

**AmBank Islamic Berhad**  
**(Formerly known as Amlslamic Bank Berhad)**

**Pillar 3 Disclosures**

**As at 30 September 2015**

**CAFIB - Pillar 3 Disclosures**  
**30 September 2015**

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## **1.0 Scope of Application**

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

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

### **Frequency of Disclosure**

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

### **Medium and Location of Disclosure**

These Pillar 3 disclosures of the Bank is available on the AmBank Group's corporate website at [www.ambankgroup.com](http://www.ambankgroup.com).

### **Capital Adequacy Ratios**

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

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

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

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

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

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

## 2.0 Capital Management

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

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

## 2.0 Capital Management (Cont'd.)

The capital plan takes the following into account:

- (a) Regulatory capital requirements:
  - forecast demand for capital to support the credit ratings; and
  - increases in demand for capital due to business growth and market shocks.
  
- (b) Or stresses:
  - available supply of capital and capital raising options; and
  - internal controls and governance for managing the Bank's risk, performance and capital.

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

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

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

## **2.0 Capital Management (Cont'd.)**

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

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

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

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

Group CEOs Committee proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. For the current financial year ending 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 Bank has been generally operating within these ranges.

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

## 2.0 Capital Management (Cont'd.)

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

**Table 2.1: Capital Adequacy Ratios**

The capital adequacy ratios of the Bank are as follows:

	30 September	31 March
	2015	2015
Common Equity Tier 1 capital ratio	9.239%	9.200%
Tier 1 capital ratio	9.239%	9.200%
Total capital ratio	14.253%	14.371%

On 30 January 2015, as part of an arrangement between AmBank (M) Berhad ("AmBank") and the Bank in relation to a Restricted Profit Sharing Investment Account ("RPSIA") agreement, AmBank records as "deposits and placements with banks and other financial institutions" its exposure in the arrangement, whereas the Bank records its exposure as "financing and advances". The RPSIA is a contract based on Shariah concept of Mudarabah between AmBank and the Bank to finance a specific business venture where by AmBank solely provides capital and the business ventures are managed solely by the Bank as the entrepreneur. The RPSIA 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 RPSIA financing.

As at 30 September 2015, the gross exposure and collective allowance relating to the RPSIA financing were RM1,363.8 million and RM1.6 million respectively (31 March 2015: RM1,363.8 million and RM1.6 million respectively). There was no individual allowance provided for the RPSIA financing. RPSIA assets excluded from the risk weighted capital adequacy computation of the Bank for 30 September 2015 amounted to RM1,363.8 million and the risk weight on assets funded by RPSIA are accounted for in the computation of capital adequacy of AmBank.

**Table 2.2: Risk Weighted Assets and Capital Requirements**

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

**30 September 2015**

Exposure Class		Gross Exposures/ Exposure At Default ("EAD") before Credit Risk Mitigation ("CRM")	Net Exposures/ EAD after CRM	Risk Weighted Assets	Risk Weighted Assets Absorbed by PSIA	Total Risk Weighted Assets after effects of PSIA	Minimum Capital Requirement at 8%
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>1. Credit Risk</b>							
<b>On-Balance Sheet Exposures</b>							
Sovereigns/Central Banks		3,686,415	3,686,415	-	-	-	-
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDBs")		4,377,003	4,377,003	889,540	-	889,540	71,163
Corporates		16,241,753	15,990,225	13,000,601	1,367,987	11,632,614	930,609
Regulatory Retail		13,365,402	13,354,421	10,207,351	-	10,207,351	816,588
Residential Mortgages		112,411	112,401	39,474	-	39,474	3,158
Other Assets		243,363	243,363	243,363	-	243,363	19,469
Defaulted Exposures		507,544	505,889	711,071	-	711,071	56,886
<b>Total for On-Balance Sheet Exposures</b>		<b>38,533,891</b>	<b>38,269,717</b>	<b>25,091,400</b>	<b>1,367,987</b>	<b>23,723,413</b>	<b>1,897,873</b>
<b>Off-Balance Sheet Exposures</b>							
Over the counter ("OTC") Derivatives		166,406	166,406	135,229	-	135,229	10,818
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		1,818,916	1,698,573	1,577,499	-	1,577,499	126,200
Defaulted Exposures		817	597	895	-	895	72
<b>Total for Off-Balance Sheet Exposures</b>		<b>1,986,139</b>	<b>1,865,576</b>	<b>1,713,623</b>	<b>-</b>	<b>1,713,623</b>	<b>137,090</b>
<b>Total On and Off-Balance Sheet Exposures</b>		<b>40,520,030</b>	<b>40,135,293</b>	<b>26,805,023</b>	<b>1,367,987</b>	<b>25,437,036</b>	<b>2,034,963</b>
<b>2. Large Exposure Risk Requirement</b>		-	-	-	-	-	-
<b>3. Market Risk</b>							
	<b>Long Position</b>		<b>Short Position</b>				
Rate of Return Risk							
- General rate of return risk	1,881,611	1,748,087		246,785	-	246,785	19,743
- Specific rate of return risk	127,205	-		4,220	-	4,220	338
Foreign Currency Risk	76,373	-		76,373	-	76,373	6,110
<b>Total</b>	<b>2,085,189</b>	<b>1,748,087</b>		<b>327,378</b>	<b>-</b>	<b>327,378</b>	<b>26,191</b>
<b>4. Operational Risk</b>				1,520,474	-	1,520,474	121,638
<b>5. Total RWA and Capital Requirements</b>				28,652,875	1,367,987	27,284,888	2,182,792



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

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

**31 March 2015**

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

### **3.0 Capital Structure**

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

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

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

#### **3.1 Common Equity Tier 1 Capital**

Common Equity Tier 1 Capital consists of the following:

##### **Paid-up Ordinary Share Capital**

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

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

#### Share Premium

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

#### Retained Earnings

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

#### Other Disclosed Reserves

Other disclosed reserves comprise the following:

- **Statutory Reserve**

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

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

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

#### 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 CET 1 Capital. As at 30 September 2015, the Bank has discontinued with the application of PER.

### 3.2 Additional Tier 1 Capital

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

### 3.3 Tier 2 Capital

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

The amount of Tier 2 Capital Instruments that can be recognized in the computation of the capital adequacy ratios of the Bank has been capped at 90% of the total qualifying Tier 2 balance outstanding as at 1 January 2013. For 2015, the amount of such Tier 2 Capital that can be recognised in the computation of the capital adequacy ratios is capped at 70% of the total qualifying Tier 2 Capital balance outstanding as at 1 January 2013. This is in accordance to the transitional gradual phase-out treatment under the Basel III regime. Table 3.1 outlines the application of the grandfathering provisions in respect of the Tier 2 Capital instruments for the Bank, details of the Tier 2 Capital Instruments are outlined below.

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

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

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

### 3.3 Tier 2 Capital (Cont'd.)

#### Subordinated Sukuk Musharakah

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

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

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

The salient features of the Sukuk Musharakah issued under the Subordinated Sukuk Musharakah programme and outstanding as at 30 September 2015 are as follows:

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

### 3.3 Tier 2 Capital (Cont'd.)

#### Basel III Subordinated Sukuk Murabahah

On 28 February 2014, the Bank 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 Bank's total capital position. The programme is set-up in accordance to the requirements spelt out in the CAFIB (Capital Components) issued by BNM, and the securities issued under this programme are fully Basel III-compliant and qualified for recognition as Tier 2 Capital for the purpose of capital adequacy ratio computation.

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

The salient features of the Sukuk Murabahah issued under this programme and outstanding as at 30 September 2015 are as follows:

Issue Date	First Call Date	Tenor	Profit Rate	Nominal value outstanding (RM million)
28 February 2014	28 February 2019	10 years Non-Callable 5 years	5.07% per annum	200
25 March 2014	25 March 2019	10 years Non-Callable 5 years	5.05% per annum	150
Total				350

### 3.3 Tier 2 Capital (Cont'd.)

**Table 3.2: Capital Structure**

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

	<b>30 September 2015 RM'000</b>	<b>31 March 2015 RM'000</b>
<b><u>Common Equity Tier 1 ("CET1") Capital</u></b>		
Ordinary shares	462,922	462,922
Share premium	724,185	724,185
Retained earnings	868,762	747,523
Available-for-sale deficit	(18,325)	(6,592)
Statutory reserve	483,345	483,345
Profit equalisation reserve	-	3,904
Less : Regulatory adjustments applied on CET1 Capital		
- Intangible assets	(16)	(20)
- Profit equalisation reserve	-	(3,904)
<b>CET1 Capital/ Tier 1 Capital</b>	<b>2,520,873</b>	<b>2,411,363</b>
<b><u>Tier 2 Capital</u></b>		
Tier 2 capital instruments meeting all relevant criteria for inclusion	350,000	350,000
Tier 2 capital instruments (subject to gradual phase-out treatment)	700,000	700,000
Collective allowance and regulatory reserves	317,963	305,338
<b>Tier 2 Capital</b>	<b>1,367,963</b>	<b>1,355,338</b>
<b>Total Capital</b>	<b>3,888,836</b>	<b>3,766,701</b>

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

	<b>30 September 2015 RM'000</b>	<b>31 March 2015 RM'000</b>
Credit RWA	26,805,023	25,790,830
Less : Credit RWA absorbed by PSIA	(1,367,987)	(1,363,811)
Total Credit RWA	25,437,036	24,427,019
Market RWA	327,378	230,629
Operational RWA	1,520,474	1,553,441
<b>Total Risk Weighted Assets</b>	<b>27,284,888</b>	<b>26,211,089</b>

## **4.0 General Risk Management**

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

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

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

### **Board Approved Risk Appetite Statement**

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

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

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

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



#### **4.0 General Risk Management (Cont'd.)**

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

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

##### **Risk Management Governance**

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

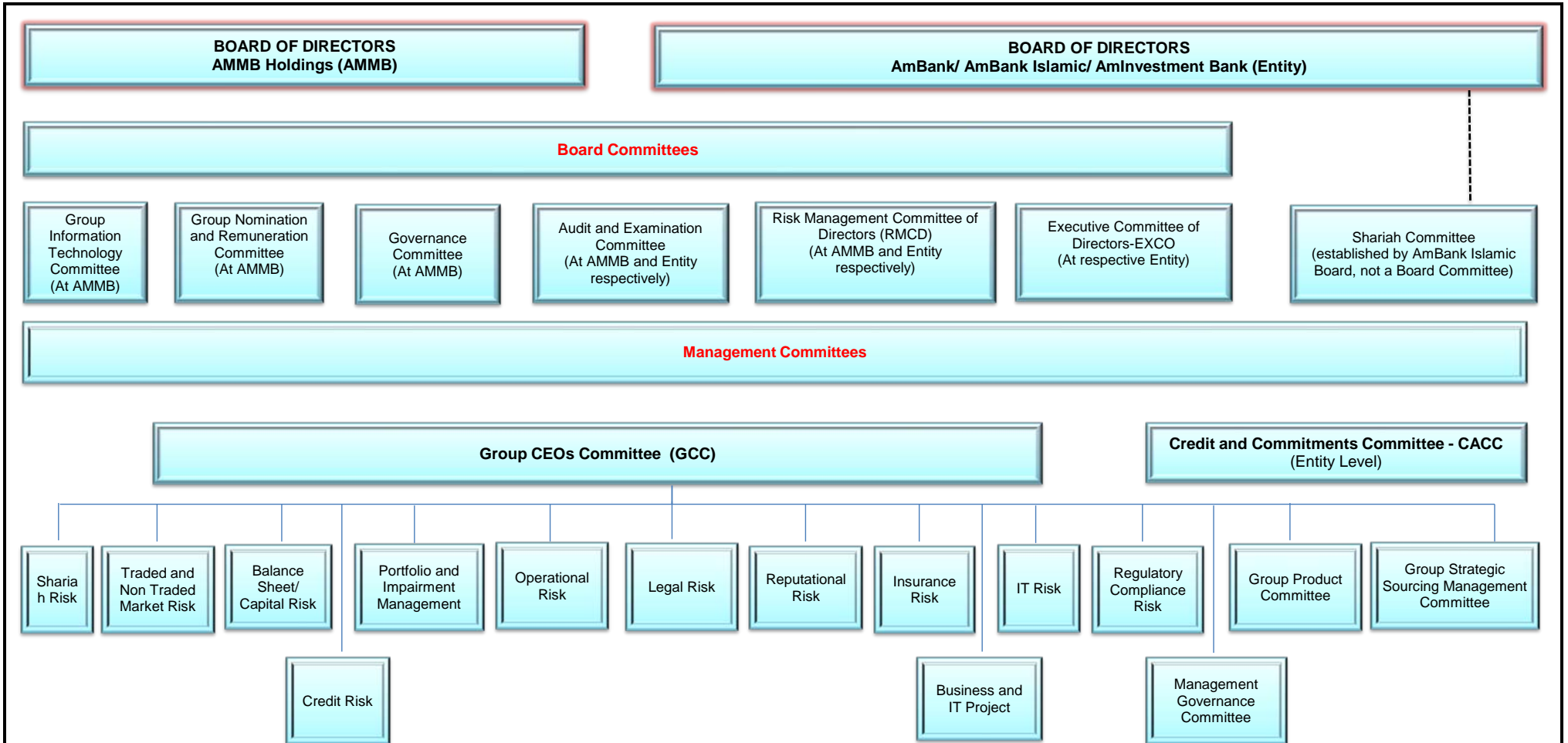
The Board has also established the Group CEOs Committee to assist it in managing the risks and businesses of the AMMB Group. The committee addresses all classes of risk within its Board delegated mandate: balance sheet risk, credit risk, legal risk, operational risk, market risk, shariah risk, compliance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

Group Product Committee ("GPC"), a sub-committee of the Group CEOs Committee is responsible to oversee activities in managing products for the Bank; and to advise and report to the AMMB Group CEOs Committee on product related matters.

#### 4.0 General Risk Management (Cont'd.)

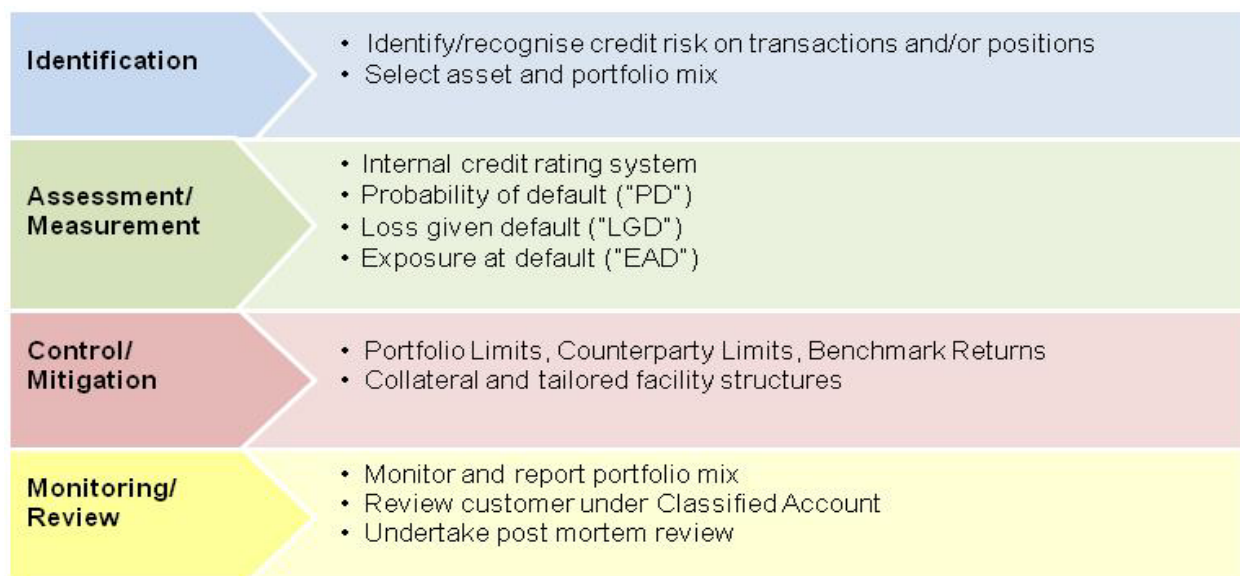
##### Risk Management Governance

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



## 5.0 Credit Risk Management

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



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

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

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

## 5.0 Credit Risk Management (Cont'd.)

For retail credits, credit-scoring systems to better differentiate the quality of customers 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;
- financing loss provision calculation;
- stress testing; and
- enhancement to portfolio management.

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

- concentration threshold/ review trigger:
  - single counterparty credit;
  - industry sector; and
  - country
- setting financing to value limits for asset backed financing (i.e., property exposures and other collateral);
- Classified Account processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers; and
- setting Benchmark Returns which serve as a guide to the minimum returns the Bank requires for the risk undertaken, taking into account operating expenses and cost of capital.

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

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

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

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

## 5.1 Impairment

### 5.1.1 Definition of Past Due and Impaired financing and advances

All financing and advances are categorised as either:

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

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

A financing is classified as impaired under the following circumstances:

- (a) when the principal or profit or both is past due<sup>1</sup> 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<sup>2</sup> obligation; or
- (b) for financing where repayments are scheduled on intervals of 3 months or longer, the financing is to be classified as impaired 1+30 days or 1 day+1 month past due (the 30-days grace period is to allow for exclusion of administrative default<sup>3</sup>)
- (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 financing may also be classified as impaired:
  - i. as deemed appropriate by the Watch and Control Committee where it is determined the financing have a high probability of default: or
  - ii. cross-default occurs when:
    - a default of a financing obligation of a customer triggers a default of another financing obligation of the same customer or
    - a default of a financing obligation of a customer triggers a default of a financing obligation of other customers within the same customer group.

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

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

<sup>2</sup> Material obligation as determined by Management

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

## **5.1 Impairment (Cont'd.)**

### **5.1.1 Definition of Past Due and Impaired Financing and advances (Cont'd.)**

- (e) Debt instruments (for example, fixed income securities, debt converted instrument etc.) shall be classified as impaired when the coupon or profit payment is 1 day past due.

### **5.1.2 Methodology for Determination of Individual and Collective Allowances**

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

#### **Individual Assessment**

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

- (a) Trigger management  
In trigger management, financial assets which are above the pre-set individual assessment threshold are assessed using the relevant impairment triggers for objective evidence of impairment.
  
- (b) Valuation of assets  
Financial assets which are triggered by the impairment triggers will be measured for evidence of high likelihood of impairment, that is, estimated recoveries (based on the discounted cash flow projection method and taking into account economic conditions) is less than carrying value or fair value is less than the carrying value.

#### **Collective Assessment**

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

Table 5.1: Distribution of gross credit exposures by sector

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

30 September 2015	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Government and Central Banks RM'000	Real Estate RM'000	Business Activity RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
<b>On-Balance Sheet Exposures</b>															
Sovereigns/Central Banks	-	-	-	-	54,399	-	-	-	3,632,016	-	-	-	-	-	3,686,415
Banks, DFIs and MDBs	-	-	-	-	-	-	-	4,377,003	-	-	-	-	-	-	4,377,003
Corporates	1,489,545	2,245,367	2,335,310	116,087	2,500,009	989,976	1,438,717	1,050,492	-	2,592,622	395,271	894,795	155,419	38,143	16,241,753
Regulatory Retail	17,221	3,880	47,749	739	44,948	46,045	23,920	1,068	-	25,377	13,449	43,334	13,096,465	1,207	13,365,402
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	-	-	112,411	-	112,411
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	243,363	243,363
Defaulted Exposures	209	2	604	6,675	3,542	10,793	597	77	-	348,189	373	1,882	130,136	4,465	507,544
<b>Total for On Balance Sheet Exposures</b>	<b>1,506,975</b>	<b>2,249,249</b>	<b>2,383,663</b>	<b>123,501</b>	<b>2,602,898</b>	<b>1,046,814</b>	<b>1,463,234</b>	<b>5,428,640</b>	<b>3,632,016</b>	<b>2,966,188</b>	<b>409,093</b>	<b>940,011</b>	<b>13,494,431</b>	<b>287,178</b>	<b>38,533,891</b>
<b>Off-Balance Sheet Exposures</b>															
OTC Derivatives	-	-	1,155	-	-	-	-	165,203	-	-	48	-	-	-	166,406
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	151,235	32,934	386,529	20,092	390,395	132,254	59,178	47,455	-	174,033	94,814	26,911	301,502	1,584	1,818,916
Defaulted Exposures	-	-	354	-	100	-	-	-	-	220	142	-	1	-	817
<b>Total for Off-Balance Sheet Exposures</b>	<b>151,235</b>	<b>32,934</b>	<b>388,038</b>	<b>20,092</b>	<b>390,495</b>	<b>132,254</b>	<b>59,178</b>	<b>212,658</b>	<b>-</b>	<b>174,253</b>	<b>95,004</b>	<b>26,911</b>	<b>301,503</b>	<b>1,584</b>	<b>1,986,139</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>1,658,210</b>	<b>2,282,183</b>	<b>2,771,701</b>	<b>143,593</b>	<b>2,993,393</b>	<b>1,179,068</b>	<b>1,522,412</b>	<b>5,641,298</b>	<b>3,632,016</b>	<b>3,140,441</b>	<b>504,097</b>	<b>966,922</b>	<b>13,795,934</b>	<b>288,762</b>	<b>40,520,030</b>

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

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

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



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

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

<b>30 September 2015</b>	<b>Agriculture RM'000</b>	<b>Mining and Quarrying RM'000</b>	<b>Manufacturing RM'000</b>	<b>Electricity, Gas and Water RM'000</b>	<b>Construction RM'000</b>	<b>Wholesale and Retail Trade and Hotel and restaurants RM'000</b>	<b>Transport, Storage and Communication RM'000</b>	<b>Finance and Insurance RM'000</b>	<b>Real Estate RM'000</b>	<b>Business Activities RM'000</b>	<b>Education and Health RM'000</b>	<b>Household RM'000</b>	<b>Others RM'000</b>	<b>Not Allocated RM'000</b>	<b>Total RM'000</b>
Impaired financing	305	6	26,417	17,831	9,908	12,840	18,603	1	359,600	4,205	4,867	184,184	1,730	-	<b>640,497</b>
Past due financing	7,337	2,420	63,624	17,991	59,377	19,634	23,689	182	393,681	11,149	19,824	3,498,257	10,682	-	<b>4,127,847</b>
Individual allowance	-	-	24,356	10,673	5,122	745	11,302	-	13,719	1,026	101	-	-	-	<b>67,044</b>
Collective allowance	-	-	-	-	-	-	-	-	-	-	-	-	-	440,827	<b>440,827</b>
Charges/(Writeback) for individual allowance	-	-	(1,954)	(1,918)	(92)	(1,100)	542	-	8,498	14	101	284	-	-	<b>4,375</b>
Write-offs against individual allowance	-	-	1,041	440	230	719	-	-	-	-	-	976	-	-	<b>3,406</b>

<b>31 March 2015</b>	<b>Agriculture RM'000</b>	<b>Mining and Quarrying RM'000</b>	<b>Manufacturing RM'000</b>	<b>Electricity, Gas and Water RM'000</b>	<b>Construction RM'000</b>	<b>Wholesale and Retail Trade and Hotel and restaurants RM'000</b>	<b>Transport, Storage and Communication RM'000</b>	<b>Finance and Insurance RM'000</b>	<b>Real Estate RM'000</b>	<b>Business Activities RM'000</b>	<b>Education and Health RM'000</b>	<b>Household RM'000</b>	<b>Others RM'000</b>	<b>Not Allocated RM'000</b>	<b>Total RM'000</b>
Impaired financing	354	7	34,143	21,100	9,590	6,763	12,076	33	322,332	4,211	6,169	188,040	1,637	-	<b>606,455</b>
Past due financing	9,692	267	61,845	81	46,489	25,479	21,719	117	245,431	23,256	19,005	3,845,999	13,554	-	<b>4,312,934</b>
Individual allowance	-	-	27,351	13,031	5,444	2,564	10,760	-	5,221	1,012	-	692	-	-	<b>66,075</b>
Collective allowance	-	-	-	-	-	-	-	-	-	-	-	-	-	458,453	<b>458,453</b>
Charges/(Writeback) for individual allowance	-	-	9,581	13,031	4,664	2,367	10,359	-	5,186	754	-	692	-	-	<b>46,634</b>
Write-offs against individual allowance	-	-	-	-	-	8	21	-	-	-	-	-	-	-	<b>29</b>

**Table 5.3: Geographical distribution of credit exposures**

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

30 September 2015	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
<b>On-Balance Sheet Exposures</b>			
Sovereigns/Central Banks	3,686,415	-	3,686,415
Banks, DFIs and MDBs	4,353,326	23,677	4,377,003
Corporates	16,241,753	-	16,241,753
Regulatory Retail	13,365,402	-	13,365,402
Residential Mortgages	112,411	-	112,411
Other Assets	243,363	-	243,363
Defaulted Exposures	507,544	-	507,544
<b>Total for On Balance Sheet Exposures</b>	<b>38,510,214</b>	<b>23,677</b>	<b>38,533,891</b>
<b>Off-Balance Sheet Exposures</b>			
OTC Derivatives	166,406	-	166,406
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	1,818,916	-	1,818,916
Defaulted Exposures	817	-	817
<b>Total for Off-Balance Sheet Exposures</b>	<b>1,986,139</b>	<b>-</b>	<b>1,986,139</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>40,496,353</b>	<b>23,677</b>	<b>40,520,030</b>

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

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

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

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

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

30 September 2015	Total
	RM'000
Impaired financing	640,497
Past due financing	4,127,847
Individual allowances	67,044
Collective allowances	440,827

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

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

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

30 September 2015	Maturity							No Maturity specified RM'000	Total RM'000
	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>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		
<b>On-Balance Sheet Exposures</b>									
Sovereigns/Central Banks	2,368,225	-	-	-	-	-	1,318,190	-	3,686,415
Banks, DFIs and MDBs	1,396,775	2,260,012	640,830	-	-	-	79,386	-	4,377,003
Corporates	4,158,691	1,590,323	1,822,266	355,914	2,506,758	1,854,966	3,952,835	-	16,241,753
Regulatory Retail	260,757	5,461	12,383	70,048	825,146	2,283,225	9,908,382	-	13,365,402
Residential Mortgages	67	20	29	194	2,039	3,295	106,767	-	112,411
Other Assets	747	1,638	2,244	4,987	16,395	106,394	-	110,958	243,363
Defaulted Exposures	324,738	672	1,806	3,955	56,210	34,893	85,270	-	507,544
<b>Total for On-Balance Sheet Exposures</b>	<b>8,510,000</b>	<b>3,858,126</b>	<b>2,479,558</b>	<b>435,098</b>	<b>3,406,548</b>	<b>4,282,773</b>	<b>15,450,830</b>	<b>110,958</b>	<b>38,533,891</b>
<b>Off-Balance Sheet Exposures</b>									
OTC Derivatives	285	965	82,564	34,877	-	13,600	34,115	-	166,406
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	144,940	148,083	281,845	298,402	328,371	109,012	508,263	-	1,818,916
Defaulted Exposures	1	320	-	-	142	-	354	-	817
<b>Total for Off-Balance Sheet Exposures</b>	<b>145,226</b>	<b>149,368</b>	<b>364,409</b>	<b>333,279</b>	<b>328,513</b>	<b>122,612</b>	<b>542,732</b>	<b>-</b>	<b>1,986,139</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>8,655,226</b>	<b>4,007,494</b>	<b>2,843,967</b>	<b>768,377</b>	<b>3,735,061</b>	<b>4,405,385</b>	<b>15,993,562</b>	<b>110,958</b>	<b>40,520,030</b>

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

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

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

**Table 5.6: Reconciliation of changes to financing impairment allowances**

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

<b>30 September 2015</b>	<b>Individual impairment allowances RM'000</b>	<b>Collective impairment allowances RM'000</b>
<b>Balance at 1 April 2015</b>	66,075	458,453
Charge for the period – net	4,375	94,589
Amount written-off	(3,406)	(112,215)
<b>Balance at 30 September 2015</b>	<u>67,044</u>	<u>440,827</u>

<b>31 March 2015</b>	<b>Individual impairment allowances RM'000</b>	<b>Collective impairment allowances RM'000</b>
<b>Balance at 1 April 2014</b>	19,470	534,465
Charge for the year – net	46,634	224,295
Transferred to AmBank *	-	2,463
Amount written-off	(29)	(302,770)
<b>Balance at 31 March 2015</b>	<u>66,075</u>	<u>458,453</u>

<b>30 September 2015</b>	<b>(Charge off)/recoveries RM'000</b>
Bad debts written off during the period	(6,538)
Bad debt recoveries during the period	60,192

<b>31 March 2015</b>	<b>(Charge off)/recoveries RM'000</b>
Bad debts written off during the year	(7,902)
Bad debt recoveries during the year	147,282

\* As at 30 September 2015, the gross exposure and collective allowance relating to the RPSIA financing amounted to RM1,368.0 million and RM1.6 million respectively (31 March 2015 :RM1,363.8 million and RM1.6 million respectively). There was no individual allowance provided for the RPSIA financing.

## 6.0 Credit Risk Exposure under the Standardised Approach

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

- sovereigns and central banks
- banking Institutions
- corporate
- securitisations

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

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



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

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

**30 September 2015**

Risk Weights	Exposures after Netting and Credit Risk Mitigation										
	Sovereigns and Central Banks	Public Sector Entities	Banks, DFIs and MDBs	Insurance Companies, Securities Firms and Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Total Exposures after Netting and Credit Risk Mitigation	Total Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	3,686,415	-	19,354	-	2,056,473	-	-	-	-	5,762,242	-
20%	-	-	4,298,061	-	1,222,785	184	-	-	-	5,521,030	1,104,206
35%	-	-	-	-	-	-	111,543	-	-	111,543	39,040
50%	-	-	129,799	-	581	5,537	2,153	-	-	138,070	69,035
75%	-	-	-	-	-	12,893,882	-	-	-	12,893,882	9,670,412
100%	-	-	-	-	14,208,275	826,910	2,369	-	243,363	15,280,917	15,280,917
150%	-	-	-	-	358,829	66,596	-	2,184	-	427,609	641,413
Average Risk Weight											
Total	3,686,415	-	4,447,214	-	17,846,943	13,793,109	116,065	2,184	243,363	40,135,293	26,805,023
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	

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

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

**31 March 2015**

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

Table 6.2: Rated Exposures according to Ratings by ECAs

30 September 2015

Exposure Class	Ratings of Corporate by Approved ECAs				
	Moody's S&P Fitch RAM MARC RII	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA- AAA to AA-	A1 to A3 A+ to A- A+ to A- A to A3 A+ to A- A+ to A-	Baa1 to Ba3 BBB+ to BB- BBB+ to BB- BBB1 to BB3 BBB+ to BB- BBB+ to BB-	Unrated Unrated Unrated Unrated Unrated Unrated
Exposure Class	RM'000	RM'000	RM'000	RM'000	RM'000
<b>On and Off-Balance Sheet Exposures</b>					
<b>Credit Exposures (using Corporate Risk Weights)</b>					
Corporates	18,215,351	979,552	-	-	17,235,799
<b>Total</b>	<b>18,215,351</b>	<b>979,552</b>	<b>-</b>	<b>-</b>	<b>17,235,799</b>

31 March 2015

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

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

30 September 2015

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RII	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>On and Off-Balance Sheet Exposures</b>							
Sovereigns and Central Banks	3,686,415	-	3,686,415	-	-	-	-
<b>Total</b>	3,686,415	-	3,686,415	-	-	-	-

31 March 2015

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>On and Off-Balance Sheet Exposures</b>							
Sovereigns and Central Banks	5,774,979	-	5,774,979	-	-	-	-
<b>Total</b>	5,774,979	-	5,774,979	-	-	-	-

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

30 September 2015

Exposure Class	Ratings of Banking Institutions by Approved ECAIs				
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	RII	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
Exposure Class	RM'000	RM'000	RM'000	RM'000	RM'000
<b>On and Off-Balance Sheet Exposures</b>					
Banks, DFIs and MDBs	4,447,214	2,876,087	99,638	62,105	1,409,384
<b>Total</b>	<b>4,447,214</b>	<b>2,876,087</b>	<b>99,638</b>	<b>62,105</b>	<b>1,409,384</b>

31 March 2015

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

**Table 7.1: Credit Risk Mitigation**

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

Exposures	Exposures before CRM RM'000	Exposures covered by guarantees/credit derivatives RM'000	Exposures covered by Eligible Financial Collateral RM'000
<b>30 September 2015</b>			
<b><i>Credit Risk</i></b>			
<b><i>On-Balance Sheet Exposures</i></b>			
Sovereigns/Central Banks	3,686,415	-	-
Banks, DFIs and MDBs	4,377,003	-	-
Corporates	16,241,753	672,650	871,427
Regulatory Retail	13,365,402	184	22,854
Residential Mortgages	112,411	-	154
Other Assets	243,363	-	-
Defaulted Exposures	507,544	124	4,036
<b>Total On-Balance Sheet Exposures</b>	<b>38,533,891</b>	<b>672,958</b>	<b>898,471</b>
<b><i>Off-Balance Sheet Exposures</i></b>			
OTC Derivatives	166,406	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	1,818,916	159	206,287
Defaulted Exposures	817	-	220
<b>Total Off-Balance Sheet Exposures</b>	<b>1,986,139</b>	<b>159</b>	<b>206,507</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>40,520,030</b>	<b>673,117</b>	<b>1,104,978</b>

Exposures	Exposures before CRM RM'000	Exposures covered by guarantees/credit derivatives RM'000	Exposures covered by Eligible Financial Collateral RM'000
<b>31 March 2015</b>			
<b><i>Credit Risk</i></b>			
<b><i>On-Balance Sheet Exposures</i></b>			
Sovereigns/Central Banks	5,774,979	-	-
Banks, DFIs and MDBs	3,598,897	-	-
Corporates	16,167,057	1,172,445	1,309,732
Regulatory Retail	13,554,097	219	21,254
Residential Mortgages	119,330	-	183
Other Assets	260,888	-	-
Defaulted Exposures	473,991	243	3,297
<b>Total for On-Balance Sheet Exposures</b>	<b>39,949,239</b>	<b>1,172,907</b>	<b>1,334,466</b>
<b><i>Off-Balance Sheet Exposures</i></b>			
OTC Derivatives	113,798	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	1,682,902	10,665	270,418
Defaulted Exposures	7,055	-	5,919
<b>Total for Off-Balance Sheet Exposures</b>	<b>1,803,755</b>	<b>10,665</b>	<b>276,337</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>41,752,994</b>	<b>1,183,572</b>	<b>1,610,803</b>

**Table 8.1: Off-Balance Sheet Exposures**

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

**30 September 2015**

Description	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
<b>Direct credit substitutes</b>	176,179		176,179	157,206
<b>Transaction related contingent items</b>	680,239		340,119	219,212
<b>Short term self liquidating trade related contingencies</b>	60,731		12,146	10,054
<b>Foreign exchange related contracts</b>	1,386,586	91,995	118,692	111,372
One year or less	1,386,586	91,995	118,692	111,372
<b>Profit rate related contracts</b>	1,030,000	32,834	47,715	23,857
Over one year to five years	680,000	26,587	13,600	6,800
Over five years	350,000	6,247	34,115	17,057
<b>Other commodity contracts</b>	-	-	-	-
One year or less	-	-	-	-
<b>Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year</b>	1,143,152		571,576	521,385
<b>Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year</b>	3,143,360		628,672	602,527
<b>Unutilised credit card lines</b>	455,202		91,040	68,010
<b>Total</b>	<b>8,075,449</b>	<b>124,829</b>	<b>1,986,139</b>	<b>1,713,623</b>

**31 March 2015**

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

## 9.0 Securitisation

The Bank did not have any securitisation exposure in its trading book and banking book nor did it undertake any securitisation activities during the financial period ended 30 September 2015 and financial year ended 31 March 2015.

## 10.0 Non-Traded Market Risk

### Market Risk Sensitivity – Rate of Return Risk ("RORBB") in the Banking Book

The RORBB sensitivity for the Bank is as follows:

<b>30 September 2015</b>	<b>Rate of Return + 100 bps RM'000</b>	<b>Rate of Return - 100 bps RM'000</b>
Impact on profit before zakat and taxation	25,880	(25,880)
Impact on equity	(275,135)	303,711

<b>31 March 2015</b>	<b>Rate of Return + 100 bps RM'000</b>	<b>Rate of Return - 100 bps RM'000</b>
Impact on profit before zakat and taxation	(3,624)	3,624
Impact on equity	(312,389)	343,626

## 11.0 Equities (Banking Book Positions)

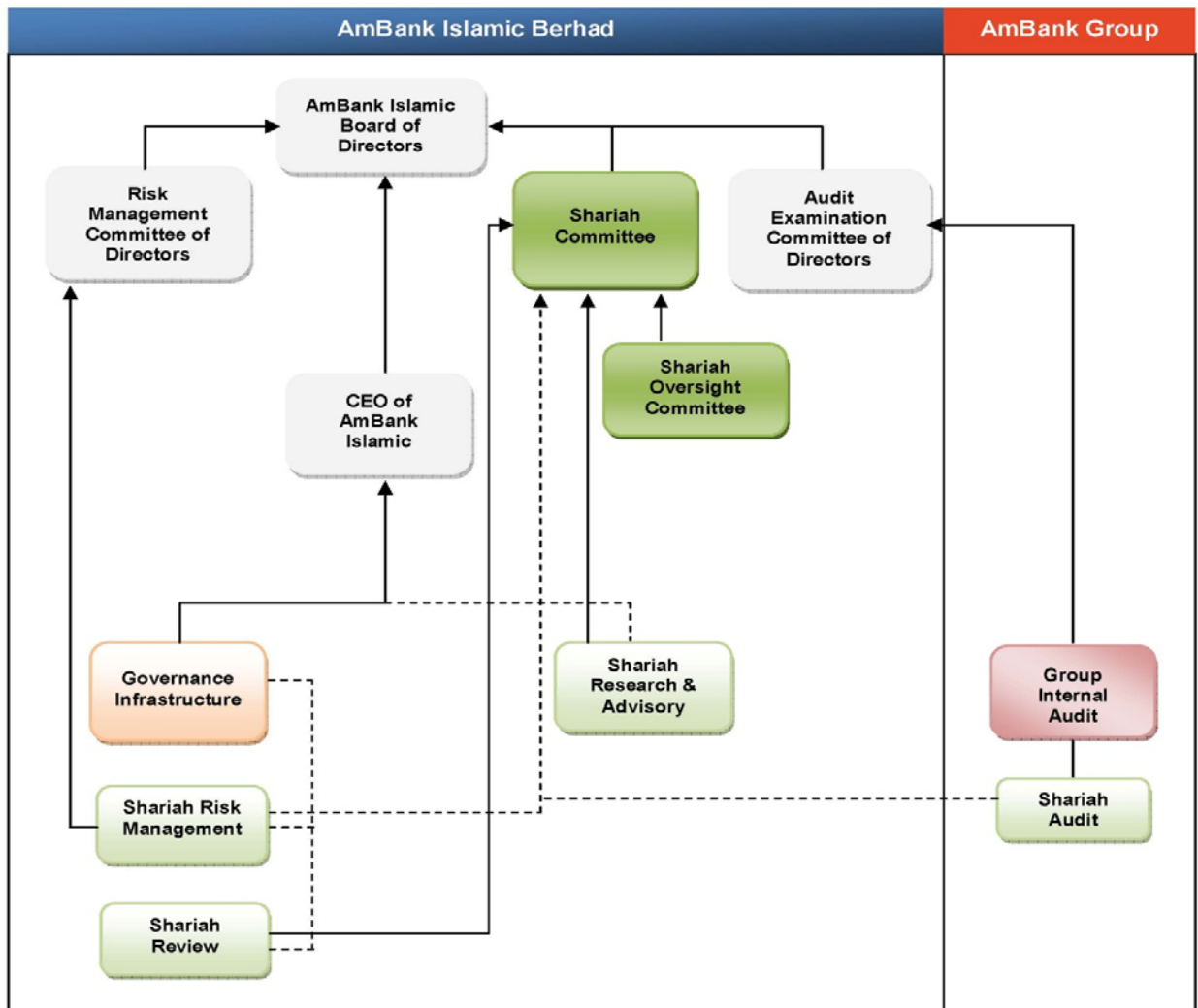
The Bank did not have any equity investment as at 30 September 2015 and 31 March 2015.

## 12.0 Liquidity Risk and Funding Management

The liquidity risk management of the Bank is aligned to BNM's policy document on Liquidity Coverage Ratio ("LCR") issued by BNM on 31 March 2015.



### 13.0 Shariah Governance Structure



The AMMB Group has established a sound and robust Shariah governance structure for its Islamic banking operations in accordance with the requirements of BNM's "Shariah Governance Framework for Islamic Financial Institutions". This is to ensure the operations and business activities of the Bank comply with Shariah principles and its requirements as prescribed by the Islamic Financial Services Act, 2013. The structure has been further revised during the current financial period ended 30 September 2015 so as to enhance Shariah compliance culture in the Bank.

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

## **13.0 Shariah Governance Structure (Cont'd.)**

### **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.

### **Risk Management Committee of Directors**

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

### **Shariah Committee**

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

### **Shariah Oversight Committee**

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

### **Management**

Management is responsible to make reference to the Shariah Committee and 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.

## **13.0 Shariah Governance Structure (Cont'd.)**

### **Shariah Research and Advisory**

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

### **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: 1<sup>st</sup>-The Business and 2<sup>nd</sup> Support Units; - Shariah Risk Management, Shariah Review, Shariah Research and Advisory, Compliance; 3<sup>rd</sup> - Shariah Audit.

### **Shariah Review**

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

### **Shariah Audit**

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

## **13.1 Shariah non-compliant income**

There was no shariah non-compliant incidents and income during the financial period ended 30 September 2015 (three shariah non-compliant incidents for the financial year ended 31 March 2015 and involved a total income amount of RM113,600 which were refunded to the affected customers).