Company No. 8515-D

AmBank (M) Berhad
Pillar 3 Disclosure

31 March 2018

RWCAF - Pillar 3 Disclosure
31 March 2018

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1.0 Scope of Application

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

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

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

Capital Adequacy Ratios

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

The capital adequacy ratios are computed in accordance to BNM's guidelines on Capital Adequacy Framework (Capital Components) issued by the Prudential Financial Policy Department on 2 February 2018, (replacing the same guidelines issued previously on 13 October 2015) which is based on the Basel III capital accord. The Group and the Bank have 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).

Pursuant to the revised BNM's guidelines on Capital Adequacy Framework (Capital Components) issued on 2 February 2018, the minimum capital adequacy ratios maintained under the guidelines remain consistant at 4.5% for CET1 capital, 6.0% for Tier 1 capital and 8% for total capital ratio. Banking institutions are also required to maintain capital buffers. The capital buffers shall comprise the sum of the following:

(a) a Capital Conservation Buffer ("CCB") of 2.5%; and

(b) a Countercyclical Capital Buffer (CCyB) determined as the weighted-average of the prevailing CCyB rates applied in the jurisdictions in which the Bank has credit exposures.

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

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

Frequency of Disclosure

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

Medium and Location of Disclosure

These Pillar 3 disclosure of the Group are available on the Group's corporate website at www.ambankgroup.com.

1.1 Basis of Consolidation

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

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

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

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

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

2.0 Capital Management

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

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

2.0 Capital Management (Cont'd.)

The capital plan takes the following into account:

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

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

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

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

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

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

The Group operates processes and controls to monitor and manage capital adequacy across the organisation. Capital is maintained on the basis of the local regulator's requirement. It is overseen by the Group Asset and Liability Committee (“GALCO”). The GALCO is also responsible for managing the Group’s statement of financial position, capital and liquidity.

2.0 Capital Management (Cont'd.)

A strong governance and process framework is embedded in the capital planning and assessment methodology. Overall responsibility for the effective management of risk rests with the Board. The Risk Management Committee (“RMC”) 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.

GALCO proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. For the current financial year ended 31 March 2018 (“FY 2018”), these ranges are 9.5% to 11.5% for the Common Equity Tier ("CET 1") Capital Ratio, 10.0% to 12.0% for the Tier 1 Capital Ratio, and 14.0% to 16.0% for the Total Capital Ratio. The Group has been operating within these ranges.

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

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

Table 2.1: Capital Adequacy Ratio

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

	Group		Bank	
	2018	2017	2018	2017
Before deducting proposed dividends:				
CET 1 Capital ratio	11.057%	11.942%	10.955%	11.230%
Tier 1 Capital ratio	12.009%	13.203%	11.903%	12.478%
Total Capital ratio	16.571%	16.840%	16.451%	16.073%
After deducting proposed dividends:				
CET 1 Capital ratio	10.714%	11.471%	10.613%	10.764%
Tier 1 Capital ratio	11.666%	12.732%	11.561%	12.012%
Total Capital ratio	16.228%	16.369%	16.109%	15.607%

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

As at 31 March 2018, the gross exposure and collective allowance relating to the RIA financing for the Group amounted to RM2,869.6 million and RM2.7 million (2017: RM1,604.4 million and RM2.3 million) respectively. There was no individual allowance provided for the RIA financing.

Table 2.2 : Risk-Weighted Assets and Capital Requirements

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

2018 **Exposure class**	**Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM")**		**Net exposures/ EAD after CRM**	**Risk weighted assets**	**Minimum capital requirement at 8%**
	RM'000		**RM'000**	**RM'000**	**RM'000**
1. **Credit risk**					
On balance sheet exposures					
Sovereigns/Central banks	2,741,941		2,741,941	-	-
Public Sector Entities ("PSEs")	40,506		40,506	8,101	648
Banks, development financial institutions ("DFIs") and multilateral development banks ("MDBs")	4,203,590		4,203,590	846,062	67,685
Insurance companies, Securities firms and Fund managers	9,775		9,775	9,775	782
Corporates	37,129,038		35,450,555	30,679,006	2,454,320
Regulatory retail	22,493,744		22,272,231	16,930,198	1,354,416
Residential mortgages	16,596,432		16,583,389	6,244,859	499,589
Higher risk assets	337,548		337,470	506,204	40,496
Other assets	1,421,802		1,421,802	1,087,499	87,000
Securitisation exposures	42,970		42,970	10,591	847
Equity exposures	104		104	104	8
Defaulted exposures	733,549		722,384	693,971	55,518
Total on balance sheet exposures	**85,750,999**		**83,826,717**	**57,016,370**	**4,561,309**
Off balance sheet exposures					
Over the counter ("OTC") derivatives	2,183,907		1,931,381	1,013,712	81,097
Credit derivatives	14		14	7	1
Off balance sheet exposures other than OTC derivatives or Credit derivatives	9,659,702		8,622,974	7,663,925	613,114
Defaulted exposures	30,380		20,394	30,441	2,435
Total off balance sheet exposures	**11,874,003**		**10,574,763**	**8,708,085**	**696,647**
Total on and off balance sheet exposures	**97,625,002**		**94,401,480**	**65,724,455**	**5,257,956**
2. **Large exposure risk requirement**	-		-	373,899	29,912
3. **Market risk**	**Long position**	**Short position**			
Interest rate risk					
- General interest rate risk	111,766,654	104,238,989		1,833,381	146,670
- Specific interest rate risk	7,705,423	37,381		195,384	15,631
Foreign currency risk	148,442	591,939		591,939	47,355
Equity risk					
- General risk	109,747	34,098		75,649	6,052
- Specific risk	109,747	34,098		136,738	10,939
Option risk	1,405,269	735,720		28,266	2,261
Total	**121,245,282**	**105,672,225**		**2,861,357**	**228,908**
4. **Operational risk**				4,001,549	320,124
5. **Total RWA and capital requirements**				**72,961,260**	**5,836,900**

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

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

2017 Exposure class	Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM")		Net exposures/ EAD after CRM	Risk weighted assets	Minimum capital requirement at 8%
	RM'000		RM'000	RM'000	RM'000
1. **Credit risk**					
On balance sheet exposures					
Sovereigns/Central banks	4,481,465		4,472,081	4,444	356
Public Sector Entities ("PSEs")	40,601		40,601	8,120	649
Banks, development financial institutions ("DFIs") and multilateral development banks ("MDBs")	4,943,739		4,943,739	998,587	79,887
Insurance companies, Securities firms and Fund managers	73		73	73	6
Corporates	35,660,463		34,086,370	28,386,745	2,270,940
Regulatory retail	20,540,727		20,368,356	15,447,389	1,235,791
Residential mortgages	14,307,426		14,290,106	5,276,362	422,109
Higher risk assets	108,342		108,266	162,399	12,992
Other assets	2,138,849		2,138,849	1,668,487	133,479
Securitisation exposures	53,095		53,095	12,303	984
Equity exposures	576		576	576	46
Defaulted exposures	850,954		828,455	786,545	62,924
Total on balance sheet exposures	**83,126,310**		**81,330,567**	**52,752,030**	**4,220,163**
Off balance sheet exposures					
Over the counter ("OTC") derivatives	3,804,836		3,804,836	1,924,329	153,946
Credit derivatives	14		14	7	1
Off balance sheet exposures other than OTC derivatives or Credit derivatives	9,506,262		8,495,814	7,604,802	608,384
Defaulted exposures	17,750		15,882	22,067	1,765
Total off balance sheet exposures	**13,328,862**		**12,316,546**	**9,551,205**	**764,096**
Total on and off balance sheet exposures	**96,455,172**		**93,647,113**	**62,303,235**	**4,984,259**
2. **Large exposure risk requirement**	-		-	30,573	2,446
3. **Market risk**	**Long position**	**Short position**			
Interest rate risk					
- General interest rate risk	102,075,467	95,849,375		1,626,315	130,105
- Specific interest rate risk	6,315,121	296,676		130,170	10,414
Foreign currency risk	201,192	361,329		361,329	28,906
Equity risk					
- General risk	73,479	14,893		58,586	4,687
- Specific risk	73,479	14,893		47,173	3,774
Option risk	363,329	199,741		8,289	663
Total	**109,102,067**	**96,736,907**		**2,231,862**	**178,549**
4. **Operational risk**				4,219,239	337,539
5. **Total RWA and capital requirements**				**68,784,909**	**5,502,793**

For 2018 and 2017, the Group does not have Restricted Investment Account ("RIA") that qualifies as a risk absorbent.

3.0 Capital Structure

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

- CET 1 Capital;
- Additional Tier 1 Capital; and
- Tier 2 Capital.

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

3.1 CET 1 Capital

CET 1 Capital consists of the following:

a) Paid-up Ordinary Share Capital

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

b) Retained Earnings

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

3.1 CET 1 Capital (Cont'd.)

c) Other Disclosed Reserves

Other disclosed reserves comprise the following:

i) Statutory Reserve

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

On 3 May 2017, BNM issued revised policy documents, Capital Funds and Capital Funds for Islamic Banks which are applicable for licensed banks and licensed Islamic banks respectively. The key change in the revised policy documents is the removal of the requirement for banking institutions to maintain a reserve fund. The Group and the Bank had previously maintained the reserve fund via transfer from retained earnings to Statutory Reserve. Arising from this change, the Group and the Bank had reclassified balances in Statutory Reserve to Retained earnings.

ii) Regulatory Reserve

Regulatory reserve is maintained in accordance with BNM's Policy Document on Classification and Impairment Provisions for Loans/Financing as an additional credit risk absorbent.

iii) Merger Reserve

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

iv) 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.

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

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

vi) Cash Flow Hedging Reserve/(Deficit)

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

3.2 Additional Tier 1 Capital

The amount of Additional Tier 1 Capital that can be recognised in the computation of the capital adequacy ratios of the Group and the Bank for 2013, has been capped at 90% of the total qualifying Additional Tier 1 balance outstanding as at 1 January 2013. For 2018, the amount of Additional Tier 1 Capital that can be recognised in the computation of the capital adequacy ratios are capped at 40% of the total qualifying Additional Tier 1 balance outstanding as at 1 January 2013. This is in accordance to the transitional gradual phase-out treatment under the Basel III regime. Table 3.1 outlines the application of the grandfathering provisions in respect of the Additional Tier 1 Capital Instruments of the Group and the Bank. Details of the Additional Tier 1 Capital Instruments are outlined below.

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

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

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

Note 1 : Repaid in full on its first call date of 27 January 2016.

3.2 Additional Tier 1 Capital (Cont'd.)

Innovative Tier 1 Capital (Cont'd.)

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

Innovative Tier 1 Capital Securities

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

Non-innovative Tier 1 Capital

In the financial year ended 31 March 2009, the Bank issued RM500 million Non-Innovative Tier 1 Capital ("NIT1") in nominal value comprising:

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

Collectively known as “Stapled Capital Securities”.

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

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

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

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

3.3 Tier 2 Capital

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

The amount of Tier 2 Capital issued prior to 2013 that can be recognised in the computation of the capital adequacy ratios of the Group and the Bank for 2013, has been capped at 90% of the total qualifying Tier 2 Capital balance outstanding as at 1 January 2013. For 2018, the amount of such Tier 2 Capital that can be recognised in the computation of the capital adequacy ratios is capped at 40% of the total qualifying Tier 2 Capital balance outstanding as at 1 January 2013. This is in accordance to the transitional gradual phase-out treatment under the Basel III regime. Table 3.2 outlines the application of the grandfathering provisions in respect of the Tier 2 Capital Instruments for the Group and the Bank. Details of the Tier 2 Capital Instruments are outlined below.

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

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

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

Note 1:

(a) Tranche 1 was called and cancelled on its first call date of 4 February 2013.

(b) Tranche 2 was called and cancelled on its first call date of 14 March 2013.

(c) Tranche 3 was called and early redeemed on its first call date of 16 March 2015.

(d) Tranche 4 was called and cancelled on its first call date of 28 March 2013.

(e) Tranche 5 was called and early redeemed on 28 March 2015.

(f) Tranche 7 was called and cancelled on its first called date of 10 December 2014.

(g) Tranche 8 was called and cancelled on its first called date of 16 October 2017.

Medium Term Notes

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

3.3 Tier 2 Capital (Cont'd.)

Medium Term Notes (Cont'd.)

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

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

The salient features of the MTNs issued under this programme and outstanding as at 31 March 2018 are as follows:

Issue Date	First Call Date	Tenure	Interest Rate	Nominal value outstanding (RM million)
9 April 2008	9 April 2018	15 years Non-Callable 10 years	6.25% per annum (step up by 0.5% per annum after its first call date).	600
Total				**600**

Basel III Subordinated Notes

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

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

The salient features of the Subordinated Notes issued under this programme and outstanding as at 31 March 2018 are as follows:

Issue Date	First Call Date	Tenure	Interest Rate	Nominal value outstanding (RM million)
30 December 2013	31 December 2018	10 years Non-Callable 5 years	5.20% per annum	400
15 March 2017	15 March 2022	10 years Non-Callable 5 years	5.20% per annum	500
16 October 2017	16 October 2027	10 years Non-Callable 5 years	4.90% per annum	570
23 February 2018	23 February 2023	10 years Non-Callable 5 years	5.23% per annum	175
14 March 2018	14 March 2023	10 years Non-Callable 5 years	5.23% per annum	350
Total				**1,995**

Table 3.3: Capital Structure

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

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
CET 1 Capital				
Ordinary shares	1,763,208	1,763,208	1,763,208	1,763,208
Regulatory reserve	372,133	163,820	372,133	163,820
Merger reserve	104,149	104,149	-	-
Available-for-sale deficit	(23,387)	(12,232)	(23,518)	(12,233)
Cash flow hedging reserve	3,174	3,010	3,174	3,010
Foreign currency translation reserve	49,075	127,243	52,974	119,797
Statutory reserve	-	980,969	-	980,969
Retained earnings	6,641,531	5,657,191	6,700,583	5,371,939
Less: Regulatory adjustments applied on CET 1 Capital				
Intangible assets	(400,376)	(406,506)	(400,376)	(406,504)
Deferred tax assets	(66,659)	-	(66,637)	-
Cash flow hedging deficit	(3,174)	(3,010)	(3,174)	(3,010)
Regulatory reserve	(372,133)	(163,820)	(372,133)	(163,820)
Investment in ordinary shares of unconsolidated financial and insurance/takaful entities	-	-	(8,488)	(6,808)
Total CET 1 Capital	**8,067,541**	**8,214,022**	**8,017,746**	**7,810,368**
Additional Tier 1 Capital				
Additional Tier 1 Capital instruments (subject to gradual phase-out treatment)	694,040	867,550	694,040	867,550
Qualifying CET 1, Additional Tier 1 capital instruments held by third parties	2	2	-	-
Total Tier 1 Capital	**8,761,583**	**9,081,574**	**8,711,786**	**8,677,918**
Tier 2 Capital				
Tier 2 Capital instruments meeting all relevant criteria for inclusion	1,995,000	900,000	1,995,000	900,000
Tier 2 Capital instruments (subject to gradual phase-out treatment)	600,000	983,900	600,000	983,900
Qualifying CET 1, Additional Tier 1 and Tier 2 capital instruments held by third parties	1	1	-	-
Collective allowance and regulatory reserves	733,999	618,235	734,013	618,212
Less: Regulatory adjustments applied on Tier 2 Capital	-	-	-	(1,702)
Total Tier 2 Capital	**3,329,000**	**2,502,136**	**3,329,013**	**2,500,410**
Total Capital	**12,090,583**	**11,583,710**	**12,040,799**	**11,178,328**

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

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Credit RWA	65,724,455	62,303,235	65,981,322	63,094,846
Market RWA	2,861,357	2,231,862	2,861,798	2,231,439
Operational RWA	4,001,549	4,219,239	3,973,753	4,190,538
Large exposure risk RWA for equity holdings	373,899	30,573	373,899	30,573
Total RWA	**72,961,260**	**68,784,909**	**73,190,772**	**69,547,396**

4.0 General Risk Management

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

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

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

The AMMB Group Risk Direction

The AMMB Group's strategic direction is to be top 4 in each of the 4 growth segments (Mass Affluent, Affluent, Small and Medium Enterprise ("SME"), Mid-Corp), top 4 in each of the 4 focus products (Cards & Merchants, Transaction Banking, Markets, Wealth Management) and to sustain top 4 position in each of the current engines (Corporate Loans, Debt Capital Market ("DCM"), Funds Management).

1. The AMMB Group aims to maintain an external rating of AA1 or better based on reference ratings by RAM Rating Services Berhad ("RAM").
2. The AMMB Group aims to achieve and sustain a Return on Risk Weighted Assets ("RoRWA") in the range of 1.5% to 1.8%, based on Advanced internal ratings-based ("AIRB").
3. The AMMB Group aims to maintain Available Financial Resources in excess of the capital requirements as estimated in the Internal Capital Adequacy Assessment Process ("ICAAP").
4. The AMMB Group recognizes the importance of funding its own business. It aims to maintain the following:
   a. Liquidity Coverage Ratio ("LCR") at least 10% above prevailing
   b. Stressed LCR above the regulatory requirement
   c. Net Stable Funding Ratio ("NSFR") above the prevailing regulatory minimum (effective from 2019).
5. The AMMB Group aims to maintain the following Capital Adequacy Ratios (CARs) under normal conditions:
   CET 1, Tier 1 and total capital ratio of at least 2 percentage points above regulatory minimum.
6. The AMMB Group aims to maintain adequate controls for all key operational risks (including but not limited to regulatory, compliance, technology, conduct and reputational risks).
   a. Keep operational losses and regulatory penalties below 2% of PATMI.
   b. Remain vigilant in risk identification and management to protect its reputation and business franchise.
7. The AMMB Group aims to limit the Group's earnings volatility such that mean Adjusted Return volatility over a period of the last 3 years is Below 0.3**.
8. The AMMB Group aims to maintain RWA efficiency (Credit Risk weighted Assets/EAD) in the range of 50% to 60% based on AIRB.

Risk Management Governance

The Board is ultimately responsible for the management of risks within the Group. The RMC is formed to assist the Board in discharging its duties in overseeing the overall management of all risks including but not limited to market risk, liquidity risk, credit risk, operational risk, IT and cyber risk.

The Board has also established the Management Risk Committees 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, compliance risk, reputational risk, product risk and business and IT project risk.

The AMMB Group has an independent risk management function, headed by the Group Chief Risk Officer who:

- is responsible for establishing an enterprise wide risk management framework in all areas including financial, credit, market, operational, reputational, security, technological and emerging risks
- essentially champions and embeds a positive risk culture across the Group to ensure that risk taking activities across the Group are aligned to the Group's risk appetite and strategies
- through the Risk Management Committee of Directors, has access to the Board and the boards of the respective banking entities to facilitate suitable escalation of issues of concern across the organization.

** As per PIDM defination

4.1 Internal Capital Adequacy Assessment Process

The core objectives of the AMMB Group’s Internal Capital Adequacy Assessment Process ("ICAAP") Policy are to:

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

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

The following key principles underpin the ICAAP:

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

- Group Risk Appetite, including the Bank’s target credit rating category;
- regulatory capital requirements;
- the Board and Management’s targeted financial performance; and
- the AMMB Group’s planned asset growth and strategic business objectives.

4.1.2 Management oversight

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

- undergo regular, effective and comprehensive review;
- satisfy regulatory requirements;
- be capable of independent assessment and validation; and
- be incorporated into the AMMB Group’s overall risk management strategy and governance frameworks.

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

4.1.3 Capital Management Plan and Framework

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

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

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

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

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

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

4.1.5 Capital allocation:

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

4.1.6 Material Risks

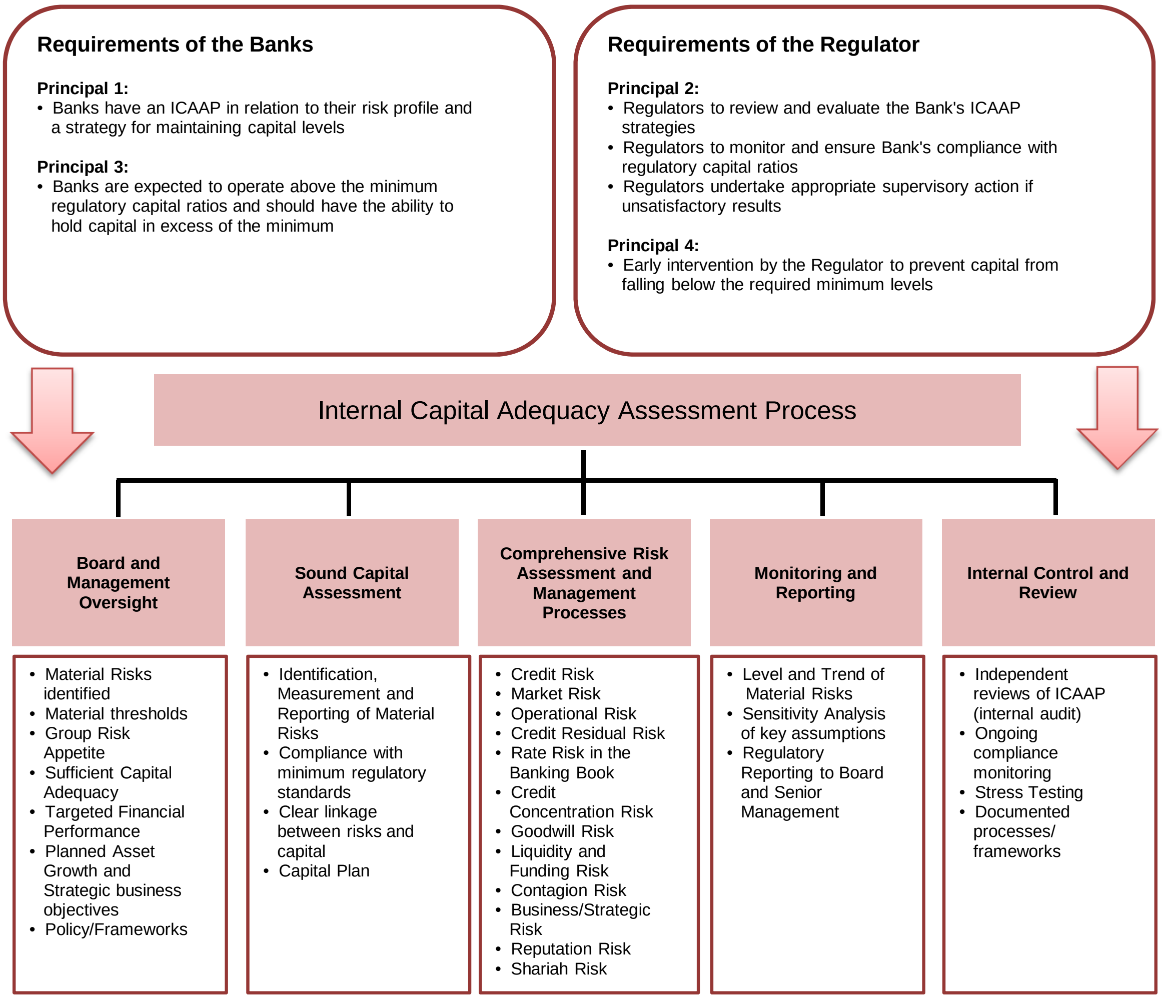
- The AMBB Group must have clearly articulated definitions of each material risk type to be included in the ICAAP; and
- processes to identify and determine the materiality of current risk types, change to existing risk types and new risk types must be established.

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

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

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

ICAAP Framework



Requirements of the Banks

Principal 1:
- Banks have an ICAAP in relation to their risk profile and a strategy for maintaining capital levels

Principal 3:
- Banks are expected to operate above the minimum regulatory capital ratios and should have the ability to hold capital in excess of the minimum

Requirements of the Regulator

Principal 2:
- Regulators to review and evaluate the Bank's ICAAP strategies
- Regulators to monitor and ensure Bank's compliance with regulatory capital ratios
- Regulators undertake appropriate supervisory action if unsatisfactory results

Principal 4:
- Early intervention by the Regulator to prevent capital from falling below the required minimum levels

Internal Capital Adequacy Assessment Process

Board and Management Oversight
- Material Risks identified
- Material thresholds
- Group Risk Appetite
- Sufficient Capital Adequacy
- Targeted Financial Performance
- Planned Asset Growth and Strategic business objectives
- Policy/Frameworks

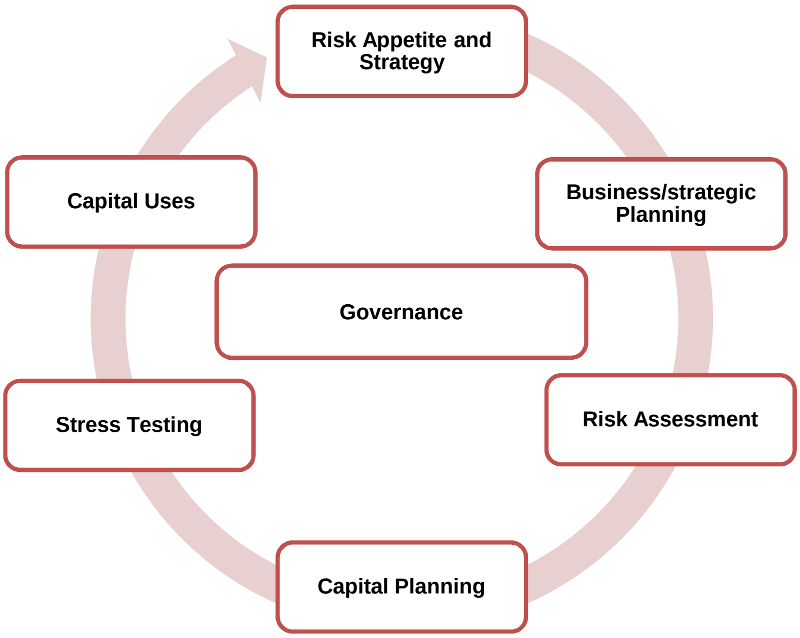
Sound Capital Assessment
- Identification, Measurement and Reporting of Material Risks
- Compliance with minimum regulatory standards
- Clear linkage between risks and capital
- Capital Plan

Comprehensive Risk Assessment and Management Processes
- Credit Risk
- Market Risk
- Operational Risk
- Credit Residual Risk
- Rate Risk in the Banking Book
- Credit Concentration Risk
- Goodwill Risk
- Liquidity and Funding Risk
- Contagion Risk
- Business/Strategic Risk
- Reputation Risk
- Shariah Risk

Monitoring and Reporting
- Level and Trend of Material Risks
- Sensitivity Analysis of key assumptions
- Regulatory Reporting to Board and Senior Management

Internal Control and Review
- Independent reviews of ICAAP (internal audit)
- Ongoing compliance monitoring
- Stress Testing
- Documented processes/ frameworks

Overview of ICAAP process and setting Internal Capital Targets



5.0 Credit Risk Management

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

Identification	• 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, • Wholesale Pricing • Collateral and tailored facility structures
Monitoring/ Review	• Monitor and report portfolio mix • Review customers under Classified Account • Review customers under Reschedule and Restructured Account • Undertake post mortem credit review

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

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

For non-retail credits, risk assessment is a combination of both qualitative and quantitative assessment (including the financial standing of the customer or counterparty using the Bank's credit rating model where the scores are translated into rating grade) on the customer or counterparty. The assigned credit rating grade forms a crucial part of the credit analysis undertaken for each of the Bank’s credit exposures and the overall credit assessment is conducted either through a program lending or discretionary lending approach.

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

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

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

Lending activities are guided by internal credit policies and Risk Appetite Framework that are approved by the Board. The 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:
  - single counterparty credit;
  - industry sector; and
  - country.
- setting Loan to Value limits for asset backed loans (i.e., property exposures and other collateral);
- classified Account processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers;
- rescheduled and restructured (“R&R”) Account Management sets out the controls in managing R&R loan pursuant to the BNM’s revised policy on Classification and Impairment Provisions for Loans; and
- setting guidelines on Wholesale Pricing which serve as a guide to the minimum returns the Group requires for the risk undertaken, taking into account operating expenses and cost of capital.

5.0 Credit Risk Management (Cont'd.)

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

The GMRC regularly meets to review the quality and diversification of the Group’s loan portfolio, and review the portfolio risk profile against the GRAF and recommend or approve new and amended credit risk policy.

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

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

5.1 Impairment

5.1.1 Definition of past due and impaired loans and advances

All loans and advances are categorised as either:

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

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

A loan is classified as impaired under the following circumstances:

(a) where the principal or interest or both is past 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 obligation[2]; 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) for trade bills/facilities, an account is deemed defaulted and impaired when the past due is 90 days from due date of the bill.

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

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

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

5.1 Impairment (Cont'd)

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

(d) a loan may also be classified as impaired:

i. If it is probable that the Group and bank will be unable to collect all amounts due (including both interest and principal) according to the contractual terms of the agreement; or

ii. Due to cross-default. Cross-default occurs when:

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

The Watchlist and Classification Committee ("WACC") is allowed to waive the declaration of cross-default across all accounts of the same customer or accounts of all customers within the same customer group.

Or

iii. If deemed appropriate by the WACC or CACC.

(e) debt instruments (for example, corporate bond and sukuk, debt converted instrument etc.) shall be classified as impaired:

i. when the coupon/interest payment or face/ nominal value redemption is one (1) day past due after the grace period, where there is a stipulated grace period within the contractually agreed terms; or

ii. when an event of default (EOD) has been declared by the Trustee/ Facility Agent[4] for reasons other than payment in default (as outlined in the Trust Deeds Guidelines issued by the Securities Commission of Malaysia); or

iii. where it is deemed appropriate to classify as impaired and approved by the WACC.

(f) the loan is deemed impaired when it is classified as rescheduled or restructured (“R&R”) in the Central Credit Reference Information System (“CCRIS”)

5.1.2 Methodology for Determination of Individual and Collective Allowances

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

Individual Assessment

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

(a) Trigger management

In trigger management, financial assets which are above the pre-set individual assessment threshold are assessed using the relevant impairment triggers for objective evidence of impairment.

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

5.1 Impairment (Cont'd.)

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

Individual Assessment (Cont'd.)

(b) Valuation of assets

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

Collective Assessment

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

With effect from 31 December 2015, the Bank is required to maintain, in aggregate, collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding loans[5] net of individual impairment.

[5] *Excluding loans with an explicit guarantee from the Government of Malaysia*

Table 5.1 : Distribution of gross credit exposures by sector

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

2018	**Agriculture**	**Mining and quarrying**	**Manufacturing**	**Electricity, gas and water**	**Construction**	**Wholesale and retail trade and hotels and restaurants**	**Transport, storage and communication**	**Finance and insurance**	**Government and central banks**	**Real estate**	**Business activities**	**Education and health**	**Household**	**Others**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On balance sheet exposures															
Sovereigns/Central banks	-	-	-	-	-	-	-	-	2,741,941	-	-	-	-	-	2,741,941
PSEs	-	-	-	-	-	-	-	-	-	-	20	40,486	-	-	40,506
Banks, DFIs and MDBs	-	-	-	-	-	-	-	4,203,590	-	-	-	-	-	-	4,203,590
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	-	9,775	-	-	-	-	-	-	9,775
Corporates	1,608,079	1,003,514	6,636,313	1,119,771	4,400,863	4,256,398	1,946,016	5,384,279	-	6,039,531	1,079,522	2,137,895	1,300,221	216,636	37,129,038
Regulatory retail	28,065	5,711	195,960	7,026	96,967	220,474	35,098	3,326	-	78,960	88,825	93,582	21,617,265	22,485	22,493,744
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	16,596,432	-	16,596,432
Higher risk assets	-	-	-	-	-	-	-	-	-	-	-	-	18,960	318,588	337,548
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	1,421,802	1,421,802
Securitisation exposures	-	-	-	-	-	-	-	20,822	-	22,148	-	-	-	-	42,970
Equity exposures	-	-	7	-	-	-	-	-	-	-	-	-	-	97	104
Defaulted exposures	219	76,518	54,527	1	19,675	23,305	3,506	-	-	134,221	16,094	14,071	390,679	733	733,549
Total for on balance sheet exposures	1,636,363	1,085,743	6,886,807	1,126,798	4,517,505	4,500,177	1,984,620	9,621,792	2,741,941	6,274,860	1,184,461	2,286,034	39,923,557	1,980,341	85,750,999
Off balance sheet exposures															
OTC derivatives	15,539	167,121	133,099	-	1,487	11,724	64,914	1,706,620	-	6,286	8,928	59,285	8,575	329	2,183,907
Credit derivatives	-	-	-	-	-	-	-	14	-	-	-	-	-	-	14
Off balance sheet exposures other than OTC derivatives or Credit derivatitives	157,653	581,630	1,513,598	286,842	2,448,448	687,039	301,323	325,375	-	716,740	205,100	202,443	2,228,952	4,559	9,659,702
Defaulted exposures	-	-	1,082	-	4,577	414	-	-	-	13,487	109	-	10,630	81	30,380
Total for off balance sheet exposures	173,192	748,751	1,647,779	286,842	2,454,512	699,177	366,237	2,032,009	-	736,513	214,137	261,728	2,248,157	4,969	11,874,003
Total on and off balance sheet exposures	**1,809,555**	**1,834,494**	**8,534,586**	**1,413,640**	**6,972,017**	**5,199,354**	**2,350,857**	**11,653,801**	**2,741,941**	**7,011,373**	**1,398,598**	**2,547,762**	**42,171,714**	**1,985,310**	**97,625,002**

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

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

2017	**Agriculture**	**Mining and quarrying**	**Manufacturing**	**Electricity, gas and water**	**Construction**	**Wholesale and retail trade and hotels and restaurants**	**Transport, storage and communication**	**Finance and insurance**	**Government and central banks**	**Real estate**	**Business activities**	**Education and health**	**Household**	**Others**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On balance sheet exposures															
Sovereigns/Central banks	-	-	-	-	-	-	-	-	4,481,465	-	-	-	-	-	4,481,465
PSEs	-	-	-	-	-	-	-	40,539	-	-	-	62	-	-	40,601
Banks, DFIs and MDBs	-	-	-	-	-	-	-	4,943,739	-	-	-	-	-	-	4,943,739
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	-	73	-	-	-	-	-	-	73
Corporates	1,864,028	1,256,746	6,329,807	653,361	4,508,349	3,985,251	2,133,302	4,711,978	-	5,817,482	811,531	2,191,544	1,333,705	63,379	35,660,463
Regulatory retail	16,199	5,292	119,241	3,530	71,585	162,817	29,347	3,036	-	63,926	62,615	82,553	19,913,640	6,946	20,540,727
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	14,307,426	-	14,307,426
Higher risk assets	-	-	-	-	-	-	-	-	-	-	-	-	19,878	88,464	108,342
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	2,138,849	2,138,849
Securitisation exposures	-	-	-	-	-	-	-	30,995	-	22,100	-	-	-	-	53,095
Equity exposures	-	-	8	-	-	-	-	435	-	-	-	-	-	133	576
Defaulted exposures	399	120,953	31,443	-	21,897	25,332	3,905	1	-	238,177	2,900	2,015	403,413	519	850,954
Total for on balance sheet exposures	1,880,626	1,382,991	6,480,499	656,891	4,601,831	4,173,400	2,166,554	9,730,796	4,481,465	6,141,685	877,046	2,276,174	35,978,062	2,298,290	83,126,310
Off balance sheet exposures															
OTC derivatives	8,295	282,899	98,873	-	8	8,580	54,040	3,340,276	-	8,337	3,370	151	-	7	3,804,836
Credit derivatives	-	-	-	-	-	-	-	14	-	-	-	-	-	-	14
Off balance sheet exposures other than OTC derivatives or Credit derivatitives	185,799	385,967	1,551,250	289,761	2,211,890	731,616	304,767	419,326	-	1,014,867	130,617	272,459	2,003,147	4,796	9,506,262
Defaulted exposures	-	-	506	-	273	483	-	-	-	6,531	3	-	9,873	81	17,750
Total for off balance sheet exposures	194,094	668,866	1,650,629	289,761	2,212,171	740,679	358,807	3,759,616	-	1,029,735	133,990	272,610	2,013,020	4,884	13,328,862
Total on and off balance sheet exposures	**2,074,720**	**2,051,857**	**8,131,128**	**946,652**	**6,814,002**	**4,914,079**	**2,525,361**	**13,490,412**	**4,481,465**	**7,171,420**	**1,011,036**	**2,548,784**	**37,991,082**	**2,303,174**	**96,455,172**

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

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

2018	Agriculture	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Wholesale and retail trade and hotels and restaurants	Transport, storage and communication	Finance and insurance	Real estate	Business activities	Education and health	Household	Others	Unallocated	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Impaired loans and advances	265	82,711	81,147	110	37,226	28,054	8,966	-	291,255	8,097	18,333	495,401	2,235	-	**1,053,800**
Past due loans	13,053	74,926	137,102	478	84,680	85,570	26,387	7	105,822	24,405	27,389	6,794,877	4,235	-	**7,378,931**
Individual allowance	-	6,277	11,395	-	1,233	4,283	555	-	150,079	-	3,140	4,138	-	-	**181,100**
Collective allowance	-	-	-	-	-	-	-	-	-	-	-	-	-	500,552	**500,552**
Charges/(writeback) for individual allowance	-	15,459	41,171	-	1,152	9,697	870	-	2,764	(28)	3,140	1,933	-	-	**76,158**
Write-offs against individual allowance and othe movement	-	38,367	80,857	-	-	5,864	315	-	5,639	-	-	4,809	-	-	**135,851**

2017	Agriculture	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Wholesale and retail trade and hotels and restaurants	Transport, storage and communication	Finance and insurance	Real estate	Business activities	Education and health	Household	Others	Unallocated	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Impaired loans and advances	636	150,058	88,773	100	5,799	32,629	4,567	1	399,114	5,824	2,847	503,827	4,287	-	**1,198,462**
Past due loans	5,528	138,425	165,057	121	27,464	66,200	35,640	1,829	86,478	33,300	14,829	6,425,821	10,580	-	**7,011,272**
Individual allowance	-	29,185	51,081	-	81	450	-	-	152,954	28	-	7,014	-	-	**240,793**
Collective allowance	-	-	-	-	-	-	-	-	-	-	-	-	-	608,795	**608,795**
Charges/(writeback) for individual allowance	-	42,539	50,758	-	(11,071)	2,815	3,738	-	142,240	(334)	-	5,280	67	-	**236,032**
Write-offs against individual allowance and othe movement	-	25,201	121,549	-	270	5,565	13,173	-	73,005	2,738	-	4,572	469	-	**246,542**

Table 5.3 : Geographical distribution of credit exposures

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

2018	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/Central banks	2,673,888	68,053	2,741,941
PSEs	40,506	-	40,506
Banks, DFIs and MDBs	3,056,039	1,147,551	4,203,590
Insurance companies, Securities firms and Fund managers	9,775	-	9,775
Corporates	34,971,838	2,157,200	37,129,038
Regulatory retail	22,493,744	-	22,493,744
Residential mortgages	16,596,432	-	16,596,432
Higher risk assets	337,514	34	337,548
Other assets	1,305,497	116,305	1,421,802
Securitisation exposures	42,970	-	42,970
Equity exposures	104	-	104
Defaulted exposures	650,596	82,953	733,549
Total for on balance sheet exposures	**82,178,903**	**3,572,096**	**85,750,999**
Off balance sheet exposures			
OTC derivatives	1,975,050	208,857	2,183,907
Credit derivatives	-	14	14
Off balance sheet exposures other than OTC derivatives or Credit derivative	9,163,232	496,470	9,659,702
Defaulted exposures	29,754	626	30,380
Total for off balance sheet exposures	**11,168,036**	**705,967**	**11,874,003**
Total on and off balance sheet exposures	**93,346,939**	**4,278,063**	**97,625,002**

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

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

2017	**In Malaysia** **RM'000**	**Outside Malaysia** **RM'000**	**Total** **RM'000**
On balance sheet exposures			
Sovereigns/Central banks	4,472,577	8,888	4,481,465
PSEs	40,601	-	40,601
Banks, DFIs and MDBs	4,069,335	874,404	4,943,739
Insurance companies, Securities firms and Fund managers	73	-	73
Corporates	33,460,769	2,199,694	35,660,463
Regulatory retail	20,540,727	-	20,540,727
Residential mortgages	14,307,426	-	14,307,426
Higher risk assets	108,298	44	108,342
Other assets	2,051,869	86,980	2,138,849
Securitisation exposures	53,095	-	53,095
Equity exposures	576	-	576
Defaulted exposures	769,460	81,494	850,954
Total for on balance sheet exposures	**79,874,806**	**3,251,504**	**83,126,310**
Off balance sheet exposures			
OTC derivatives	3,800,937	3,899	3,804,836
Credit derivatives	14	-	14
Off balance sheet exposures other than OTC derivatives or Credit derivatives	8,838,948	667,314	9,506,262
Defaulted exposures	17,750	-	17,750
Total for off balance sheet exposures	**12,657,649**	**671,213**	**13,328,862**
Total on and off balance sheet exposures	**92,532,455**	**3,922,717**	**96,455,172**

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

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

2018	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
Impaired loans and advances	994,850	58,950	1,053,800
Past due loans	7,319,981	58,950	7,378,931
Individual allowance	181,100	-	181,100
Collective allowance	498,592	1,960	500,552

2017	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
Impaired loans and advances	1,116,969	81,493	1,198,462
Past due loans	6,922,375	88,897	7,011,272
Individual allowance	240,784	9	240,793
Collective allowance	602,732	6,063	608,795

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

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

2018		**>1 month**	**>3 months**	**>6 months**	**>1 year**	**>3 years**		**No maturity**	
	Up to 1 month	**to 3 months**	**to 6 months**	**to 12 months**	**to 3 years**	**to 5 years**	**> 5 years**	**specified**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On balance sheet exposures									
Sovereigns/Central banks	107,758	-	-	-	-	-	2,634,183	-	2,741,941
PSEs	-	3	-	-	40,503	-	-	-	40,506
Banks, DFIs and MDBs	3,121,067	330,421	150,495	-	178,391	-	175,377	247,839	4,203,590
Insurance companies, Securities firms and Fund managers	-	-	3,082	-	-	-	6,693	-	9,775
Corporates	9,844,252	3,244,813	1,652,802	1,673,776	6,200,985	3,432,533	11,079,877	-	37,129,038
Regulatory retail	70,175	42,793	98,294	324,262	1,888,611	4,395,914	15,673,695	-	22,493,744
Residential mortgages	547	416	1,003	3,779	56,772	126,194	16,407,721	-	16,596,432
Higher risk assets	2	-	40	111	362	783	17,662	318,588	337,548
Other assets	535,980	-	-	-	-	-	-	885,822	1,421,802
Securitisation exposures	-	-	-	-	-	-	42,970	-	42,970
Equity exposures	-	-	-	-	-	-	7	97	104
Defaulted exposures	147,390	3,629	13,850	8,287	100,292	46,395	413,706	-	733,549
Total for on balance sheet exposures	**13,827,171**	**3,622,075**	**1,919,566**	**2,010,215**	**8,465,916**	**8,001,819**	**46,451,891**	**1,452,346**	**85,750,999**
Off balance sheet exposures									
OTC derivatives	70,258	90,540	61,625	205,006	169,243	215,579	1,371,656	-	2,183,907
Credit derivatives	-	-	-	-	-	14	-	-	14
Off balance sheet exposures other than OTC derivatives or Credit derivatives	1,022,735	610,461	614,393	1,403,405	1,327,155	702,198	3,979,355	-	9,659,702
Defaulted exposures	1,848	776	7,867	1,666	4,330	1,844	12,049	-	30,380
Total for off balance sheet exposures	**1,094,841**	**701,777**	**683,885**	**1,610,077**	**1,500,728**	**919,635**	**5,363,060**	**-**	**11,874,003**
Total on and off balance sheet exposures	**14,922,012**	**4,323,852**	**2,603,451**	**3,620,292**	**9,966,644**	**8,921,454**	**51,814,951**	**1,452,346**	**97,625,002**

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

The residual contractual maturity by major types of gross credit exposures of the Group is as follows (Cont'd.):

2017		>1 month	>3 months	>6 months	>1 year	>3 years		No maturity	
	Up to 1 month	to 3 months	to 6 months	to 12 months	to 3 years	to 5 years	> 5 years	specified	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On balance sheet exposures									
Sovereigns/Central banks	1,482,753	-	-	-	184,714	80,503	2,733,495	-	4,481,465
PSEs	-	-	-	-	40,573	28	-	-	40,601
Banks, DFIs and MDBs	3,990,437	420,953	150,691	71,347	187,290	-	123,021	-	4,943,739
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	73	-	73
Corporates	8,685,506	3,195,781	2,550,200	922,042	3,914,368	4,840,217	11,552,349	-	35,660,463
Regulatory retail	93,772	26,265	72,770	201,127	1,985,275	4,048,328	14,113,190	-	20,540,727
Residential mortgages	361	324	923	4,149	51,575	127,878	14,122,216	-	14,307,426
Higher risk assets	30	-	70	14	521	822	18,420	88,465	108,342
Other assets	559,134	2,111	32,096	126,557	-	-	-	1,418,951	2,138,849
Securitisation exposures	39	-	-	-	-	-	53,056	-	53,095
Equity exposures	435	-	-	-	-	-	8	133	576
Defaulted exposures	254,610	19,304	4,006	7,086	132,406	56,594	376,948	-	850,954
Total for on balance sheet exposures	**15,067,077**	**3,664,738**	**2,810,756**	**1,332,322**	**6,496,722**	**9,154,370**	**43,092,776**	**1,507,549**	**83,126,310**
Off balance sheet exposures									
OTC derivatives	197,100	366,062	167,661	280,018	251,422	955,834	1,586,739	-	3,804,836
Credit derivatives	-	-	-	-	-	14	-	-	14
Off balance sheet exposures other than OTC derivatives or Credit derivatives	837,231	766,103	493,082	1,491,655	1,442,167	734,081	3,741,943	-	9,506,262
Defaulted exposures	822	1,072	383	1,944	1,695	3,823	8,011	-	17,750
Total for off balance sheet exposures	**1,035,153**	**1,133,237**	**661,126**	**1,773,617**	**1,695,284**	**1,693,752**	**5,336,693**	**-**	**13,328,862**
Total on and off balance sheet exposures	**16,102,230**	**4,797,975**	**3,471,882**	**3,105,939**	**8,192,006**	**10,848,122**	**48,429,469**	**1,507,549**	**96,455,172**

Table 5.6 : Reconciliation of changes to loans impairment allowances

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

	Collective impairment allowance		Individual impairment allowances	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Balance at beginning of the financial year	608,795	730,849	240,793	251,303
Charge to income statement, net	207,122	178,540	76,158	236,032
Amount written-off	(313,518)	(302,841)	(128,355)	(248,244)
Foreign exchange differences	(1,847)	2,247	(7,496)	1,702
Balance at end of the financial year	**500,552**	**608,795**	**181,100**	**240,793**

	(Charge offs)/ recoveries	
	2018 RM'000	2017 RM'000
Bad debts written off during the financial year	(97,336)	(89,789)
Bad debt recoveries during the financial year	443,247	652,706

On 29 September 2017 and 19 December 2017, the Bank entered into RIA contracts for the sum of RM529.4 million and 857.6 million respectively, with AmBank Islamic.

As at 31 March 2018, the gross exposure and collective allowance relating to the RIA financing for the Group and the Bank amounted to RM2,869.6 million and RM2.7 million (2017: RM1,604.4 million and RM2.3 million) respectively are included in the Group and the Bank's collective allowance.

There was no individual allowance provided for the RIA financing for financial years 2018 and 2017.

6.0 Credit Risk Exposure under the Standardised Approach

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

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

Internal credit rating grades assigned to corporate and retail lending business are currently aligned to 8 rating categories (seven for non-defaulted and one for those that have defaulted) in accordance with the Capital Adequacy Framework (Basel II – Risk-Weighted Assets).The ECAIs mapping is based on 1 year average cumulative default rates as per the latest available corporate default studies undertaken by Fitch, Standard & Poor's, Moody's, RAM and MARC; and is incorporated in the Credit Risk Rating Policy.

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

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

2018	**Exposures after netting and credit risk mitigation**												
Risk weights	**Sovereigns and Central banks**	**PSEs**	**Banks, DFIs and MDBs**	**Insurance companies, Securities firms and Fund managers**	**Corporates**	**Regulatory retail**	**Residental mortgages**	**Higher risk assets**	**Other assets**	**Securitisation exposures**	**Equity exposures**	**Total exposures after netting and credit risk mitigation**	**Total risk weighted assets**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
0%	2,741,941	-	5,042	-	2,127,381	-	-	-	334,303	-	-	5,208,667	-
20%	19,532	40,506	5,321,574	-	3,660,075	127,757	-	-	-	42,808	-	9,212,252	1,842,451
35%	-	-	-	-	-	-	13,675,577	-	-	-	-	13,675,577	4,786,452
50%	-	-	315,470	-	290,122	17,416	3,064,324	-	-	-	-	3,687,332	1,843,666
75%	-	-	-	-	-	22,980,451	-	-	-	-	-	22,980,451	17,235,338
100%	-	-	-	38,455	36,401,004	1,290,188	64,831	-	1,087,499	-	104	38,882,081	38,882,081
150%	-	-	-	-	323,082	76,362	-	355,514	-	-	-	754,958	1,132,438
1250%	-	-	-	-	-	-	-	-	-	162	-	162	2,029
Total	**2,761,473**	**40,506**	**5,642,086**	**38,455**	**42,801,664**	**24,492,174**	**16,804,732**	**355,514**	**1,421,802**	**42,970**	**104**	**94,401,480**	**65,724,455**

2017	**Exposures after netting and credit risk mitigation**												
Risk weights	**Sovereigns and Central banks**	**PSEs**	**Banks, DFIs and MDBs**	**Insurance companies, Securities firms and Fund managers**	**Corporates**	**Regulatory retail**	**Residental mortgages**	**Higher risk assets**	**Other assets**	**Securitisation exposures**	**Equity exposures**	**Total exposures after netting and credit risk mitigation**	**Total risk weighted assets**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
0%	4,463,193	-	5,064	-	2,730,835	-	-	-	470,357	-	-	7,669,449	-
20%	13,306	40,601	5,793,424	-	3,954,936	27,888	-	-	6	52,958	-	9,883,119	1,976,624
35%	-	-	-	-	-	-	12,479,806	-	-	-	-	12,479,806	4,367,932
50%	8,888	-	2,244,010	-	912,892	21,762	1,965,554	-	-	-	-	5,153,106	2,576,553
75%	-	-	-	-	-	21,368,978	-	-	-	-	-	21,368,978	16,026,733
100%	-	-	-	30,259	33,961,526	843,331	66,016	-	1,668,486	-	576	36,570,194	36,570,194
150%	-	-	-	-	317,191	79,021	-	126,112	-	-	-	522,324	783,487
1250%	-	-	-	-	-	-	-	-	-	137	-	137	1,712
Total	**4,485,387**	**40,601**	**8,042,498**	**30,259**	**41,877,380**	**22,340,980**	**14,511,376**	**126,112**	**2,138,849**	**53,095**	**576**	**93,647,113**	**62,303,235**

Table 6.2: Rated exposures according to ratings by ECAIs

2018	Ratings of corporate by approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
Exposure class	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
PSEs	40,506	40,483	-	-	-	23
Insurance companies, Securities firms and Fund managers	38,455	-	-	-	-	38,455
Corporates	45,572,986	2,755,406	772,350	-	-	42,045,230
Total	**45,651,947**	**2,795,889**	**772,350**	**-**	**-**	**42,083,708**

2017	Ratings of corporate by approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
Exposure class	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
PSEs	40,601	40,539	-	-	-	62
Insurance companies, Securities firms and Fund managers	30,259	-	-	-	-	30,259
Corporates	44,468,783	2,662,551	1,620,539	-	-	40,185,693
Total	**44,539,643**	**2,703,090**	**1,620,539**	**-**	**-**	**40,216,014**

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

2018	**Ratings of sovereigns and central banks by approved ECAIs**					
	Moody's	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
Exposure class	**Fitch**	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Sovereigns and Central banks	2,761,473	68,053	2,693,420	-	-	-
Total	**2,761,473**	**68,053**	**2,693,420**	-	-	**-**

2017	**Ratings of sovereigns and central banks by approved ECAIs**					
	Moody's	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
Exposure class	**Fitch**	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Sovereigns and Central banks	4,494,771	-	4,485,883	8,888	-	-
Total	**4,494,771**	**-**	**4,485,883**	8,888	-	**-**

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

2018	**Ratings of banking institutions by approved ECAIs**					
	Moody's	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	RAM	**AAA to AA3**	**A1 to A3**	**BBB1 to BBB3**	**BB1 to B3**	**Unrated**
Exposure class	**MARC**	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Banks, DFIs and MDBs	5,840,702	2,726,478	1,114,191	481,047	230	1,518,756
Total	**5,840,702**	**2,726,478**	**1,114,191**	**481,047**	**230**	**1,518,756**

2017	**Ratings of banking institutions by approved ECAIs**					
	Moody's	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	RAM	**AAA to AA3**	**A1 to A3**	**BBB1 to BBB3**	**BB1 to B3**	**Unrated**
Exposure class	**MARC**	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Banks, DFIs and MDBs	8,042,498	3,088,560	2,288,282	412,308	413	2,252,935
Total	**8,042,498**	**3,088,560**	**2,288,282**	**412,308**	**413**	**2,252,935**

Table 6.3: Securitisation according to ratings by ECAIs

2018	**Ratings of securitisation by approved ECAIs**			
	Moody's	**Aaa to Aa3**	**A1 to A3**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**Unrated**
Exposure class	**Fitch**	**AAA to AA-**	**A+ to A-**	**Unrated**
	RAM	**AAA to AA3**	**A1 to A3**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**Unrated**
		RM'000	**RM'000**	**RM'000**
On and off balance sheet exposures				
Securitisation exposures	42,970	42,808	-	162
Total	**42,970**	**42,808**	**-**	**162**

2017	**Ratings of securitisation by approved ECAIs**			
	Moody's	**Aaa to Aa3**	**A1 to A3**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**Unrated**
Exposure class	**Fitch**	**AAA to AA-**	**A+ to A-**	**Unrated**
	RAM	**AAA to AA3**	**A1 to A3**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**Unrated**
		RM'000	**RM'000**	**RM'000**
On and off balance sheet exposures				
Securitisation exposures	53,095	52,958	-	137
Total	**53,095**	**52,958**	**-**	**137**

7.0 Credit Risk Mitigation

Main types of collateral taken by the Group

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

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

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

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

Processes for collateral management

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

Guarantee Support

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

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

Use of credit derivatives and netting for risk mitigation

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

Transaction structuring to mitigate credit risk

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

Concentrations of credit risk mitigation

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

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

Table 7.1 : Credit Risk Mitigation

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

2018 **Exposures**	**Exposures before CRM RM'000**	**Exposures covered by guarantees RM'000**	**Exposures covered by eligible financial collateral RM'000**
Credit risk			
On balance sheet exposures			
Sovereigns/Central banks	2,741,941	-	-
PSEs	40,506	-	-
Banks, DFIs and MDBs	4,203,590	-	-
Insurance companies, Securities firms and Fund managers	9,775	-	-
Corporates	37,129,038	413,162	3,374,865
Regulatory retail	22,493,744	126,827	308,658
Residential mortgages	16,596,432	-	71,561
Higher risk assets	337,548	-	118
Other assets	1,421,802	-	-
Securitisation exposures	42,970	-	-
Equity exposures	104	-	-
Defaulted exposures	733,549	8,495	73,253
Total for on balance sheet exposures	85,750,999	548,484	3,828,455
Off balance sheet exposures			
OTC derivatives	2,183,907	-	718,631
Credit derivatives	14	-	-
Off balance sheet exposures other than OTC derivatives or Credit derivatives	9,659,702	2,908	1,691,931
Defaulted exposures	30,380	-	10,302
Total for off balance sheet exposures	11,874,003	2,908	2,420,864
Total on and off balance sheet exposures	**97,625,002**	**551,392**	**6,249,319**

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

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

2017 **Exposures**	**Exposures before CRM RM'000**	**Exposures covered by guarantees RM'000**	**Exposures covered by eligible financial collateral RM'000**
Credit risk			
On balance sheet exposures			
Sovereigns/Central banks	4,481,465	-	-
PSEs	40,601	-	-
Banks, DFIs and MDBs	4,943,739	-	-
Insurance companies, Securities firms and Fund managers	73	-	-
Corporates	35,660,463	285,397	3,560,717
Regulatory retail	20,540,727	27,278	244,929
Residential mortgages	14,307,426	-	98,945
Higher risk assets	108,342	-	128
Other assets	2,138,849	-	-
Securitisation exposures	53,095	-	-
Equity exposures	576	-	-
Defaulted exposures	850,954	640	128,681
Total for on balance sheet exposures	83,126,310	313,315	4,033,400
Off balance sheet exposures			
OTC derivatives	3,804,836	-	-
Credit derivatives	14	-	-
Off balance sheet exposures other than OTC derivatives or Credit derivatives	9,506,262	1,823	1,603,354
Defaulted exposures	17,750	-	2,023
Total for off balance sheet exposures	13,328,862	1,823	1,605,377
Total on and off balance sheet exposures	**96,455,172**	**315,138**	**5,638,777**

8.0 Off Balance Sheet exposures and Counterparty Credit Risk

8.1 Off Balance Sheet exposures

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

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

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

8.2 Counterparty Credit Risk

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

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

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

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

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

Exposure to the counterparty is governed by the counterparty credit limit under the GRAF.

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

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

Table 8.1: Off Balance Sheet Exposures

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

2018	Principal/ Notional amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
Direct credit substitutes	1,832,161		1,975,044	1,500,363
Transaction related contingent items	5,033,552		2,445,333	1,872,637
Short term self liquidating trade related contingencies	638,415		127,683	121,703
Forward asset purchases	138,023		7,008	4,594
Obligations under an on-going underwriting agreement	50,000		-	-
Foreign exchange related contracts				
One year or less	45,179,329	506,617	225,181	154,476
Over one year to five years	1,487,442	112,462	131,759	51,130
Over five years	760,001	162,498	189,568	178,126
Interest rate related contracts				
One year or less	547,848	215	604	167
Over one year to five years	1,200,763	10,624	38,215	14,275
Over five years	789,677	11,423	56,874	11,375
Equity and commodity related contracts				
One year or less	797,179	30,633	85,134	45,148
Over one year to five years	418,626	1,940	47,805	32,114
Credit derivative contracts				
Over one year to five years	334,505	6,537	14	7
OTC Derivatives transaction subject to valid bilateral netting agreements	55,958,676	291,104	1,408,767	526,901
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	3,294,066		1,646,808	1,333,130
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	13,522,423		2,704,573	2,278,027
Unutilised credit card lines	3,918,163		783,633	583,912
Total	**135,900,849**	**1,134,053**	**11,874,003**	**8,708,085**

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

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

2017	**Principal/ Notional amount RM'000**	**Positive fair value of derivative contracts RM'000**	**Credit equivalent amount RM'000**	**Risk weighted assets RM'000**
Direct credit substitutes	1,817,399		2,072,599	1,630,095
Transaction related contingent items	5,101,771		2,423,285	1,850,641
Short term self liquidating trade related contingencies	785,111		157,022	142,346
Forward asset purchases	670,621		27,809	9,001
Obligations under an on-going underwriting agreement	85,000		-	-
Foreign exchange related contracts				
One year or less	46,187,005	465,386	956,974	540,668
Over one year to five years	1,828,562	57,579	259,689	135,854
Over five years	2,140,212	395,785	783,247	456,220
Interest rate related contracts				
One year or less	9,810,942	6,210	38,691	16,611
Over one year to five years	30,835,847	127,124	942,559	382,866
Over five years	9,598,780	106,390	803,491	374,429
Equity and commodity related contracts				
One year or less	228,591	2,417	15,177	15,177
Over one year to five years	83,396	4	5,008	2,504
Credit derivative contracts				
Over one year to five years	361,251	11,237	14	7
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	3,067,133		1,533,567	1,228,386
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	13,559,443		2,740,245	2,342,485
Unutilised credit card lines	2,847,424		569,485	423,915
Total	**129,008,488**	**1,172,132**	**13,328,862**	**9,551,205**

Table 8.2 : Credit Derivatives Counterparty Credit Risk

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

		2018		2017	
		Sell Leg	Buy Leg *	Sell Leg	Buy Leg *
Usage	**Product**	**Notional Exposure for Protection Sold RM'000**	**Notional Exposure for Protection Bought RM'000**	**Notional Exposure for Protection Sold RM'000**	**Notional Exposure for Protection Bought RM'000**
Intermediation	Credit default swap	184,505	150,000	211,251	150,000

* Out of the total notional exposure for protection bought as at 31 March 2018, RM150.0 million (2017: RM150.0 million) has no counterparty credit risk exposure because it is on a fully funded basis.

9.0 Securitisation

9.1 Objectives, roles and involvement

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

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

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

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

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

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

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

9.3 Governance

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

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

9.4 Risk measurement and reporting of securitisation exposures

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

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

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

9.6 Accounting Policies for Securitisation

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

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

a) substantially all risks and rewards associated with the assets have been transferred, in which case, they are derecognised in full; or

b) if a significant portion, but not all, of the risks and rewards have been transferred, the asset is derecognised entirely if the transferee has the ability to sell the financial asset, otherwise the asset continues to be recognised to the extent of the Group's continuing involvement.

9.7 Use of external rating agencies

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

Table 9.1: Securitisation (Trading and Banking Book)

The securitised exposures of the Group are as follows:

2018 Underlying asset	Total exposures securitised RM'000	Past due RM'000	Impaired RM'000	Gains/losses recognised during the financial year RM'000
Traditional securitisation originated by the Group				
Banking book				
Corporate loans	143,306	-	133,689	-
Mortgage loans	915,944	-	909,098	-
Total traditional securitisation	**1,059,250**	**-**	**1,042,787**	**-**
Total synthetic securitisation	**-**	**-**	**-**	**-**
Total traditional and synthetic securitisation	**1,059,250**	**-**	**1,042,787**	**-**

2017 Underlying asset	Total exposures securitised RM'000	Past due RM'000	Impaired RM'000	Gains/losses recognised during the financial year RM'000
Traditional securitisation originated by the Group				
Banking book				
Corporate loans	134,116	-	62,161	-
Mortgage loans	877,968	-	871,632	-
Total traditional securitisation	**1,012,084**	**-**	**933,793**	**-**
Total synthetic securitisation	**-**	**-**	**-**	**-**
Total traditional and synthetic securitisation	**1,012,084**	**-**	**933,793**	**-**

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

2018				Distribution of exposures after CRM according to appplicable risk weights				
				Rated securitisation exposures or risk weights of guarantees/credit derivatives			Unrated (look-through)	
Securitisation exposures by exposure type	Exposure value of positions purchased or retained RM'000	Exposure after CRM RM'000	Exposures subject to deduction RM'000	20% RM'000	50% RM'000	1250% RM'000	Exposure amount RM'000	Risk weighted assets RM'000
Traditional securitisation originated by third party								
On Balance Sheet Exposures	42,808	42,808	-	42,808	-	-	-	8,562
Originated by the Group								
On Balance Sheet Exposures	162	162	-	-	-	162	-	2,029
Total traditional securitisation	**42,970**	**42,970**	**-**	**42,808**	**-**	**162**	**-**	**10,591**
Total synthetic securitisation	-	-	-	-	-	-	-	-
Total traditional and synthetic securitisation	**42,970**	**42,970**	**-**	**42,808**	**-**	**162**	**-**	**10,591**

2017				Distribution of exposures after CRM according to appplicable risk weights				
				Rated securitisation exposures or risk weights of guarantees/credit derivatives			Unrated (look-through)	
Securitisation exposures by exposure type	Exposure value of positions purchased or retained RM'000	Exposure after CRM RM'000	Exposures subject to deduction RM'000	20% RM'000	50% RM'000	1250% RM'000	Exposure amount RM'000	Risk weighted assets RM'000
Traditional securitisation originated by third party								
On Balance Sheet Exposures	52,958	52,958	-	52,958	-	-	-	10,591
Originated by the Group								
On Balance Sheet Exposures	137	137	-	-	-	137	-	1,712
Total traditional securitisation	**53,095**	**53,095**	**-**	**52,958**	**-**	**137**	**-**	**12,303**
Total synthetic securitisation	-	-	-	-	-	-	-	-
Total traditional and synthetic securitisation	**53,095**	**53,095**	**-**	**52,958**	**-**	**137**	**-**	**12,303**

10.0 Operational Risk

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

Identification	• Identify and analyse risks in key processes/activities within Business and Functional Lines (including new products)
Assessment/ Measurement	• Incident Management and Data Collection • Risk and Control Self Assessment • Key Risk Indicators • Key Control Testing • Scenario Analysis
Control/ Mitigation	• Policies addressing control and governance requirements to mitigate specific operational risk • Advisory on the establishment of internal controls • Contingency planning • Insurance programme
Monitoring/ Review	• Monitoring and reporting of loss incidents by Event Type, Portfolio and Line of Business and entity, reporting of operational risk board and management triggers, risk profile status, key risk indicator breaches and key control testing exceptions • Periodical review of risk profile within Line of Business

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

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

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

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

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

10.0 Operational Risk (Cont'd.)

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

- the Incident Management and Data Collection ("IMDC") module provides a common platform for reporting operational risk incidents that fall within one of the seven Event Types as stated in Basel II. IMDC also serves as a centralised database of operational risk incidents to model the potential exposure to operational risks in future and estimate the amount of economic capital charge.
- the Risk and Control Self Assessment ("RCSA") is a process of continual identification, assessment of risks and controls effectiveness. By using structured questionnaires to assess and measure key risk and its corresponding controls effectiveness, RCSA provides risk profiling across the Group.
- the Key Risk Indicators ("KRI") module provides early warning of increasing risk and/or control failures by monitoring the changes of the underlying risk measurements.
- the Key Control Testing ("KCT") is the test steps or assessment performed periodically to assure that the key controls are in place and they are operating as intended or effective in managing the operational risks.
- The RCSA, KRIs and KCTs are then validated by the Operational Risk Assurance team, which is an independent unit within Group Operational Risk.
- Scenario analysis is a forward looking tool assessment to assess the severity impact on Bank's profitability and capital adequacy should the plausible and worse case scenarios materialise.

The IT Risk Governance team within Group Operational Risk facilitates in identifying IT (including cyber) risks internally and externally, and in developing effective controls to mitigate these risks.

The GMRC, RMC and Board are the main reporting and escalation committees for operational risk matters including outsourcing risk, information technology risk (including cyber) risk, shariah risk, legal risk and business continuity management.

10.1 Business Continuity Management

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

Identification	• Identify events that potentially threaten the business operations and areas of criticality.
Assessment/ Measurement	• Business Impact Analysis • Threat Assessment
Control/ Mitigation	• Policies governing the BCM implementation • BCM methodologies controlling the process flow • Implementing the Business Continuity Plan
Monitoring/ Review	• BCM Plan testing and exercise • Review of BCM Plan • Plan maintenance

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

10.1 Business Continuity Management (Cont'd.)

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

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

10.2 Cyber risks management

Cyber threat is an emerging risk as the migration to the electronic platform intensifies, in part driven by the green agenda. As digitization has presented us with opportunities to innovate our banking solutions, and with greater volumes of data stored digitally now than before, the resilience of the Group's IT infrastructure and cyber security capabilities are of paramount importance, especially with regards to safeguarding customers' information. Thus, we are mindful of the need to have adequate safeguards against cyber-security threats. To this end, in FY18, the Group has acknowledged the importance of cyber security and resiliency and therefore, has broadened its operational risk management capabilities to encompass cyber risk management.

10.3 Legal Risk

In all the jurisdictions that the Group conducts its business, it is subject to legal risks arising from potential breaches of applicable laws, unenforceability of contracts, lawsuits, or adverse judgment, failure to respone to changes in regulatory framework and failure to protect assets (including intellectual properties) owned by the Banks which may lead to incurrence of losses, disruption or otherwise impact on the Group's financials or reputation.

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

10.4 Regulatory Compliance Risk

The AMMB Group has in place a compliance framework to promote the safety and soundness of the AMMB Group by minimising financial, reputational and operational risks arising from regulatory non-compliance.

The AMMB Group believes in and embraces a stronger compliance culture to reflect a corporate culture of high ethical standards and integrity where the Board of Directors (Board) and Senior Management lead by example.

The AMMB Group continues to exercise and enhance its due diligence governance process and remains vigilant towards emerging risk as well as sensitive towards heightened regulatory surveillance and enforcement.

11.0 Market Risk

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

11.1 Traded Market Risk

The TMR management process is depicted in the table below. Please refer to Section 8 for off balance sheet exposures and counterparty credit risk arising from market risk.

Identification	• Identify market risks within existing and new products. • Review market-related information such as market trends and economic data.
Assessment/ Measurement	• Value-at-Risk ("VaR") • Loss Limit • Historical Stress Loss ("HSL") • Present Value of One Basis Point ("PV01") • Sensitivity to Change • Other Detailed Controls
Control/ Mitigation	• VaR limits • Loss Limits/Triggers (Annual/Monthly/Daily) • HSL limits • PV01 Limits • Greek Limits (Delta/Gamma/Delta-Gamma/Vega/Theta) • Concentration Limits • Position Size Limits • Maximum Tenor Limits • Maximum Holding Period • Minimum Holding Period • Approved Portfolio Products • Approved Countries/Currencies • Other Detailed Limits/Triggers
Monitoring/ Review	• Monitor limits • Periodical review and reporting

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

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

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

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

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

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

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

11.2 Non-Traded Market Risk

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

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

Identification	• Identification of IRR/RORBB within existing and new products. • Review market-related information such as market trend and economic data.
Assessment/ Measurement	• PV01 • VaR • Earnings-at-Risk ("EaR")
Control/ Mitigation	• PV01 Limits • VaR Limits • EaR Limits
Monitoring/ Review	• Monitor limits • Periodical review and reporting

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

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

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

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

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

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

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

Interest Rate Risk/Rate of Return Risk in the Banking Book ("IRR/RORBB") (Cont'd.)

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

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

IRR/RORBB exposures are monitored by IBMR and positions reported to the GALCO and/or GMRC, RMC and Board.

Table 11.1: Market Risk Sensitivity - IRR/RORBB

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

2018 Currency (MYR)	Interest Rate/Rate of Return +100 bps RM'000	Interest Rate/Rate of Return -100 bps RM'000
Impact on Profit Before Taxation	122,433	(122,433)
Impact on Equity	(232,212)	266,223

2017 Currency (MYR)	Interest Rate/Rate of Return +100 bps RM'000	Interest Rate/Rate of Return -100 bps RM'000
Impact on Profit Before Taxation	87,825	(87,825)
Impact on Equity	(345,920)	390,345

12.0 Equities (Banking Book Positions)

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

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

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

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

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

Table 12.1: Equity investments and capital requirement

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

Non traded equity investments	**2018** **RM'000**	**2017** **RM'000**
Value of quoted (publicly traded) equities	110,231	149,246
Value of unquoted (privately held) equities	317,695	87,561
Total	**427,926**	**236,807**
Net realised and unrealised (losses)/gains		
Cumulative realised gains from sales and liquidations	50,862	5,198
Total unrealised (losses)/gains	(8,729)	5,606
Total	**42,133**	**10,804**
Risk weighted assets		
Equity investments subject to a 100% risk weight	110,198	149,202
Equity investments subject to a 150% risk weight	476,593	131,408
Total	**586,791**	**280,610**
Total minimum capital requirement (8%)	**46,943**	**22,449**

13.0 Liquidity Risk and Funding Management

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

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

Identification	• Identify liquidity risk within existing and new business activities • Review market-related information such as market trend and economic data. • Keep abreast with regulatory requirements.
Assessment/ Measurement	• Liquidity Coverage Ratio ("LCR") • Depositor Concentration Ratios • Other Detailed Controls
Control/ Mitigation	• LCR Limits • Depositor Concentration Ratios • Other Detailed Limits/Triggers
Monitoring/ Review	• Monitor limits • Periodical review and reporting

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

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

The Board provides the liquidity risk management oversight including setting and reviewing the liquidity risk appetite and approves the Bank's liquidity management while the GALCO and/or GMRC is management committee established by the Board to oversee the overall liquidity management of the Bank. IBMR jointly with Global Treasury and Markets ("GTM") and Capital Balance Sheet Management ("CBSM") develop the liquidity scenario assumptions that are to be approved by the Board.

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

The Bank has in place various liquidity measurements that support the broader strategic objectives of the Bank and amongst others include the BNM LCR, Depositor Concentration Ratio and other Liquidity Ratios. IBMR is responsible for developing and monitoring the controls and limits while GTM is responsible for the consolidated liquidity management execution and to ensure the controls and limits are within the thresholds.

Stress testing is undertaken to assess and plan for the impact for various scenarios which may put the Bank’s liquidity at risk. The Bank further stresses the importance of the stable funding sources to finance lending to customers. They are monitored using the loans to available funds ratio, which compares loans and advances to customers as a percentage of the Bank's total available funds.

To measure the quality of the Bank's funding sources, the composition of core funds indicators is monitored on a regular basis. The core funds is defined as deposits from retail and small business customers, operational deposits, non-financial institutions deposits more than 1 year and debt instrument/long term borrowings more than 1 year.

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