to AA- | A+ to A- | Unrated |
| | RII | AAA to AA- | A+ to A- | Unrated |
| | RM'000 | 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

In the case of the Group's Islamic Banking operations, only Shariah approved assets can be accepted as permissible collateral.

Where the customer risk profile is considered very sound (or by nature of the product, for instance small limit products such as credit cards), a transaction may be provided on an "unsecured" basis, this is 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.

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

Processes for collateral management

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

Guarantee Support

Guarantee support for lending/financing 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/customer, where borrower's/customer'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/customer 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/financing is extended, amortisation schedules and loan/financing covenants. These assist in managing credit risk and in providing early warning signals, whereby should loan/financing covenants be breached, the 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/Financing 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 aggregated exposures and eligible guarantees, credit derivatives and collateral of the AMMB Banking Group are as follows:

| Exposures | 31 MARCH 2016 | | |
|---|--------------------------------|--|--|
| | Exposures before CRM RM'000 | Exposures covered by Guarantees RM'000 | Exposures covered by Eligible Financial Collateral RM'000 |
| Credit risk | | | |
| On balance sheet exposures | | | |
| Sovereigns/ Central banks | 12,011,366 | - | - |
| Banks, DFIs And MDBs | 9,938,209 | - | - |
| Insurance companies, Securities firms and Fund managers | 7,201 | - | - |
| Corporates | 51,251,650 | 1,857,633 | 6,032,117 |
| Regulatory retail | 33,688,061 | 3,777 | 356,319 |
| Residential mortgages | 11,347,176 | - | 126,511 |
| Higher risk assets | 111,409 | - | - |
| Other assets | 3,453,413 | - | - |
| Securitisation exposures | 53,432 | - | - |
| Equity exposures | 4,210 | - | - |
| Defaulted exposures | 1,147,366 | 756 | 174,692 |
| Total for on balance sheet exposures | 123,013,493 | 1,862,166 | 6,689,639 |
| Off balance sheet exposures | | | |
| OTC derivatives | 4,513,246 | - | - |
| Credit derivatives | 42 | - | - |
| Off balance sheet exposures other than OTC derivatives or Credit derivatives | 10,897,557 | 44,046 | 1,537,823 |
| Defaulted exposures | 51,758 | - | 24,471 |
| Total for off balance sheet exposures | 15,462,603 | 44,046 | 1,562,294 |
| Total on and off balance sheet exposures | 138,476,096 | 1,906,212 | 8,251,933 |

| Exposures | 31 MARCH 2015 | | |
|---|--------------------------------|--|--|
| | Exposures before CRM RM'000 | Exposures covered by Guarantees RM'000 | Exposures covered by Eligible Financial Collateral RM'000 |
| Credit risk | | | |
| On balance sheet exposures | | | |
| Sovereigns/ Central banks | 12,225,767 | - | - |
| Banks, DFIs And MDBs | 12,408,855 | - | - |
| Insurance companies, securities firms and fund managers | 35,068 | - | - |
| Corporates | 52,163,610 | 1,263,686 | 7,786,794 |
| Regulatory retail | 32,239,542 | 2,642 | 331,409 |
| Residential mortgages | 10,961,099 | - | 126,181 |
| Higher risk assets | 120,233 | - | - |
| Other assets | 4,068,190 | - | - |
| Securitisation exposures | 54,626 | - | - |
| Equity exposures | 5,395 | - | - |
| Defaulted exposures | 1,163,558 | 2,186 | 67,595 |
| Total for on balance sheet exposures | 125,445,943 | 1,268,514 | 8,311,979 |
| Off balance sheet exposures | | | |
| OTC derivatives | 3,820,769 | - | - |
| Credit derivatives | 16 | - | - |
| Off balance sheet exposures other than OTC derivatives or Credit derivatives | 10,720,143 | 15,067 | 1,610,807 |
| Defaulted exposures | 41,686 | 35 | 12,604 |
| Total for off balance sheet exposures | 14,582,614 | 15,102 | 1,623,411 |
| Total on and off balance sheet exposures | 140,028,557 | 1,283,616 | 9,935,390 |

8.0 Off Balance Sheet exposures and Counterparty Credit Risk

8.1 Off Balance Sheet exposures

The Group 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/profit rate related contracts (interest/profit rates futures and interest/profit rates swap), equity related contracts (option and futures) and commodity related contract (option).
- (3) Other treasury-related exposures, e.g. forward purchase commitment.

Off balance sheet exposure is mitigated by setting of credit limit for the respective counterparty and exposure limit for industry sectors which are governed under the 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/profit rates, foreign exchange and equities.

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

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 Group'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 banking subsidiary's or the counterparty's credit risk rating be upgraded or downgraded.

Table 8.1: Off Balance Sheet Exposures

The aggregated off balance sheet exposures and counterparty credit risk of the AMMB Banking Group is as follows:

| Description | 31 MARCH 2016 | | | |
|---|-------------------------------|--|--|-----------------------------------|
| | Principal Amount RM'000 | Positive Fair Value of Derivative Contracts RM'000 | Credit Equivalent Amount RM'000 | Risk Weighted Assets RM'000 |
| | | | | |
| Direct Credit Substitutes | 2,267,415 | | 2,267,415 | 1,909,462 |
| Transaction related contingent Items | 5,052,478 | | 2,526,239 | 1,637,276 |
| Short Term Self Liquidating trade related contingencies | 649,520 | | 129,904 | 104,687 |
| Assets sold with recourse | 300 | | 300 | 300 |
| Forward Asset Purchases | 866,986 | | 84,175 | 67,504 |
| Obligations under on-going underwriting agreements | 60,000 | | - | - |
| Foreign exchange related contracts | | | | |
| One year or less | 44,413,333 | 1,279,777 | 1,798,301 | 846,473 |
| 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/Profit rate related contracts | | | | |
| One year or less | 8,175,391 | 3,740 | 15,068 | 5,163 |
| Over one year to five years | 31,903,999 | 176,675 | 961,939 | 309,898 |
| Over five years | 9,773,151 | 149,030 | 920,707 | 230,844 |
| 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 | 4,703,052 | | 2,354,026 | 1,929,594 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year | 14,890,325 | | 3,017,965 | 2,808,385 |
| Unutilised credit card lines | 2,846,456 | | 569,291 | 423,337 |
| Total | 129,614,730 | 1,952,092 | 15,462,603 | 10,721,166 |

| Description | 31 MARCH 2015 | | | |
|---|-------------------------------|--|--|-----------------------------------|
| | Principal Amount RM'000 | Positive Fair Value of Derivative Contracts RM'000 | Credit Equivalent Amount RM'000 | Risk Weighted Assets RM'000 |
| | | | | |
| Direct Credit Substitutes | 996,116 | | 996,116 | 864,804 |
| Transaction related contingent Items | 6,355,902 | | 3,177,951 | 2,267,393 |
| Short Term Self Liquidating trade related contingencies | 715,135 | | 143,027 | 115,047 |
| Assets sold with recourse | 300 | | 300 | 300 |
| Forward Asset Purchases | 824,066 | | 55,226 | 25,761 |
| Obligations under an on-going underwriting agreements | 250,000 | | - | - |
| Foreign exchange related contracts | | | | |
| One year or less | 35,092,270 | 810,371 | 1,214,420 | 664,982 |
| 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/Profit rate related contracts | | | | |
| One year or less | 4,922,516 | 1,989 | 10,347 | 3,796 |
| Over one year to five years | 31,036,561 | 115,815 | 838,890 | 278,245 |
| Over five years | 8,783,307 | 68,173 | 682,670 | 216,296 |
| Equity and commodity related contracts | | | | |
| One year or less | 969,710 | 1,867 | 48,017 | 29,330 |
| 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 | 4,970,929 | | 2,511,000 | 2,264,785 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year | 15,645,655 | | 3,142,257 | 2,787,962 |
| Unutilised credit card lines | 3,955,894 | | 791,179 | 589,693 |
| Total | 119,693,286 | 1,472,212 | 14,582,614 | 10,555,351 |

Table 8.2: Credit Derivatives Counterparty Credit Risk ("CCR")

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

| | | 31 MARCH 2016 | | 31 MARCH 2015 | |
|----------------|---------------------|---|---|---|---|
| | | Sell Leg | Buy Leg * | Sell Leg | Buy Leg * |
| Usage | Product | 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 (31 March 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

AMMB Banking 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 books and trading books 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 SPV used in securitisation exercises

Third party exposures that have been securitised via SPVs include civil servant, personal loans/financing 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 agency for securitisation transactions purposes.

Table 9.1: Securitisation (Trading and Banking Book)

The aggregated securitised exposures of AMMB Banking Group is as follows:

| 31 MARCH 2016 | | | | |
|---|--|--------------------|--------------------|--|
| Underlying Asset | Total Exposures Securitised RM'000 | Past Due RM'000 | Impaired RM'000 | Gains/ losses recognised during the year RM'000 |
| <u>Traditional Securitisation</u> | | | | |
| <u>Originated by the Group</u> | | | | |
| <u>Banking Book</u> | | | | |
| Corporate loans | 125,714 | - | 57,563 | - |
| Mortgage loans | 847,829 | - | 842,332 | - |
| Total Traditional Securitisation | 973,543 | - | 899,895 | - |
| <u>Total Synthetic Securitisation</u> | - | - | - | - |
| Total Traditional and Synthetic Securitisation | 973,543 | - | 899,895 | - |

| 31 MARCH 2015 | | | | |
|---|--|--------------------|--------------------|--|
| Underlying Asset | Total Exposures Securitised RM'000 | Past Due RM'000 | Impaired RM'000 | Gains/ losses recognised during the year RM'000 |
| <u>Traditional Securitisation</u> | | | | |
| <u>Originated by the Group</u> | | | | |
| <u>Banking Book</u> | | | | |
| Corporate loans | 165,580 | - | 100,918 | - |
| Mortgage loans | 801,925 | - | 792,193 | - |
| Total Traditional Securitisation | 967,505 | - | 893,111 | - |
| <u>Total Synthetic Securitisation</u> | - | - | - | - |
| Total Traditional and Synthetic Securitisation | 967,505 | - | 893,111 | - |

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

| 31 MARCH 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 Guarantees/ 20% RM'000 | Exposures or Risk weights of Credit Derivatives | | |
| | | | | | 50% RM'000 | 1250% 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 |

| 31 MARCH 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 Guarantees/ 20% RM'000 | Exposures or Risk weights of Credit Derivatives | | |
| | | | | | 50% RM'000 | 1250% 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 |

10.0 Operational Risk

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

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

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

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:

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

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

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

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

10.2 Legal Risk

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

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

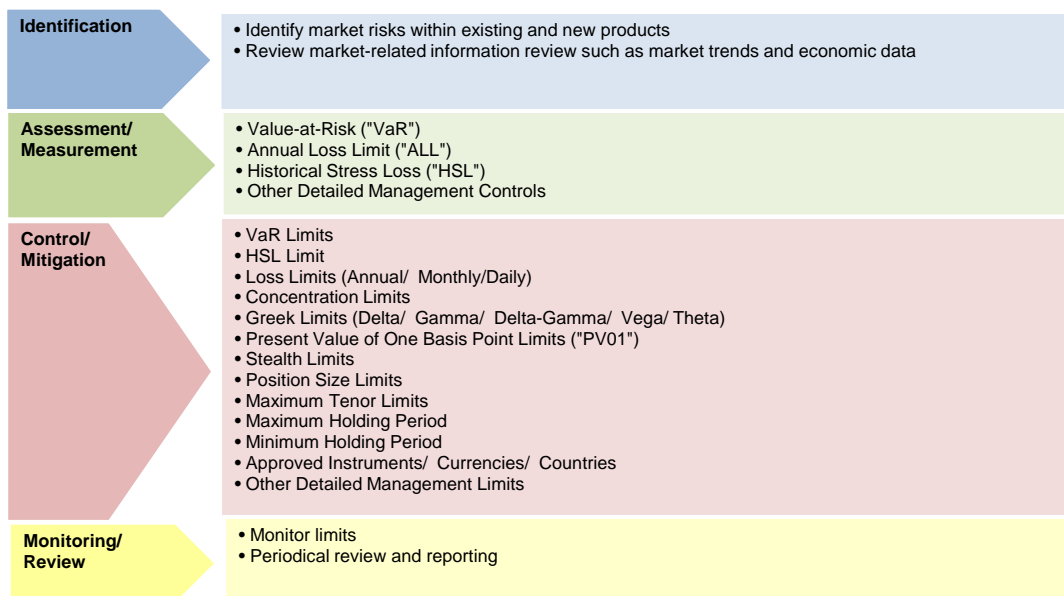
Training is provided to employees of the Group on relevant legal and regulatory requirements governing its activities and guidance on implementation of internal controls to manage compliance risk.

11.0 Market Risk Management

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

11.1 Traded Market Risk ("TMR")

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

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

To complement VaR, HSL is used as a measure of the potential impact on portfolio values due to more extreme, albeit plausible, market movements. In addition, HSL is used to gauge and ensure that the Group 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 Group adopts the Standardised Approach for market risk capital charge computation. The capital charge serves as a buffer against losses from potential adverse market movements.

Group Market Risk 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:

| | |
|--------------------------------|---|
| Identification | <ul style="list-style-type: none"> Identify IRR/ RORBB within existing and new products. Review market-related information review such as market trend and economic data. |
| Assessment/ Measurement | <ul style="list-style-type: none"> VaR Earnings-at-Risk ("EaR") PV01 Other Detailed Management Controls |
| Control/ Mitigation | <ul style="list-style-type: none"> VaR Limits EaR Limits PV01 Limits Other Detailed Management Limits |
| Monitoring/ Review | <ul style="list-style-type: none"> Monitor limits Periodical review and reporting |

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

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

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

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

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

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

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

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

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

Table 11.1: Interest Rate Risk/ Rate of Return Risk Sensitivity in the Banking Book
 The aggregated IRR/ RORBB sensitivity for AMMB Banking Group is as follows:

| 31 MARCH 2016 | | |
|---|---|---|
| | Interest Rate / Rate of Return + 100 bps RM'000 | Interest Rate / Rate of Return - 100 bps RM'000 |
| Impact On Profit Before Taxation | 94,651 | (94,651) |
| | | |
| | Interest Rate / Rate of Return + 100 bps RM'000 | Interest Rate / Rate of Return - 100 bps RM'000 |
| Impact on Equity | (541,973) | 608,738 |

| 31 MARCH 2015 | | |
|---|---|---|
| | Interest Rate / Rate of Return + 100 bps RM'000 | Interest Rate / Rate of Return - 100 bps RM'000 |
| Impact On Profit Before Taxation | 155,510 | (155,510) |
| | | |
| | Interest Rate / Rate of Return + 100 bps RM'000 | Interest Rate / Rate of Return - 100 bps RM'000 |
| Impact on Equity | (550,073) | 618,507 |

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

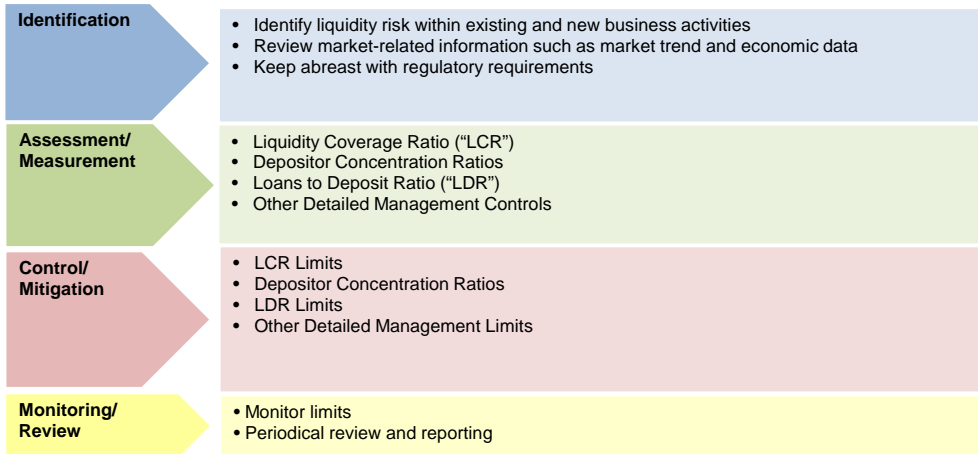
An analysis of equity investments by appropriate equity groupings and risk weighted assets of AMMB Banking Group is as follows:

| | 31 MARCH 2016 | 31 MARCH 2015 |
|---|----------------|----------------|
| | RM'000 | RM'000 |
| Non traded equity investments | | |
| Value of quoted (publicly traded) equities | 141,868 | 176,996 |
| Value of unquoted (privately held) equities | 99,270 | 100,367 |
| Total | 241,138 | 277,363 |
| Net realised and unrealised gains/ (losses) | | |
| Cumulative realised gains from sales and liquidations | 21,666 | 12,081 |
| Total unrealised losses | (1,925) | (9,866) |
| Total | 19,741 | 2,215 |
| Risk Weighted Assets | | |
| Equity investments subject to a 100% risk weight | 141,827 | 176,957 |
| Equity investments subject to a 150% risk weight | 148,965 | 150,608 |
| Total | 290,792 | 327,565 |
| Total minimum capital requirement (8%) | 23,263 | 26,205 |

13.0 Liquidity Risk and Funding Management

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

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



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

The Board 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.

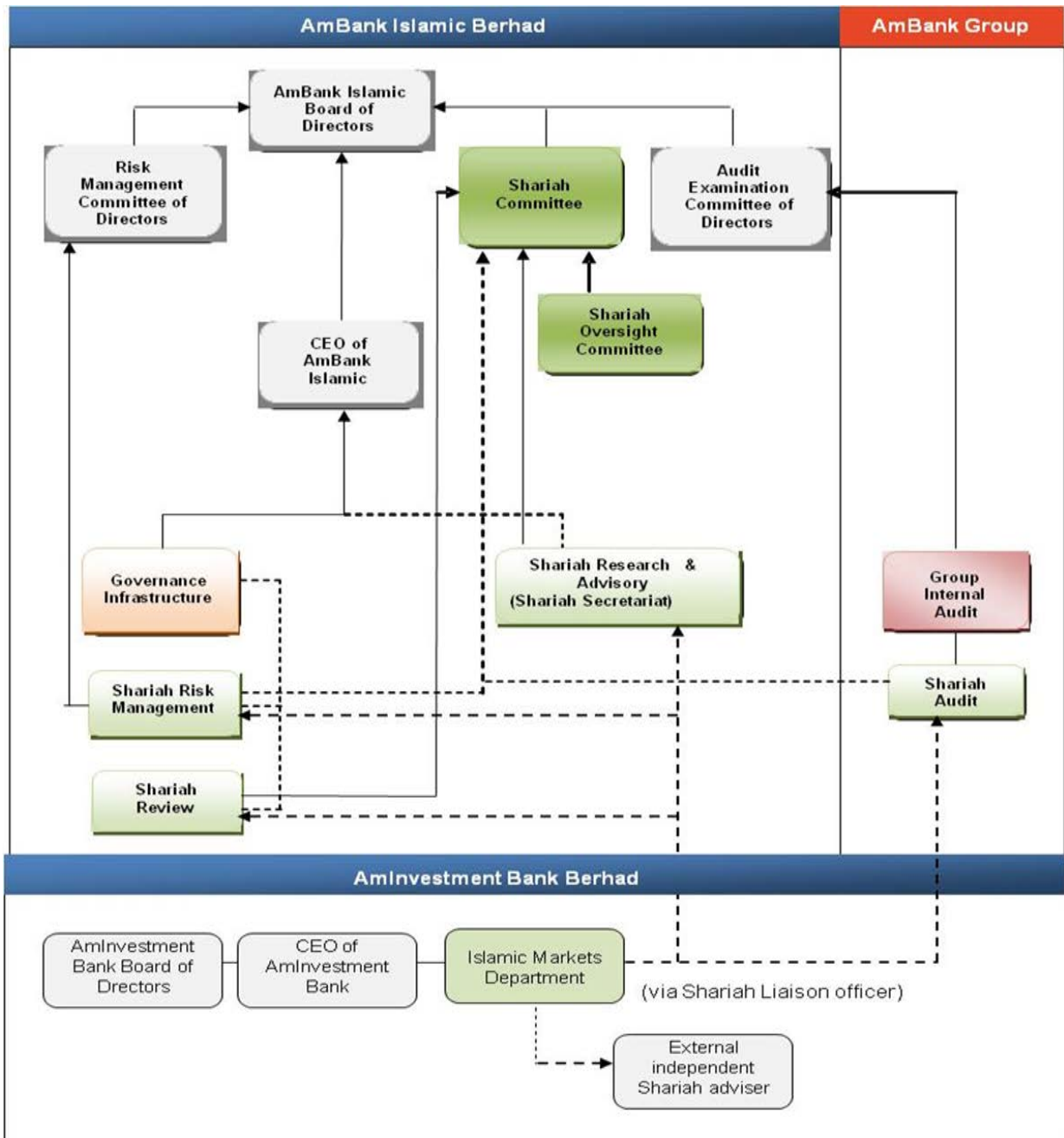
The Group has in place various liquidity measurements that provide the Group with visibility from volatility of customer's deposits to the concentration ratio of chunky deposits. Group Risk Management is responsible for monitoring the controls and limits while the Capital and Balance Sheet Management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

Stress testing is undertaken to assess and plan for the impact for various scenarios which may put the Group's liquidity at risk. The Group 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 Group's medium term assets is funded by medium term liabilities. Medium term is defined by the Group 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 Group is already monitoring the NSFR and continue to pursue strategies to ensure the availability of cost effective liquidity.

14.0 Shariah Governance Structure



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

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

Islamic Markets Department ("IMD") of AmInvestment Bank Berhad ("AIB") leverages on AmBank Islamic's Shariah Governance Structure, including the Shariah Committee of AmBank Islamic. IMD also engages the services of independent external Shariah adviser(s) as approved by the Securities Commission of Malaysia ("SC") when necessary.

Board of Directors

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

Audit and Examination Committee of Directors

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

14.0 Shariah Governance Structure (Cont'd.)

Risk Management Committee of Directors

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

Shariah Committee

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

Shariah Oversight Committee

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

Management

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

Shariah Research & Advisory

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

Shariah Risk Management

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

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

Shariah Review

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

Shariah Audit

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

Shariah Non-Compliant Income

As at 31st March 2016, there were a total of eight (8) Shariah non-compliant incidents which resulted in total Shariah non-compliant income of RM9,741,000. This amount has been purified in accordance with the method as approved by the Shariah Committee / Shariah Oversight Committee.

All these eight (8) Shariah non-compliant incidents have been rectified accordingly and AmBank Islamic has put in place and continues to enhance controls to prevent similar incidents from recurring, such as enhancement to systems, documentation, and process flows as well as manuals, guides and raising stakeholders' awareness.