

AmBank Islamic Berhad

(Incorporated in Malaysia)

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

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

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

Capital Adequacy Ratios ("CAR")

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

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 Bank has adopted the Standardised Approach for Credit and Market Risks, and the Basic Indicator Approach for Operational Risk, based on the BNM's Guidelines on Capital Adequacy Framework for Islamic Banks (Basel II - Risk-Weighted Assets).

Pursuant to the revised BNM's guidelines on Capital Adequacy Framework for Islamic Banks (Capital Components) issued on 2 February 2018, the minimum capital adequacy ratio maintained under the guidelines remain constant 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%

1.0 Scope of Application (Cont'd.)

Frequency of Disclosure

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

Medium and Location of Disclosure

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

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 of Directors ("Board"). The capital plan ensures that adequate levels of capital and an optimum mix of the different components of capital are maintained by the Bank to support its strategy.

The capital plan takes the following into account:

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

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

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

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

2.0 Capital Management (Cont'd.)

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

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

The Bank operates processes and controls to monitor and manage capital adequacy across the organisation. Capital is maintained on the basis of the local regulator's requirements. It is overseen by the Group Assets and Liabilities Committee ("GALCO"). The GALCO is also responsible for managing the Group's statement of financial position, capital and liquidity.

A strong governance and process framework is embedded in the capital planning and assessment methodology. Overall responsibility for the effective management of risk rests with the Board. The Risk Management Committee ("RMC") is specifically delegated the task of reviewing all risk management issues including oversight of the Bank's capital position and any actions impacting the capital levels.

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 CET1 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 Bank has been generally operating within these ranges.

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

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

2.0 Capital Management (Cont'd.)

Table 2.1: Capital Adequacy Ratios

The capital adequacy ratios of the Bank are as follows:

	Bank	
	2018	2017
Common Equity Tier 1 Capital ratio	11.561%	10.498%
Tier 1 Capital ratio	11.561%	10.498%
Total Capital ratio	16.569%	15.069%

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

As at 31 March 2018, the gross exposure and collective allowance relating to the PSIA financing were RM2,869.6 million and RM2.7 million respectively (31 March 2017: RM1,604.4 million and RM2.3 million respectively). There was no individual allowance provided for the PSIA financing. PSIA assets excluded from the risk weighted capital adequacy computation of the Bank for 31 March 2018 amounted to RM2,988.1 million (31 March 2017: RM1,604.4 million) and the risk weight on these PSIA assets are accounted for in the computation of capital adequacy of AmBank.

Table 2.2: Risk Weighted Assets and Capital Requirements

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

2018

Exposure Class		Gross Exposures/ Exposure At Default ("EAD") before Credit Risk Mitigation ("CRM")	Net Exposures/ EAD after CRM	Risk Weighted Assets	Risk Weighted Assets Absorbed by PSIA	Total Risk Weighted Assets after effects of PSIA	Minimum Capital Requirement at 8%
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
1. Credit Risk							
On-Balance Sheet Exposures							
Sovereigns/Central Banks		2,498,072	2,498,072	-	-	-	-
Public Sector Entities ("PSE")		296	296	59	-	59	5
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDBs")		1,908,377	1,908,377	407,694	-	407,694	32,616
Corporates		17,060,546	16,820,259	13,862,420	2,869,566	10,992,854	879,428
Regulatory Retail		13,076,113	12,395,650	10,379,207	118,569	10,260,638	820,851
Residential Mortgages		285,730	285,714	108,537	-	108,537	8,683
Higher Risk Assets		550	550	825	-	825	66
Other Assets		97,548	97,548	97,548	-	97,548	7,804
Defaulted Exposures		496,464	487,071	673,297	-	673,297	53,863
Total for On-Balance Sheet Exposures		35,423,696	34,493,537	25,529,587	2,988,135	22,541,452	1,803,316
Off-Balance Sheet Exposures							
Over the counter ("OTC") Derivatives		216,457	216,457	132,702	-	132,702	10,616
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		3,047,693	2,102,920	1,725,618	-	1,725,618	138,049
Defaulted Exposures		3,240	1,662	2,493	-	2,493	199
Total for Off-Balance Sheet Exposures		3,267,390	2,321,039	1,860,813	-	1,860,813	148,864
Total On and Off-Balance Sheet Exposures		38,691,086	36,814,576	27,390,400	2,988,135	24,402,265	1,952,180
2. Large Exposure Risk Requirement							
3. Market Risk							
	Long Position	Short Position					
Rate of Return Risk							
- General profit rate risk	4,111,410	2,519,081		213,521		213,521	17,082
- Specific profit rate risk	1,802,534	212,330		2,764		2,764	221
Foreign Currency Risk	60,808	181		60,808		60,808	4,865
Option Risk	-	-		-		-	-
Total	5,974,752	2,731,592		277,093	-	277,093	22,168
4. Operational Risk							
				1,380,469		1,380,469	110,438
5. Total RWA and Capital Requirements				29,047,962	2,988,135	26,059,827	2,084,786

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

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

2017

Exposure Class		Gross Exposures/ Exposure At Default ("EAD") before Credit Risk Mitigation ("CRM")	Net Exposures/ EAD after CRM	Risk Weighted Assets	Risk Weighted Assets Absorbed by PSIA	Total Risk Weighted Assets after effects of PSIA	Minimum Capital Requirement at 8%
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
1. Credit Risk							
On-Balance Sheet Exposures							
Sovereigns/Central Banks		3,300,707	3,300,707	-	-	-	-
Public Sector Entities		1,020	1,020	204	-	204	16
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDBs")		2,221,643	2,221,643	484,443	-	484,443	38,755
Corporates		17,597,216	17,394,029	14,280,838	1,604,369	12,676,469	1,014,118
Regulatory Retail		12,084,535	12,067,397	9,778,648	-	9,778,648	782,292
Residential Mortgages		261,845	261,828	100,790	-	100,790	8,063
Higher Risk Assets		560	560	840	-	840	67
Other Assets		169,609	169,609	169,609	-	169,609	13,569
Defaulted Exposures		424,125	422,596	583,759	-	583,759	46,701
Total for On-Balance Sheet Exposures		36,061,260	35,839,389	25,399,131	1,604,369	23,794,762	1,903,581
Off-Balance Sheet Exposures							
Over the counter ("OTC") Derivatives		202,285	202,285	145,755	-	145,755	11,660
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		2,567,268	1,681,489	1,558,951	-	1,558,951	124,716
Defaulted Exposures		3,202	2,232	3,341	-	3,341	267
Total for Off-Balance Sheet Exposures		2,772,755	1,886,006	1,708,047	-	1,708,047	136,643
Total On and Off-Balance Sheet Exposures		38,834,015	37,725,395	27,107,178	1,604,369	25,502,809	2,040,224
2. Large Exposure Risk Requirement							
				-	-	-	-
3. Market Risk							
	Long Position	Short Position					
Rate of Return Risk							
- General profit rate risk	3,331,590	2,609,154		147,604	-	147,604	11,808
- Specific profit rate risk	697,396	9,968		6,115	-	6,115	489
Foreign Currency Risk	21,194	199		21,194	-	21,194	1,696
Option Risk	65,000	-		4,063	-	4,063	325
Total	4,115,180	2,619,321		178,976	-	178,976	14,318
4. Operational Risk							
				1,410,237	-	1,410,237	112,819
5. Total RWA and Capital Requirements				28,696,391	1,604,369	27,092,022	2,167,361

3.0 Capital Structure

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

- Common Equity Tier 1 Capital;
- Additional Tier 1 Capital; and
- Tier 2 Capital.

All capital instruments included in the capital base have been issued in accordance with the BNM rules and guidelines. The existing Tier 2 Capital instruments of the Bank 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. The Bank's Tier 2 Capital instruments qualify for the gradual phase-out treatment under the transitional arrangements of the Basel III accord. Under this treatment, the amount of capital instruments that can be recognized by the Bank shall be capped at 90% of the base in 2013 (as counted separately for Additional Tier 1 Capital (if any) and Tier 2 Capital respectively), with the cap reducing by 10% in each subsequent year. To the extent that an instrument is redeemed or derecognized after 1 January 2013, the amount serving as the base is not reduced.

3.1 Common Equity Tier 1 Capital

Common Equity Tier 1 Capital consists of the following:

Paid-up Ordinary Share Capital

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

On 29 September 2017, the Bank increased its issued and paid-up ordinary share capital by RM200.0 million from RM1,187,107,330 to RM1,387,107,331 by way of issuance of 31,446,541 new ordinary shares at an issue price of RM6.36 per ordinary share. The new ordinary shares issued during the current financial period rank pari passu in all respects with the existing ordinary shares of the Bank.

Retained Earnings

Retained earnings at the end of the financial year/period and eligible reserves are accumulated resources included in the shareholder's funds in an entity's statement of financial position, with certain regulatory adjustments applied. The retained earnings is included in CET1 Capital net of any interim and/or final dividend declared, and net of any interim losses. Quarterly interim profits have been included in CET1 Capital subject to review/audit by the external auditors.

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

Other Disclosed Reserves

Other disclosed reserves comprise the following:

- **Statutory Reserve**

Statutory reserve is maintained in compliance with Section 57(2)f of the IFSA and is not distributable as cash dividends.

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

- **Regulatory Reserve**

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

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

This comprises the unrealised fair value gains and losses on financial investments available-for-sale. Where the available-for-sale reserve is a net gain outstanding balance, the Bank can recognise 45% of the total outstanding balance as part of CET1 Capital. Where the available-for-sale reserve/(deficit) is a net loss outstanding balance (i.e. deficit), the entire outstanding balance is deducted in CET1 Capital.

3.2 Additional Tier 1 Capital

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

3.3 Tier 2 Capital

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

The amount of Tier 2 Capital Instruments issued prior to 2013 that can be recognized in the computation of the capital adequacy ratios of the Bank has been capped at 90% of the total qualifying Tier 2 balance outstanding as at 1 January 2013. For 2017, the amount of such Tier 2 Capital that can be recognised in the computation of the capital adequacy ratios is capped at 50% of the total qualifying Tier 2 Capital balance outstanding as at 1 January 2013. This is in accordance to the transitional gradual phase-out treatment under the Basel III regime. Table 3.1 outlines the application of the grandfathering provisions in respect of the Tier 2 Capital instruments for the Bank, details of the Tier 2 Capital Instruments are outlined below.

3.3 Tier 2 Capital (Cont'd.)

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

Base for Tier 2 Capital Instruments outstanding on 1 January 2013		
Instruments	RM'000	
Subordinated Sukuk Musharakah – Tranche 1	600,000	Note 1 (a)
Subordinated Sukuk Musharakah – Tranche 2	200,000	(b)
Subordinated Sukuk Musharakah – Tranche 3	200,000	(c)
Total qualifying base	1,000,000	

Note 1:

- (a) Nominal value of sukuk which amounted to RM120.0 million was purchased and cancelled as at 31 March 2014. On 30 September 2016, the Bank early redeemed the remaining portion of this tranche which amounted to RM480.0 million on its first call date.
- (b) Nominal value of sukuk which amounted to RM10.0 million was purchased and cancelled as at 31 March 2014. On 31 January 2017, the Bank early redeemed the remaining portion of this tranche which amounted to RM190.0 million.
- (c) Nominal value of sukuk which amounted to RM70.0 million was purchased and cancelled as at 31 March 2014. On 26 December 2017, the Bank early redeemed the remaining portion of this tranche which amounted to RM130.0 million.

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

3.3 Tier 2 Capital (Cont'd.)

Basel II Subordinated Sukuk Musharakah

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

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

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

As at 31 March 2018, there is no more Sukuk Musharakah outstanding.

3.3 Tier 2 Capital (Cont'd.)

Basel III Subordinated Sukuk Murabahah

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

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

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

Issue Date	First Call Date	Tenor	Profit Rate	Nominal value (RM million)
28 February 2014	28 February 2019	10 years Non-Callable 5 years	5.07% per annum	200
25 March 2014	25 March 2019	10 years Non-Callable 5 years	5.05% per annum	150
21 December 2015	21 December 2020	10 years Non-Callable 5 years	5.35% per annum	250
30 December 2016	30 December 2021	10 years Non-Callable 5 years	5.50% per annum	10
15 March 2017	15 March 2022	10 years Non-Callable 5 years	5.20% per annum	240
23 February 2018	23 February 2023	10 years Non-Callable 5 years	5.23% per annum	150
Total				1,000

3.3 Tier 2 Capital (Cont'd.)**Table 3.2: Capital Structure**

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

	31 March 2018	31 March 2017
	RM'000	RM'000
<u>Common Equity Tier 1 ("CET1") Capital</u>		
Ordinary shares	1,387,107	1,187,107
Retained earnings	1,632,472	1,179,283
Available-for-sale deficit	(5,492)	(5,149)
Statutory reserve	-	483,345
Regulatory reserve	327,683	58,430
Less : Regulatory adjustments applied on CET1 Capital		
- Intangible assets	(1,207)	(448)
- Regulatory reserve	(327,683)	(58,430)
CET1 Capital/ Tier 1 Capital	3,012,880	2,844,138
<u>Tier 2 Capital</u>		
Tier 2 Capital instruments meeting all relevant criteria for inclusion	1,000,000	850,000
Tier 2 Capital instruments (subject to gradual phase-out treatment)	-	130,000
Collective allowance and regulatory reserves	305,028	258,458
Tier 2 Capital	1,305,028	1,238,458
Total Capital	4,317,908	4,082,596

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

	31 March 2018	31 March 2017
	RM'000	RM'000
Credit RWA	27,390,400	27,107,178
Less : Credit RWA absorbed by PSIA	(2,988,135)	(1,604,369)
Total Credit RWA	24,402,265	25,502,809
Market RWA	277,093	178,976
Operational RWA	1,380,469	1,410,237
Total Risk Weighted Assets	26,059,827	27,092,022

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 AMMB Group to set its risk/reward profile.

The Risk Appetite Framework is approved annually by the Board taking into account the AMMB 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 AMMB Group operates in.

The Risk Appetite Framework provides portfolio limits/triggers for Credit Risk, Traded Market Risk, Non-Traded Market Risk and Operational Risk incorporating, inter alia, limits/triggers 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 four in each of the 4 growth segments (Mass Affluent, Affluent, Small and Medium Enterprise ("SME"), Mid-Corp), top four in each of the four focus products (Cards & Merchants, Transaction Banking, Markets, Wealth Management) and to sustain top four position in each of the current engines (Corporate Financing, Debt Capital Market ("DCM"), Funds Management).

- The AMMB Group aims to maintain an external rating of AA1 or better based on reference ratings by RAM Rating Services Berhad ("RAM").
- 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").
- 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").
- The AMMB Group recognizes the importance of funding its own business. It aims to maintain the following:
 - Liquidity Coverage Ratio ("LCR") at least 10% above prevailing regulatory minimum.
 - Net Stable Funding Ratio ("NSFR") above the prevailing regulatory minimum (effective from 2019).
 - Stressed LCR above the regulatory requirement.

4.0 General Risk Management (Cont'd.)

The AMMB Group Risk Direction (Cont'd.)

- The AMMB Group aims to maintain the following Capital Adequacy Ratios ("CARs") under normal conditions:
 - CET1, Tier 1 and total capital ratio of at least 2 percentage points above regulatory minimum.
- 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):
 - Keep operational losses and regulatory penalties below 2% of Profit after Tax and Minority Interest ("PATMI").
 - Remain vigilant in risk identification and management to protect its reputation and business franchise.
- 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**.
- The AMMB Group aims to maintain Risk Weighted Assets ("RWA") efficiency Credit Risk Weighted Assets ("CRWA")/Exposure at Default ("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 AMMB Group. The RMC is formed to assist the Board in discharging its duties in overseeing the overall management of all risks covering market risk, liquidity risk, credit risk and operational risk and IT and Cyber Risk.

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

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 AMMB Group to ensure that risk taking activities across the AMMB Group are aligned to the AMMB Group's risk appetite and strategies.
- through the RMC, 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 Perbadanan Insurans Deposit Malaysia ("PIDM") definition.

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 AMMB Group'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 AMMB 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.

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

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 agency requirements, including maintaining appropriate buffers over minimum capital levels; and
- be consistent with the AMMB 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:

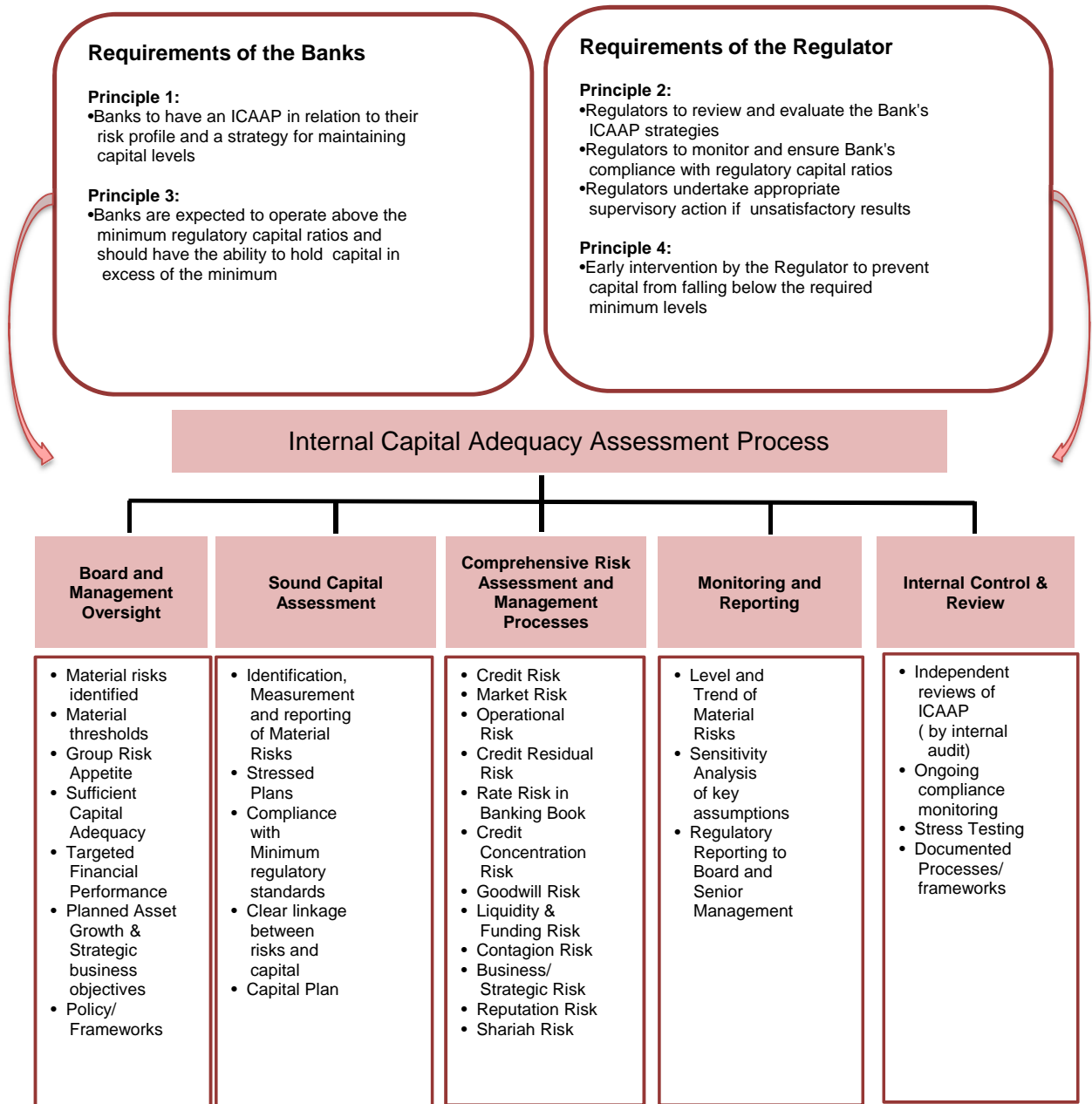
- the AMMB Group must have clearly articulated definitions of each material risk type to be included in the ICAAP; and
- processes to identify and determine the materiality of current risk types, change to existing risk types and new risk types must be established.

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.

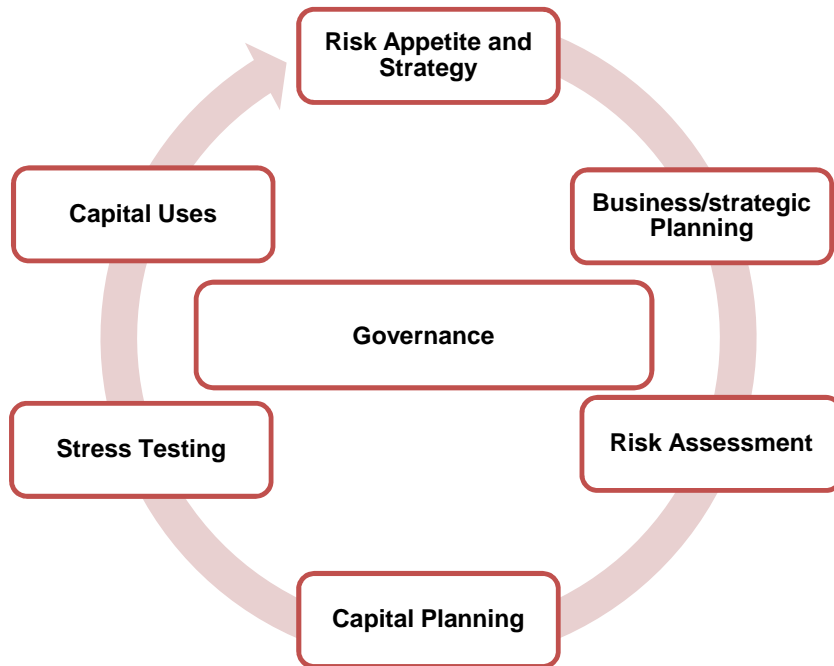
4.1 Internal Capital Adequacy Assessment Process (Cont'd.)

ICAAP Framework



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

Overview of ICAAP process and setting Internal Capital Targets



5.0 Credit Risk Management

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

Identification	<ul style="list-style-type: none"> • Identify/recognise credit risk on transactions and/or positions • Select asset and portfolio mix
Assessment/ Measurement	<ul style="list-style-type: none"> • Internal credit rating system • Probability of default (“PD”) • Loss given default (“LGD”) • Exposure at default (“EAD”)
Control/ Mitigation	<ul style="list-style-type: none"> • Portfolio Limits, Counterparty Limits • Wholesale Pricing • Collateral and tailored facility structures
Monitoring/ Review	<ul style="list-style-type: none"> • Monitor and report portfolio mix • Review customers under Classified Accounts • Review customers under Rescheduled 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 financing, securities and derivative exposures. The identification of credit risk is done by assessing the potential impact of internal and external factors on the Bank’s transactions and/ or positions as well as Shariah compliance risk.

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 customers are being used to complement the credit assessment and approval processes.

5.0 Credit Risk Management (Cont'd.)

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

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

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

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

Individual credit risk exposure exceeding certain thresholds are escalated to Credit and Commitments Committee ("CACC") for approval. In the event such exposure exceeds CACC authority, it will be submitted to 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 Group Management Risk Committee ("GMRC") regularly meets to review the quality and diversification of the Bank's financing 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, impairment, flow rates of financing delinquency buckets and exposures by industry sectors are reported monthly by Group Risk to executive management and to all meetings of the Board.

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

5.1 Impairment

5.1.1 Definition of Past Due and Impaired Financing and Advances

All financing and advances are categorised as either:

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

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

A financing is classified as impaired under the following circumstances:

- (a) where the principal or profit or both is past due¹ or the amount outstanding is in excess of approved limit (for revolving facilities), each for more than 90 days or 3 months on any material obligation²; or
- (b) for financing where repayments are scheduled on intervals of 3 months or longer, the financing is to be classified as impaired 1+30 days or 1day+1 month past due (the 30-days grace period is to allow for exclusion of administrative default³)
- (c) for trade bills/facilities, an account is deemed defaulted and impaired when the past due is 90 days from due date of the bill
- (d) a financing may also be classified as impaired:
 - i. if it is probable that the bank will be unable to collect all amounts due (including both profit and principal) according to the contractual terms of the agreement
 - ii. due to cross-default. Cross-default occurs when:
 - a default of a financing obligation of a customer triggers a default of another financing obligation of the same customer; or
 - a default of a financing obligation of a customer triggers a default of a financing obligation of other customers within the same customer group.The 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.

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

5.1 Impairment (Cont'd.)

5.1.1 Definition of Past Due and Impaired Financing and Advances (Cont'd.)

- (e) debt instruments (for example, corporate bond and sukuk, debt converted instruments etc.) shall be classified as impaired
 - i. when the coupon /profit payment or face/nominal value redemption is one (1) day past due after the grace period, where there is a stipulated grace period within the contractually agreed terms; or
 - ii. when an Event of Default ("EOD") has been declared by the Trustee/Facility Agent⁴ for reasons other than payment in default (as outlined in the Trust Deed 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 financing is deemed impaired when it is classified as R&R in the Central Credit Reference Information System ("CCRIS").

5.1.2 Methodology for Determination of Individual and Collective Allowances

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

Individual Assessment

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

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

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.)

Collective Assessment

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

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 financing⁵ net of individual impairment.

⁵ Excluding financing 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 Bank are as follows:

2018	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Government and Central Banks RM'000	Real Estate RM'000	Business Activity RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On-Balance Sheet Exposures															
Sovereigns/Central Banks	-	-	-	-	-	-	-	-	2,273,499	-	-	224,573	-	-	2,498,072
Public Sector Entities Banks, DFIs and MDBs	-	-	-	-	-	-	-	-	-	-	103	193	-	-	296
Insurance Companies, Securities Firms and Fund Managers	-	-	-	-	-	-	-	1,908,377	-	-	-	-	-	-	1,908,377
Corporates	1,713,058	1,746,171	3,346,745	305,644	1,931,856	1,260,715	1,005,172	1,895,712	-	2,531,619	392,029	807,479	93,195	31,151	17,060,546
Regulatory Retail	9,277	2,085	25,984	827	17,963	31,986	4,521	510	-	5,178	13,283	11,249	12,946,959	6,291	13,076,113
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	-	-	285,730	-	285,730
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	-	550	-	550
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	97,548	97,548
Defaulted Exposures	543	2,248	854	-	1,848	8,563	66,712	-	-	297,972	63	6,086	111,575	-	496,464
Total for On Balance Sheet Exposures	1,722,878	1,750,504	3,373,583	306,471	1,951,667	1,301,264	1,076,405	3,804,599	2,273,499	2,834,769	405,478	1,049,580	13,438,009	134,990	35,423,696
Off-Balance Sheet Exposures															
OTC Derivatives	-	33,459	2,499	-	-	1,134	-	179,266	-	-	-	99	-	-	216,457
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	105,772	35,703	586,063	19,366	810,451	286,434	213,147	17,438	-	226,821	130,236	35,813	579,416	1,033	3,047,693
Defaulted Exposures	-	57	755	-	-	1	188	-	-	508	289	-	1,442	-	3,240
Total for Off-Balance Sheet Exposures	105,772	69,219	589,317	19,366	810,451	287,569	213,335	196,704	-	227,329	130,525	35,912	580,858	1,033	3,267,390
Total On and Off-Balance Sheet Exposures	1,828,650	1,819,723	3,962,900	325,837	2,762,118	1,588,833	1,289,740	4,001,303	2,273,499	3,062,098	536,003	1,085,492	14,018,867	136,023	38,691,086

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

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

2017	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Government and Central Banks RM'000	Real Estate RM'000	Business Activity RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On-Balance Sheet Exposures															
Sovereigns/Central Banks	-	-	-	-	-	-	-	-	3,300,707	-	-	-	-	-	3,300,707
Public Sector Entities	-	-	-	-	-	262	-	-	-	-	14	744	-	-	1,020
Banks, DFIs and MDBs	-	-	-	-	-	-	-	2,221,643	-	-	-	-	-	-	2,221,643
Corporates	2,050,794	1,843,630	2,984,525	97,062	2,149,010	1,182,980	1,483,412	2,243,043	-	2,201,933	365,499	866,756	105,001	23,571	17,597,216
Regulatory Retail	3,688	2,307	11,576	974	13,927	29,728	5,658	563	-	4,990	11,053	13,273	11,985,287	1,511	12,084,535
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	-	-	261,845	-	261,845
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	-	560	-	560
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	169,609	169,609
Defaulted Exposures	196	2,917	562	2,423	2,821	6,284	4,241	-	-	306,948	2,840	5,330	89,563	-	424,125
Total for On-Balance Sheet Exposures	2,054,678	1,848,854	2,996,663	100,459	2,165,758	1,219,254	1,493,311	4,465,249	3,300,707	2,513,871	379,406	886,103	12,442,256	194,691	36,061,260
Off-Balance Sheet Exposures															
OTC Derivatives	-	52,739	4,732	-	-	837	-	143,818	-	-	152	7	-	-	202,285
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	176,690	11,911	504,588	22,158	596,971	308,959	186,821	19,434	-	174,323	121,312	53,992	388,859	1,250	2,567,268
Defaulted Exposures	-	255	-	-	-	13	227	-	-	508	877	-	1,322	-	3,202
Total for Off-Balance Sheet Exposures	176,690	64,905	509,320	22,158	596,971	309,809	187,048	163,252	-	174,831	122,341	53,999	390,181	1,250	2,772,755
Total On and Off-Balance Sheet Exposures	2,231,368	1,913,759	3,505,983	122,617	2,762,729	1,529,063	1,680,359	4,628,501	3,300,707	2,688,702	501,747	940,102	12,832,437	195,941	38,834,015

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

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

2018	Wholesale and Retail Trade and															Total RM'000
	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Hotel and Restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Not Allocated RM'000		
Impaired financing	571	3,806	1,863	7,030	8,807	15,890	76,990	-	308,100	1,659	5,859	151,832	131	-	582,538	
Past due financing	3,344	4,110	4,329	1,613	13,350	17,498	87,833	260	337,125	23,484	10,441	3,151,694	140	-	3,655,221	
Individual allowances	-	1,430	-	7,030	2,968	-	3,048	-	10,103	735	-	-	-	-	25,314	
Collective allowances	-	-	-	-	-	-	-	-	-	-	-	-	-	233,272	233,272	
Charges/(Writeback) for individual allowance	-	544	(2,086)	16,148	(737)	502	2,412	-	12,639	(332)	-	-	-	-	29,090	
Write-offs against individual allowances	-	-	999	14,557	-	654	83	-	3,524	-	-	-	-	-	19,817	

2017	Wholesale and Retail Trade and															Total RM'000
	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Hotel and Restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Not Allocated RM'000		
Impaired financing	206	3,873	6,137	7,863	10,550	13,820	5,302	-	307,959	2,064	5,715	125,210	1	-	488,700	
Past due financing	5,665	24,666	10,677	2,475	10,859	12,852	13,545	732	-	11,555	5,389	3,099,298	16,598	-	3,214,311	
Individual allowances	-	887	3,085	5,440	3,705	152	719	-	987	1,066	-	-	-	-	16,041	
Collective allowances	-	-	-	-	-	-	-	-	-	-	-	-	-	252,280	252,280	
Charges for individual allowances	-	241	(8,921)	(241)	4,618	1,097	214	-	18,034	1,066	-	-	-	-	16,108	
Write-offs against individual allowances	-	-	14,556	4,335	913	1,034	3,041	-	39,903	-	-	-	-	-	63,782	

During the financial year, the Bank had realigned its Financial Institutions Statistical System ("FISS") reporting of gross financing and advances analysed by sector, by type of customer and by profit rate sensitivity to BNM Central Credit Reference Information System ("CCRIS") reporting on financing and advances. Consequently, the Bank had restated the gross impaired financing and advances by sector and past due financing by sector to conform with current financial year's classification.

Table 5.3: Geographical distribution of credit exposures

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

2018	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	2,498,072	-	2,498,072
Public Sector Entities	296	-	296
Banks, DFIs and MDBs	1,871,518	36,859	1,908,377
Corporates	17,060,546	-	17,060,546
Regulatory Retail	13,076,113	-	13,076,113
Residential Mortgages	285,730	-	285,730
Higher Risk Assets	550	-	550
Other Assets	97,548	-	97,548
Defaulted Exposures	496,464	-	496,464
Total for On Balance Sheet Exposures	35,386,837	36,859	35,423,696
Off-Balance Sheet Exposures			
OTC Derivatives	216,457	-	216,457
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	3,047,693	-	3,047,693
Defaulted Exposures	3,240	-	3,240
Total for Off-Balance Sheet Exposures	3,267,390	-	3,267,390
Total On and Off-Balance Sheet Exposures	38,654,227	36,859	38,691,086

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

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

2017	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	3,300,707	-	3,300,707
Public Sector Entities	1,020	-	1,020
Banks, DFIs and MDBs	2,199,978	21,665	2,221,643
Corporates	17,597,216	-	17,597,216
Regulatory Retail	12,084,535	-	12,084,535
Residential Mortgages	261,845	-	261,845
Higher Risk Assets	560	-	560
Other Assets	169,609	-	169,609
Defaulted Exposures	424,125	-	424,125
Total for On-Balance Sheet Exposures	36,039,595	21,665	36,061,260
Off-Balance Sheet Exposures			
OTC Derivatives	202,285	-	202,285
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	2,567,268	-	2,567,268
Defaulted Exposures	3,202	-	3,202
Total for Off-Balance Sheet Exposures	2,772,755	-	2,772,755
Total On and Off-Balance Sheet Exposures	38,812,350	21,665	38,834,015

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

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

2018	Total
	RM'000
Impaired financing	582,538
Past due financing	3,655,221
Individual allowances	25,314
Collective allowances	233,272

2017	Total
	RM'000
Impaired financing	488,700
Past due financing	3,214,311
Individual allowances	16,041
Collective allowances	252,280

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

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

2018	Up to 1 month	>1 month to	>3 months	>6 months	>1 year to 3	>3 years to	> 5 years	No Maturity	Total
	RM'000	3 months	to 6 months	to 12	years	5 years	RM'000	specified	
	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	1,452,499	-	-	-	4,141	39,613	1,001,819	-	2,498,072
Public Sector Entities	-	8	29	59	109	-	91	-	296
Banks, DFI and MDB	536,953	1,213,079	98,640	-	-	54,610	5,095	-	1,908,377
Corporates	6,169,574	1,160,278	436,614	468,558	2,331,182	1,584,205	4,910,135	-	17,060,546
Regulatory Retail	9,924	7,844	21,665	83,958	1,262,818	2,785,688	8,904,216	-	13,076,113
Residential Mortgages	66	10	53	263	3,066	13,182	269,090	-	285,730
Higher Risk Assets	-	-	-	-	-	-	550	-	550
Other Assets	161	327	504	1,057	18,349	-	-	77,150	97,548
Defaulted Exposures	309,262	876	2,024	3,380	20,130	79,394	81,398	-	496,464
Total for On-Balance Sheet Exposures	8,478,439	2,382,422	559,529	557,275	3,639,795	4,556,692	15,172,394	77,150	35,423,696
Off-Balance Sheet Exposures									
OTC Derivatives	174	197	1,357	13,038	2,028	39,469	160,194	-	216,457
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	548,876	136,192	159,914	457,520	621,497	392,015	731,679	-	3,047,693
Defaulted Exposures	188	207	36	556	1,043	38	1,172	-	3,240
Total for Off-Balance Sheet Exposures	549,238	136,596	161,307	471,114	624,568	431,522	893,045	-	3,267,390
Total On and Off-Balance Sheet Exposures	9,027,677	2,519,018	720,836	1,028,389	4,264,363	4,988,214	16,065,439	77,150	38,691,086

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

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

2017	>6 months							No Maturity specified RM'000	Total RM'000
	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000		
On-Balance Sheet Exposures									
Sovereigns/Central Banks	2,065,691	-	-	-	30,450	184,122	1,020,444	-	3,300,707
Public Sector Entities Banks, DFI and MDB	-	14	14	154	576	-	262	-	1,020
Corporates	669,326	1,532,524	-	-	-	-	19,793	-	2,221,643
Regulatory Retail	6,546,755	899,021	1,103,953	470,932	2,278,018	1,713,697	4,584,840	-	17,597,216
Residential Mortgages	14,207	5,933	20,095	58,733	966,340	3,266,853	7,752,374	-	12,084,535
Higher Risk Assets	69	10	63	184	2,815	10,646	248,058	-	261,845
Other Assets	-	-	-	-	-	-	560	-	560
Defaulted Exposures	890	1,809	2,787	91,854	20,372	-	-	51,897	169,609
Total for On-Balance Sheet Exposures	314,738	926	960	3,518	16,121	29,640	58,222	-	424,125
Off-Balance Sheet Exposures									
OTC Derivatives	12,960	2,115	18,104	31,453	-	108,152	29,501	-	202,285
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	272,657	88,767	114,477	461,668	558,788	378,608	692,303	-	2,567,268
Defaulted Exposures	365	437	3	772	545	80	1,000	-	3,202
Total for Off-Balance Sheet Exposures	285,982	91,319	132,584	493,893	559,333	486,840	722,804	-	2,772,755
Total On and Off-Balance Sheet Exposures	9,897,658	2,531,556	1,260,456	1,119,268	3,874,025	5,691,798	14,407,357	51,897	38,834,015

Table 5.6: Reconciliation of changes to financing impairment allowances

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

2018	Individual impairment allowances RM'000	Collective impairment allowances RM'000
Balance at 1 April	16,041	252,280
Charge for the year – net	29,090	137,829
Foreign exchange differences	-	(8)
Amount written-off	(19,817)	(156,829)
Balance at 31 March	25,314	233,272

2017	Individual impairment allowances RM'000	Collective impairment allowances RM'000
Balance at 1 April	63,715	329,392
Charge for the year – net	16,108	78,288
Foreign exchange differences	-	9
Amount written-off	(63,782)	(155,409)
Balance at 31 March	16,041	252,280

2018	(Charge off)/recoveries RM'000
Bad debts written off during the year	(20,905)
Bad debt recoveries during the year	126,428

2017	(Charge off)/recoveries RM'000
Bad debts written off during the year	(15,174)
Bad debt recoveries during the year	133,913

On 29 September 2017 and 19 December 2017, the Bank entered into PSIA contracts for the sum of RM529.4 million and RM857.6 million respectively, with AmBank.

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

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 AMMB Group:

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

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 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 Bank is as follows:

2018

Risk Weights	Exposures after Netting and Credit Risk Mitigation									
	Sovereigns and Central Banks	Public Sector Entities	Banks, DFIs and MDBs	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Total Exposures after Netting and Credit Risk Mitigation	Total Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	2,498,072	-	19,829	2,367,145	-	-	-	-	4,885,046	-
20%	-	296	1,795,737	1,032,201	26,821	-	-	-	2,855,055	571,011
35%	-	-	-	-	-	232,473	-	-	232,473	81,365
50%	-	-	264,040	40,586	9,147	62,102	-	-	375,875	187,938
75%	-	-	-	-	8,492,845	-	-	-	8,492,845	6,369,634
100%	-	-	-	15,002,101	4,457,845	1,447	-	97,548	19,558,941	19,558,941
150%	-	-	-	362,026	51,133	-	1,182	-	414,341	621,511
Total	2,498,072	296	2,079,606	18,804,059	13,037,791	296,022	1,182	97,548	36,814,576	27,390,400

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

The breakdown of credit risk exposures by risk weights of the Bank is as follows: (Cont'd.)

2017

Risk Weights	Exposures after Netting and Credit Risk Mitigation									
	Sovereigns and Central Banks	Public Sector Entities	Banks, DFIs and MDBs	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Total Exposures after Netting and Credit Risk Mitigation	Total Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	3,300,707	-	19,792	2,183,243	-	-	-	-	5,503,742	-
20%	-	1,020	2,058,246	872,189	15,519	-	-	-	2,946,974	589,395
35%	-	-	-	-	-	201,888	-	-	201,888	70,660
50%	-	-	255,384	544,168	5,013	64,148	-	-	868,713	434,356
75%	-	-	-	-	9,462,354	-	-	-	9,462,354	7,096,766
100%	-	-	-	15,217,070	3,005,593	900	-	169,609	18,393,172	18,393,172
150%	-	-	-	310,176	37,165	-	1,211	-	348,552	522,829
Total	3,300,707	1,020	2,333,422	19,126,846	12,525,644	266,936	1,211	169,609	37,725,395	27,107,178

Table 6.2: Rated Exposures according to Ratings by ECAIs

2018

Exposure Class	Ratings of Corporate by Approved ECAIs			
	Moody's S&P Fitch RAM MARC	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA-	A1 to A3 A+ to A- A+ to A- A to A3 A+ to A-	Unrated Unrated Unrated Unrated Unrated
		RM'000	RM'000	RM'000
<u>On and Off-Balance Sheet Exposures</u>				
<u>Credit Exposures (using Corporate Risk Weights)</u>				
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)	396	-	-	396
Corporates	19,949,522	628,041	313,489	19,007,992
Total	19,949,918	628,041	313,489	19,008,388

2017

Exposure Class	Ratings of Corporate by Approved ECAIs			
	Moody's S&P Fitch RAM MARC	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA-	A1 to A3 A+ to A- A+ to A- A to A3 A+ to A-	Unrated Unrated Unrated Unrated Unrated
		RM'000	RM'000	RM'000
<u>On and Off-Balance Sheet Exposures</u>				
<u>Credit Exposures (using Corporate Risk Weights)</u>				
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)	1,520	-	96	1,424
Corporates	20,195,016	430,439	1,009,205	18,755,372
Total	20,196,536	430,439	1,009,301	18,756,796

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

2018

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	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
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Sovereigns and Central Banks	2,498,072	-	2,498,072	-	-	-
Total	2,498,072	-	2,498,072	-	-	-

2017

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	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
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Sovereigns and Central Banks	3,300,707	-	3,300,707	-	-	-
Total	3,300,707	-	3,300,707	-	-	-

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

2018

Exposure Class	Ratings of Banking Institutions by Approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Unrated	
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated	
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	Unrated	
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated	
		RM'000	RM'000	RM'000	RM'000	
On and Off-Balance Sheet Exposures						
Banks, DFIs and MDBs		2,079,606	70,663	735,922	160,194	1,112,827
Total		2,079,606	70,663	735,922	160,194	1,112,827

2017

Exposure Class	Ratings of Banking Institutions by Approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Unrated	
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated	
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	Unrated	
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated	
		RM'000	RM'000	RM'000	RM'000	
On and Off-Balance Sheet Exposures						
Banks, DFIs and MDBs		2,333,422	134,886	49,961	95,941	2,052,634
Total		2,333,422	134,886	49,961	95,941	2,052,634

7.0 Credit Risk Mitigation

Main Types of Collateral Taken by The Bank

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

- Cash and term deposits
- Exchange traded shares, sukuk 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 Bank can only accept Shariah approved asset as collateral.

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

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

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

Processes for Collateral Management

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

7.0 Credit Risk Mitigation (Cont'd.)

Guarantee Support

Guarantee support for financing proposals is an integral component in transaction structuring for the Bank. The guarantee of a financially strong party can help improve the risk grade of a transaction through its explicit support of the customer, where the customer's risk grade will be enhanced with the 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 customer is not recognised as part of the risk grade enhancement.

Use of Credit Derivatives and Netting for Risk Mitigation

Currently, the Bank 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 financing is extended, amortisation schedules and financing covenants. These assist in managing credit risk and in providing early warning signals, whereby should financing covenants be breached, the Bank and the customer can work together to address the underlying causes and as appropriate, restructure facilities.

Concentrations of Credit Risk Mitigation

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

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

Table 7.1: Credit Risk Mitigation

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

Exposures	Exposures covered by		Exposures covered by	
	Exposures before CRM	guarantees/credit	guarantees/credit	Eligible Financial
	RM'000	derivatives	derivatives	Collateral
	RM'000	RM'000	RM'000	RM'000
2018				
<i>Credit Risk</i>				
<i>On-Balance Sheet Exposures</i>				
Sovereigns/Central Banks	2,498,072	-	-	-
Public Sector Entities	296	-	-	-
Banks, DFIs and MDBs	1,908,377	-	-	-
Corporates	17,060,546	632,550	-	572,884
Regulatory Retail	13,076,113	26,168	-	873,155
Residential Mortgages	285,730	-	-	98
Higher Risk Assets	550	-	-	-
Other Assets	97,548	-	-	-
Defaulted Exposures	496,464	3,303	-	129,157
Total On-Balance Sheet Exposures	35,423,696	662,021		1,575,294
<i>Off-Balance Sheet Exposures</i>				
OTC Derivatives	216,457	-	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	3,047,693	217,420	-	1,137,000
Defaulted Exposures	3,240	-	-	1,682
Total Off-Balance Sheet Exposures	3,267,390	217,420		1,138,682
Total On and Off-Balance Sheet Exposures	38,691,086	879,441		2,713,976

Exposures	Exposures covered by		Exposures covered by	
	Exposures before CRM	guarantees/credit	guarantees/credit	Eligible Financial
	RM'000	derivatives	derivatives	Collateral
	RM'000	RM'000	RM'000	RM'000
2017				
<i>Credit Risk</i>				
<i>On-Balance Sheet Exposures</i>				
Sovereigns/Central Banks	3,300,707	-	-	-
Public Sector Entities	1,020	-	-	-
Banks, DFIs and MDBs	2,221,643	-	-	-
Corporates	17,597,216	622,363	-	521,835
Regulatory Retail	12,084,535	15,402	-	24,752
Residential Mortgages	261,845	-	-	120
Higher Risk Assets	560	-	-	-
Other Assets	169,609	-	-	-
Defaulted Exposures	424,125	491	-	99,616
Total for On-Balance Sheet Exposures	36,061,260	638,256		646,323
<i>Off-Balance Sheet Exposures</i>				
OTC Derivatives	202,285	-	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	2,567,268	50	-	1,005,754
Defaulted Exposures	3,202	-	-	1,078
Total for Off-Balance Sheet Exposures	2,772,755	50		1,006,832
Total On and Off-Balance Sheet Exposures	38,834,015	638,306		1,653,155

8.0 Off Balance Sheet Exposures and Counterparty Credit Risk

8.1 Off Balance Sheet exposures

The Bank's off balance sheet exposure consists of the following:

- credit related exposures, e.g. direct credit substitute, certain transaction-related contingent items, short term self liquidating trade-related contingencies, obligations under underwriting agreements, irrevocable commitment to extend credit and unutilised credit card lines.
- derivatives financial instruments, e.g. equity and commodity related contracts (option).

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 Group Risk Appetite Framework.

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 Bank's exposure. The markets covered by this treatment for transactions entered by the Bank include profit rates, foreign exchange, and equities.

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

8.2 Counterparty Credit Risk (Cont'd.)

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, that is in the money, the Bank has credit exposure against the counterparty; if it is negative, that is 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, that is 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 Group Risk Appetite Framework.

Other than credit limit setting and related duration setting of such limits, the Bank's primary tool to mitigate counterparty credit risk 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 Bank 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 Bank are as follows:

2018

Description	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Direct credit substitutes	327,186		327,186	302,888
Transaction related contingent items	821,035		410,517	301,210
Short term self liquidating trade related contingencies	54,608		10,922	10,517
Forward asset purchases	213,975		4,729	4,729
Obligations under an on-going underwriting agreement	-		-	-
Foreign exchange related contracts	1,639,097	83,130	37,215	37,196
One year or less	1,294,363	35,762	1,728	1,709
Over one year to five years	344,734	47,368	35,487	35,487
Profit rate related contracts	610,000	4,278	6,011	2,372
Over one year to five years	260,000	4,278	6,011	2,372
Over five years	350,000	-	-	-
OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	589,973		173,231	93,134
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	809,748		404,874	333,984
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	4,991,310		1,634,712	581,709
Unutilised credit card lines	1,289,967		257,993	193,074
Total	11,346,899	87,408	3,267,390	1,860,813

2017

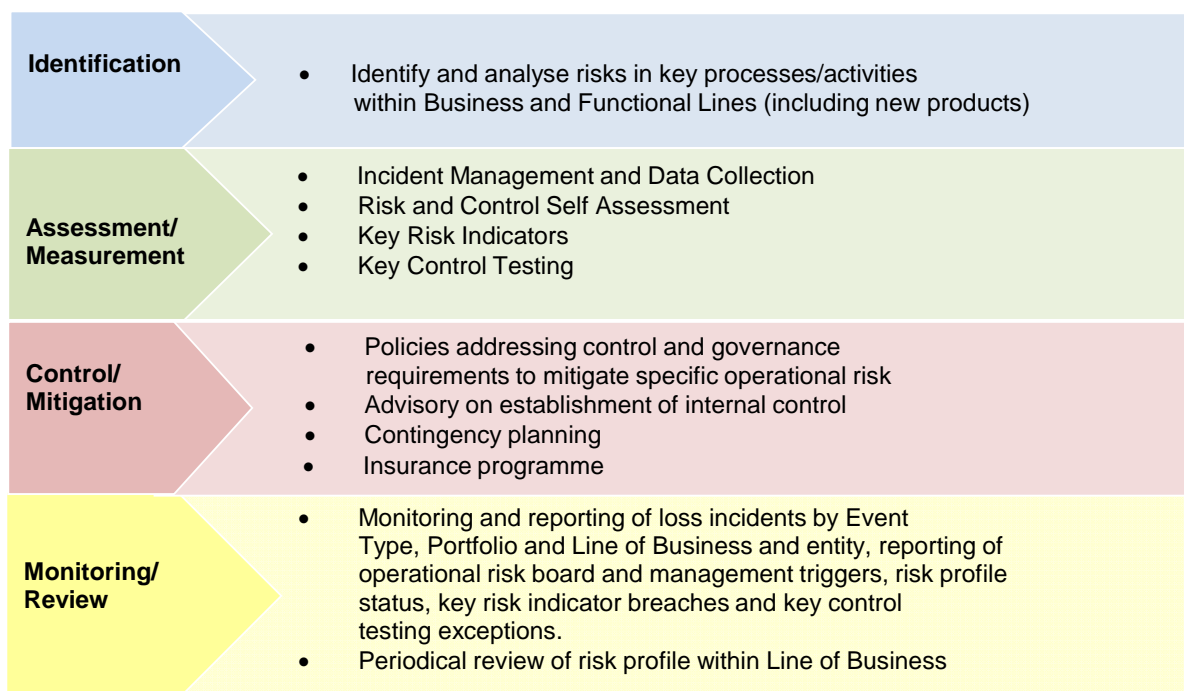
Description	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Direct credit substitutes	231,275		231,275	219,816
Transaction related contingent items	812,765		406,383	313,012
Short term self liquidating trade related contingencies	50,029		10,006	9,335
Forward asset purchases	10,022		700	350
Obligations under an on-going underwriting agreement	65,000		-	-
Foreign exchange related contracts	2,577,085	34,933	162,647	126,757
One year or less	1,880,550	27,136	64,633	51,380
Over one year to five years	696,535	7,797	98,014	75,377
Profit rate related contracts	920,000	7,448	39,638	18,998
Over one year to five years	370,000	7,448	10,138	4,248
Over five years	550,000	-	29,500	14,750
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	858,147		429,073	375,409
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	3,621,122		1,350,019	537,374
Unutilised credit card lines	715,072		143,014	106,996
Total	9,860,517	42,381	2,772,755	1,708,047

9.0 Securitisation

The Bank did not have any securitisation exposure in its trading book and banking book nor did it undertake any securitisation activities during the financial year ended 31 March 2018 and 31 March 2017.

10.0 Operational Risk

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



Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external incidents which includes, but is not limited to, outsourcing risk, technology (including cyber) risk and Shariah compliance risk (Please refer to Chapter 14 for discussion on Shariah Governance Structure). It excludes strategic, systemic and reputational risk.

Operational Risk Appetite (“ORA”) is set as part of overall GRAF, which sets the acceptable tolerance levels of operational risk that the 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 the 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.

10.0 Operational Risk (Cont'd.)

The strategy for managing operational risk in the Bank is anchored on the three (3) 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 are taken to manage them. Enhanced FLOD 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, validation of FLOD effectiveness and capital allocation, Operational Risk Management ("ORM") training and reporting of operational risk issues to GMRC, RMC and the Board.
- Group Internal Audit acts as the third and final line of defence by providing independent assurance on the internal control effectiveness through periodic audit programme.

Group Operational Risk maintains close working relationships with all Business and functional lines, 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 Bank. The ORM process contains the following tools:

- The Incident Management and Data Collection ("IMDC") module provides a common platform for reporting operational risk incident that falls 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 future operational risks 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 Bank.
- 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 scenario materialise.

10.0 Operational Risk (Cont'd.)

The IT Risk Governance team within Group Operational Risk facilitates in identifying technology (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, shariah risk, legal risk and business continuity management.

10.1 Business Continuity Management

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

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

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 Bank’s operations and establishment of critical functions recovery against downtime. BCM builds the resilience and recovery capability to safeguard the interest of the Bank’s stakeholders by protecting our brand and reputation.

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

The Bank 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 Risk 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 AMMB'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 AMMB 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 Bank conducts its business, it is subject to legal risks arising from potential breaches of applicable laws, unenforceability of contracts, lawsuits, or adverse judgement, failure to respond to changes in regulatory framework and failure to protect assets (including intellectual properties) owned by the Bank which may lead to incurrence of losses, disruption or otherwise impact on the Bank'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 risk is appropriately managed.

10.4 Regulatory Compliance Risk

The AMMB Group has in place a compliance framework to promote the safety and soundness of the 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 and Senior Management lead by example.

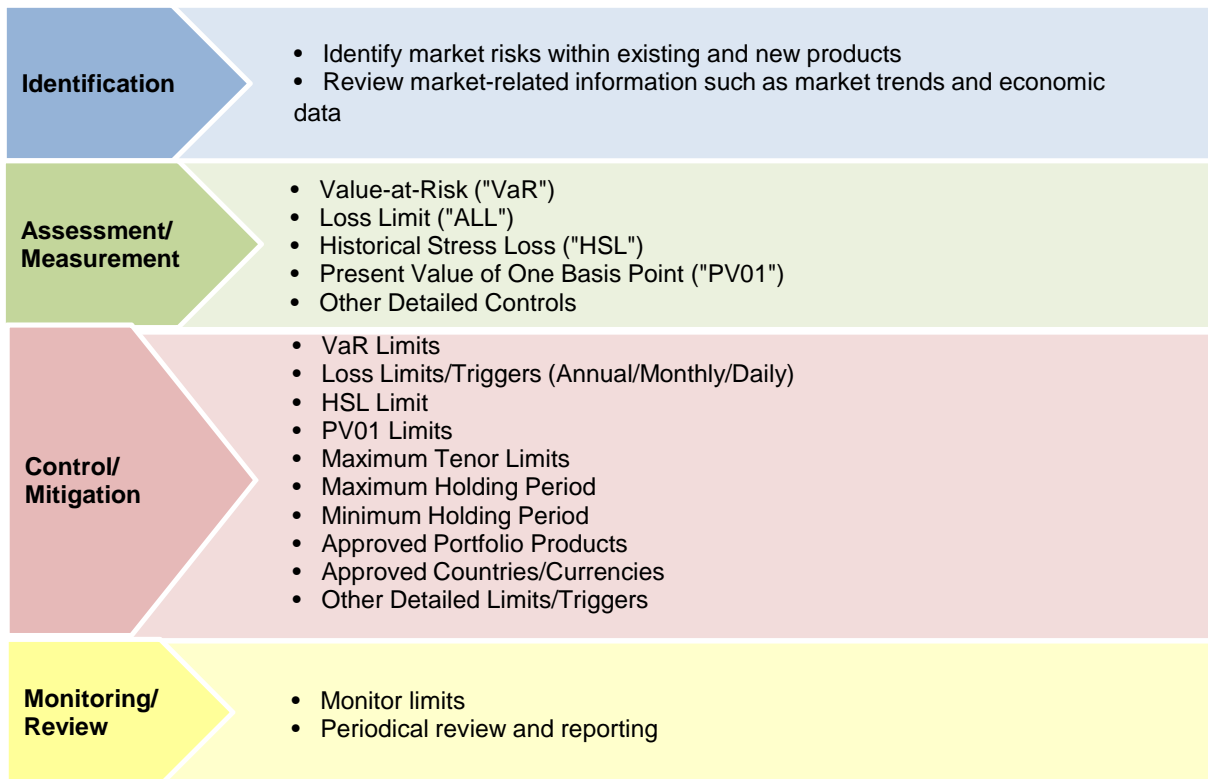
The AMMB Group continues to exercise and enhance its due diligence governance process and remains vigilant towards emerging risk as well as sensitive towards heightened regulatory surveillance and enforcement.

11.0 Market Risk Management

Market risk is the risk of losses due to adverse changes in the level or volatility of market rates or prices, such as profit rates, credit spreads, equity prices and foreign exchange rates. The Bank 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.



11.1 Traded Market Risk (Cont'd.)

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 traded market risk 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 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 TMR 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.

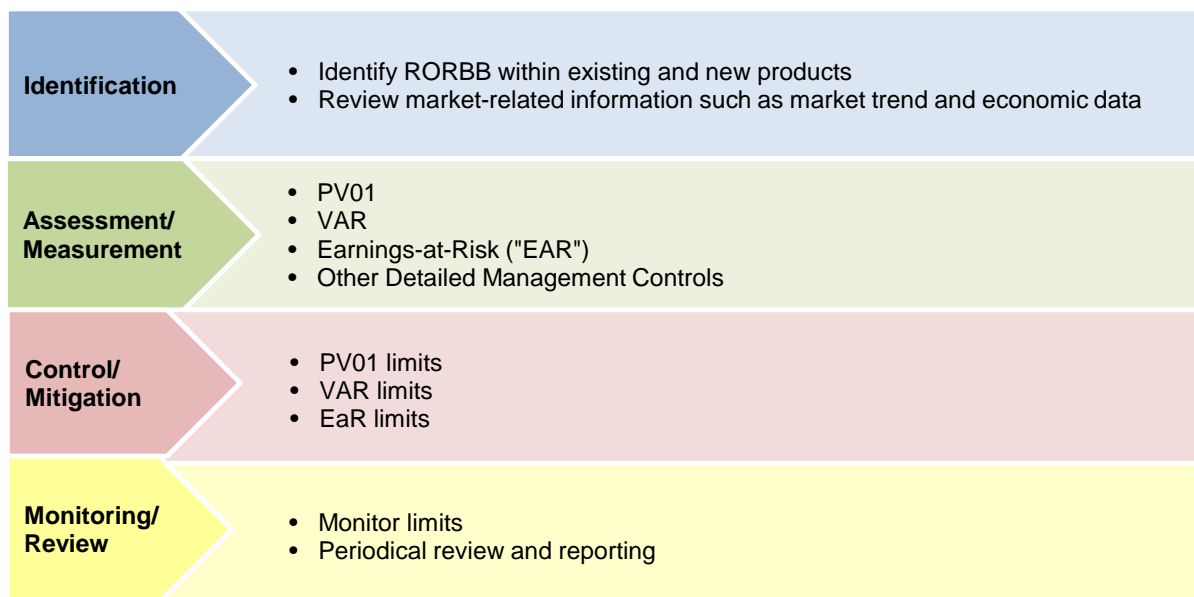
The Bank adopts the Standardised Approach for market risk capital charge computation. The capital charge serves as a buffer against losses from potential adverse market movements.

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

Rate of Return Risk ("RORBB") in Banking Book

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



RORBB arises from changes in market profit rates that impact core net 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 profit margins and implied volatilities on profit rate options. The provision of retail and wholesale banking products and services (primarily financing and deposit-taking activities) creates profit rate sensitive positions in the Bank's statement of financial position.

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

The Board's oversight of RORBB is supported by the GALCO and/or GMRC. GALCO and/or GMRC is responsible for the alignment of Bank-wide risk appetite and funding needs, taking into consideration Bank-wide business strategies. GALCO and/or GMRC consistently oversees the Bank's gapping positions, asset growth and liability mix against the profit rate outlook. It also reviews strategies to ensure a comfortable level of RORBB is maintained. The Bank has successfully engaged long-term borrowings and written profit rate swaps to manage 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.

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

Rate of Return Risk ("RORBB") in Banking Book (Cont'd.)

The Bank measures the risk of losses arising from potential adverse movements in market profit rates and volatilities using VaR. VaR is a quantitative measure of 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 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 profit rates and spreads, changes in financing and deposit product balances due to behavioural characteristics under different profit rate environments. Material assumptions include the repricing characteristics and the stickiness of indeterminate or non-maturity deposits and financing.

The profit rate scenarios may include rapid ramping of profit rates, gradual ramping of profit rates, and narrowing or widening of spreads. Usually each analysis incorporates what management deems the most appropriate assumptions about customer behaviour in a 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 RORBB within Management-approved limits. This is achieved through the ability to reposition the profit rate exposure of the statement of financial position using dynamic product and funding strategies, supported by profit rate hedging activities using 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 Profit Rate Risk Framework.

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

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

The following table demonstrates the sensitivity of the Bank's profit before zakat and taxation and equity to a reasonable possible change in rate of return with all other variables remaining constant.

2018 MYR	Rate of Return	Rate of Return
	+ 100 bps RM'000	- 100 bps RM'000
Impact on profit before zakat and taxation	29,401	(29,401)
Impact on equity	(167,423)	185,098

2017 MYR	Rate of Return	Rate of Return
	+ 100 bps RM'000	- 100 bps RM'000
Impact on profit before zakat and taxation	11,664	(11,664)
Impact on equity	(211,501)	233,489

12.0 Equities (Banking Book Positions)

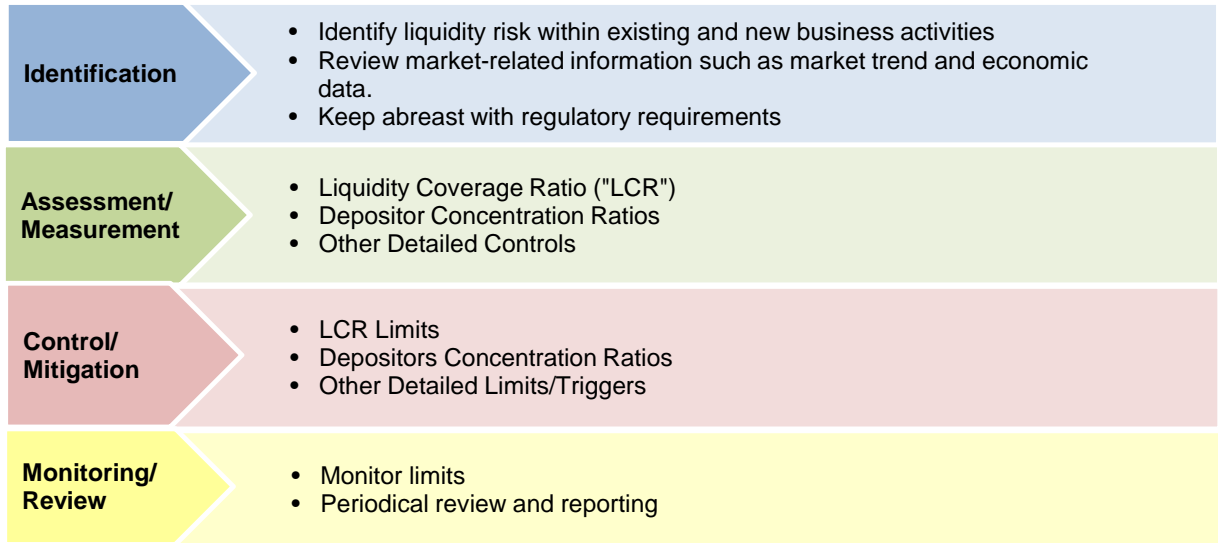
The Bank did not have any equity investment as at 31 March 2018 and 31 March 2017.

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

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

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



The liquidity risk management of the Bank is aligned to the LCR policy 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 Cash Balance Sheet Management ("CBSM") develop the liquidity scenario assumptions that are to be approved by the Board.

The AMMB 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.

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

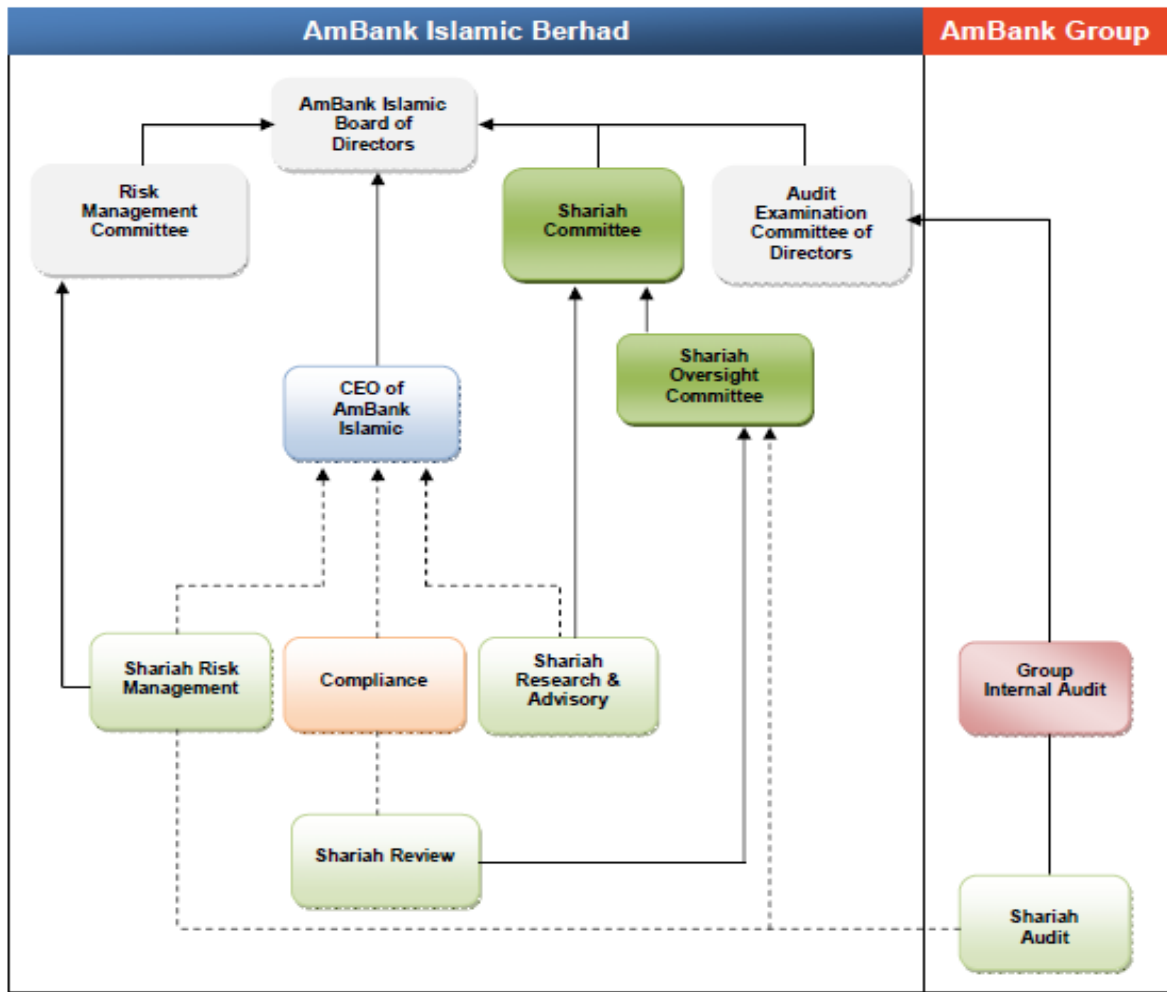
The Bank has in place various liquidity measurements that support the broader strategic objectives of the Bank and amongst others include the BNM LCR, Depositors Concentration Ratio and other Liquidity Ratios. IBMR is responsible for monitoring the controls and limits while the GTM is responsible to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

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

To measure the quality of the Bank's funding sources, the composition of core funds indicator 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.

14.0 Shariah Governance Structure



The AMMB Group has established the Shariah governance structure for its Islamic banking operations in accordance with the requirements of IFSA and BNM's "Shariah Governance Framework for Islamic Financial Institutions". This is to ensure that the operations and business activities of the Bank comply with Shariah principles and its requirements.

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

Board of Directors

The Board is accountable and responsible for the overall oversight on the Shariah governance and Shariah compliance, including the assessment, appointment and remuneration of the Shariah Committee members. The Board performs its oversight through various committees such as the Audit & Examination Committee of Directors (AEC), Risk Management Committee (RMC) and the Shariah Committee.

14.0 Shariah Governance Structure (Cont'd.)

Audit Examination Committee ("AEC") of Directors

AEC is a Board committee responsible for assisting the Board in ensuring Islamic Banking operations of the AMMB Group are Shariah compliant through oversight of the Shariah Audit function performed by Group Internal Audit Department. The updates on Shariah Review are also presented to the AEC.

Risk Management Committee ("RMC")

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

Shariah Committee

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

Shariah Oversight Committee

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

Management/Chief Executive Officer

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

Shariah Research and Advisory

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

14.0 Shariah Governance Structure (Cont'd.)

Shariah Risk Management

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

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

Shariah Review

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

Shariah Audit

The Shariah Audit Section is accountable to the AEC. A designated team within the Group Internal Audit Department is responsible to conduct independent assessment on the level of Shariah compliance of Islamic banking business and operations. The Shariah audit covers all activities particularly the operational components of the Bank (including functions outsourced to AmBank(M) Berhad or AmInvestment Bank Berhad) that are subjected to the risk of Shariah non-compliance including but not limited to products, operational processes, the technology supporting the operations, the people involved in key areas of risk, documentation and contracts, policies and procedures and other activities that require the adherence to Shariah principles.

14.1 Shariah Non-Compliant Income

For the financial year ended 31 March 2018, there was one (1) Shariah non-compliant (SNC) incident with SNC income of RM3,699. Purification of the SNC income is made in accordance with the method as approved by the Shariah Oversight Committee. The incident is attributed due to the lack of awareness of the staff in handling extension case for Islamic financing. Pursuant to the incident, the Bank has implemented certain measures to mitigate recurrence of similar incident in the future, including heightened staff awareness and review of process. There had been no actual SNC incident and SNC income for the financial year ended 31 March 2017.

15.0 Profit Sharing Investment Account ("PSIA")

Investment Account ("IA")

The Bank offers two types of Investment Account ("IA") namely, Restricted Profit Sharing Investment Account ("RPSIA") which refers to an IA where the customers provides a specific investment to the Bank and Unrestricted Investment Account ("UA") which refers to an IA where the customer provides the Bank with mandate to make the ultimate investment decision without specifying any particular restriction or condition.

Mudrabah Term Investment Account ("MTIA")

The Bank has widened the scope of business beyond credit intermediation by playing an investment intermediation role via the introduction of UA product i.e. MTIA which was launched in March 2018.

Mudrabah means a profit sharing contract between IAH as the fund provider and the Bank as the fund manager in which the IAH provides capital to be managed by the Bank. Any profit generated from the capital is shared between IAH and the Bank in accordance with a mutually agreed profit-sharing ratio (PSR), whilst financial losses (if any) are solely borne by IAH provided that such losses are not due to the Bank's misconduct, negligence or breach of specified terms.

The investment mandate, strategy and parameters for UA are in accordance with the governance set up by the Bank to ensure effective and efficient oversight on business activities and operations of UA in safeguarding the customer's interest. However, the Bank does not practice profit smoothing mechanism or displaced commercial risk ("DCR") techniques as per requirement in the BNM policy on Investment Account.

The Bank had established proper governance to facilitate effective monitoring and control of the overall management and conduct of the investment account. Accountability of the Senior Management is ensuring management, development and implementation of operational policies that govern the conduct of IA. A dedicated unit for IA was also established in AmBank Islamic on the ensuring smooth implementation and monitoring process.

MTIA Performance

As at 31 March 2018, balance of MTIA stood at RM118.6 million. The performance of MTIA is as described in the table below :

As at 31 March 2018	%
Return on Assets ("ROA")	4.60
Average Net Distributable Income Attributable to the IAH	3.86
Average Profit Sharing Ratio to the IAH	83.98