AmInvestment Bank Group

AmInvestment Bank Berhad

Pillar 3 Disclosures

As at 30 September 2015

AmInvestment Bank Berhad
Pillar 3 Disclosures
30 September 2015

Contents

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 apply are AmBank (M) Berhad ("AmBank"), AmInvestment Bank Berhad ("the Bank") and AmBank Islamic Berhad (formerly known as AmIslamic Bank Berhad) ("AmBank Islamic") – which offers Islamic banking services.

The following information has been provided in order to highlight the capital adequacy of the Bank and its subsidiaries ("the Group"). The information provided has been verified by the Group internal auditors and certified by the Acting Group Managing Director.

Frequency of Disclosure

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

Medium and Location of Disclosure

These Pillar 3 disclosures of the Group are available on Group's corporate website at 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. Each entity's standalone and consolidated capital adequacy position and more detailed quantitative disclosures are provided within their respective published financial statements that are available via our website at www.ambankgroup.com.

With effect from 1 January 2013, the capital adequacy ratios are computed in accordance to BNM's guidelines on Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework for Islamic Banks (Capital Components) issued by the Prudential Financial Policy Department on 28 November 2012, which is based on the Basel III capital accord. Prior to that, the capital adequacy ratios of the banking subsidiaries of AMMB were computed in accordance to BNM's Risk Weighted Capital Adequacy Framework and Capital Adequacy Framework for Islamic Banks (General Requirements and Capital Components) (as applicable), which are based on the Basel II capital accord. Each banking entity has adopted the Standardised Approach for Credit and Market Risks and the Basic Indicator Approach for Operational Risk, based on BNM's 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 buffers that will be introduced in calendar year 2016 onwards.

1.1 Basis of Consolidation

For statutory accounting purposes, the consolidated financial statements of Bank comprise the financial statements of the Bank and the financial statements of all its controlled entities (together referred to as the "Group" and 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 calculation of capital adequacy at the banking subsidiary consolidated level
Associates and jointly controlled entities which are licensed under FSA or IFSA or engaged in financial activities	Equity accounted	Deducted in calculation of capital
Associates and jointly controlled entities which are not licensed under FSA or IFSA and not engaged in financial activities	Equity accounted	Reported as investment and risk weighted

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

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

2.0 Capital Management

The capital and risk management of the banking subsidiaries of AMMB Holdings Berhad 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 the different components of capital are maintained by the Group to support its strategy.

The capital plan takes the following into account:

(a) Regulatory capital requirements:
- forecast demand for capital to support the credit ratings; and
- increases in demand for capital due to business growth.

(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 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, for example 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. Where we operate in other jurisdictions, capital is maintained on the basis of the local regulator's requirements. It is overseen by the Group Chief Executive Officers Committee ("Group CEOs Committee"). The Group 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.

2.0 Capital Management (Contd.)

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

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

Table 2.1: Capital Adequacy Ratios

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

	30.09.2015		31.03.2015	
	Group	**Bank**	**Group**	**Bank**
Before deducting proposed dividends:				
CET 1 Capital Ratio	29.633%	24.875%	28.744%	24.196%
Tier 1 Capital Ratio	29.633%	24.875%	28.744%	24.196%
Total Capital Ratio	29.633%	24.875%	28.744%	24.196%
After deducting proposed dividends:				
CET 1 Capital Ratio	29.016%	24.146%	27.534%	22.820%
Tier 1 Capital Ratio	29.016%	24.146%	27.534%	22.820%
Total Capital Ratio	29.016%	24.146%	27.534%	22.820%

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

	30.09.2015 Islamic Window	31.03.2015 Islamic Window
CET 1 Capital Ratio	104.540%	107.696%
Tier 1 Capital Ratio	104.540%	107.696%
Total Capital Ratio	104.540%	107.696%

Table 2.2 Risk-Weighted Assets and Capital Requirements

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

				30.09.15			
	Exposure class	**RM'000**	**Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM") RM'000**	**Net exposures/ EAD after CRM RM'000**	**Risk weighted assets RM'000**	**Total Risk Weighted Assets after effects of PSIA RM'000**	**Minimum capital requirement at 8% RM'000**
1.	**Credit risk**						
	On balance sheet exposures						
	Sovereigns/ Central banks		7,612	7,612	-	-	-
	Banks, development financial institutions ("DFIs") and multilateral development banks		640,175	640,175	128,035	128,035	10,243
	Corporates		359,598	167,382	91,936	91,936	7,355
	Regulatory retail		31,467	3,954	2,966	2,966	237
	Higher risk assets		11,820	11,820	17,730	17,730	1,418
	Other assets		688,301	688,301	688,298	688,298	55,064
	Defaulted exposures		10	10	15	15	1
	Total for on balance sheet exposures		1,738,983	1,519,254	928,980	928,980	74,318
	Off balance sheet exposures:						
	Off balance sheet exposures other than OTC derivatives or Credit derivatives		112,293	85,585	71,331	71,331	5,706
	Total for off balance sheet exposures		112,293	85,585	71,331	71,331	5,706
	Total on and off balance sheet exposures		1,851,276	1,604,839	1,000,311	1,000,311	80,024
2.	**Large exposures risk requirement**		-	-	406	406	32
3.	**Market risk**	**Long Position**	**Short Position**				
	Interest rate risk						
	- General interest rate risk	2,351	2,351		-	-	-
	Foreign currency risk	146,761	-		146,761	146,761	11,741
	Equity risk						
	- General risk	425	-		425	425	34
	- Specific risk	425	-		425	425	34
	Option risk	109,997	-		109,997	109,997	8,800
	Total	259,959	2,351		257,608	257,608	20,609
4.	**Operational risk**				363,645	363,645	29,092
5.	**Total RWA and capital requirements**				1,621,970	1,621,970	129,757

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

	31.03.15					
Exposure class		**Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM")**	**Net exposures/ EAD after CRM**	**Risk weighted assets**	**Total Risk Weighted Assets after effects of PSIA**	**Minimum capital requirement at 8%**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
1. **Credit risk**						
On balance sheet exposures						
Sovereigns/ Central banks		7,767	7,767	-	-	-
Banks, DFIs and MDBs		956,277	956,277	237,164	237,164	18,973
Corporates		362,880	172,907	97,470	97,470	7,798
Regulatory retail		34,054	4,428	3,321	3,321	266
Higher risk assets		11,894	11,894	17,841	17,841	1,427
Other assets		721,112	721,112	721,109	721,109	57,689
Defaulted exposures		1	1	1	1	-
Total for on balance sheet exposures		2,093,985	1,874,386	1,076,906	1,076,906	86,153
Off balance sheet exposures:						
Off balance sheet exposures other than OTC derivatives or Credit derivatives		145,591	111,831	78,134	78,134	6,251
Total for off balance sheet exposures		145,591	111,831	78,134	78,134	6,251
Total on and off balance sheet exposures		2,239,576	1,986,217	1,155,040	1,155,040	92,404
2. **Large exposures risk requirement**		-	-	438	438	35
3. **Market risk**	**Long Position**	**Short Position**				
Interest rate risk /Rate of return risk						
- General interest rate risk/Rate of return risk	2,317	2,317		-	-	-
Foreign currency risk	116,485	2		116,485	116,485	9,319
Equity risk						
- General risk	441	458		17	17	1
- Specific risk	441	458		556	556	44
Total	119,684	3,235		117,058	117,058	9,364
4. **Operational risk**				380,922	380,922	30,474
5. **Total RWA and capital requirements**				1,653,458	1,653,458	132,277

Table 2.2 Risk-Weighted Assets and Capital Requirements

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

	30.09.15					
Exposure class		**Gross exposures/ EAD before CRM**	**Net exposures/ EAD after CRM**	**Risk weighted assets**	**Total Risk Weighted Assets after effects of PSIA**	**Minimum capital requirement at 8%**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
1. **Credit risk**						
On balance sheet exposures						
Sovereigns/ Central banks		181	181	-	-	-
Banks, DFIs and MDBs		264,953	264,953	52,991	52,991	4,239
Other assets		31,760	31,760	31,760	31,760	2,541
Total for on balance sheet exposures		296,894	296,894	84,751	84,751	6,780
Off balance sheet exposures:						
Off balance sheet exposures other than OTC derivatives or credit derivatives		57,663	57,663	52,333	52,333	4,187
Total for off balance sheet exposures		57,663	57,663	52,333	52,333	4,187
Total on and off balance sheet exposures		354,557	354,557	137,084	137,084	10,967
2. **Large exposures risk requirement**		-	-	-	-	-
	Long Position	**Short Position**				
3. **Market risk**	**-**	**-**				
4. **Operational risk**				30,528	30,528	2,442
5. **Total RWA and capital requirements**				167,612	167,612	13,409

The Islamic window of the Group did not have Profit-Sharing Investment Account ("PSIA") that qualifies as a risk absorbent as at 30 September 2015 and 31 March 2015.

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

		31.03.15					
	Exposure class		Gross exposures/ EAD before CRM	Net exposures/ EAD after CRM	Risk weighted assets	Total Risk Weighted Assets after effects of PSIA	Minimum capital requirement at 8%
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
1.	**Credit risk**						
	On balance sheet exposures						
	Sovereigns/ Central banks		64	64	-	-	-
	Banks, DFIs and MDBs		245,552	245,552	49,111	49,111	3,929
	Other assets		22,277	22,277	22,277	22,277	1,782
	Total for on balance sheet exposures		267,893	267,893	71,388	71,388	5,711
	Off balance sheet exposures:						
	Off balance sheet exposures other than OTC derivatives or Credit derivatives		77,650	77,650	56,330	56,330	4,506
	Total for off balance sheet exposures		77,650	77,650	56,330	56,330	4,506
	Total on and off balance sheet exposures		345,543	345,543	127,718	127,718	10,217
2.	**Large exposures risk requirement**		-	-	-	-	-
		Long Position	**Short Position**				
3.	**Market risk**	-	-				
4.	**Operational risk**				31,531	31,531	2,523
5.	**Total RWA and capital requirements**				159,249	159,249	12,740

3.0 Capital Structure

Table 3.1 Capital Structure summarises the capital position of the Group. The capital structure includes capital under the following headings:

- Common Equity Tier 1 ("CET1") Capital;
- Tier 2 Capital

3.1 CET1 Capital

CET1 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/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 CET1 Capital net of any interim and/or final dividend declared, and net of any interim losses. Quarterly interim profits have been included in CET1 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 Financial Services Act 2013.

(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 which involved capital reduction 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 instruments 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 CET1 Capital. Where the unrealised fair value changes is a net loss outstanding balance, the entire outstanding balance is deducted in CET1 Capital.

(v) Regulatory Reserve

Regulatory reserve is maintained in accordance with paragraph 13.1 of the BNM's guidelines 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 Bank does not have any Additional Tier 1 Capital in issuance.

3.3 Tier 2 Capital

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

Table 3.1: Capital Structure

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

	Group		Bank	
	30.09.15 RM'000	**31.03.15 RM'000**	**30.09.15 RM'000**	**31.03.15 RM'000**
CET1 Capital				
Ordinary shares	200,000	200,000	200,000	200,000
Retained earnings	54,180	58,511	78,202	82,533
Unrealised gains on financial investments available-for-sale ("AFS")	352	1,076	300	1,024
Foreign exchange translation reserve	52,927	37,445	-	-
Statutory reserve	200,000	200,000	200,000	200,000
Regulatory reserve	2,800	2,800	2,800	2,800
Capital reserve	2,815	2,815		-
Merger reserve	7,656	7,656		-
Less : Regulatory adjustments applied on CET1 capital				
Goodwill	-	-	-	-
Other intangibles	(2,705)	(2,920)	(2,170)	(1,710)
Deferred tax assets	(3,381)	(2,782)	(3,381)	(2,782)
55% of cumulative gains of AFS financial instruments	(194)	(592)	(165)	(563)
Regulatory reserve attributable to loans and advances	(2,800)	(2,800)	(2,800)	(2,800)
Investments in capital instruments of unconsolidated financial and insurance/ takaful entities	(14,096)	(12,021)	(54,324)	(52,370)
Deduction in excess of Tier 2*	(16,922)	(13,922)	(77,265)	(74,446)
CET1 Capital/ Tier 1 Capital	**480,632**	**475,266**	**341,197**	**351,686**
Tier 2 Capital				
Collective impairment provisions and regulatory reserve	4,221	4,111	4,221	4,111
Less : Regulatory adjustments applied on Tier 2 Capital	(4,221)	(4,111)	(4,221)	(4,111)
Tier 2 Capital	**-**	**-**	**-**	**-**
Total Capital	**480,632**	**475,266**	**341,197**	**351,686**

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

Table 3.1: Capital Structure

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

	Group		Bank	
	30.09.15	**31.03.15**	**30.09.15**	**31.03.15**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Credit risk	1,000,311	1,155,040	937,831	1,122,413
Market risk	257,608	117,058	128,967	16,101
Operational risk	363,645	380,922	304,434	314,533
Large exposure risk RWA for equity holdings	406	438	406	438
Total risk weighted assets	1,621,970	1,653,458	1,371,638	1,453,485

(b) The components of CET1 Capital of the Islamic window of the Bank is as follows:

	30.09.15	**31.03.15**
	RM'000	**RM'000**
CET1 Capital		
Capital Funds	30,000	30,000
Retained earnings	145,634	141,506
Less : Regulatory adjustments applied on CET1 Capital		
Other intangibles	-	(1)
Deferred tax assets	(412)	(1)
CET1 capital/ Tier 1 capital/ Total capital	**175,222**	**171,504**

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

	30.09.15	**31.03.15**
	RM'000	**RM'000**
Credit risk	137,084	127,718
Operational risk	30,528	31,531
Total risk weighted assets	167,612	159,249

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 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 operational environment.

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

Board Approved Risk Appetite Statement

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

The Group intends to maintain sufficient quantity and quality of capital in excess of Basel III requirement for CET 1, 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).

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

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

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

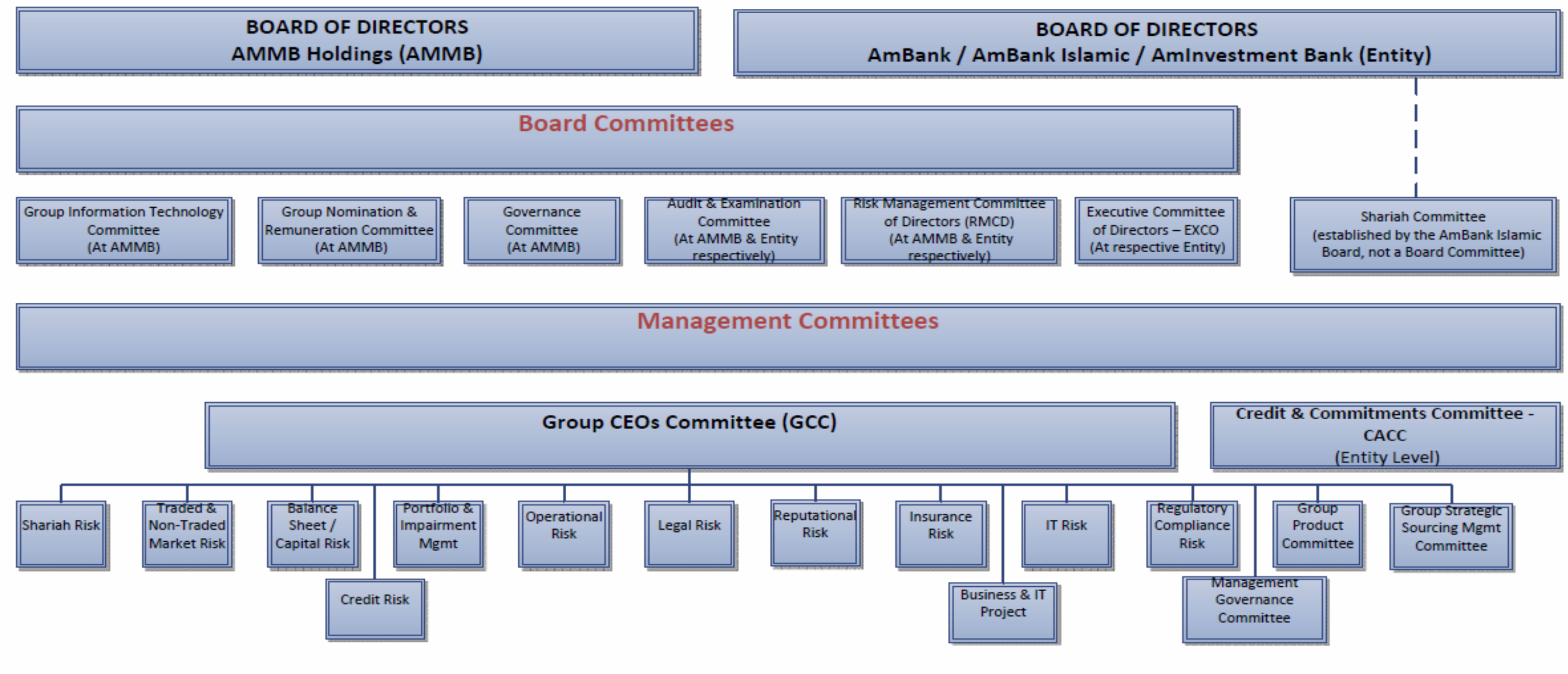
The Board is ultimately responsible for the management of risks within the Group. The RMCD is formed to assist the Board in discharging its duties in overseeing the overall management of all risks covering market risk, liquidity risk, credit risk, operational risk and regulatory compliance risk.

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.

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

Table 4.0: 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:

Identification	•Identify/recognise credit risk on transactions and/or positions •Select asset and portfolio mix
Assessment/ Measurement	•Internal credit rating system •Probability of default ("PD") •Loss given default ("LGD") •Exposure at default ("EAD")
Control/ Mitigation	•Portfolio limits, counterparty limits, benchmark returns •Collateral and tailored facility structures
Monitoring/ Review	•Monitor and report portfolio mix •Review customer under Classified Account •Undertake post mortem review

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its payment obligations. Exposure to credit risk arises from lending, securities and derivative exposures. The identification of credit risk is done by assessing the potential impact of internal and external factors on the Group transactions and/or positions as well as Shariah compliance risk (please refer to Section 12 for discussion on Shariah Governance).

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

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

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

Individual credit risk exposure exceeding certain Credit Approval Delegation ("CAD") thresholds/exceptions to GRAF are escalated to Credit and Commitments Committee ("CACC") for approval. In the event such exposure requires Executive Committee of Directors' ("EXCO") review and endorsement, it will be escalated. 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 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 Group applies the Standardized Approach to determine the regulatory capital charge related to credit risk exposure.

5.0 Credit Risk Management (Contd.)

5.1 Impairment

5.1.1 Definition of past due and impaired loans and advances

All loans and advances are categorised as either:

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

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

A loan is classified as impaired under the following circumstances:

(a) When the principal or interest or both is past due[1] or the amount outstanding is in excess of approved limit (for revolving facilities), each for more than 90 days or 3 months on any material[2] obligation; or

(b) For loans where repayments are scheduled on intervals of 3 months or longer, the loan is to be classified as impaired 1+30 days or 1 day +1 month past due (the 30-days grace period is to allow for exclusion of administrative default[3]).

(c) A loan may also be classified as impaired:

i. As deemed appropriate by the Watch and Control Committee where it is determined the loans have a high probability of default; or

ii. Cross-default occurs when:

- a default of a loan obligation of a borrower triggers a default of another loan obligation of the same borrower or
- a default of a loan obligation of a borrower triggers a default of a loan obligation of other borrower within the same borrower group.

The Credit and Commitments Committe (CACC) is allowed to waive the declaration of cross-default across all or accounts of all borrowers within the same borrower group.

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

(e) In the case of stock broking and futures broking:

i. For margin lending, it is impaired when there is a shortfall to the carrying value i.e. difference between the collateral value (if any) and the outstanding balance.

ii. For contra losses, it is impaired when the facility is overdue by 30 days.

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

[2] Material obligation as determined by Management.

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

5.1.2 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 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 the carrying value or fair value is less than the carrying value.

Collective Assessment

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

Table 5.1: Distribution of gross credit exposures by sector

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

	30.09.15									
	Agriculture RM'000	Construction 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	-	-	-	7,612	-	-	-	-	-	7,612
Banks, DFIs and MDBs	-	-	640,175	-	-	-	-	-	-	640,175
Corporates	860	-	76,148	-	4,227	5,013	60,050	212,892	408	359,598
Regulatory retail	-	-	-	-	-	-	-	31,467	-	31,467
Higher risk assets	-	-	-	-	-	-	-	-	11,820	11,820
Other assets	-	-	2,893	-	-	-	-	461,334	224,074	688,301
Defaulted exposures	-	-	-	-	-	-	-	10	-	10
Total for on balance sheet exposures	860	-	719,216	7,612	4,227	5,013	60,050	705,703	236,302	1,738,983
Off balance sheet exposures										
Off balance sheet exposures other than OTC derivatives or Credit derivatives	-	24,070	100	-	1,850	51,000	5,840	29,433	-	112,293
Total for off balance sheet exposures	-	24,070	100	-	1,850	51,000	5,840	29,433	-	112,293
Total on and off balance sheet		**-**								
exposures	**860**	**24,070**	**719,316**	**7,612**	**6,077**	**56,013**	**65,890**	**735,136**	**236,302**	**1,851,276**

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

	31.03.15									
	Agriculture RM'000	Construction 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	-	-	-	7,767	-	-	-	-	-	7,767
Banks, DFIs and MDBs	-	-	956,277	-	-	-	-	-	-	956,277
Corporates	860	-	76,140	-	5,527	1,074	61,192	217,744	343	362,880
Regulatory retail	-	-	-	-	-	-	-	34,054	-	34,054
Higher risk assets	-	-	-	-	-	-	-	-	11,894	11,894
Other assets	-	-	31,346	-	-	-	-	515,170	174,596	721,112
Defaulted exposures	-	-	-	-	-	-	-	1	-	1
Total for on balance sheet exposures	860	-	1,063,763	7,767	5,527	1,074	61,192	766,969	186,833	2,093,985
Off balance sheet exposures										
Off balance sheet exposures other than OTC derivatives or Credit derivatives	-	50,064	100	-	1,590	51,900	9,744	32,193	-	145,591
Total for off balance sheet exposures	-	50,064	100	-	1,590	51,900	9,744	32,193	-	145,591
Total on and off balance sheet exposures	**860**	**50,064**	**1,063,863**	**7,767**	**7,117**	**52,974**	**70,936**	**799,162**	**186,833**	**2,239,576**

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

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

	30.09.15			
	Business Activities RM'000	Household RM'000	Not allocated RM'000	Total RM'000
Impaired loans and advances	2,283	-	-	**2,283**
Individual allowance	2,291	-	-	**2,291**
Collective allowance	-	-	1,426	**1,426**

	31.03.15			
	Business Activities RM'000	Household RM'000	Not allocated RM'000	Total RM'000
Impaired loans and advances	2,291	-	-	**2,291**
Individual allowances	2,291	-	-	**2,291**
Collective allowances	-	-	1,311	**1,311**
Charges/(Write-back) for individual allowances	115	792	-	**907**

Table 5.3: Geographical distribution of credit exposures

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

	30.09.15		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ Central banks	7,612	-	7,612
Banks, DFIs and MDBs	491,613	148,562	640,175
Corporates	359,598	-	359,598
Regulatory retail	31,467	-	31,467
Higher risk assets	11,815	5	11,820
Other assets	679,487	8,814	688,301
Defaulted exposures	10	-	10
Total for on balance sheet exposures	1,581,602	157,381	1,738,983
Off balance sheet exposures			
Off balance sheet exposures other than OTC derivatives or credit derivatives	112,293	-	112,293
Total for off balance sheet exposures	112,293	-	112,293
Total on and off balance sheet exposures	**1,693,895**	**157,381**	**1,851,276**

	31.03.15		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ Central banks	7,767	-	7,767
Banks, DFIs and MDBs	839,022	117,255	956,277
Corporates	362,880	-	362,880
Regulatory retail	34,054	-	34,054
Higher risk assets	11,888	6	11,894
Other assets	720,588	524	721,112
Defaulted exposures	1	-	1
Total for on balance sheet exposures	1,976,200	117,785	2,093,985
Off balance sheet exposures			
Off balance sheet exposures other than OTC derivatives or Credit derivatives	145,591	-	145,591
Total for off balance sheet exposures	145,591	-	145,591
Total on and off balance sheet exposures	**2,121,791**	**117,785**	**2,239,576**

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

All amounts of impaired and past due loans and advances, individual and collective allowances reside in Malaysia and are as follows:

			30.09.15
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans and advances	2,283	-	2,283
Individual allowance	2,291	-	2,291
Collective allowance	1,426	-	1,426

			31.03.15
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans and advances	2,291	-	2,291
Individual allowance	2,291	-	2,291
Collective allowance	1,311	-	1,311

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

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

30.09.15	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No maturity specified RM'000	Total RM'000
On balance sheet exposures									
Sovereigns/ central banks	232	-	-	-	-	-	7,380	-	7,612
Banks, DFIs and MDBs	639,883	-	-	-	-	-	292	-	640,175
Corporates	207	1,074	406	3,267	354,644	-	-	-	359,598
Regulatory retail	64	214	39	689	734	29,727	-	-	31,467
Higher risk assets	-	-	-	-	-	-	-	11,820	11,820
Other assets	666,750	-	-	-	-	-	-	21,551	688,301
Defaulted exposures	-	-	-	9	1	-	-	-	10
Total for on balance sheet exposures	1,307,136	1,288	445	3,965	355,379	29,727	7,672	33,371	1,738,983
Off balance sheet exposures									
Off balance sheet exposures other than OTC derivatives or credit derivatives	51,000	6,990	355	486	14,554	6,672	32,236	-	112,293
Total for off balance sheet exposures	51,000	6,990	355	486	14,554	6,672	32,236	-	112,293
Total on and off balance sheet exposures	**1,358,136**	**8,278**	**800**	**4,451**	**369,933**	**36,399**	**39,908**	**33,371**	**1,851,276**

31.03.15	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No maturity specified RM'000	Total RM'000
On balance sheet exposures									
Sovereigns/ Central banks	284	-	-	-	-	-	7,483	-	7,767
Banks, DFIs and MDBs	956,277	-	-	-	-	-	-	-	956,277
Corporates	348	2,930	-	2,124	357,478	-	-	-	362,880
Regulatory retail	-	73	116	339	657	32,869	-	-	34,054
Higher risk assets	-	-	-	-	-	-	-	11,894	11,894
Other assets	698,626	-	-	-	-	-	-	22,486	721,112
Defaulted exposures	-	-	-	-	-	1	-	-	1
Total for on balance sheet exposures	1,655,535	3,003	116	2,463	358,135	32,870	7,483	34,380	2,093,985
Off balance sheet exposures									
Off balance sheet exposures other than OTC derivatives or credit derivatives	51,000	3,551	2,340	2,647	22,005	26,672	37,376	-	145,591
Total for off balance sheet exposures	51,000	3,551	2,340	2,647	22,005	26,672	37,376	-	145,591
Total on and off balance sheet exposures	**1,706,535**	**6,554**	**2,456**	**5,110**	**380,140**	**59,542**	**44,859**	**34,380**	**2,239,576**

Table 5.6: Reconciliation of changes to loan impairment allowances

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

	30.09.15	
	Individual impairment allowance RM'000	Collective impairment allowance RM'000
Balance at beginning of financial year	2,291	1,311
Charge for the period – net	-	115
Balance at end of financial period	2,291	1,426

	RM'000
Bad debts written off during the financial period	-
Bad debt recoveries during the financial period	-
	-

	31.03.15	
	Individual impairment allowance RM'000	Collective impairment allowance RM'000
Balance at beginning of financial year	14,327	4,872
Charge for the year – net	(907)	(2,730)
Amount written-off	(1,676)	(788)
Disposal of a subsidiary	(9,906)	-
Exchange differences	453	(43)
Balance at end of financial year	2,291	1,311

	(Charge off)/recoveries
	RM'000
Bad debts written off during the financial year	(1,075)
Bad debt recoveries during the financial year	-
	(1,075)

6.0 Credit Risk Exposure under Standardised Approach

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

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

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

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

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 the Group are as follows:

	30.09.15							
	Exposures after netting and credit risk mitigation							
Risk Weights	Sovereigns and Central banks RM'000	Banks, DFIs and MDBs RM'000	Corporates RM'000	Regulatory retail RM'000	Higher risk assets RM'000	Other assets RM'000	Total Exposures after Netting and CRM RM'000	Total Risk Weighted Assets RM'000
0%	7,612	-	75,445	-	-	4	83,061	-
20%	-	640,175	6,663	-	-	-	646,838	129,368
50%	-	-	17,408	-	-	-	17,408	8,704
75%	-	-	-	4,832	-	-	4,832	3,624
100%	-	-	152,573	-	-	688,297	840,870	840,870
150%	-	-	-	10	11,820	-	11,830	17,745
Total	7,612	640,175	252,089	4,842	11,820	688,301	1,604,839	1,000,311

	31.03.15							
	Exposures after netting and credit risk mitigation							
Risk Weights	Sovereigns and Central banks RM'000	Banks, DFIs and MDBs RM'000	Corporates RM'000	Regulatory retail RM'000	Higher risk assets RM'000	Other assets RM'000	Total Exposures after Netting and CRM RM'000	Total Risk Weighted Assets RM'000
0%	7,767	-	75,436	-	-	3	83,206	-
20%	-	803,249	26,650	-	-	-	829,899	165,980
50%	-	153,028	23,414	-	-	-	176,442	88,221
75%	-	-	-	7,112	-	-	7,112	5,334
100%	-	-	156,554	-	-	721,109	877,663	877,663
150%	-	-	-	1	11,894	-	11,895	17,842
Total	7,767	956,277	282,054	7,113	11,894	721,112	1,986,217	1,155,040

Table 6.2: Rated Exposures according to Ratings by ECAIs

	30.09.15					
	Ratings of Corporate by Approved ECAIs					
Exposure class	**Moodys** **S&P** **RAM** **MARC** **RII** **RM'000**	**Aaa to Aa3** **AAA to AA-** **AAA to AA3** **AAA to AA-** **AAA to AA-** **RM'000**	**A1 to A3** **A+ to A-** **A to A3** **A+ to A-** **A+ to A-** **RM'000**	**Baa1 to Ba3** **BBB+ to BB-** **BBB1 to BB3** **BBB+ to BB-** **BBB+ to BB-** **RM'000**	**B1 to C** **B+ to D** **B1 to D** **B+ to D** **B+ to D** **RM'000**	**Unrated** **Unrated** **Unrated** **Unrated** **Unrated** **RM'000**
<u>On and off balance sheet exposures</u>						
Credit exposures (using corporate risk weights)						
Corporates	461,543	-	-	-	-	461,543
Total	461,543	-	-	-	-	461,543

	31.03.15					
	Ratings of Corporate by Approved ECAIs					
Exposure class	**Moodys** **S&P** **RAM** **MARC** **RII** **RM'000**	**Aaa to Aa3** **AAA to AA-** **AAA to AA3** **AAA to AA-** **AAA to AA-** **RM'000**	**A1 to A3** **A+ to A-** **A to A3** **A+ to A-** **A+ to A-** **RM'000**	**Baa1 to Ba3** **BBB+ to BB-** **BBB1 to BB3** **BBB+ to BB-** **BBB+ to BB-** **RM'000**	**B1 to C** **B+ to D** **B1 to D** **B+ to D** **B+ to D** **RM'000**	**Unrated** **Unrated** **Unrated** **Unrated** **Unrated** **RM'000**
<u>On and off balance sheet exposures</u>						
Credit exposures (using corporate risk weights)						
Corporates	495,785	-	-	-	-	495,785
Total	495,785	-	-	-	-	495,785

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

	30.09.15						
	Ratings of Sovereigns and Central Banks by Approved ECAIs						
Exposure Class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	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
On and Off-Balance Sheet Exposures							
Sovereigns and Central banks	7,612	-	7,612	-	-	-	-
Total	**7,612**	-	**7,612**	-	-	-	-

	31.03.15						
	Ratings of Sovereigns and Central Banks by Approved ECAIs						
Exposure Class	Moodys	Aaa to Aa3				Caa1 to C	
	S&P	AAA to AA-				CCC+ to D	
	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
On and Off-Balance Sheet Exposures							
Sovereigns and Central banks	7,767	-	7,767	-	-	-	-
Total	**7,767**	-	**7,767**	-	-	-	-

	30.09.15						
	Ratings of Banking Institutions by Approved ECAIs						
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	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
On and off balance sheet exposures							
Banks, DFIs and MDBs	640,175	-	17,329	176,548	-	-	446,298
Total	**640,175**	-	**17,329**	**176,548**	-	-	**446,298**

	31.03.15						
	Ratings of Banking Institutions by Approved ECAIs						
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	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
On and off balance sheet exposures							
Banks, DFIs and MDBs	**956,277**	-	13,306	537,152	-	-	405,819
Total	**956,277**	-	**13,306**	**537,152**	-	-	**405,819**

7.0 Credit Risk Mitigation

Table 7.1: Credit Risk Mitigation

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

	30.09.15	
Exposures	**Exposures before CRM RM'000**	**Exposures covered by Eligible Financial Collateral RM'000**
Credit risk		
On balance sheet exposures		
Sovereigns/ Central banks	7,612	-
Banks, DFIs and MDBs	640,175	-
Corporates	359,598	222,584
Regulatory retail	31,467	28,073
Higher risk assets	11,820	-
Other assets	688,301	-
Defaulted exposures	10	-
Total for on balance sheet exposures	1,738,983	250,657
Off balance sheet exposures		
Off balance sheet exposures other than OTC derivatives or credit derivatives	112,293	27,759
Total for off balance sheet exposures	112,293	27,759
Total on and off balance sheet exposures	**1,851,276**	**278,416**

	31.03.15	
Exposures	**Exposures before CRM RM'000**	**Exposures covered by Eligible Financial Collateral RM'000**
Credit risk		
On balance sheet exposures		
Sovereigns/ Central banks	7,767	-
Banks, DFIs and MDBs	956,277	-
Corporates	362,880	220,511
Regulatory retail	34,054	30,188
Higher risk assets	11,894	-
Other assets	721,112	-
Equity exposures	-	-
Defaulted exposures	1	-
Total for on balance sheet exposures	2,093,985	250,699
Off balance sheet exposures		
Off balance sheet exposures other than OTC derivatives or credit derivatives	145,591	35,379
Total for off balance sheet exposures	145,591	35,379
Total on and off balance sheet exposures	**2,239,576**	**286,078**

Table 8.1: Off Balance Sheet Exposures

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

Description	30.09.15		
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Direct Credit Substitutes	71,952	71,952	59,477
Assets sold with recourse	100	100	100
Obligations under underwriting agreements	109,997	-	
Foreign exchange related contracts			
One year or less	2,339	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	19	9	7
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	201,161	40,232	11,747
Total	**385,568**	**112,293**	**71,331**

Description	31.03.15		
	Principal Amount RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Direct Credit Substitutes	99,447	99,447	67,228
Assets sold with recourse	100	100	100
Foreign exchange related contracts			
One year or less	2,321	-	-
Equity and commodity related contracts			
One year or less	457	-	-
Over five years			
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	19	9	7
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	230,174	46,035	10,799
Total	**332,518**	**145,591**	**78,134**

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

As at 30 September 2015 and 31 March 2015, the Group does not have any credit derivatives.

9.0 Securitisation

The Group and the Bank did not have any securitisation exposure in its trading and banking books nor did it undertake any securitisation activities during the current financial period and for year ended 31 March 2015.

10.0 Non-Traded Market Risk

Table 10.1 : Market Risk Sensitivity-Interest Rate Risk / Rate of Return Risk in the Banking Book (IRR / RORBB)

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

Impact on Income Statement

	30.09.15		31.03.15	
Currency	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**
MYR	**640**	**(640)**	**3,851**	**(3,851)**

Impact on Equity

	30.09.15		31.03.15	
Currency	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**
MYR	**(3,817)**	**4,267**	**(2,369)**	**2,821**

11.0 Equities (Banking Book Positions)

Table 11.1: Equity investments and capital requirement

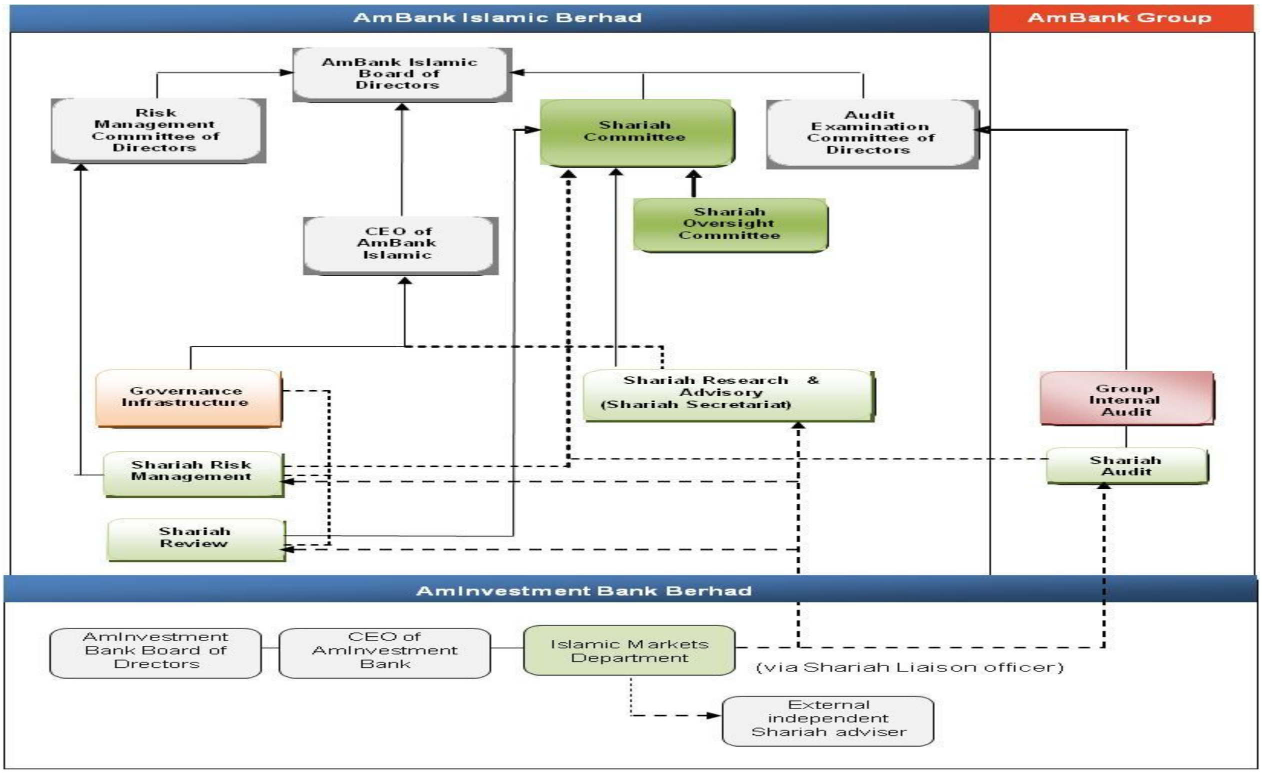
An analysis of equity investments by appropriate equity groupings and risk weighted assets of the Group are as follows:

	30.09.15	31.03.15
Non traded equity investments	**RM'000**	**RM'000**
Value of quoted (publicly traded) equities	-	-
Value of unquoted (privately held) equities	11,720	11,794
Total	11,720	11,794
Net realised and unrealised gains/ (losses)		
Cumulative realised gains/ (losses) from sales and liquidations	-	-
Total unrealised gains/ (losses)	(724)	(683)
Total	(724)	(683)
Risk Weighted Assets		
Equity investments subject to a 100% risk weight	-	
Equity investments subject to a 150% risk weight	17,580	17,691
Total	17,580	17,691
Total minimum capital requirement (8%)	1,406	1,415

12.0 Liquidity Risk and Funding Management

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

13.0 Shariah Governance Structure



A Shariah governance framework is put in place in the organizational structure of the Group 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 Islamic operations and business activities of the Group, including the Bank comply with Shariah principles and its requirements as prescribed by the Islamic Financial Services Act, 2013 ("IFSA 2013") and the relevant guidelines issued by Securities Commission Malaysia ("SC").

The Bank adopts a leverage model whereby, through its Islamic window i.e. Islamic Markets Department ("IMD"), it leverages on AmBank Islamic Shariah Governance Structure, including the Shariah Committee of AmBank Islamic. Alternatively, IMD may also opt for independent external Shariah advisor(s) as approved by the Securities Commission (SC) of Malaysia when necessary and will be on ad-hoc basis.

Board of Directors
The Board of Directors ("The Board") of the Bank is accountable and responsible for the overall oversight on the Shariah governance and Shariah compliance pursuant to the IFSA 2013. The Board performs its oversight through various committees such as the Audit and Examination Committee of Directors ("AEC"), Risk Management Committee of Directors ("RMCD") and the Shariah Committee.

Audit and Examination Committee of Directors
AEC is a Board committee of the Bank 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 of the Bank 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 Islamic capital market products and services, Shariah policies and the relevant documentation in relation to the Bank's Islamic operations and business activities.

13.0 Shariah Governance Structure (Contd.)

Shariah Liaison Officer, IMD

As per the leveraging model, the Bank via IMD leverages on AmBank Islamic Shariah Governance Structure, through its appointed Shariah Liaison Officer(s) who shall communicate with the Shariah Secretariat in escalating Shariah matters/issues to the Shariah Committee, if any. IMD is a one-stop centre and point-of-reference for the relevant LOBs under the Bank with regards to Islamic capital market products and services.

Shariah Oversight Committee

The Shariah Oversight Committee, which is a sub-committee to the Shariah Committee, performs an oversight function on Islamic capital market product and services 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 via IMD is responsible to make reference to the Shariah Committee or external independent Shariah advisor 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

Shariah research

IMD will be undertaking the Shariah research, which will include study or research of new Islamic capital market product and services, policies and guidelines (where relevant). As per the leveraging model, the findings of the Shariah research will be forwarded to the Shariah Committee (via the Shariah Secretariat) for final Shariah decisions or fatwa.

Alternatively, IMD can also undertake the Shariah research with the appointed external independent Shariah adviser(s). Final Shariah decisions or fatwa by the external independent Shariah adviser(s) will then be shared by IMD to the Shariah Committee, via the Shariah Secretariat.

Shariah Advisory

IMD provides Shariah advisory which shall be based on the Shariah resolutions (fatwa) issued by the Shariah Advisory Council (“SAC”) of BNM and/or SC. As per the leveraging model, IMD shall also provide Shariah advisory based on the Shariah decision/pronouncement/resolution issued by the Shariah Committee.

Alternatively, the provision of Shariah advisory by IMD can also be based on the decision/pronouncement/resolution issued by the external independent Shariah adviser(s).

Ultimately, all Shariah advice dispensed by IMD be in line with the Shariah Resolutions (fatwa) issued by SAC of BNM and SC, at all time.

Shariah Risk Management

As per the leveraging model, the Shariah Risk Management (“SRM”) function of AmBank Islamic shall undertake the Shariah risk review of IMD. The 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, IMD, Compliance; 3rd – Shariah Audit.

13.0 Shariah Governance Structure (Contd.)

Shariah Review

As per the leveraging model, the Shariah Review function of AmBank Islamic shall undertake the Shariah review of IMD. 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. (Formalisation of the above is currently in-progress)

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 capital market product and services 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 Non-Shariah Compliant Income

All business activities, products and services offered, and legal documentations are implemented and executed based on legal provisions and Shariah requirements to ensure no occurrence of non-Shariah compliant income. However, should such non-Shariah compliant income exist, it will be channeled to specific charitable bodies. The Shariah Committee is responsible to oversee the management and distribution of the charity fund.