

AMBANK ISLAMIC BERHAD
(295576-U)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 March 2019

Company No. 295576-U

AMBANK ISLAMIC BERHAD
(Incorporated in Malaysia)

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Company No. 295576-U

AMBANK ISLAMIC BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors have pleasure in presenting their report and the audited financial statements of the Bank for the financial year ended 31 March 2019.

PRINCIPAL ACTIVITIES

The Bank is a licensed Islamic banking institution providing Islamic retail and commercial banking products and services in accordance with Shariah principles. There has been no significant change in the nature of the activities of the Bank during the financial year.

FINANCIAL RESULTS

	RM'000
Profit for the financial year	<u>311,800</u>

There were no material transfers to or from reserves, allowances or provisions during the financial year other than those disclosed in the financial statements.

In the opinion of the Directors, the results of the Bank during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature other than the effects of the disposal of non-performing financing as disclosed in Notes 48 and 59 to the financial statements and the adoption of MFRS 9 *Financial Instruments* as disclosed in Note 60 to the financial statements.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Bank for the current financial year in which this report is made.

DIVIDENDS

During the current financial year an interim single-tier cash dividend of 10.0 sen per ordinary share on 494,368,541 ordinary shares amounting to approximately RM49,436,854 in respect of the current financial year was paid on 30 November 2018.

The Directors propose the payment of a final single-tier dividend of 33.0 sen per ordinary share on 494,368,541 ordinary shares amounting to approximately RM163,141,619 in respect of the current financial year ended 31 March 2019. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholder, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 March 2020.

BUSINESS PLAN AND STRATEGY

Performance review for financial year ended 31 March 2019

As a manifestation of the growth momentum of our underlying business, the Bank recorded total income and profit before net provisions of RM820.1 million and RM502.7 million respectively, which were correspondingly 4.4% and 38.3% higher than the previous financial year. The Bank's profit after taxation and zakat of RM311.8 million was 30.4% higher compared to the previous financial year, attributable to higher income coupled with lower operating expenses and higher recoveries due to the disposal of written-off retail debt.

The Bank recorded total financing and deposit growth of 4.6% and 17.5%, respectively. Excluding the auto financing portfolio which is in the streamlining phase, the Bank's total financing grew by 12.6% during the financial year. This was attributable to the Bank's strategy in growing auto financing in a selective manner and focusing on growing the more profitable products such as financing for Amanah Saham Bumiputera ("ASB") investments, wealth management, transaction banking and better penetration into the small and medium enterprises ("SME") segment. The improvement in deposits was driven by the growth of current and savings account ("CASA") by 30.3%, resulting in the Bank's CASA ratio to improve to approximately 29%. This was a reflection of the Bank's strategy to improve its cost of funds whilst not compromising the need to have adequate liquidity.

After deducting the proposed dividend, the Bank's Total Capital ratio stood at 16.27%, while both Common Equity Tier 1 and Tier 1 Capital ratios stood at 11.08% as at 31 March 2019.

Business Highlights

We continued to focus in driving penetration into the SME segment by, amongst others, our Enterprise Financing Programme. This enabled the Bank to offer banking products based on pre-determined criteria to significantly reduce the turnaround time in order to be responsive to SMEs' needs. The offerings range from simple financing requirements for business premise and equipment purchase, to more complex structures which may combine capital expenditure and working capital requirements. We are also one of the participating banks in the imSME Business Financing/Loan Referral Platform managed by Credit Guarantee Corporation Malaysia Berhad ("CGC"). imSME is the first referral platform in Malaysia that is available 24/7 for SMEs to search online for financial solutions offered by the participating banks that best suit their needs.

BUSINESS PLAN AND STRATEGY (CONT'D.)

Business Highlights (Cont'd.)

We offer Waqaf collection solutions via JomPAY to universities, public bodies and religious bodies. Amongst others, we have partnered with three public universities and have embarked on a partnership with a zakat collection centre and three mosques in Johor Bahru under the Waqaf An-Nur program for the collection of donations. We have also partnered with Pejabat Tanah and Galian Negeri Perak. JomPAY as an additional collection channel is to provide added convenience, accessibility and flexibility to the public and corporate sector to make their payment as well as Waqaf and donation contributions to these institutions.

On the consumer banking front, our ASB Term Financing-i portfolio has grown to almost RM1.5 billion. The emphasis of offering auto financing and mortgages to the profitable segments, coupled with the distribution of Islamic unit trusts and bancatakaful products, have diversified and further improved our earnings.

We have also introduced new products for our premier customers such as AmStar-i and will writing services, which enhanced our range of products for this segment.

Complemented by the procurement of low cost and retail deposits, these earnings drivers had improved our net funded margin.

Value-based intermediation ("VBI") is embedded in AMMB Group's sustainability agenda. Whilst VBI encapsulates inter alia all of AMMB Group's material sustainability matters, the VBI aspiration was driven primarily from the lens of Financial Inclusion and Responsible Lending. In regards to Financial Inclusion, VBI has been put into practice through the Bank's sectoral focus to grow SMEs by increasing the accessibility of banking solutions which are suitable to customers' needs and financial capability. The AmBank BizClub and AmBank BizRace continue to be the Group's platform to support SMEs to network, cross-fertilise and provide SMEs with the necessary tools to move forward and scale up businesses. In regards to Responsible Lending, the Bank's product development process has been improved to include environmental and social considerations. Another example is the credit memorandum for credit applications in wholesale banking which includes a section for commentaries on the environmental aspects of the credit.

BUSINESS PLAN AND STRATEGY (CONT'D.)

Products and Services

Amongst the products that were launched during the financial year were:

- Foreign Currency Current Account-i (Tawarruq) – a current account denominated in foreign currencies;
- Foreign Currency Term Financing-i, Revolving Credit-i and Complementary Term Financing-i (Tawarruq); and
- AmMoneyLine-i (Tawarruq).

Brand Presence

The Bank continued to focus on strengthening its brand presence and promote greater awareness and knowledge in Islamic banking amongst the public through participation in various events such as:

- Kuala Lumpur Islamic Finance Forum 2019;
- Penang International Halal Expo & Conference 2019;
- Global Islamic Finance Forum 2018 (“GIFF 2018”);
- Karnival Kewangan, Terengganu; and
- Karnival Kewangan, Sarawak.

Aside from the above, the Bank had also been featured on BFM radio programmes which focused on VBI, GIFF 2018 and the Islamic banking industry in Malaysia.

Board Composition

During the financial year, the Bank had appointed Dr Mohd Nordin Mohd Zain as an Independent Non-Executive Director on 16 January 2019, while Y.M. Raja Anuar Raja Abu Hassan, who had served as Independent Non-Executive Director retired from the Board upon the expiry of his tenure.

Shariah Governance

The Bank adopted the Shariah Governance Framework (“SGF”) issued by Bank Negara Malaysia (“BNM”) by inter alia having the 4 key Shariah functions. The Shariah Research & Advisory (including Shariah Legal), Shariah Risk Management and Shariah Review functions acted as the second line of defence whilst the Shariah Audit function which is part of the Group Internal Audit Department, acted as the third line of defence. By having this practice in place, the Bank was able to identify, monitor and mitigate any possible Shariah breaches. For the financial year ended 31 March 2019, there was one (1) Shariah non-compliant (“SNC”) incident involving SNC income of RM1,115 relating to imposition of additional late payment charges. Given that this SNC incident is of similar nature to the one (1) SNC incident which occurred in the financial year ended 31 March 2018, both SNC incidents are grouped as a single SNC incident which were deemed to occur in the financial year ended 31 March 2018.

BUSINESS PLAN AND STRATEGY (CONT'D.)

Senior Management Oversight

The oversight of the Bank's business and compliance aspects were conducted via the Bank's Heads of Department Forum, Financial Performance Forum and Independent Control Forum. The Heads of Department Forum discussed, amongst others, the strategic, human resource, industry development, product, and other business and organisation matters, whilst the Financial Performance Forum focused on the financial and business aspects of the Bank. The Independent Control Forum focused on Shariah, risk management, compliance, audit, liquidity, regulatory and other control matters.

Corporate Social Responsibility

The Bank maintained its progress in serving the community through corporate social responsibility ("CSR") initiatives. Total business zakat amount declared is RM1.9 million, from which a sum of RM479,000 was paid to state zakat collection centres. Identified eligible recipients for the balance of RM1.4 million comprises of associations and charity homes throughout Malaysia. This includes Yayasan Pelajaran Mara ("YPM") for the ongoing Student Adoption Programme going into its eighth year out of a 10-year programme.

OUTLOOK FOR NEXT FINANCIAL YEAR

The Malaysian economy is expected to remain on a steady growth, expanding between 4.3% to 4.8% in 2019. Nonetheless, there remain uncertainties and challenges arising from increasing competition, and internal and external developments.

Over the last couple of years, the Bank had restructured its balance sheet by growing its auto financing and mortgage portfolios in a selective manner, and focusing on profitable growth for its wholesale banking portfolio. The Bank had also introduced a number of new products and services to diversify its earnings drivers. These have resulted in a marked improvement to the Bank's underlying business as manifested through its depositor and asset concentration profile, net funded margin, fee based income and customer base.

The Bank will continue to harness opportunities in the Islamic banking space to serve niche market segments. Target areas will include Islamic wealth management, which entails the distribution of Islamic unit trusts and bancatakaful products, and Term Financing-i for investment in ASB. Strategies would also be put in place to grow auto financing in a profitable manner. These initiatives would be underpinned by strategies to procure low cost deposits via cash management solutions, payroll, merchant acquisition and utilisation of online channels.

OUTLOOK FOR NEXT FINANCIAL YEAR (CONT'D.)

Managing asset quality via prudent credit underwriting standards and proactive collection strategies will also be a key focus. This will also complement our capital management strategies which are key in driving our business in a sustainable manner.

Value Based Intermediation ("VBI")

We will continue to put in motion several initiatives in our quest to integrate VBI characteristics into our practices, conduct and offerings. Towards this end, we intend to tap into the green segment to support the nation's renewable energy targets. We will also be exploring to participate in the Green Technology Financing Scheme 2.0 which was announced in the Budget 2019.

In the financial inclusion space, we plan to broaden our offerings to include start-up businesses. We have partnered with CGC to launch the SME Biz Start-up-i, a Shariah-compliant financing scheme for businesses with minimal track record. We are also exploring to participate in the Shariah-Compliant SME Financing Scheme 3.0 which gives priority to SMEs involved in exporting halal products as announced in the Budget 2019.

We will continue to enhance our practices by exploring the incorporation of environmental and social considerations into our credit processes, including equipping our staff with the necessary skills to identify and mitigate environmental and social aspects in credit.

Moving forward, we are confident that value based considerations will deliver the intended outcomes of Shariah that generate positive and sustainable impact to the economy, community and environment, consistent with the shareholders' sustainable returns and long-term interests.

OUTLOOK FOR NEXT FINANCIAL YEAR (CONT'D.)

Capacity Building

We will continue to promote capacity building in order to have the right skill set, optimal level of resources and proper succession. To ensure the sustainability of our business and operations, our training plan entails systematic and targeted training for Board members, Shariah Committee members, management and staff of the AMMB Group who are involved in the Islamic banking business. Training programmes will include the mandatory Islamic Banking 101 e-learning course, instructor-led training with modules that will be tailored to ensure that the specific requirements of the business are met, nationwide engagement with relationship managers and Islamic Banking champions of all AmBank Group branches.

The Bank is keen to contribute towards raising the professional standards of the Islamic finance industry in Malaysia by creating a workforce which ascribes to high standards of professional conduct, knowledge and competence to continue building customer trust and confidence in the Islamic finance industry, through the Certified Shariah Advisor, Certified Shariah Practitioner and Chartered Professional in Islamic Finance programmes.

ISSUANCE OF SHARES AND DEBENTURES

Issuance of sukuk

On 18 October 2018, the Bank issued Tranche 7 of Subordinated Sukuk Murabahah with nominal amount of RM500.0 million under its Subordinated Sukuk Murabahah Programme of RM3.0 billion ("Sukuk Murabahah"). This tranche bears profit at 4.88% per annum, payable semi-annually and is for a tenor of 10 years.

Repayment of sukuk

On 28 February 2019, the Bank early redeemed the First Tranche of the Sukuk Murabahah on its first call date with nominal value amounting to RM200.0 million.

On 25 March 2019, the Bank early redeemed the Second Tranche of the Sukuk Murabahah on its first call date with nominal value amounting to RM150.0 million.

Same as disclosed above and in Note 27 to the financial statements, there were no issuance of shares or debentures by the Bank during the financial year.

SHARE OPTIONS

No options have been granted by the Bank to any parties during the financial year to take up unissued shares of the Bank.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Bank. As at the end of the financial year, there were no unissued shares of the Bank under options.

INDEMNIFICATION OF DIRECTORS

The Bank through the holding company, AMMB Holdings Berhad ("AMMB"), has maintained a Directors' and Officers' Liability Insurance on a group basis up to an aggregate limit of RM200.0 million against any liability incurred by the Directors and Officers in the discharge of their duties while holding office within the Group including the Bank. The Directors and Officers shall not be indemnified for any negligence, fraud, breach of law or breach of trust proven against them. The gross amount of insurance premium paid by AMMB for the Directors and Officers of AMMB and its subsidiaries for the current financial year was RM316,500.

AMMB EXECUTIVES' SHARE SCHEME

At the 22nd Extraordinary General Meeting held on 26 September 2008, the shareholders of AMMB approved the proposal by AMMB to establish an executives' share scheme ("ESS") of up to fifteen percent (15%) (which was subsequently reduced to ten percent (10%) as approved by the Board of Directors pursuant to the ESS By-Laws) of the issued and paid-up ordinary share capital of AMMB at any point in time for the duration of the ESS for eligible executives and executive directors of the AMMB Group (including eligible executive of the Bank) who fulfil the criteria for eligibility stipulated in the By-Laws governing the ESS ("Eligible Executives"). The ESS is implemented and administered by an executives' share scheme committee ("ESS Committee"), in accordance with the By-Laws. The functions of the ESS Committee have since been consolidated with that of Group Nomination and Remuneration Committee ("GNRC") from 29 October 2013. The ESS was established on 12 January 2009 and would be in force for a period of ten (10) years to 11 January 2019.

The awards granted to such Eligible Executives can comprise shares and/or options to subscribe for shares ("Options"). Shares to be made available under the ESS ("AMMB Executive Scheme Shares") will only vest or Options are only exercisable by Eligible Executives who have duly accepted the offers of awards under the ESS ("Scheme Participants") subject to the satisfaction of stipulated conditions. Such conditions are stipulated and determined by the GNRC.

The ESS expired on 11 January 2019 and was terminated since that date. In place of the ESS, and pursuant to the approval of the Board of Directors of AMMB on 5 October 2018, the AMMB Group implemented a new ESS (the "New ESS") for eligible executives of AMMB Group including eligible executives of the Bank.

AMMB EXECUTIVES' SHARE SCHEME (CONT'D.)

The awards under the New ESS are up to ten percent (10%) of the issued and paid-up ordinary share capital of AMMB at any point in time for the duration of the ESS for Eligible Executives. The ESS is implemented and administered by the GNRC. The effective date of the ESS is 5 October 2018 and would be in force for a period of ten (10) years to 4 October 2028.

The awards granted to such Eligible Executives only comprises shares. Shares to be made available under the New ESS will only vest to Eligible Executives who have duly accepted the offers of awards under the ESS subject to the satisfaction of stipulated conditions. Such conditions are stipulated and determined by the GNRC.

BAD AND DOUBTFUL FINANCING

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad financing and the making of allowance for doubtful financing and have satisfied themselves that all known bad financing had been written off and adequate allowances had been made for doubtful financing.

At the date of this report, the Directors are not aware of any circumstances that would render the amount written off for bad financing or the amount of allowances for doubtful financing in the financial statements of the Bank inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that any current assets, which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Bank, have been written down to their estimated realisable values.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Bank misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets or liabilities of the Bank misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

- (a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Bank which has arisen since the end of the financial year, other than those incurred in the normal course of business.

No contingent or other liability of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Bank to meet its obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Bank that would render any amount stated in the financial statements misleading.

DIRECTORS

The Directors of the Bank who served on the Board since the beginning of the current financial year to the date of this report are:

YBhg Dato' Sri Abdul Hamidy Abdul Hafiz
Hajjah Rosmah Ismail
Puan Farina Farikhullah Khan
Encik Azlan Baqee Abdullah
Dr Mohd Nordin Mohd Zain (appointed on 16.01.2019)
Raja Anuar Raja Abu Hassan (resigned on 18.02.2019)

DIRECTORS' INTERESTS

Under the Bank's Constitution, the Directors are not required to hold shares in the Bank.

None of the Directors in office at the end of the financial year had any interest in shares in the Bank and related corporations during and at the end of the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by Directors as shown in Note 42 to the financial statements and from related corporations) by reason of a contract made by the Bank or a related corporation with the Director or with a firm in which the Director is a member, or with a company in which the Director has a substantial financial interest except for related party transactions as shown in Note 48 to the financial statements.

Neither during nor at the end of the financial year, did there subsist any arrangements to which the Bank is a party to any arrangements whose object is to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

CORPORATE GOVERNANCE

(a) DIRECTORS' PROFILES

YBHG DATO' SRI ABDUL HAMIDY ABDUL HAFIZ **Chairman/Independent Non-Executive Director**

Dato' Sri Abdul Hamidy bin Abdul Hafiz ("Dato' Sri Hamidy"), a Malaysian, aged 62, was appointed as Chairman/Independent Non-Executive Director of the Bank on 1 April 2017. Dato' Sri Hamidy is the Chairman of the Board Credit Committee ("BCC") of the Bank. He is also an Independent Non-Executive Director and Chairman of BCC of AmBank (M) Berhad.

Dato' Sri Hamidy holds a Bachelor's Degree and a Master in Business Administration from Ohio University, USA. He is also a Fellow Member of the Asian Institute of Chartered Bankers and a Member of the Association of Chartered Islamic Finance Professionals ("ACIFP").

Dato' Sri Hamidy is an experienced banker with over 30 years of extensive banking experience in the fields of Commercial and Finance Banking, Investment Banking and Islamic Banking. Dato' Sri Hamidy was previously the Chief Executive Officer of Kuwait Finance House (Malaysia) Berhad and prior to that, Dato' Sri Hamidy was the Chairman of Danajamin Nasional Berhad. He was also previously the Managing Director/Chief Executive Officer of Affin Bank Berhad, Chairman of the Association of Banks Malaysia and the Managing Director of Pengurusan Danaharta Nasional Berhad.

Dato' Sri Hamidy currently sits on the Boards of Chubb Insurance Malaysia Berhad, Sime Darby Berhad and Sky Xchange Sdn Bhd. Besides directorship in companies, Dato' Sri Hamidy also serves as the Chairman of Corporate Debt Restructuring Committee ("CDRC") since 2009.

Dato' Sri Hamidy has no shareholding in the Bank.

CORPORATE GOVERNANCE (CONT'D.)

(a) DIRECTORS' PROFILES (CONT'D.)

HAJJAH ROSMAH ISMAIL

Independent Non-Executive Director

Hajjah Rosmah Ismail ("Hjh Rosmah"), a Malaysian, aged 55, was appointed as an Independent Non-Executive Director of the Bank on 1 April 2017. Hjh Rosmah is a Member of the Board Credit Committee of the Bank.

Hjh Rosmah graduated with a Master of Laws (LLM) in Banking Law specialising in Banking, Securities Law and Islamic Finance at the International Islamic University of Malaysia with Top Honours as the Best Postgraduate Student and the Bachelor of Science (Economics) Honours degree in International Relations from the London School of Economics & Political Science (University of London) in United Kingdom. She is also a holder of the Takaful Licence Certificate (Distinction) from the Malaysian Institute of Insurance.

Hjh Rosmah is an international banker with a total of more than 25 years at international banks in Malaysia and overseas, covering Conventional and Islamic Finance across both corporate and consumer client segments across all banking products, and 3 years in financial consultancy including PricewaterhouseCoopers. During her career, she has been commended by top international Shariah Advisors for having authored among the best Shariah Compliance, Risk and Business Operational Policy & Procedures Manual for Islamic Banking and Finance. She has set up Islamic Banking entities in the Middle East and Malaysia, and the businesses under her leadership had also won corporate awards during her tenure. Hjh Rosmah is also on the Board of the Arab-Malaysian Chamber of Commerce.

Hjh Rosmah has no shareholding in the Bank.

CORPORATE GOVERNANCE (CONT'D.)

(a) DIRECTORS' PROFILES (CONT'D.)

PUAN FARINA FARIKHULLAH KHAN

Independent Non-Executive Director

Puan Farina Farikhullah Khan ("Pn Farina"), a Malaysian, aged 47, was appointed as an Independent Non-Executive Director of the Bank on 14 April 2017. Pn Farina is the Chairman of the Risk Management Committee and a Member of the Audit and Examination Committee of the Bank. She is also an Independent Non-Executive Director and a Member of the Audit and Examination Committee and Group Nomination & Remuneration Committee of AMMB Holdings Berhad.

Pn Farina graduated from the University of New South Wales in Australia with a Bachelor of Commerce in Accounting in 1993. She is a Fellow of the Institute of Chartered Accountants in Australia. She has also completed the Advanced Management Program at Harvard Business School in the USA.

Pn Farina over 20 years of working experience, predominantly in oil and gas industry. She started out her career in 1994 with Coopers & Lybrand, Australia as a Senior Associate for the Business Services unit for three years.

In 1997, Pn Farina returned to Malaysia to join Petroliam Nasional Berhad ("PETRONAS") in the Corporate Planning and Development Division where she started as an executive and in the ensuing years until 2005, she held various positions including Senior Manager (Strategy and Portfolio) in Group Strategic Planning of PETRONAS.

Pn Farina subsequently assumed the position of the Chief Financial Officer of PETRONAS Carigali Sdn. Bhd, one of the largest subsidiaries of PETRONAS with operations in over 23 countries, from 2006 to 2010. She then served as the Chief Financial Officer at PETRONAS Exploration and Production Business, the largest arm of PETRONAS Business, from mid-2010 until 2013, where the business included both PETRONAS Carigali Group of Companies as well as the Petroleum Management Unit of PETRONAS.

Prior to leaving PETRONAS Group at the end of 2015 to pursue her other interests, Pn Farina was the Chief Financial Officer of PETRONAS Chemical Group Berhad, the largest listed entity of PETRONAS, for two years.

Pn Farina had also previously served on the Board of various PETRONAS entities such as Progress Energy Canada Ltd as well as a number of PETRONAS joint venture entities with foreign partners. Currently, she is a Board Member of Icon Offshore Berhad, KLCC Property Holdings Berhad, Petronas Gas Berhad and KLCC REIT Management Sdn Bhd.

Pn Farina has no shareholding in the Bank.

CORPORATE GOVERNANCE (CONT'D.)

(a) DIRECTORS' PROFILES (CONT'D.)

ENCIK AZLAN BAQEE ABDULLAH

Non Independent Non-Executive Director

Encik Azlan Baqee Abdullah ("Encik Azlan Baqee"), a Malaysian, aged 55, was appointed as Non-Independent Non-Executive Director of the Bank on 3 July 2017 and is a Member of the Board Credit Committee of the Bank.

He obtained a Bachelor of Science in Business Administration, majoring Accounting and Finance from the California State University, Chico in 1985.

Encik Azlan Baqee started his early career in 1986 as a Loan Rehabilitation Unit Officer in MUI Bank and subsequently joined Arab-Malaysian Finance Berhad as a Corporate Loans Marketing Officer in 1988.

In 1990, he joined Amcorp Group Berhad ("Amcorp") and has since undertaken various challenging and multi-tasking positions within the group. He was responsible for the overall management and development of a high rise development project, Amcorp Trade Centre in Petaling Jaya, a 1.2 million sq ft mixed development joint venture with Yayasan Selangor, from commencement till completion of the project. He was also responsible for the management and development of the 400 acres Kayangan Heights in Shah Alam, the 1,000 acres Sibujaya Township in Sarawak, and various other mid-sized projects throughout Malaysia prior to that.

In 2007, Encik Azlan was appointed as Chief Operating Officer of Amcorp Properties Berhad ("AMPROP"), a listed subsidiary of Amcorp. He was involved in the company's reorganisation exercise where he had successfully turned-around the previously known AMDB Berhad into a focused, profitable business and re-branded it and now known as AMPROP. He has since then been involved in a series of corporate exercises, including disposal of non-core and non-controlling businesses, rehabilitation of non-profitable divisions as well as acquisition of new businesses in different markets and regions, delivering much of the needed recurring profits for AMPROP since 2009 to date.

He was also involved in expanding AMPROP property sector by venturing into overseas markets at prime central London, Tokyo, Madrid, Hong Kong, Singapore and Shanghai, and acted as the principal liaison officer with reputable joint venture partners such as Temasek Holdings of Singapore and Grosvenor Group of UK.

In addition to the property sector, he was also instrumental in AMPROP Group's venture into Sustainable Renewable Energy Power Plants i.e. 6MW Sg Perting Mini Hydro Power Plant, 10.25MW Gemas Solar Power Plant and 20MW Sg Liang Mini Hydro Power Plant, some of which have garnered awards and accolades.

CORPORATE GOVERNANCE (CONT'D.)

(a) DIRECTORS' PROFILES (CONT'D.)

ENCIK AZLAN BAQEE ABDULLAH (CONT'D.)

Non Independent Non-Executive Director (Cont'd.)

He was previously an Exco member of KESAS Sdn Bhd, the concession holder and operator of the Shah Alam Expressway. Currently, he is a Board Member of AmREIT Holdings Sdn Bhd (formerly known as Am ARA REIT Holdings Sdn Bhd) and AmREIT Managers Sdn Bhd (formerly known as Am ARA REIT Managers Sdn Bhd) and serves as board member of the subsidiaries within Amcorp and AMPROP groups.

Encik Azlan Baqee has no shareholding in the Bank.

DR MOHD NORDIN MOHD ZAIN

Independent Non-Executive Director

Dr Mohd Nordin Mohd Zain ("Dr Nordin"), a Malaysian, aged 60, was appointed as an Independent Non-Executive Director of the Bank on 16 January 2019. Dr Nordin is the Chairman of the Audit and Examination Committee and a Member of the Risk Management Committee of the Bank.

Dr Nordin has 34 years of experience in various capacities in banking, education, regulatory agency and professional practice. He started his career in internal audit and corporate banking for 6 years, in academic for 10 years, as a CEO for the Malaysian Accounting Standards Board ("MASB") for 10 years and as a Partner in Deloitte for 8 years.

A Chartered Accountant ("CA"), Dr Nordin is a member of Malaysian Institute of Accountants ("MIA"), a Fellow member of CPA Australia ("FCPA") and a Fellow of IPA Australia ("FIPA"). He also serves as a council member of CPA Australia and MIA, and a founding board member of MASB.

He obtained his doctorate degree in Strategic Management from Strathclyde University, UK in 1995 and Masters and Bachelor degrees in Accounting from the USA in the 80's.

He currently sits on the board of Zurich General Takaful Malaysia Berhad and international bodies such as Accounting & Auditing Organization for Islamic Financial Institutions ("AAOIFI") in Bahrain UAE and the Institute of Public Accountants ("IPA") Australia in Melbourne, and serves as an investment committee member of a subsidiary of AIA Berhad. He used to serve as a member of Public Accountants Oversight Committee in Brunei.

His core skills are in banking, C-suite experience, international engagements, research as well as professional practice particularly in internal audit, financial reporting, strategy, Shariah-based transactions, IT systems implementation, risk management and talent.

Dr Nordin has no shareholding in the Bank.

CORPORATE GOVERNANCE (CONT'D.)

(b) DIRECTORS' TRAINING

The Board recognised the importance of ensuring that Directors are continuously being developed to acquire or enhance the requisite knowledge and skills to discharge their duties effectively.

All new Directors appointed to the Board would attend a formal induction programme to familiarise themselves with the Bank's strategy and aspiration, understanding of the line of businesses and corporate functions, key financial highlights, people initiatives, requirements of audit, compliance and risk management conducted by the various Managing Directors/Chief Executive Officers/Heads of the business units as well as Senior Management, and organised by the Group Learning and Development unit. The Company Secretary would also provide the new Directors with an information kit regarding disclosure obligations of a director, Board Charter, Code of Ethics, Constitution of the Bank, Board Committees' Terms of Reference and Schedule of Matters Reserved for the Board, amongst others.

Apart from the Financial Institutions Directors' Education ("FIDE") Programme accredited by The ICLIF Leadership and Governance Centre, all Directors appointed to the Board, have also attended other relevant training programmes and seminars organised by the regulatory authorities and professional bodies to further enhance their business acumen and professionalism in discharging their duties to the Bank. The Directors also attend offsite Strategy Meeting to have an in-depth understanding and continuous engagement with Management pertaining to the AMMB Group's (including AmBank Islamic's) strategic direction. In addition, the Directors are constantly updated on information relating to the AMMB Group's development and industry development through discussion at Board meetings with the Senior Management team.

CORPORATE GOVERNANCE (CONT'D.)

(c) BOARD RESPONSIBILITY AND OVERSIGHT

The Board of Directors ("the Board") remains fully committed in ensuring that the principles and recommendations in corporate governance are applied consistently in the Bank. The Board complies with the recommendations in corporate governance as set out in the Malaysian Code on Corporate Governance 2017.

The Board supervises the management of the Bank's businesses, policies and affairs with the goal of long term sustainability of the Bank. The Board met ten (10) times during the financial year to carry out its duties and responsibilities, with additional Board meetings being convened, whenever required.

The Board addresses key matters concerning strategy, finance, organisation structure, business developments, human resource (subject to matters reserved for shareholder's meetings by law), and establishes guidelines for overall business, risk and control policies, capital allocation and approves all key business developments. The Board also gives due regard to any decision of the Shariah Committee on any Shariah issue relating to the carrying on of business, affairs or activities of the Bank and approves policies relating to Shariah matters upon consultation with the Shariah Committee.

The Board currently comprises five (5) Directors with wide skills and experience, four (4) of whom are Independent Non-Executive Directors. The Directors participate fully in decision-making on key issues regarding the Bank. The Independent Non-Executive Directors ensure strategies proposed by the management are fully discussed and examined, as well as taking into account the long term interests of various stakeholders.

There is a clear division between the roles of Chairman and the Chief Executive Officer of the Bank. The Senior Management team of the Bank are invited to attend Board Meetings to provide presentations and detailed explanations on matters that have been tabled. The Company Secretary has been empowered by the Board to assist the Board in matters of governance and in complying with statutory duties.

(d) COMMITTEES OF THE BOARD

The Board delegates certain responsibilities to the Board Committees. The Board Committees together with the Committees established at AMMB Group level which were created to assist the Board in certain areas of deliberations, are:

1. Audit and Examination Committee (at Bank level)
2. Risk Management Committee (at Bank level)
3. Board Credit Committee (at Bank level)
4. Group Nomination and Remuneration Committee (at AMMB Group level)

The roles and responsibilities of each Committee are set out under the respective terms of reference, which have been approved by the Board. The minutes of the Committee meetings are tabled at the subsequent Board meetings for notation.

CORPORATE GOVERNANCE (CONT'D.)

(d) COMMITTEES OF THE BOARD (CONT'D.)

The attendance of Board members at the meetings of the Board and the various Board Committees is set out below:-

Number of meetings attended in Financial Year 2019 ("FY2019")					
	Board of Directors	Audit and Examination Committee	Risk Management Committee	Board Credit Committee	Group Nomination and Remuneration Committee
YBhg Dato' Sri Abdul Hamidy Abdul Hafiz	10/10 (Chairman)	N/A	N/A	24/24 (Chairman)	N/A
Raja Anuar Raja Abu Hassan (resigned on 18.02.2019)	8/9	8/8 ^a	7/7 ^a	N/A	N/A
Hajjah Rosmah Ismail	10/10	N/A	N/A	24/24	N/A
Puan Farina Farikhullah Khan	10/10	9/9	8/8 (Chairman)	N/A	7/7
Encik Azlan Baqee Abdullah	10/10	N/A	N/A	24/24	N/A
Dr Mohd Nordin Mohd Zain (appointed on 16.01.2019)	2/2	2/2 ^b (Chairman)	1/1 ^c	N/A	N/A
Number of meetings held in FY2019	10	9	8	24	7

- a Ceased as Member following resignation as Director
- b Appointed as Chairman on 6.3.2019
- c Appointed as Member on 6.3.2019

Notes:

1. All attendances reflect the number of meetings attended during the Directors' tenure of service.
2. N/A represents non-Committee member.

CORPORATE GOVERNANCE (CONT'D.)

(d) COMMITTEES OF THE BOARD (CONT'D.)

Audit and Examination Committee

The Board has appointed the Audit and Examination Committee ("AEC") to assist in discharging its duties of maintaining a sound system of internal controls to safeguard the Bank's assets and stakeholders interests. The Committee comprises two (2) members, both of whom are Independent Non-Executive Directors.

The Committee reviews the scope of work of both the internal audit function and the statutory auditors, the results arising thereafter as well as their evaluation of the system of internal controls. The Committee also follows up on the resolution of major issues raised by the internal auditors, statutory auditors as well as the regulatory authorities in their audit reports. The financial statements are reviewed by the Committee prior to their submission to the Board of the Bank for adoption.

In addition, the Committee reviews and report to the Board any related party transactions and conflict of interest situations that may arise within the Bank.

The Committee met nine (9) times during the financial year ended 31 March 2019.

Internal Audit Function

The Internal Audit function is established at AMMB Group level, headed by the Group Chief Internal Auditor.

The Group Chief Internal Auditor reports to the AEC. Group Internal Audit assists the AEC in assessing and reporting on business risks and internal controls, operating within the framework defined in the Audit Charter.

The AEC approves the Group Internal Audit's annual audit plan, which covers the audit of all major business units and operations within the Bank. The results of each audit are submitted to the AEC and significant findings are discussed during the AEC meeting. The minutes of the AEC meetings are formally tabled to the Board for notation and action, where necessary. The Group Chief Internal Auditor attends the AEC meeting by invitation. The AEC also holds separate meetings with the Group Chief Internal Auditor whenever necessary.

CORPORATE GOVERNANCE (CONT'D.)

(d) COMMITTEES OF THE BOARD (CONT'D.)

Internal Audit Function (Cont'd.)

The scope of internal audit includes the review of risk management processes, operational controls, financial controls, compliance with laws and regulations, and information technology systems and security.

Group Internal Audit prioritises its efforts in performing audits in accordance with the audit plan, based on a comprehensive risk assessment of all areas of banking activities. The risk-based audit plan is reviewed at least semi-annually taking into account of the changing business and risk environment.

Group Internal Audit also performs investigations and special reviews, and participates actively in major system development activities and projects to advise on risk management and internal control measures.

Risk Management Committee

Risk management is an integral part of the Bank's strategic decision-making process which ensures that the corporate objectives are consistent with the appropriate risk-return trade-off. The Board approves the risk management strategy and sets the broad risk tolerance level and also approves the engagement of new products or activities after considering the risk bearing capacity and readiness of the Bank.

The Risk Management Committee exercises oversight on behalf of the Board to ensure adequate overall management of credit, market, liquidity, operational, legal and capital risks, cyber security risk impacting the Bank.

The Committee is independent from management and comprises two (2) members, both of whom are Independent Non-Executive Directors. The Committee ensures that the Board's risk tolerance level is effectively enforced, the risk management process is in place and functioning and reviews high-level risk exposures to ensure that they are within the overall interests of the Bank. It also assesses the Bank's ability to accommodate risks under normal and stress scenarios.

The Committee met eight (8) times during the financial year ended 31 March 2019.

CORPORATE GOVERNANCE (CONT'D.)

(d) COMMITTEES OF THE BOARD (CONT'D.)

Risk Management Functions

AMMB Group Risk Management is independent of the various business units and acts as the catalyst for the development and maintenance of comprehensive and sound risk management policies, strategies and procedures within the Bank. AMMB Group Risk Management encompasses Wholesale Credit Risk, Business Credit Risk, Retail Credit Risk, Investment Banking and Markets Risk, Operational Risk & IT Governance, Governance and Provisioning (which is responsible for the development of credit models).

AMMB Group Risk Management takes its lead from the Board's Approved Risk Appetite Framework that forms the foundation of the Bank to set its risk/reward profile. The framework is approved annually by the Board taking into account the Bank's desired external rating and targeted profitability/return on risk-weighted assets ("RWA") and is reviewed periodically throughout the financial year to take account of prevailing or expected changes to the operating environment.

AMMB Group has an IT Risk Management Framework that is designed to protect the Bank's IT systems against internal and external risks and threats. It is our objective to ensure that the IT Risk Management Framework is continuously enhanced and robustly tested to safeguard the Bank's and the customers' data from potential cyber-attacks.

Board Credit Committee

The Board has established the Board Credit of Committee ("BCC") to assist in ensuring that credit facilities and commitments, and connected party credit transactions are approved in accordance with policies approved by the Board. The Committee comprises three (3) members, all of whom are Non-Executive Directors.

The Committee met twenty-four (24) times during the financial year ended 31 March 2019.

CORPORATE GOVERNANCE (CONT'D.)

(d) COMMITTEES OF THE BOARD (CONT'D.)

Group Nomination and Remuneration Committee

The Board delegated the nomination and remuneration functions to the Group Nomination and Remuneration Committee which is established at AMMB Group level ("AMMB"). The Committee comprises six (6) members, all of whom are Non-Executive Directors and chaired by an Independent Non-Executive Director. The Bank is represented by Puan Farina Farikhullah Khan in the Committee. The Committee is responsible for, among others, the following:-

- regularly reviewing the board structure, size and composition, as well as making recommendation to the Board of the Bank with regard to any changes that are deemed necessary;
- recommending the appointment of Directors to the Board and Committees of the Board as well as annually review the mix of skills, experience and competencies that Non-Executive and Executive Directors should bring to the Board;
- on an annual basis, assessing the effectiveness of the Board as a whole and the Committees as well as the contributions of the Chairman and each Director to the effectiveness of the Board;
- recommending to the Board the framework/methodology for the remuneration of the Directors, Chief Executive Officer and other Senior Management staff, with the relevant experience and expertise needed to assist in managing the AMMB Group effectively. The services of consultants are utilised to review the methodology for rewarding Executive Directors and Management staff according to the Key Performance Indicators required to be achieved;
- recommending the appointment of Shariah Committee members as well as reviewing the annual performance of the Shariah Committee members and recommending the remuneration for the Shariah Committee members; and
- to implement the ESS in accordance with the By-Laws of the ESS or approved by the shareholders of the AMMB.

The Committee met seven (7) times during the financial year ended 31 March 2019.

MANAGEMENT INFORMATION

All Directors review Board papers and reports prior to the Board meeting. Information and materials, relating to the operations of the Bank that are important to the Directors' understanding of the items in the agenda and related topics, are distributed in advance of the meeting. The Board reports, include among others, minutes of meetings of all Committees of the Board, monthly performance of the Bank, credit risk management, asset liability and market risk management and industry benchmarking as well as prevailing regulatory developments and the economic and business environment.

These reports are issued timely before the meeting to enable the Directors to be prepared and to obtain further explanations, where necessary, and provide input on Bank policies.

ULTIMATE HOLDING COMPANY

The Directors regard AMMB Holdings Berhad which is incorporated in Malaysia, as the ultimate holding company.

RATING BY EXTERNAL AGENCIES

The Bank continues to maintain credit ratings with RAM Rating Services Berhad ("RAM").

Rating agency	Date accorded	Rating classification	Ratings
RAM Rating Services Berhad	December 2018	Long-term financial institution rating	AA2
		Short-term financial institution rating	P1
		Outlook	Stable

SHARIAH COMMITTEE

The Shariah Committee comprises five (5) members and is responsible and accountable for all Shariah-related decisions, views and opinions. The main functions and duties of the Shariah Committee shall include, but are not limited to the following:

- i. to advise the Board and the Bank on Shariah matters to ensure that the business operations of the Bank comply with Shariah principles at all times;
- ii. to review and endorse the Shariah aspects of policies and procedures of the Bank and to ensure that the contents do not contain any elements which are not in line with Shariah principles;
- iii. to review and approve the following documentations in relation to the Bank's products to ensure that the products are in compliance with Shariah principles:
 - a) the terms and conditions contained in the forms, contracts, agreements or other legal documentation used in executing the transactions; and
 - b) the product manual, marketing advertisements, sales illustrations, pamphlets and brochures used to describe the products
- iv. to actively promote a culture of support for Value-based Intermediation ("VBI") and foster the development of the organisation's capacities to support the Bank's value based mission;
- v. to perform oversight on the work carried out by the Shariah Research and Advisory, and Shariah Review functions in order to ensure compliance with Shariah matters which form part of their duties in providing their assessment of Shariah compliance and assurance information in the annual report. This includes performing assessment of the Head of Shariah Research & Advisory, and the Head of Shariah Review on periodic basis with input from key stakeholders;
- vi. to assess the work carried out by Group Internal Audit relating to the Shariah Audit function and the Shariah Risk Management function in order to ensure compliance with Shariah matters which form part of their duties in providing their assessment of Shariah compliance and assurance information in the annual report;
- vii. to provide assistance to related parties of the Bank such as its legal counsel, auditor or consultant on Shariah matters upon request;
- viii. to advise the Bank to consult the Shariah Advisory Council ("SAC") of BNM or Securities Commission on any Shariah matters that could not be resolved by the Committee;
- ix. to provide written Shariah opinions to the SAC of BNM as and when required, including the following circumstances:
 - a) where the Bank makes reference to the SAC for advice; or
 - b) where the Bank submits an application to the Bank Negara Malaysia for new product approval
- x. to provide advice and guidance on management of zakat fund, charity and other social program or activities;
- xi. to oversee strategies and initiatives implemented by key organs carrying out the Shariah functions including the Shariah Research & Advisory, Shariah Review, Shariah Audit and Shariah Risk Management functions; and
- xii. to endorse the Shariah operations manual which specify the manner in which a submission or request for advice be made to the Committee, the conduct of the Committee's meeting and the manner of compliance with any Shariah decision.

SHARIAH COMMITTEE (CONT'D.)

The Shariah Committee members also sit in Shariah Oversight Committee, a sub-committee to the Shariah Committee. The Shariah Oversight Committee is established to assist the Shariah Committee in discharging its responsibilities relating to the oversight from Shariah perspectives of the Shariah Review function. In addition, the Shariah Oversight Committee is to assess the work carried out by Group Internal Audit relating to the Shariah Audit function and Shariah Risk Management function in order to ensure compliance with Shariah matters.

The main functions and duties of Shariah Oversight Committee shall include, but are not limited to the following:

- i. to determine and confirm actual and potential Shariah non-compliance incidents and endorse corresponding rectifications plans;
- ii. to recommend alternative ways to rectify issues identified through Shariah Audit, Shariah Review and Shariah Risk Management activities and other sources;
- iii. to provide advice on the recognition of income pursuant to Shariah non-compliance incidents and its disposal;
- iv. to recommend possible implementation methods to improve the Bank's Shariah business activities in line with applicable statutes and guidelines/policies/circulars issued by relevant regulatory bodies; and
- v. to perform assessment of the Head of Shariah Review on periodic basis with input from the key stakeholders and recommend to the Shariah Committee for assessment.

Shariah Committee met eight (8) times and Shariah Oversight Committee met eight (8) times during the financial year ended 31 March 2019.

The attendance of Shariah Committee members at the meetings of Shariah Committee and Shariah Oversight Committee is set out below:-

Number of Meetings Attended in Financial Year Ended 31 March 2019

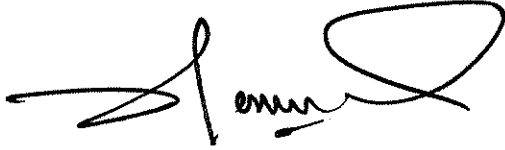
	Shariah Committee	Shariah Oversight Committee
Asst. Prof. Dr. Tajul Aris Ahmad Bustami (Chairman)	8	8
Prof. Dr. Amir Husin Mohd Nor	7	7
Assoc. Prof. Datin Dr. Noor Naemah Abdul Rahman	8	6
Assoc. Prof. Dr. Adnan Yusoff	8	8
Dr. Asmak Ab Rahman	8	8
Number of meetings held in financial year 2019	8	8

Company No. 295576-U

AUDITORS AND AUDITORS' REMUNERATION

The auditors, Ernst & Young, have expressed their willingness to continue in office. The auditors' remuneration is disclosed in Note 41 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the Directors.



DATO' SRI ABDUL HAMIDY ABDUL HAFIZ
Director



DR. MOHD NORDIN MOHD ZAIN
Director

Kuala Lumpur, Malaysia
27 May 2019

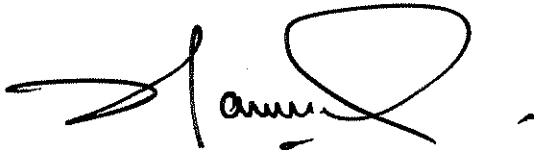
Company No. 295576-U

AMBANK ISLAMIC BERHAD
(Incorporated in Malaysia)

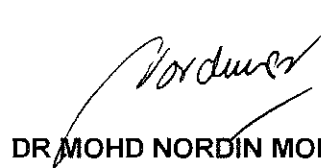
STATEMENT BY DIRECTORS
PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, **DATO' SRI ABDUL HAMIDY ABDUL HAFIZ** and **DR MOHD NORDIN MOHD ZAIN**, being two of the Directors of **AMBANK ISLAMIC BERHAD**, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 36 to 233 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 March 2019 and of its financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors.



DATO' SRI ABDUL HAMIDY ABDUL HAFIZ
Director



DR MOHD NORDIN MOHD ZAIN
Director

Kuala Lumpur, Malaysia
27 May 2019

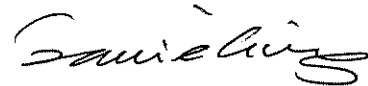
Company No. 295576-U

AMBANK ISLAMIC BERHAD
(Incorporated in Malaysia)

STATUTORY DECLARATION
PURSUANT TO SECTION 251 (1)(b) OF THE COMPANIES ACT 2016

I, **LING FOU-TSONG @ JAMIE LING**, being the Officer primarily responsible for the financial management of **AMBANK ISLAMIC BERHAD**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 36 to 233 are, in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act 1960.

Subscribed and solemnly declared by the
abovenamed **LING FOU-TSONG @ JAMIE LING**
at Kuala Lumpur in the Wilayah Persekutuan
on 27 May 2019



LING FOU-TSONG @ JAMIE LING

Before me,



COMMISSIONER FOR OATHS

Lot 333, 3rd Floor, Wisma MPL,
Jalan Raja Chulan,
50200 Kuala Lumpur

Lodged on behalf by:
Address: 22nd Floor, Bangunan AmBank Group,
No. 55 Jalan Raja Chulan,
50200 Kuala Lumpur
Telephone Number: 03-20362633

AMBANK ISLAMIC BERHAD
(Incorporated in Malaysia)

SHARIAH COMMITTEE'S REPORT TO THE MEMBER OF AMBANK ISLAMIC BERHAD

In the Name of Allah, The Most Compassionate, The Most Merciful,

All Praise is due to Allah, the Cherisher of the World, and the Peace and Blessing be upon the Prophet of Allah, on his Family and all his Companions.

In carrying out our roles and responsibilities as members of the Shariah Committee ("the Committee") of AmBank Islamic Berhad ("the Bank") pursuant to the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia and in compliance with our letter of appointment, we are required to submit the following report:

We hereby confirm that we have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank during the financial year ended 31 March 2019.

Shariah advisory services were provided on various aspects to the Bank in order to ensure compliance with applicable Shariah principles as well as the relevant resolutions and rulings made by the Shariah Advisory Council of Bank Negara Malaysia ("SAC"). We have also conducted our review to form an opinion as to whether the Bank has complied with the Shariah principles and with the Shariah rulings issued by SAC, as well as Shariah decisions made by us.

The Bank's management is responsible for ensuring that the Bank conducts its business in accordance with Shariah rules and principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank and to produce this report.

Through our sub-committee, being the Shariah Oversight Committee ("SOC"), we have assessed the work carried out by Shariah review and Shariah audit which included examining, on a test basis, each type of transactions, the relevant documentation and procedures adopted by the Bank.

The reviews were planned and performed so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has complied with the Shariah principles.

AMBANK ISLAMIC BERHAD
(Incorporated in Malaysia)

SHARIAH COMMITTEE'S REPORT TO THE MEMBER OF AMBANK ISLAMIC BERHAD
(CONT'D.)

To the best of our knowledge based on the information provided to us, we are of the opinion that during the financial year ended 31 March 2019:

- a) The contracts, transactions and dealings entered into by the Bank and legal documents used by the Bank, that we have reviewed and assessed are in compliance with the Shariah principles;
- b) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles;
- c) For the financial year ended 31 March 2019, there was one (1) Shariah non-compliant ("SNC") incident involving SNC income of RM1,115 relating to imposition of additional late payment charges. Purification of the SNC income was made in accordance with the method approved by the Shariah Oversight Committee. To mitigate the recurrence of a similar incident, the Bank has implemented enhanced measures via system control and heightened staff awareness via focused training sessions. Given that this SNC incident is of similar nature to the one (1) SNC incident which occurred in the financial year ended 31 March 2018, both SNC incidents are grouped as a single SNC incident which were deemed to occur in the financial year ended 31 March 2018;
- d) The calculation of zakat is in compliance with Shariah principles.

We, the members of the Shariah Committee of the Bank, do hereby confirm to the best of our knowledge that the operations of the Bank for the financial year ended 31 March 2019, save for the one (1) incident declared above, have been conducted in conformity with the Shariah principles.

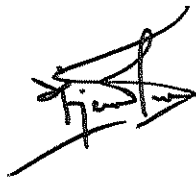
We beg Allah the Almighty to grant us all the success and straightforwardness and Allah knows best.

Company No. 295576-U

AMBANK ISLAMIC BERHAD
(Incorporated in Malaysia)

SHARIAH COMMITTEE'S REPORT TO THE MEMBER OF AMBANK ISLAMIC BERHAD
(CONT'D.)

On behalf of the Shariah Committee



ASST. PROF. DR. TAJUL ARIS AHMAD BUSTAMI
Chairman of the Committee



ASSOC. PROF. DR. ADNAN YUSOFF
Member of the Committee

Kuala Lumpur, Malaysia
27 May 2019



Building a better
working world

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50490 Kuala Lumpur Malaysia

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295576-U

**Independent auditors' report to the member of
AmBank Islamic Berhad
(Incorporated in Malaysia)**

Report on the audit of the financial statements

Opinion

We have audited the financial statements of AmBank Islamic Berhad, which comprise the statement of financial position as at 31 March 2019, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 36 to 233.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 March 2019, and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Bank in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and IESBA Code.

Information other than the financial statements and auditors' report thereon

The directors of the Bank are responsible for the other information. The other information comprises the information included in the directors' report, but does not include the financial statements of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

295576-U

**Independent auditors' report to the member of
AmBank Islamic Berhad (Cont'd.)
(Incorporated in Malaysia)**

Information other than the financial statements and auditors' report thereon (Cont'd.)

In connection with our audit of the financial statements of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors of the Bank are responsible for the preparation of the financial statements of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Bank, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

295576-U

**Independent auditors' report to the member of
AmBank Islamic Berhad (Cont'd.)
(Incorporated in Malaysia)**

Auditors' responsibilities for the audit of the financial statements (Cont'd.)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.

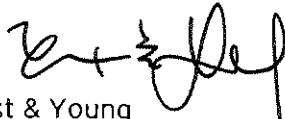
We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Independent auditors' report to the member of
AmBank Islamic Berhad (Cont'd.)
(Incorporated in Malaysia)

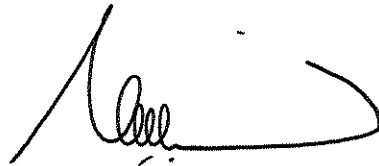
Other matters

This report is made solely to the member of the Bank, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.



Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
27 May 2019



Chan Hooi Lam
No. 02844/02/2020 J
Chartered Accountant

AMBANK ISLAMIC BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019

	Note	31 March 2019 RM'000	31 March 2018 RM'000
ASSETS			
Cash and short-term funds	6	1,568,643	1,588,429
Deposits and placements with banks and other financial institutions	7	-	200,000
Derivative financial assets	8	43,136	87,408
Financial assets at fair value through profit or loss	9	5,113,974	-
Financial assets held-for-trading	10	-	1,584,632
Financial investments at fair value through other comprehensive income	11	3,492,140	-
Financial investments available-for-sale	12	-	2,838,566
Financial investments at amortised cost	13	1,705,455	-
Financial investments held-to-maturity	14	-	1,090,010
Financing and advances	15	28,922,449	27,775,836
Receivables: Investments not quoted in active markets	16	-	790,833
Statutory deposit with Bank Negara Malaysia	17	970,000	821,000
Other assets	18	406,985	270,731
Property and equipment	19	576	426
Intangible assets	20	1,351	1,207
TOTAL ASSETS		42,224,709	37,049,078
LIABILITIES AND EQUITY			
Deposits from customers	21	31,139,936	26,493,802
Investment accounts of customers	22	353,451	138,956
Deposits and placements of banks and other financial institutions	23	2,598,550	1,223,524
Investment account due to a licensed bank	24	1,465,539	2,859,110
Recourse obligation on financing sold to Cagamas Berhad	25	518,350	520,405
Derivative financial liabilities	8	55,519	92,939
Term funding	26	1,080,000	1,080,000
Subordinated Sukuk	27	1,150,000	999,839
Deferred tax liability	28	5,360	2,947
Other liabilities	29	330,874	294,273
Provision for zakat		2,059	1,513
TOTAL LIABILITIES		38,699,638	33,707,308
Share capital	30	1,387,107	1,387,107
Reserves	31	2,137,964	1,954,663
Equity attributable to equity holder of the Bank		3,525,071	3,341,770
TOTAL LIABILITIES AND EQUITY		42,224,709	37,049,078
COMMITMENTS AND CONTINGENCIES	52	11,593,921	11,346,899
NET ASSETS PER SHARE (RM)		7.13	6.76

The accompanying notes form an integral part of the financial statements.

AMBANK ISLAMIC BERHAD
(Incorporated in Malaysia)

STATEMENT OF PROFIT OR LOSS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019

	Note	2019 RM'000	2018 RM'000
Income derived from investment of depositors' funds	32	1,764,419	1,698,932
Income derived from investment of investment account funds	33	105,499	103,215
Income derived from investment of shareholder's funds	34	179,795	119,540
Allowance for impairment on financing and advances	35	(82,620)	(61,396)
Impairment losses on financial investments	36	(10,905)	-
Impairment losses on other financial assets	37	(3)	-
Provision for commitments and contingencies - (allowance)/writeback	38	(3,464)	801
Total distributable income		<u>1,952,721</u>	<u>1,861,092</u>
Income attributable to the depositors and others	39	(1,031,486)	(933,032)
Income attributable to the investment account holders	40	(91,519)	(92,326)
Total net income		829,716	835,734
Other operating expenses	41	(317,470)	(422,391)
Finance costs	44	(106,572)	(110,451)
Profit before zakat and taxation		405,674	302,892
Zakat		(2,401)	(2,034)
Taxation	45	(91,473)	(61,729)
Profit for the financial year		<u>311,800</u>	<u>239,129</u>
Basic/diluted earnings per share (sen)	46	<u>63.07</u>	<u>49.95</u>

The accompanying notes form an integral part of the financial statements.

Company No. 295576-U

AMBANK ISLAMIC BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019

	2019 RM'000	2018 RM'000
Profit for the financial year	<u>311,800</u>	<u>239,129</u>
Other comprehensive income/(loss):		
Items that may be reclassified subsequently to profit or loss:		
Financial investments at fair value through other comprehensive income:		
Net unrealised gain on changes in fair value	28,101	-
Expected credit loss	10,799	-
Net gain reclassified to statement of profit or loss	(11,237)	-
Income tax effect (Note 28)	(4,047)	-
Financial investments available-for-sale:		
Net unrealised gain on changes in fair value	-	3,864
Net gain reclassified to statement of profit or loss	-	(4,315)
Income tax effect (Note 28)	-	108
Other comprehensive income/(loss) for the financial year, net of tax	<u>23,616</u>	<u>(343)</u>
Total comprehensive income for the financial year	<u>335,416</u>	<u>238,786</u>

The accompanying notes form an integral part of the financial statements.

AMBANK ISLAMIC BERHAD
(Incorporated in Malaysia)
STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019

	Note	Attributable to Equity Holder of the Bank					Retained earnings RM'000	Total equity RM'000
		Non-distributable				Distributable		
		Share capital RM'000	Statutory reserve RM'000	Regulatory reserve RM'000	Available-for-sale deficit RM'000	Fair value reserve RM'000		
At 1 April 2017		1,187,107	483,345	58,430	(5,149)	-	1,179,283	2,903,016
Profit for the financial year		-	-	-	-	-	239,129	239,129
Other comprehensive loss		-	-	-	(343)	-	-	(343)
Total comprehensive (loss)/income for the financial year		-	-	-	(343)	-	239,129	238,786
Issuance of ordinary shares	30	200,000	-	-	-	-	-	200,000
Transfer to retained earnings		-	(483,345)	-	-	-	483,345	-
Transfer to regulatory reserve		-	-	269,253	-	-	(269,253)	-
Transfer of AMMB Executive Share Scheme ("ESS") shares recharged - difference on purchase price of shares vested		-	-	-	-	-	(32)	(32)
Transactions with owner and other equity movements		200,000	(483,345)	269,253	-	-	214,060	199,968
At 31 March 2018		1,387,107	-	327,683	(5,492)	-	1,632,472	3,341,770
At 1 April 2018		1,387,107	-	327,683	(5,492)	-	1,632,472	3,341,770
- as previously stated		1,387,107	-	327,683	(5,492)	-	1,632,472	3,341,770
- Effects of adoption of MFRS 9 at 1 April 2018	60	-	-	(162,530)	5,492	15,535	38,894	(102,609)
Restated balance at 1 April 2018		1,387,107	-	165,153	-	15,535	1,671,366	3,239,161
Profit for the financial year		-	-	-	-	-	311,800	311,800
Other comprehensive income		-	-	-	-	23,616	-	23,616
Total comprehensive income for the financial year		-	-	-	-	23,616	311,800	335,416
Transfer from regulatory reserve		-	-	(225)	-	-	225	-
Transfer of AMMB ESS shares recharged - difference on purchase price of shares vested		-	-	-	-	-	(69)	(69)
Dividend on ordinary shares - interim, financial year ended 31 March 2019	47	-	-	-	-	-	(49,437)	(49,437)
Transactions with owner and other equity movements		-	-	(225)	-	-	(49,281)	(49,506)
At 31 March 2019		1,387,107	-	164,928	-	39,151	1,933,885	3,525,071

The accompanying notes form an integral part of the financial statements.

AMBANK ISLAMIC BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019

	Note	2019 RM'000	2018 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before zakat and taxation		405,674	302,892
Adjustments for:			
Net accretion of discount on securities		(106,623)	(94,142)
Allowance for impairment on financing and advances	35	233,124	166,919
Amortisation of intangible assets	20	355	90
Amortisation of issuance costs for Subordinated Sukuk	27 (b)	161	160
Depreciation of property and equipment	19	142	100
Gain on disposal of financial assets at fair value through profit or loss	32, 34	(8,287)	-
Gain on disposal of financial assets held-for-trading	32	-	(3,317)
Gain on revaluation of financial assets at fair value through profit or loss	32, 34	(316)	-
Gain on revaluation of financial assets held-for-trading	32	-	(1,890)
Gain on disposal of financial investments at fair value through other comprehensive income	32, 34	(11,237)	-
Gain on disposal of financial investments available-for-sale	32, 34	-	(4,315)
Loss on disposal of property and equipment		10	-
Impairment loss on financial investments	36, 37	10,908	-
Loss on revaluation of derivatives		6,852	42
Shares granted under AMMB ESS - writeback	41	(29)	(86)
Unrealised gain on revaluation of hedged item arising from fair value hedge	11	(3,812)	(260)
Allowance/(writeback) of provision for commitments and contingencies	38	3,464	(801)
Operating profit before working capital changes		530,386	365,392
(Increase)/decrease in operating assets:			
Financial assets at fair value through profit or loss		(3,448,538)	-
Financial assets held-for-trading		-	(887,279)
Financing and advances		(1,523,701)	(702,999)
Statutory deposit with Bank Negara Malaysia		(149,000)	(11,000)
Other assets		(136,294)	40,987

AMBANK ISLAMIC BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019 (CONT'D.)

	Note	2019 RM'000	2018 RM'000
Increase/(decrease) in operating liabilities:			
Deposits from customers		4,646,134	(342,895)
Investment accounts of customers		214,495	114,582
Deposits and placements of banks and other financial institutions		1,375,026	(42,813)
Investment account due to a licensed bank		(1,393,571)	1,259,110
Term funding		-	(905,000)
Other liabilities		43,243	29,082
Recourse obligation on financing sold to Cagamas Berhad		(2,055)	(97,308)
Cash generated from/(used in) operations		156,125	(1,180,141)
Zakat paid		(1,855)	(1,807)
Tax paid		(74,714)	(66,896)
Net cash generated from/(used in) operating activities		79,556	(1,248,844)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of financial investment at fair value through other comprehensive income		(138,576)	-
Purchase of financial investments available-for-sale (net)		-	(327,306)
Purchase of financial investments at amortised cost (net)		(260,522)	-
Disposal of financial investments held-to-maturity (net)		-	200,000
Purchase of intangible assets	20	(499)	(1,020)
Purchase of property and equipment	19	(389)	(206)
Proceeds from disposal of property and equipment		87	-
Redemption of Receivables: Investments not quoted in active market		-	24,147
Net cash used in investing activities		(399,899)	(104,385)

CASH FLOWS FROM FINANCING ACTIVITIES

Dividend paid	47	(49,437)	-
Proceeds from issuance of shares		-	200,000
Issuance of Subordinated Sukuk	27(a), (b)	500,000	150,000
Repayment of Subordinated Sukuk	27(a), (b)	(350,000)	(130,000)
Net cash generated from financing activities		100,563	220,000

AMBANK ISLAMIC BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019 (CONT'D.)

	2019	2018
	RM'000	RM'000
Net decrease in cash and cash equivalents	(219,780)	(1,133,229)
Cash and cash equivalents at beginning of financial year	1,788,429	2,921,658
Cash and cash equivalents at end of financial year	<u>1,568,649</u>	<u>1,788,429</u>
Cash and cash equivalents comprise:		
Cash and short-term funds	1,568,643	1,588,429
Deposits and placements with banks and other financial institutions with original maturity of less than 3 months	-	200,000
	<u>1,568,643</u>	<u>1,788,429</u>
Changes in expected credit losses for cash and cash equivalent:		
Effects of adoption of MFRS 9	3	-
Movement for the financial period	3	-
Closing balance	6	-
	<u>1,568,649</u>	<u>1,788,429</u>

The accompanying notes form an integral part of the financial statements.

AMBank ISLAMIC BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2019

1. CORPORATE INFORMATION

AmBank Islamic Berhad ("the Bank") is a licensed Islamic banking institution providing Islamic retail and commercial banking products and services in accordance with Shariah principles. There has been no significant change in these activities during the financial year.

The Bank is a licensed Islamic Bank under the Islamic Financial Services Act, 2013, incorporated and domiciled in Malaysia. The registered office of the Bank is located at 22nd Floor, Bangunan AmBank Group, No. 55, Jalan Raja Chulan, 50200 Kuala Lumpur. The principal place of business is located at Menara AmBank, Jalan Yap Kwan Seng, 50450 Kuala Lumpur.

The Bank is a wholly-owned subsidiary of AMMB Holdings Berhad ("AMMB"), a company incorporated in Malaysia. AMMB is listed on the Main Market of Bursa Malaysia Securities Berhad.

The financial statements of the Bank have been approved and authorised for issue by the Board of Directors on 24 April 2019.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis unless otherwise indicated in the financial statements.

2.2 Statement of compliance

The financial statements of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the requirements of the Companies Act 2016 in Malaysia.

2.3 Presentation of financial statements

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand ("RM'000") except when otherwise indicated.

The statements of financial position are presented in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date ("current") and more than 12 months after the reporting date ("non-current") is presented in Note 53.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies

2.4a Foreign currencies

(i) Functional and presentation currency

The financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates (the "functional currency"). The Bank's financial statements are presented in Ringgit Malaysia ("RM"), which is also the Bank's functional currency.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded by the Bank at its functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot exchange rate at the reporting date.

All differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on changes in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4b Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses. Such cost includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, as well as borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. When significant parts of property and equipment are required to be replaced at intervals, the Bank recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Purchased computer software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation of property and equipment is calculated on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful lives of the assets.

The annual depreciation rates for the various classes of property and equipment are as follows:

Leasehold improvements	15% to 20%
Motor vehicles	10% to 20%
Computer equipment	12.5% to 33.33%
Office equipment, furniture and fittings	10% to 50%

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if the expectations differ from previous estimates.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4c Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

(i) Bank as a lessee

Leases that transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item are classified as finance leases, and are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. The corresponding lease obligations, net of finance charges, are included in other short-term and long-term payables. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of profit on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an operating expense in profit or loss on a straight-line basis over the lease term. The aggregate benefits of incentives provided by the lessor are recognised as a reduction of rental expenses over the lease term on a straight line basis.

(ii) Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income is recognised over the term of the lease on a straight-line basis. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4d Intangible assets, other than goodwill arising from business combination

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(i) Research and development costs

Research costs are expensed as incurred. Development expenditure on an individual software project are recognised as an intangible asset when the Bank can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset;
- the ability to measure reliably the expenditure during development;
- the ability to use the intangible asset generated.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4d Intangible assets, other than goodwill arising from business combination (Cont'd.)

(i) Research and development costs (Cont'd.)

Following initial recognition of the software development expenditure as an asset, the asset is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised on a straight-line basis over the period of expected benefit of 3 to 10 years. During the period of development, the asset is tested for impairment annually.

2.4e Financial instruments – initial recognition and measurement

(i) Initial recognition

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised using trade date accounting or settlement date accounting. The method used is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets. The Bank applies trade date accounting for derivative financial instruments and investments in equity instruments, and settlement date accounting for investments in debt instruments.

(ii) Initial measurement

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

All financial liabilities are recognised initially at fair value and, in the case of financial liabilities not recorded at fair value through profit or loss, net of directly attributable transaction costs.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4e Financial instruments – initial recognition and measurement (Cont'd.)

(iii) “Day 1” profit or loss

At initial measurement, if the transaction price differs from the fair value, the Bank immediately recognise the difference between the transaction price and fair value (a “Day 1” profit or loss) in “investment and trading income” provided that fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets. In all other cases, the difference between the transaction price and the fair value is recognised in profit or loss on a systematic and rational basis that reflects the nature of the instrument over its tenure.

2.4f Financial assets – classification and subsequent measurement (Policy applicable from 1 April 2018)

From 1 April 2018, the Bank has applied MFRS 9 and classifies its financial assets in the following measurement categories:

- Amortised cost; or
- Fair value through other comprehensive income (“FVOCI”); or
- Fair value through profit or loss (“FVTPL”).

The classification requirements for debt instruments are described below:

(i) Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective. Classification and subsequent measurement of debt instruments depend on:

Business model

The business model reflects how the Bank manages the financial assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets, or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. the financial assets are held for trading purposes), then the financial assets are classified as part of “other” business model. Factors considered by the Bank in determining the business model for a portfolio of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, and how risks are assessed and managed.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4f Financial assets – classification and subsequent measurement (Policy applicable from 1 April 2018) (Cont'd.)

(i) Debt instruments (Cont'd.)

Cash flow characteristics

Where the business model is to hold the financial assets to collect contractual cash flows, or to collect contractual cash flows and sell, the Bank assess whether the financial assets' contractual cash flows represent solely payment of principal and profit ("SPPP"). In making this assessment, the Bank consider whether the contractual cash flows are consistent with a basic financing arrangement, i.e. profit includes only consideration for time value of money, credit risk, other basic financing risks and a profit margin that is consistent with a basic financing arrangement. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPP.

Based on these factors, the Bank classifies the debt instruments into one of the following three measurement categories:

Amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPP, and that are not designated at FVTPL, are measured at amortised cost using the effective profit method. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured using the methodology described in Note 2.4m. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective profit rate ("EPR"). The EPR amortisation is included in "profit income" in profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in "impairment losses on financial investments" for sukuk, "impairment losses on financing and advances" for financing and advances or "doubtful receivables" for losses other than sukuk, financing and advances.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4f Financial assets – classification and subsequent measurement (Policy applicable from 1 April 2018) (Cont'd.)

(i) Debt instruments (Cont'd.)

FVOCI

Financial assets that are held for contractual cash flows and for selling the assets, where the assets' cash flows represent SPPP, and are not designated at FVTPL, are measured at FVOCI. Changes in the fair value are recognised through OCI, except for the recognition of impairment losses (measured using the methodology described in Note 2.4m), profit income and foreign exchange gains or losses on the assets' amortised cost which are recognised in profit or loss. Profit earned whilst holding the assets are reported as "profit income" using the effective profit method. The losses arising from impairment are reclassified from OCI to profit or loss in "impairment losses on financial investments". When the financial asset is derecognised, the cumulative gains or losses previously recognised in OCI are reclassified to profit or loss and recognised in "other operating income".

FVTPL

Financial assets that do not meet the criteria for amortised cost or FVOCI, including financial assets held-for-trading and derivatives, are measured at FVTPL. A gain or loss on an asset that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented within "other operating income". Profit earned whilst holding the assets are reported as "profit income" using the effective profit method.

In addition, financial assets that meet the criteria for amortised cost or FVOCI may be irrevocably designated by management as FVTPL on initial recognition, provided the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis. Such designation is determined on an instrument by instrument basis. Any change in fair value is recognised in profit or loss and presented within "investment and trading income". Profit earned are recognised in "profit income" using the effective profit method.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4f Financial assets – classification and subsequent measurement (Policy applicable from 1 April 2018) (Cont'd.)

(ii) Reclassification of debt investments

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the financial year.

2.4g Financial liabilities – classification and subsequent measurement (Policy applicable from 1 April 2018)

Financial liabilities are classified and subsequently measured at amortised cost, except for:

- financial liabilities at FVTPL; and
- financial guarantee contracts and financing commitments (see Note 2.4v).

(i) Amortised cost

Financial liabilities issued by the Bank, that are not designated at FVTPL, are classified as financial liabilities at amortised cost, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, term funding, debt capital and other borrowings are subsequently measured at amortised cost using the effective profit method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EPR.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4g Financial liabilities – classification and subsequent measurement (Policy applicable from 1 April 2018) (Cont'd.)

(ii) FVTPL

This classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at FVTPL are presented partially in OCI (being the amount of change in the fair value of the financial liability that is attributable to changes in credit risk of that liability) and partially in profit or loss (i.e. the remaining amount of change in fair value of the liability). This is unless such presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss.

2.4h Financial instruments – classification and subsequent measurement (Policy applicable before 1 April 2018)

(i) Classification

The subsequent measurement of financial instruments depends on their classification as described below:

a. Financial assets and financial liabilities at FVTPL: Held-for-trading

Financial assets or financial liabilities held-for-trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in profit or loss.

Included in this classification are debt securities and equities that have been acquired principally for the purpose of selling or repurchasing in the near term.

b. Financial assets and financial liabilities at FVTPL: Designated as FVTPL

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at FVTPL upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4h Financial instruments – classification and subsequent measurement (Policy applicable before 1 April 2018) (Cont'd.)

(i) Classification (Cont'd.)

b. Financial assets and financial liabilities at FVTPL: Designated as FVTPL (Cont'd.)

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- the financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets and financial liabilities designated at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recognised in profit or loss.

The Bank has not designated any financial assets at FVTPL.

c. Financial assets and financial liabilities at FVTPL: Derivatives

The Bank uses derivatives such as profit rate swap, forward foreign exchange contracts and options on commodities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised in profit or loss.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in profit or loss.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4h Financial instruments – classification and subsequent measurement (Policy applicable before 1 April 2018) (Cont'd.)

(i) Classification (Cont'd.)

d. Financial investments available-for-sale ("AFS")

Financial investments AFS include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Bank has not designated any financing and advances as AFS.

After initial measurement, financial investments AFS are subsequently measured at fair value with unrealised gains or losses recognised in OCI in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in "other operating income", or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to profit or loss in "impairment losses on financial investments". Profit earned whilst holding financial investments AFS is reported under "finance income and hibah" and is calculated using the effective profit method. Dividends earned whilst holding financial investments AFS are recognised in profit or loss as "other operating income" when the right to the payment has been established.

The Bank evaluates whether the ability and intention to sell its financial investments AFS in the near term is still appropriate. When, in rare circumstances, the Bank is unable to trade these financial investments due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Bank may elect to reclassify these financial investments. Reclassification to financing and receivables is permitted when the financial investments meet the definition of financing and receivables and the Bank has the intent and ability to hold these investments for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial investments accordingly.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4h Financial instruments – classification and subsequent measurement (Policy applicable before 1 April 2018) (Cont'd.)

(i) Classification (Cont'd.)

d. Financial investments available-for-sale ("AFS") (Cont'd.)

Equity instruments received as a result of financing and advances restructuring or financing and advances conversion which do not have a quoted market price in an active market that are carried at cost as their fair values cannot be reliably measured are also classified as financial investments AFS.

e. Financial investments held-to-maturity

Non-derivative financial instruments with fixed or determinable payments and fixed maturities are classified as financial investments held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. After initial measurement, financial investments held-to-maturity are measured at amortised cost using the effective profit method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EPR. The EPR amortisation is included in "finance income and hibah" in profit or loss. The losses arising from impairment are recognised in profit or loss in "impairment losses on financial investments".

If the Bank were to sell or reclassify more than an insignificant amount of financial investments held-to-maturity before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as financial investments AFS. Furthermore, the Bank would be prohibited from classifying any financial investments as held-to-maturity during the following two financial years.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4h Financial assets – classification and subsequent measurement (Policy applicable before 1 April 2018) (Cont'd.)

(i) Classification (Cont'd.)

f. Financial assets at amortised cost - financing and receivables

Financing and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, such financial assets are subsequently measured at amortised cost using the effective profit method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EPR. The EPR amortisation is included in “finance income and hibah” in profit or loss. The losses arising from impairment are recognised in profit or loss in “allowance for impairment on financing and advances” for financing and advances or “impairment losses on doubtful receivables” for losses other than financing and advances.

g. Financial liabilities at amortised cost

Financial liabilities issued by the Bank, that are not designated at FVTPL, are classified as financial liabilities at amortised cost, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, term funding, debt capital and other borrowings are subsequently measured at amortised cost using the effective profit method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EPR.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4h Financial assets – classification and subsequent measurement (Policy applicable before 1 April 2018) (Cont'd.)

(i) Classification (Cont'd.)

g. Financial liabilities at amortised cost (Cont'd.)

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned as the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

(ii) Reclassification of financial assets

The Bank may reclassify a non-derivative trading asset out of the “held-for-trading” category and “available-for-sale” category under rare circumstances and into the “financing and receivables” category if it meets the definition of financing and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost. If a financial asset is reclassified, and if the Bank subsequently increases its estimate of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EPR from the date of the change in estimate.

For a financial investment reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the investment that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EPR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the investment using the EPR. If the investment is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4i Derecognition of financial instruments

(i) Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred rights to receive cash flows from the asset or assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:
 - the Bank has transferred substantially all the risks and rewards of the asset; or
 - the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred rights to receive cash flows from an asset or has entered into a pass-through arrangement, and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4i Derecognition of financial instruments (Cont'd.)

(ii) Modification of financing

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of financing to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the customer is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the customer is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share or equity-based return that substantially affects the risk profile of the financing.
- Significant extension of the financing term when the customer is not in financial difficulty.
- Significant change in the profit rate.
- Change in the currency the financing is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the financing.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a "new" asset at fair value and recalculate a new EPR for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the customer being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EPR.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4i Derecognition of financial instruments (Cont'd.)

(iii) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

When an existing financial liability is replaced by another from the same financier on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original EPR, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors such as the currency that the instrument is denominated in, changes in the type of profit rate, new conversion features attached to the instrument and changes in covenants are also taken into consideration. The difference in the respective carrying amount of the original financial liability and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred are adjusted to the carrying amount of the financial liability and are amortised over the remaining term of the modified financial liability.

2.4j Repurchase and resale agreements

Securities sold under repurchase agreements at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued profit, as a liability within "securities sold under repurchase agreements", reflecting the transaction's economic substance as a financing to the Bank. The difference between the sale and repurchase prices is treated as profit expense and is accrued over the life of the agreement using the EPR. When the counterparty has the right to sell or repledge the securities, the Bank reclassifies those securities in the statement of financial position to "financial assets at FVTPL pledged as collateral" or to "financial investments at FVOCI pledged as collateral", as appropriate.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4j Repurchase and resale agreements (Cont'd.)

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued profit, is recorded in the statement of financial position, within "securities purchased under resale agreements", reflecting the transaction's economic substance as a financing by the Bank. The difference between the purchase and resale prices is recorded in "net profit income" and is accrued over the life of the agreement using the EPR.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a trading liability within "financial liabilities at FVTPL" and measured at fair value with any gains or losses included in "other operating income".

2.4k Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised on the statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in "other operating income".

2.4l Fair value measurement

The Bank measures financial instruments such as financial assets at FVTPL, financial investments at FVOCI and derivatives at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or most advantageous market must be accessible to the Bank.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4i Fair value measurement (Cont'd.)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurements as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets or liabilities that are recognised at fair value in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The fair value hierarchies of the following are disclosed in Note 56:

- a) financial instruments that are measured at fair value; and
- b) financial assets and financial liabilities that are not measured at fair value, but for which fair value is disclosed

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4m Impairment of financial assets (Policy applicable from 1 April 2018)

The Bank assesses on a forward-looking basis the expected credit losses ("ECL") associated with debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from financing commitments and financial guarantee contracts. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Profit income continues to be accrued in profit or loss on the reduced carrying amount and is accrued using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss. If, in the subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring or a change in forward-looking adjustments after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

For financing commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a financing and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the financing component, the ECL on the undrawn commitment are recognised together with the loss allowance for the financing. To the extent that the combined ECL exceed the gross carrying amount of the financing, the ECL are recognised as a provision.

The methodology applied in measuring ECL are explained in Note 55.2.

Financing together with the associated allowance are written off when the Bank has exhausted all practical recovery efforts and there is no realistic prospect of future recovery, and all collateral has been realised or has been transferred to the Bank. The Bank may also write-off financial assets that are still subject to enforcement activity when there is no reasonable expectation of full recovery. If a write-off is later recovered, the recovery is credited to profit or loss.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4m Impairment of financial assets (Policy applicable from 1 April 2018) (Cont'd.)

(i) Rescheduled and restructured financing

Where possible, the Bank seeks to reschedule or restructure financing rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions. Once the terms have been rescheduled or restructured, any impairment is measured using the original EPR as calculated before the modification of terms. Management continually review impaired rescheduled or restructured financing for a certain period to ensure all terms are adhered to and that future payments are likely to occur before reclassification back to performing status.

(ii) Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's quarterly reporting schedule, however, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as property valuers, mortgage brokers, housing price indices, audited financial statements and other independent sources. (See Note 55.2 for further analysis of collateral).

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4n Impairment of financial assets (Policy applicable before 1 April 2018)

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event"), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Financing and receivables are classified as impaired in accordance with the criteria as disclosed in Note 55.2 Credit risk management - Impairment: Definition of past due and impaired financing and advances.

(i) Financial assets carried at amortised cost - Financing and receivables

For financial assets carried at amortised cost, the Bank first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future ECL that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EPR. If a financing has a variable profit rate, the discount rate for measuring any impairment loss is the current EPR. If the Bank has reclassified trading assets to financing and advances, the discount rate for measuring any impairment loss is the new EPR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4n Impairment of financial assets (Policy applicable before 1 April 2018) (Cont'd.)

- (i) Financial assets carried at amortised cost - Financing and receivables
(Cont'd.)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Profit income continues to be accrued as "financing income on impaired financing" in profit or loss on the reduced carrying amount and is accrued using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss. Financing together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to "allowance for impairment on financing and advances" in profit or loss.

Financial assets which are not individually significant and that have been individually assessed but with no impairment loss are grouped together for collective impairment assessment. These financial assets are grouped based on the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics of the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that do not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows for a group of assets should reflect and be directionally consistent with changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4n Impairment of financial assets (Policy applicable before 1 April 2018) (Cont'd.)

(ii) Financial investments AFS

For financial investments AFS, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss.

Future profit income continues to be accrued based on the reduced carrying amount of the asset, using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss. The profit income is recorded as part of "finance income and hibah". If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

In the case of equity investments classified as AFS, objective evidence would include a "significant" or "prolonged" decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value; less any impairment loss on that investment previously recognised in profit or loss, is removed from OCI and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4a Hedge accounting

The Bank makes use of derivative instruments to manage exposures to profit rate, foreign currency and credit risks, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria.

At inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and on an ongoing basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. Hedge ineffectiveness is recognised in profit or loss. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

(i) Fair value hedges

The change in the fair value of a hedging derivative is recognised in "other operating income" in profit or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in "other operating income" in the statement of profit or loss.

For fair value hedges relating to items recorded at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective profit method. EPR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4p Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2.4q Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4q Impairment of non-financial assets (Cont'd.)

For assets excluding goodwill and intangible assets with indefinite useful lives, an assessment is made at each reporting date to determine whether there is any indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

The following asset has specific characteristics for impairment testing:

(i) Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

2.4r Cash and cash equivalents

Cash and short-term funds in the statement of financial position comprise cash and bank balances with banks and other financial institutions, and short-term deposits maturing within one month.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term funds with original maturity of less than 3 months, excluding deposits and monies held in trust and net of outstanding bank overdrafts.

2.4s Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources embodying economic benefits will be required to settle the obligation and reliable estimate can be made of the amount of the obligation. When the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate assets, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in profit or loss net of any reimbursement.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4t Contingent liabilities and contingent assets

A contingent liability is a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation or in extremely rare cases whereby there is a liability that cannot be recognised because it cannot be measured with sufficient reliability. The contingent liability is not recognised but instead is disclosed in the financial statements. A possible obligation that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank is also disclosed as a contingent liability unless the probability of outflow of economic resources is remote.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. The Bank does not recognise contingent assets in the financial statements but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

2.4u Financial guarantee contracts and financing commitments

Financial guarantee contracts issued by the Bank are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified customer fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the amount of loss allowance (calculated as described in Note 2.4m) and the premium received on initial recognition less income recognised in accordance with the principles of MFRS 15.

Financing commitments provided by the Bank are measured at the amount of the loss allowance (calculated as described in Note 2.4m).

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4v Recognition of income and expenses relating to financial instruments

(i) Profit income and similar income and expense

For all profit-bearing financial assets and financial liabilities measured at amortised cost, profit bearing financial investments classified at FVOCI and financial assets and financial liabilities at FVTPL, financing income or expense is calculated using the effective profit method. EPR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EPR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EPR and the change in carrying amount is recorded in profit or loss. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EPR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, profit income continues to be recognised using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss.

Financing commitment fees for financing that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EPR on the financing.

Income and expense are recognised in accordance with the principles of Shariah. This includes financing provided, deposits accepted and investment account under the following Shariah contracts:

Murabahah

This is a contract of sale of goods/assets at a mark-up price, which includes a profit margin as agreed by the contracting parties. The price, costs and profit margin in Murabahah shall be made transparent and agreed upon between buyer and seller. Income on financing is recognised on EPR basis over the period of the contract based on the principal amounts outstanding.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4v Recognition of income and expenses relating to financial instruments (Cont'd.)

(i) Profit income and similar income and expense (Cont'd.)

Bai' Bithaman Ajil

This is a contract of sale and purchase of an asset in which the payment of price is deferred either to be paid in lump-sum or instalment basis within an agreed period of time. Income is recognised on EPR basis over the expected life of the contract based on principal amount outstanding.

The Islamic Negotiable Instruments ("INI") can also be structured along the concept of Bai' Bithaman Ajil for Negotiable Islamic Debt Certificate. Profit attributable to the buyer of the INI will be based on the fixed profit rate which is quoted on the placement date.

Bai' Inah

This is an arrangement that involves sale of an asset to the purchaser on a deferred basis and subsequent purchase of the asset at a cash price lower than the deferred sale price or vice versa, and which complies with the specific requirements of Bai' Inah. Income is recognised on EPR basis over the expected life of the contract based on principal amount outstanding.

Tawarruq

This is an arrangement that involves of two sale and purchase contracts. The first involves the sale of an asset by a seller to a purchaser on a deferred basis. Subsequently, the purchaser of the first sale will sell the same asset to a third party on a cash and spot basis. Income is recognised on EPR basis over the period of the contract based on the principal amounts outstanding.

For Commodity Murabahah term deposits and CASA, profit attributable to the depositors based on the fixed profit rate which is quoted to the customer on the placement date. The commodity trading fee incurred in the Tawarruq arrangement is borne by the Bank and is recognised as an expense in profit or loss as incurred.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4v Recognition of income and expenses relating to financial instruments (Cont'd.)

(i) Profit income and similar income and expense (Cont'd.)

Al-Ijarah Thumma Al-Bai'

This is a contract of lease ending with the transfer of ownership from the lessor to the lessee in the form of sale transaction based on agreed terms and conditions. There are two contracts in this arrangement. The first contract is ijarah where the lessee enjoys the usufruct of the assets for an agreed rental during an agreed period of time while the ownership remains with the lessor. The second contract is the sale contract which may take place at the end of the ijarah period or at any point of time during the period subject to the agreed terms and conditions between the contracting parties. Financing income is recognised on EPR basis over the lease term.

Mudarabah

This refers to a contract between the customer known as an investment account holder and the Bank where the customer agrees to participate in the financial activities undertaken by the Bank and shares the profit generated from financing and/or investment activities based on an agreed Profit Sharing Ratio ("PSR"). Profit is distributed according to the agreed PSR at the point of the contract. The profit attributable to Investment Account Holder is based on the indicative profit rate that may change based on the financial performance of the underlying asset.

Musharakah Mutanaqisah

In Musharakah Mutanaqisah financing, the customer and the Bank jointly acquire and own the asset. The Bank then leases its equity or share of asset to the customer on the basis of ijarah. The customer is given the right to acquire the Bank's equity in the asset periodically. Financing income is accounted for on the basis of the reducing balance on a time apportioned basis that reflects the effective yield of the asset.

Ujarah

Ujarah refers to fee for services rendered. Income is recognised based on a fee charged by the Bank in providing the credit card facility to credit card customers.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4v Recognition of income and expenses relating to financial instruments (Cont'd.)

(i) Profit income and similar income and expense (Cont'd.)

Wakalah

This refers to an "investment agency" contract where the Bank is appointed as an agent to undertake investment activities on behalf of the customer for a fee. The Bank acts in two capacities - as "Agent" in accepting funds from the customer who plans to invest, and as Investment Manager in carrying out Shariah compliant investment activities as agreed by both parties. The Bank, as an agent, does not guarantee the profit expected from the investments. Profit distributed is based on the expected profit rate which is quoted to the customer on placement date.

Wadiah (Yad Dhamanah)

A safe keeping contract whereby the custodian guarantees payment of the whole amount of deposits, or any part thereof, outstanding in the account of the depositors, when demanded. The depositors are not entitled to any share of the profits (generated from usage of the deposits by the custodian) but the custodian may provide returns to the depositors as a token of appreciation which is known as hibah.

(ii) Investment and trading income disclosed as other operating income

Results arising from trading activities include all gains and losses from changes in fair value and dividends from financial assets at FVTPL. This includes any ineffectiveness recorded in hedging transactions.

2.4w Recognition of revenue from contracts with customers

Revenue is recognised by reference to each distinct performance obligation promised in the contract with customer when or as the Bank transfers the control of the goods or services promised in a contract and the customer obtains control of the goods or services. Depending on the substance of the respective contract with customer, the control of the promised goods or services may transfer over time or at a point in time.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4w Recognition of revenue from contracts with customers (Cont'd.)

A contract with customer exists when the contract has commercial substance, the Bank and its customer have approved the contract and intend to perform their respective obligations, the Bank's and the customer's rights regarding the goods or services to be transferred and the payment terms can be identified, and it is probable that the Bank will collect the consideration to which it will be entitled to in exchange of those goods or services.

At the inception of each contract with customer, the Bank assesses the contract to identify distinct performance obligations, being the units of account that determine when and how revenue from the contract with customer is recognised.

Revenue is measured at the amount of consideration to which the Bank expects to be entitled in exchange for transferring the promised goods or services to the customers, excluding amounts collected on behalf of third parties. If the amount of consideration varies, the Bank estimates the amount of consideration that it expects to be entitled based on the expected value or the most likely outcome but the estimation is constrained up to the amount that is highly probable of no significant reversal in the future. If the contract with customer contains more than one distinct performance obligation, the amount of consideration is allocated to each distinct performance obligation based on the relative stand-alone selling prices of the goods or services promised in the contract.

The consideration allocated to each performance obligation is recognised as revenue when or as the customer obtains control of the goods or services. At the inception of each contract with customer, the Bank determines whether control of the goods or services for each performance obligation is transferred over time or at a point in time. Revenue is recognised over time if the control over the goods or services are transferred over time. Revenue for performance obligation that is not satisfied over time is recognised at the point in time at which the customer obtains control of the promised goods or services.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4w Recognition of revenue from contracts with customers (Cont'd.)

The following specific recognition criteria must be met before revenue is recognised:

(i) Fee and commission income

The Bank earns fee and commission income from a diverse range of services provided to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a period of time

Fees earned for the provision of services over a period of time are accrued over that period by reference to the stage of completion of the services. These fees include financing arrangement, commission income, and other service and advisory fees. Financing commitment fees for financing that are unlikely to be drawn down are recognised over the commitment period on a straight-line basis.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(ii) Customer loyalty programmes

Award credits under customer loyalty programmes are accounted for as a separate performance obligation of the transaction in which the award credits are granted (i.e. a material right). The fair value of the consideration received in respect of the transaction is allocated between the award credits and the other components of the transaction on a relative stand-alone selling price basis. If stand-alone selling price of the other component is uncertain, the Bank estimates the stand-alone selling price by reference to the total transaction price less the fair value of the award credits. Revenue from the award credits is recognised when the award credits are redeemed or expired. The amount of revenue recognised when the award credits are redeemed is based on the number of award credits redeemed relative to the total number expected to be redeemed.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4x Employee benefits

(i) Short-term benefits

Wages, salaries, bonuses and social security contributions that are expected to be settled wholly within 12 months after the end of the financial year in which the employees render the related service are recognised as an expense in the financial year in which the associated services are rendered by employees of the Bank and are measured at the amounts paid or expected to be paid when the liabilities are settled. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution pension plan

The Bank makes contributions to the Employee Provident Fund ("EPF") as well as defined contribution private retirement schemes in Malaysia. Such contributions are recognised as an expense in profit or loss in the financial year to which they relate. Once the contributions have been paid, the Bank has no further payment obligations.

(iii) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when the Bank is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4x Employee benefits (Cont'd.)

(iv) Share-based payment transactions

The holding company, AMMB, operates an equity-settled share-based compensation scheme wherein shares or options to subscribe for shares of AMMB are granted to eligible directors and employees of the AMMB Group based on the financial and performance criteria and such conditions as it may deem fit.

The cost of equity-settled transactions is recognised by the Bank, together with a corresponding increase in the amount payable to, or the amount receivable from, AMMB over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest. Profit or loss expense or credit for the period is recorded in "personnel costs" and represents the movement in cumulative expense recognised from the beginning to the end of that period.

2.4y Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholder. Interim dividends are deducted from equity when they are declared.

Dividends for the year that are approved between the end of the reporting period and the date the financial statements are authorised for issue are disclosed as an event after the reporting period.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4z Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior financial years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss. Current taxes relating to items recognised in OCI or directly in equity is recognised in OCI or equity respectively.

(ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4z Taxes (Cont'd.)

(ii) Deferred tax (Cont'd.)

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted, or substantively enacted, at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

2. ACCOUNTING POLICIES (CONT'D.)

2.4 Summary of significant accounting policies (Cont'd.)

2.4aa Zakat

This represents business zakat payable by the Bank to comply with Shariah principles approved by the Bank's Shariah Committee. Zakat provision is calculated by reference to the zakat rate of 2.5% of the net profit after tax and is based on percentage of estimated Muslim shareholders of the holding company. The Bank has fulfilled its obligation to pay business zakat to state zakat authorities and has identified eligible beneficiaries (asnaf).

2.4ab Earnings Per Share ("EPS")

The Bank presents basic and diluted (where applicable) EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholder of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholder and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

2.4ac Segment reporting

Segment reporting in the financial statements are presented on the same basis as is used by management internally for evaluating operating segment performance and in deciding how to allocate resources to operating segments. Operating segments are distinguishable components of the Bank about which separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Reportable segments are operating segments or aggregations of operating segments of similar economic characteristics that meet specific aggregation criteria.

The Bank's segmental reporting is based on the following operating segments: retail banking, business banking, wholesale banking, investment banking and group funding and others, as disclosed in Note 58.

2.4ad Share capital and share issuance expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all the liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Changes in the fair value of the ordinary shares are not recognised in the financial statements.

3. CHANGES IN ACCOUNTING POLICIES

3.1 Adoption of Amendments and Annual Improvements to Standards

The accounting policies adopted are consistent with those adopted in the previous financial year except for the adoption of the following new standards and amendments to published standards which became effective for the first time for the Bank on 1 April 2018:

- MFRS 9 *Financial Instruments*
- MFRS 15 *Revenue from Contracts with Customers*
- Applying MFRS 9 *Financial Instruments* with MFRS 4 *Insurance Contracts* (Amendments to MFRS 4)
- Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)
- Transfers of Investment Property (Amendments to MFRS 140)
- Annual Improvements to MFRSs 2014-2016 Cycle - amendments to MFRS 1 and MFRS 128
- IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The adoption of these new standards, amendments to published standards and new interpretation did not have any material impact on the financial statements of the Bank except for those arising from the adoption of MFRS 9 as disclosed below. Other than the adoption of new accounting policies as disclosed in Note 2.4f, 2.4g, 2.4n, 2.4u, 2.4v and 2.4w, the Bank did not have to change its accounting policies or make retrospective adjustments as a result of adopting the other amendments to published standards and new interpretation.

The nature of the new standards, amendments to published standards and new interpretation relevant to the Bank are described below:

(a) MFRS 9 *Financial Instruments*

MFRS 9 replaces the provisions of MFRS 139 *Financial Instruments: Recognition and Measurement* that relate to the recognition, classification and measurement, as well as derecognition of financial instruments, impairment of financial assets and hedge accounting. As permitted by the transitional provision of MFRS 9, comparative information have not been restated. The impact arising from the adoption of MFRS 9 is as follows:

3. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

3.1 Adoption of Amendments and Annual Improvements to Standards (Cont'd.)

(a) MFRS 9 *Financial Instruments* (Cont'd.)

(i) Classification and measurement

MFRS 9 requires all financial assets, other than equity instruments and derivatives, to be classified on the basis of two criteria, namely the entity's business model for managing the assets, as well as the instruments' contractual cash flow characteristics. Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows that are SPPP. If the financial assets are held within a business model whose objective is achieved by both selling financial assets and collecting contractual cash flows that are SPPP, the assets are measured at FVOCI. Any financial assets that are not measured at amortised cost or FVOCI are measured at FVTPL.

Instruments that qualify for amortised cost or FVOCI may irrevocably designate as FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments are normally measured at FVTPL; nevertheless entities are allowed to irrevocably designate equity instruments that are not held for trading as FVOCI, with no subsequent reclassification of gains or losses to the statement of profit or loss.

Financing and advances, which form a substantial portion of the Bank's financial assets, satisfied the conditions for classification at amortised cost and hence there is no change to the accounting of these assets. Similarly, investments in sukuk classified as held-to-maturity under MFRS 139 also met the conditions for classification at amortised cost under MFRS 9.

Certain investments in sukuk that were classified as available-for-sale under MFRS 139 qualified for classification at amortised cost under MFRS 9. The reclassification has been effected by way of a retrospective application of the effective profit method and accordingly, the related cumulative fair value loss has been reversed on 1 April 2018. Other investments in sukuk that were classified as available-for-sale satisfied the conditions for classification at FVOCI and hence there is no change to the accounting of these assets.

3. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

3.1 Adoption of Amendments and Annual Improvements to Standards (Cont'd.)

(a) MFRS 9 *Financial Instruments* (Cont'd.)

(i) Classification and measurement (Cont'd.)

The majority of the Bank's sukuk not quoted in active market that were measured at amortised cost under MFRS 139 satisfied the conditions for classification at FVOCI and the related fair value gains have been recognised in fair value reserve on 1 April 2018. However, certain sukuk did not meet the cash flow characteristics criterion to be classified either at FVOCI or at amortised cost and have been accordingly classified at FVTPL with related fair value loss recognised in retained earnings on 1 April 2018.

All financial instruments held for trading comprising derivatives, as well as investments in debt instruments, continue to be measured at FVTPL.

There is no impact on the Bank's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVTPL and the Bank does not have any such liabilities.

(ii) Impairment

The financing loss impairment methodology is fundamentally changed under MFRS 9 as it replaces MFRS 139's incurred loss approach with a forward-looking ECL approach. The impairment requirements based on ECL approach is applicable for all financing and other debt financial assets not held at FVTPL, as well as financing commitments and financial guarantee contracts. The allowances for expected losses are determined based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the lifetime of the asset.

The Bank has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the next twelve months or the remaining life of the financial instrument. To calculate ECL, the Bank has estimated the risk of a default occurring on the financial instrument during the next twelve months or its expected life. ECLs are estimated based on the present value of all cash shortfalls over the next twelve months or remaining expected life of the financial asset, i.e. the difference between the contractual cash flows that are due to the Bank under the contract and the cash flows that the Bank expects to receive, discounted at the effective profit rate of the financial asset.

Following the adoption of MFRS 9, the Bank recorded an additional loss allowance in respect of financing and advances, as well as investments in sukuk that are not classified at FVTPL and other financial assets, which has been adjusted to retained earnings and other reserves on 1 April 2018.

3. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

3.1 Adoption of Amendments and Annual Improvements to Standards (Cont'd.)

(a) MFRS 9 *Financial Instruments* (Cont'd.)

(iii) Hedge accounting

All existing hedge relationships that were designated in effective hedging relationships under MFRS 139 continue to qualify for hedge accounting under MFRS 9. As MFRS 9 did not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of MFRS 9 did not result in any significant impact on the Bank's financial statements.

The tax treatment on the transition from MFRS 139 to MFRS 9 is in accordance with clarification provided by the Ministry of Finance in a letter dated 27 December 2018.

The financial impacts of the adoption of MFRS 9 on the financial statements of the Bank are as disclosed in Note 60.

(b) MFRS 15 *Revenue from Contracts with Customers*

MFRS 15 established a new five-step model that applies to revenue arising from contracts with customers, based on the underlying principle that an entity should recognise revenue in a manner which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. The standard also specified the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

In accordance with the transitional provision in MFRS 15, the Bank has adopted the standard using the modified retrospective approach without any restatement to the comparative information. The adoption of MFRS 15 has resulted in changes in the Bank's accounting policies. Nevertheless, no adjustment has been made to the amounts recognised in the financial statements as the adoption of MFRS 15 did not have any material financial impact since the Bank has been recognising its revenue in a manner consistent with the principles of MFRS 15.

(c) Annual Improvements to MFRSs 2014-2016 Cycle

The Annual Improvements to MFRSs 2014-2016 Cycle include minor amendments affecting three MFRSs, in which two of them are effective for annual periods beginning on or after 1 January 2018, as summarised below:

(i) Amendments to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards*

The amendments deleted short-term exemptions covering transition provisions of MFRS 7, MFRS 10, and MFRS 119. These transition provisions were available to entities for past reporting periods and are therefore no longer applicable. The deletion has no impact as the Bank had transitioned into MFRS in the past.

3. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

3.1 Adoption of Amendments and Annual Improvements to Standards (Cont'd.)

(c) Annual Improvements to MFRSs 2014-2016 Cycle (Cont'd.)

(ii) Amendments to MFRS 128 *Investments in Associates and Joint Ventures*

MFRS 128 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss. The amendments clarified that this election should be made separately for each associate or joint venture at initial recognition. The amendment has no impact as the Bank does not have any investment in associates and/or joint ventures.

(d) IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The Interpretation provides guidance on how to determine the date of the transaction when applying MFRS 121 *The Effects of Changes in Foreign Exchange Rates* in situations where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. For the purpose of determining the exchange rate to use on initial recognition of the related item, the Interpretation states that the date of the transaction shall be the date on which an entity initially recognises the non-monetary asset or liability arising from the advance consideration. The adoption of this Interpretation did not have any material financial impact to the Bank.

3.2 Standards issued but not yet effective

The following are standards issued but not yet effective up to the date of issuance of the Bank's financial statements. The Bank intends to adopt the relevant standards when they become effective.

Description	Effective for annual period beginning on or after
MFRS 16 <i>Leases</i>	1 January 2019
IC Interpretation 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Prepayment Features with Negative Compensation (Amendments to MFRS 9)	1 January 2019
Long-term Interests in Associates and Joint Ventures (Amendments to MFRS 128)	1 January 2019
Plan Amendment, Curtailment or Settlement (Amendments to MFRS 119)	1 January 2019
Annual Improvements to MFRSs 2015-2017 Cycle	1 January 2019
Amendments to References to the Conceptual Framework in MFRS Standards	1 January 2020
Definition of a Business (Amendments to MFRS 3)	1 January 2020
Definition of Material (Amendments to MFRS 101 and MFRS 108)	1 January 2020
MFRS 17 <i>Insurance Contracts</i>	1 January 2021
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 10 and MFRS 128)	To be determined by MASB

3. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

3.2 Standards issued but not yet effective (Cont'd.)

The nature of the new standards, amendments to published standards and new interpretation that are issued and relevant to the Bank but not yet effective are described below. The Bank is currently assessing the financial effects of their adoption.

(a) Standards effective for financial year ending 31 March 2020

MFRS 16 Leases

MFRS 16 *Leases* supersedes MFRS 117 *Leases* and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 *Property, Plant and Equipment* and the lease liability is accreted over time with profit expense recognised in the statement of profit or loss.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

For the purpose of applying the exemption permitted by MFRS 16 paragraph 5(b), the Threshold of low value asset is set at RM20,000.

The adoption of MFRS 16 is not expected to result in any material financial impact to the Bank.

3. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

3.2 Standards issued but not yet effective (Cont'd.)

(a) Standards effective for financial year ending 31 March 2020 (Cont'd.)

IC Interpretation 23 *Uncertainty over Income Tax Treatments*

The Interpretation provides guidance on how to recognise and measure deferred and current income tax assets and liabilities in situations where there is uncertainty over whether the tax treatment applied by an entity will be accepted by the tax authority. If it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, the accounting for income taxes shall be determined consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made, by applying the most likely amount method or the expected value method.

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. Entities can choose to apply the Interpretation on full retrospective basis if possible without the use of hindsight, or retrospectively with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings.

Prepayment Features with Negative Compensation (Amendments to MFRS 9)

Under the current MFRS 9 requirements, the SPPP condition is not met if the entity has to make a settlement payment in the event of early termination by the customer. The existing requirements are amended to enable entities, to measure at amortised cost or at fair value through other comprehensive income (depending on the business model), some prepayable financial assets with negative compensation if the negative compensation is a reasonable compensation for early termination of the contract. An example of such reasonable compensation is an amount that reflects the effect of the change in the relevant benchmark rate of profit at the time of termination; the calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of a early repayment gain.

The amendments are effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. The amendments shall be applied retrospectively.

Annual Improvements to MFRSs 2015-2017 Cycle

The Annual Improvements to MFRSs 2015-2017 Cycle include minor amendments affecting 4 MFRSs, which are effective for annual periods beginning on or after 1 January 2019, as summarised below:

(i) MFRS 3 *Business Combinations*

The amendments clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages. The acquirer shall remeasure its previously held interest in the joint operation at fair value at the acquisition date.

3. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

3.2 Standards issued but not yet effective (Cont'd.)

(a) Standards effective for financial year ending 31 March 2020 (Cont'd.)

Annual Improvements to MFRSs 2015-2017 Cycle (Cont'd.)

(ii) MFRS 11 *Joint Arrangements*

The amendments clarified that the party obtaining joint control of a business that is a joint operation shall not remeasure any previously held interest in the joint operation.

(iii) MFRS 112 *Income Taxes*

The amendments clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated the distributable amounts were recognised. Hence the tax consequences are recognised in profit or loss only when an entity determines payments on such instruments are distributions of profits.

(iv) MFRS 123 *Borrowing Costs*

The amendments clarified that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

(b) Standards effective for financial year ending 31 March 2021

Amendments to References to the Conceptual Framework in MFRS Standards

The amendments, affecting nine published standards and five published interpretations, were issued as a consequence to the issuance of the revised Conceptual Framework for Financial Reporting ("Conceptual Framework") on 30 April 2018. The references and quotations in these published standards and interpretations to the Conceptual Framework have been updated so as to clarify the version of the Conceptual Framework these published standards and interpretations refer to. The amendments are effective for annual periods beginning on or after 1 January 2020 for entities that develop an accounting policy by reference to the Conceptual Framework.

3. CHANGES IN ACCOUNTING POLICIES (CONT'D.)

3.2 Standards issued but not yet effective (Cont'd.)

(b) Standards effective for financial year ending 31 March 2021 (Cont'd.)

Definition of a Business (Amendments to MFRS 3)

The amendments revised the definition of a business, whereby the term "outputs" is narrowed to focus on goods and services provided to customers, as well as generation of investment income and other income from ordinary activities; returns in the form of lower costs and other economic benefits are no longer considered. In addition, a new framework is added to help evaluate when an input and a substantive process are present.

The amendments are applied prospectively to business combinations and asset acquisitions that occur on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Early adoption is permitted.

Definition of Material (Amendments to MFRS 101 and MFRS 108)

The amendments clarified the definition of material and how it should be applied through the addition of definition guidance. In addition, the explanations accompanying the definition have been improved and aligned across all MFRS standards to make it easier for entities to make materiality judgments. The amendments are applied prospectively from annual reporting period beginning on or after 1 January 2020. Early adoption is permitted.

4. SIGNIFICANT CHANGES IN REGULATORY REQUIREMENTS

4.1 BNM policy documents on Financial Reporting and Financial Reporting for Islamic Banking Institutions

On 2 February 2018, BNM issued the following revised policy documents which are effective for financial years beginning on or after 1 January 2018:

- (a) Financial Reporting; and
- (b) Financial Reporting for Islamic Banking Institutions.

Certain requirements in the policy documents have been revised in response to the changes in the financing loss impairment methodology arising from the ECL approach under MFRS 9. In addition, the credit-impaired classification requirements which was previously provided in BNM's policy document on Classification and Impairment Provisions for Loans/Financing have also been incorporated into the above revised policy documents.

Following the application of MFRS 9 impairment requirements, the revised policy documents require banking institutions and Islamic banking institutions to maintain, in aggregate, loss allowance for non-credit-impaired exposures (commonly referred to as Stage 1 and Stage 2 expected credit losses) and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures. This revised requirement has been applied in the computation of regulatory reserves as presented in the financial statements.

The revised policy documents also introduced the following new disclosure requirements in the annual financial statement as presented in the Bank's annual financial statement (where applicable) for the current financial year:

- (i) a movement schedule of financial instruments classified as credit-impaired with a breakdown by class of financial instrument;
- (ii) a movement schedule of loss allowance with a breakdown by class of financial instrument and showing separately the loss allowance measured by different stages of ECL;
- (iii) intercompany charges with a breakdown by type of services received and geographical distribution; and
- (iv) nature of the underlying assets in connection with placement of funds in an investment account with an Islamic banking institution.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in accordance with MFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of revenue, expenses, assets and liabilities, the accompanying disclosures and the disclosure of contingent liabilities. Judgments, estimates and assumptions are continually evaluated and are based on past experience, reasonable expectations of future events and other factors. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Bank's accounting policies, management has made the following judgments, estimates and assumptions which have the most significant effect on the amounts recognised in the financial statements.

5.1 Measurement of ECL allowances (Notes 6, 11, 13, 15, 29, 35, 36, 37 and 38) (Applicable from 1 April 2018)

The measurement of the ECL allowances for financial assets measured at amortised cost and FVOCI and financing commitments and financial guarantee contracts requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 55.2.

Significant judgment is required in applying the accounting requirements for measuring ECL such as:

- determining criteria for significant increase in credit risk in the qualitative assessment and the impact of the instrument being measured at lifetime ECL basis due to significant increase in credit risk;
- choosing appropriate models and assumptions including the various formulas and choice of inputs for the measurement of ECL;
- establishing the number and relative weightings of forward-looking scenarios for each type of major product and the associated ECL;
- establishing groups of similar financial assets for the purposes of measuring ECL; and
- application of the AMMB Group's internal credit grading model which assigns Probability of Defaults ("PDs") to the individual grades.

5.2 Allowance for impairment on financing and advances (Notes 15 and 35) (Applicable before 1 April 2018)

The Bank reviews its individually significant financing and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of profit or loss. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONT'D.)

5.2 Allowance for impairment on financing and advances (Notes 15 and 35) (Applicable before 1 April 2018) (Cont'd.)

Financing and advances that have been assessed individually and found not to be impaired and all individually insignificant financing and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether allowance should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the financing portfolio (such as levels of arrears, credit utilisation, financing to collateral ratios), and judgments on cover model risks (e.g. errors for design/development process, data quality, data extraction and transformation) and macro risks (such as covering economic, portfolio and procedural issues).

5.3 Impairment losses on financial investments AFS (Applicable before 1 April 2018)

The Bank reviews its debt securities classified as financial investments AFS at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of financing and advances.

The Bank also records impairment loss on AFS equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONT'D.)

5.4 Deferred tax assets and income taxes (Notes 18, 28, 29 and 45)

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised. Management judgment is required to determine the amount of the deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The Bank is subjected to income taxes in Malaysia and significant judgment is required in estimating the provision for income taxes. There are many transactions and interpretations of tax law for which the final outcome will not be established until some time later. Liabilities for taxation are recognised based on estimates of whether additional taxes will be payable. The estimation process may involve seeking advice of experts, where appropriate. Where the final liability for taxation assessed by the Inland Revenue Board is different from the amounts that were initially recorded, these differences will affect the income tax expense and deferred tax provisions in the period in which the estimate is revised or when the final tax liability is established.

5.5 Fair value measurement of financial instruments (Notes 8, 9, 11, 32, 34 and 56)

When the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of financial models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, judgment is required to establish fair values. Judgments include considerations of liquidity and model inputs such as volatility for longer-dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities.

6. CASH AND SHORT-TERM FUNDS

	Note	2019 RM'000	2018 RM'000
Cash and bank balances		17,649	41,149
Less: Allowances for ECL	(a)	(6)	-
		<u>17,643</u>	<u>41,149</u>
Deposits and placements maturing within one month with original maturity of three months or less:			
Licensed banks		435,000	100,000
Bank Negara Malaysia		1,116,000	1,447,280
		<u>1,551,000</u>	<u>1,547,280</u>
Total cash and bank balances and deposit and placements		<u>1,568,643</u>	<u>1,588,429</u>

(a) The movements in allowances for ECL are as follow:

	Stage 1 12-Month ECL RM'000
Balance at beginning of the financial year	-
- as previously stated	-
- effects of adoption of MFRS 9 (Note 60 (ii))	3
Balance at beginning of the financial year, as restated	<u>3</u>
Net remeasurement of allowances	3
Balance at end of the financial year	<u>6</u>

The increase in allowances for ECL in Stage 1 by RM3,000 mainly due to changes in credit quality for a foreign bank account.

7. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019 RM'000	2018 RM'000
Islamic banks	<u>-</u>	<u>200,000</u>
Deposit and placements with original maturity of three months or less	<u>-</u>	<u>200,000</u>

8. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

The table below shows the Bank's derivative financial instruments as at the reporting date. The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative financial asset) and gross negative (derivative financial liability) fair values at the reporting date are analysed below:

	Contract/Notional Amount RM'000	Fair Value	
		Assets RM'000	Liabilities RM'000
2019			
Trading Derivatives			
<u>Foreign exchange related contracts</u>			
One year or less	1,973,689	15,043	14,962
Over one year to three years	1,059,977	27,690	26,390
Over three years	49,020	21	12
<u>Profit rate related contracts</u>			
One year or less	-	41	-
Over one year to three years	160,000	341	341
Over three years	200,000	-	2,473
Hedging Derivatives			
<u>Profit rate related contracts</u>			
Profit rate swap			
- Fair value hedge			
Over three years	350,000	-	11,341
Total	3,792,686	43,136	55,519
2018			
Trading Derivatives			
<u>Foreign exchange related contracts</u>			
One year or less	1,539,601	35,762	35,278
Over one year to three years	81,123	3,146	3,113
Over three years	608,346	44,222	42,644
<u>Profit rate related contracts</u>			
Over three years	260,000	4,278	4,278
Hedging Derivatives			
<u>Profit rate related contracts</u>			
Profit rate swap			
- Fair value hedge			
Over three years	350,000	-	7,626
Total	2,839,070	87,408	92,939

8. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONT'D.)

Derivative financial instruments and hedge accounting

(i) Profit rate risk

The Bank holds a portfolio of long-term fixed rate financial investments and mortgages, therefore is exposed to changes in fair value due to movements in market profit rates. The Bank manages a portion of this risk exposure that is not naturally offset against floating rate positions held by the Bank in financial investments by entering into pay fixed/receive floating profit rate swaps.

Only the profit rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Bank. The profit rate risk component is determined as the change in fair value of the long-term fixed rate financial investments and mortgages arising solely from changes in 3-month KLIBOR (the benchmark rate of interest). Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of the financing attributable to changes in the benchmark rate of profit with changes in the fair value of the profit rate swaps.

The Bank establishes the hedging ratio by matching the notional of the derivatives with the principal of the long-term fixed rate financial investments being hedged. The main sources of ineffectiveness arise from differences in timing of cash flows between debt instruments and profit rate swaps.

8. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONT'D.)

Derivative financial instruments and hedge accounting (Cont'd.)

(ii) The following table sets out the maturity profile and average price/rate of the hedging instruments used in the Bank's non-dynamic hedging strategies:

	Up to 1 month RM'000	> 1 month to 3 months RM'000	Maturity > 3 months to 1 year RM'000	>1 year to 5 years RM'000	More than 5 years RM'000
2019					
Fair value hedge - Profit rate risk					
Profit rate swap					
Notional	-	-	-	-	350,000
Average floating profit rate	-	-	-	-	3.8%

8. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONT'D.)

Derivative financial instruments and hedge accounting (Cont'd.)

(iii) The following table contains details of the hedging instruments used in the Bank's hedging strategies:

	Contract/ Notional Amount RM'000	Carrying amount of Derivative Financial Assets RM'000	Derivative Financial Liabilities RM'000	Statement of financial position line item	Changes in fair value used for calculating hedge ineffectiveness during the year RM'000
2019					
Fair value hedges					
Profit rate risk				Derivative financial liabilities	
- Profit rate swaps	350,000	-	11,341		(3,715)

8. DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONT'D.)

Derivative financial instruments and hedge accounting (Cont'd.)

(iv) The following table sets out the maturity profile and average price/rate of the hedged item used in the Bank's non-dynamic hedging strategies:

	Carrying amount of		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Statement of financial position line item	Change in fair value used for calculating hedge ineffectiveness during the year	Continuing hedge	Discontinued hedge
	Assets	Liabilities	Assets	Liabilities				
	RM'000	RM'000	RM'000	RM'000		RM'000	RM'000	RM'000
2019								
Fair value hedge								
Profit rate risk								
- Unquoted Sukuk	355,369	-	12,143	-	FVOCI	3,812	-	-

(v) The following table contains information regarding the effectiveness of the hedging relationships designated by the Bank, as well as the impact on profit or loss and other comprehensive income:

	Gains/(loss) recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss	Statement of profit or loss/other comprehensive income line item that includes hedge ineffectiveness	Amount reclassified from reserves to profit or loss as:		
				Hedged cashflows will no longer occur	Hedged item affecting profit or loss	Profit or loss line item that includes reclassified amount
	RM'000	RM'000		RM'000	RM'000	RM'000
2019						
Fair value hedge						
Profit rate risk						
- Unquoted Sukuk	(3,812)	97	Other operating income	-	-	-

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RM'000	2018 RM'000
At fair value:		
Money Market Instruments:		
Malaysian Islamic Treasury bills	121,253	-
Malaysian Government Investment Issues	2,563,893	-
Bank Negara Monetary Notes	2,291,775	-
	<u>4,976,921</u>	<u>-</u>
Unquoted securities:		
In Malaysia:		
Sukuk	137,053	-
	<u>5,113,974</u>	<u>-</u>

10. FINANCIAL ASSETS HELD-FOR-TRADING

	2019 RM'000 (Note 60)	2018 RM'000
At fair value:		
Money market instruments:		
Malaysian Islamic Treasury bills	-	486,655
Malaysian Government Investment Issues	-	241,988
Bank Negara Monetary Notes	-	199,560
	<u>-</u>	<u>928,203</u>
Unquoted securities:		
In Malaysia:		
Sukuk	-	656,429
	<u>-</u>	<u>1,584,632</u>

11. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RM'000	2018 RM'000
At fair value:		
Money market instruments:		
Malaysian Government Investment Issues	449,619	-
Unquoted securities:		
In Malaysia:		
Sukuk	3,042,521	-
	<u>3,492,140</u>	<u>-</u>

The Bank had undertaken a fair value hedge on the profit rate risk of unquoted sukuk of RM350.0 million (previously classified as Receivables: Investment not quoted in active markets) using profit rate swap with AmBank (M) Berhad ("AmBank"). The gain/(loss) arising from the fair value hedge during the current financial year is as follows:

	2019 RM'000	2018 RM'000
Relating to hedged item	3,812	260
Relating to hedging instrument	(3,715)	338
	<u>97</u>	<u>598</u>

With the adoption of MFRS 9, the fair value changes on the hedged item is taken up under fair value reserve and the hedging gain or loss on the hedged item is reclassified to profit or loss.

11. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONT'D.)

Movements in allowances for ECL are as follows:

	Stage 1 12-Month ECL RM'000	Stage 2 Lifetime ECL Not Credit Impaired RM'000	Total RM'000
Balance at beginning of the financial year			
- as previously stated	-	-	-
- effects of adoption of MFRS 9 (Note 60 (iii))	6,088	4,132	10,220
Balance at beginning of the financial year, as restated	6,088	4,132	10,220
Changes due to FVOCI movements:			
- Transfer to Lifetime ECL not credit impaired (Stage 2)	(2,929)	16,379	13,450
New financial asset originated	8,404	1,691	10,095
Financial asset derecognised	(4,698)	(4,244)	(8,942)
Net remeasurement of allowances	(4,482)	678	(3,804)
Balance at end of the financial year	2,383	18,636	21,019

The movements in allowances for ECL are mainly contributed by:

- (a) Net decrease in Stage 1 due to transfer of ECL of two securities from Stage 1 to Stage 2 offset by net addition in securities during the year and increase due to changes in credit risk.
- (b) Net increase in Stage 2 due to transfer of ECL from Stage 1 mitigated by net decrease in securities during the year.

12. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	2019 RM'000 (Note 60)	2018 RM'000
At fair value:		
Money market instruments:		
Malaysian Government Investment Issues	-	223,813
Islamic negotiable instruments of deposit	-	1,510,068
	-	1,733,881
Unquoted securities:		
In Malaysia:		
Sukuk	-	1,104,685
	-	2,838,566

13. FINANCIAL INVESTMENTS AT AMORTISED COST

		2019 RM'000	2018 RM'000
At amortised cost:	Note		
Money Market Instruments:			
Malaysian Government Investment Issues		260,530	-
Unquoted Securities:			
In Malaysia:			
Sukuk		1,445,232	-
Less: Allowances for ECL	(a)	<u>(307)</u>	<u>-</u>
		<u>1,705,455</u>	<u>-</u>

(a) The movements in allowances for ECL are as follow:

	Stage 1 12-Month ECL RM'000
Balance at beginning of the financial year	
- as previously stated	-
- effects of adoption of MFRS 9 (Note 60 (ii))	<u>201</u>
Balance at beginning of the financial year, as restated	201
Net remeasurement of allowances	<u>106</u>
Balance at end of the financial year	<u>307</u>

The increase in allowances for ECL mainly contributed by addition in investments during the year.

14. FINANCIAL INVESTMENTS HELD-TO-MATURITY

	2019 RM'000 (Note 60)	2018 RM'000
At amortised cost:		
Unquoted securities:		
In Malaysia:		
Sukuk	<u>-</u>	<u>1,090,010</u>

15. FINANCING AND ADVANCES

(a) Financing and advances by type and Shariah contracts are as follows:

2019

	Bai' Bithaman Ajil RM'000	Murabahah RM'000	Musharakah Mutanaqisah RM'000	Al-Ijarah Thummah Al -Bai' ("AITAB") RM'000	Bai' Inah RM'000	Others RM'000	Total RM'000
At amortised cost:							
Cash lines	-	426,594	-	-	1,050,183	-	1,476,777
Term financing	805,258	5,816,397	10,130	-	2,419,348	56,637	9,107,770
Revolving credit	42,075	3,478,539	-	-	1,592,275	-	5,112,889
Housing financing	2,970,696	3,235,311	49,022	-	-	-	6,255,029
Hire purchase receivables	4	-	-	4,618,823	-	-	4,618,827
Bills receivables	-	88,416	-	-	-	15,992	104,408
Credit card receivables	-	-	-	-	-	533,122	533,122
Trust receipts	-	324,347	-	-	-	-	324,347
Staff financing	-	1,197	-	-	-	-	1,197
Claims on customers under acceptance credits	-	1,558,829	-	-	-	236,875	1,795,704
Gross financing and advances*	3,818,033	14,929,630	59,152	4,618,823	5,061,806	842,626	29,330,070
Less: Allowance for impairment on financing and advances (Note 15(j))							(80,362)
- Stage 1 - 12 months ECL							(204,632)
- Stage 2 - Lifetime ECL not credit impaired							(122,627)
- Stage 3 - Lifetime ECL credit impaired							28,922,449
Net financing and advances							

15. FINANCING AND ADVANCES (CONT'D.)

(a) Financing and advances by type and Shariah contracts are as follows (Cont'd.):

2018

	Bai' Bithaman Ajil RM'000	Murabahah RM'000	Musharakah Mutanaqisah RM'000	Al-Ijarah Thummah Al -Bai' ("AITAB") RM'000	Bai' Inah RM'000	Others RM'000	Total RM'000
At amortised cost:							
Cash lines	-	243,060	-	-	1,146,215	-	1,389,275
Term financing	1,327,945	4,731,464	10,579	-	2,920,051	64,707	9,054,746
Revolving credit	62,100	2,859,554	-	-	1,692,374	-	4,614,028
Housing financing	3,047,080	1,819,335	50,636	-	-	-	4,917,051
Hire purchase receivables	4	-	-	6,051,229	-	-	6,051,233
Bills receivables	-	27,086	-	-	-	271	27,357
Credit card receivables	-	-	-	-	-	423,920	423,920
Trust receipts	-	130,910	-	-	-	-	130,910
Claims on customers under acceptance credits	-	1,241,342	-	-	-	184,560	1,425,902
Gross financing and advances*	4,437,129	11,052,751	61,215	6,051,229	5,758,640	673,458	28,034,422
Less: Allowance for impairment on financing and advances (Note 15(k))							(25,314)
- Individual allowance							(233,272)
- Collective allowance							
Net financing and advances							<u>27,775,836</u>

* Included in financing and advances are exposures to the Restricted Investment Account ("RA") arrangements between the Bank and AmBank (M) Berhad ("AmBank") amounting to RM1,470.1 million (31 March 2018: RM2,869.6 million). Under the RA contract, the profit is shared based on a pre-agreed ratio. AmBank is exposed to the risks and rewards on the RA financing and it shall account for all allowance for impairment arising from the RA financing. Further details of the RA are disclosed in Note 24.

15. FINANCING AND ADVANCES (CONT'D.)

(b) Gross financing and advances analysed by type of customer are as follows:

	2019	2018
	RM'000	RM'000
Domestic bank institutions	415	-
Domestic non-bank financial institutions	1,296,857	1,192,612
Domestic business enterprises		
- Small medium enterprises	5,802,022	5,294,379
- Others	7,656,095	7,357,710
Government and statutory bodies	506,738	716,111
Individuals	13,962,248	13,384,249
Other domestic entities	11,939	1,344
Foreign individuals and entities	93,756	88,017
	<u>29,330,070</u>	<u>28,034,422</u>

(c) All financing and advances reside in Malaysia.

(d) Gross financing and advances analysed by profit rate sensitivity are as follows:

	2019	2018
	RM'000	RM'000
Fixed rate		
- Housing financing	188,642	205,376
- Hire purchase receivables	4,402,401	5,686,447
- Other financing	3,305,821	2,703,476
Variable rate		
- Base rate and base financing rate plus	10,826,666	8,726,336
- Cost plus	8,509,615	8,817,540
- Other variable rates	2,096,925	1,895,247
	<u>29,330,070</u>	<u>28,034,422</u>

15. FINANCING AND ADVANCES (CONT'D.)

(e) Gross financing and advances analysed by sector are as follows:

	2019 RM'000	2018 RM'000
Agriculture	1,648,017	1,696,977
Mining and quarrying	666,823	1,041,439
Manufacturing	3,969,234	3,322,092
Electricity, gas and water	135,928	313,429
Construction	1,006,587	883,579
Wholesale and retail trade and hotel and restaurants	1,578,778	1,320,133
Transport, storage and communication	1,431,629	939,582
Finance and insurance	1,297,273	1,192,616
Real estate	2,135,224	2,288,154
Business activities	650,398	432,013
Education and health	733,635	1,127,642
Household of which:	14,056,509	13,471,899
- Purchase of residential properties	6,202,262	4,874,534
- Purchase of transport vehicles	4,272,070	5,759,757
- Others	3,582,177	2,837,608
Others	20,035	4,867
	29,330,070	28,034,422

(f) Gross financing and advances analysed by residual contractual maturity are as follows:

	2019 RM'000	2018 RM'000
Maturing within one year	10,226,890	9,900,413
Over one year to three years	2,967,834	3,124,095
Over three years to five years	3,765,533	4,182,047
Over five years	12,369,813	10,827,867
	29,330,070	28,034,422

15. FINANCING AND ADVANCES (CONT'D.)

(g) Movements in impaired financing and advances are as follows:

	2019 RM'000	2018 RM'000
Balance at beginning of the financial year	582,538	488,700
Impaired during the year	376,962	359,171
Reclassified as non-impaired	(131,055)	(25,231)
Recoveries	(27,839)	(63,456)
Amount written off	(228,057)	(176,646)
Balance at end of the financial year	<u>572,549</u>	<u>582,538</u>
Gross impaired financing and advances as % of gross financing and advances	<u>1.95%</u>	<u>2.08%</u>
Financing loss coverage (including regulatory reserve)*	<u>103.2%</u>	<u>100.6%</u>

* Inclusive of ECL allowances for financial commitments and financial guarantees upon adoption of MFRS 9 from 1 April 2018.

(h) All impaired financing and advances reside in Malaysia.

(i) Impaired financing and advances analysed by sector are as follows:

	2019 RM'000	2018 RM'000
Agriculture	-	571
Mining and quarrying	2,638	3,806
Manufacturing	21,854	1,863
Electricity, gas and water	-	7,030
Construction	3,516	8,807
Wholesale and retail trade and hotel and restaurants	11,397	15,890
Transport, storage and communication	66,727	76,990
Finance and insurance	1	-
Real estate	290,231	308,100
Business activities	750	1,659
Education and health	3,770	5,859
Household of which:	171,665	151,832
- Purchase of residential properties	82,479	48,899
- Purchase of transport vehicles	49,715	75,209
- Others	39,471	27,724
Others	-	131
	<u>572,549</u>	<u>582,538</u>

15. FINANCING AND ADVANCES (CONT'D.)

(j) Movements in allowances for ECL are as follows:

	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL Not Credit Impaired RM'000	Stage 3 Lifetime ECL Credit Impaired RM'000	Total RM'000
2019				
Balance at beginning of the financial year				
- as previously stated	-	-	-	258,586
- effects of adoption of MFRS 9 (Note 60 (ii))	-	-	-	143,964
Balance at beginning of the financial year, as restated	72,384	204,922	125,244	402,550
Allowance for/(writeback of) impairment on financing and advances movements (Note 35):	7,974	(290)	225,440	233,124
- Transfer to 12 month ECL (Stage 1)	3,319	(33,489)	(2,064)	(32,234)
- Transfer to Lifetime ECL not credit impaired (Stage 2)	(7,165)	55,244	(8,080)	39,999
- Transfer to Lifetime ECL credit impaired (Stage 3)	(939)	(8,674)	85,704	76,091
New financial assets originated	22,540	67,790	5,309	95,639
Net remeasurement of allowances	(27)	(61,345)	172,865	111,493
Modification of contractual cash flows of financial assets	(30)	37	-	7
Financial assets derecognised	(9,724)	(19,853)	(28,294)	(57,871)
Foreign exchange differences	4	-	-	4
Amount written-off	-	-	(228,057)	(228,057)
Balance at end of the financial year	80,362	204,632	122,627	407,621

15. FINANCING AND ADVANCES (CONT'D.)

(j) Movements in allowances for ECL are as follows (Cont'd.):

The following explains how significant changes in the gross carrying amount of financing and advances during the financial year have contributed to the changes in the allowance for impairment on financing and advances for the Bank.

Overall, the total allowance for impairment on financing and advances for the Bank had increased due to the following:

- (a) 12-month ECL (Stage 1) – increase of RM7,978,000 mainly due to newly originated financing and advances; partially offset by financing and advances derecognized.
- (b) Lifetime ECL not credit-impaired (Stage 2) – decrease of RM290,000 mainly due to improvement in credit quality and financing and advances migrated to Stage 1; partially offset by newly originated financing and advances.
- (c) Lifetime ECL credit-impaired (Stage 3) – decrease of RM2,617,000 mainly due to amounts written-off, partially offset by transfers to Stage 3 due to deterioration in credit quality and remeasurement of allowances of the impaired assets.
- (k) Movements in allowances for impairment of financing and advances in prior year were as follows:

	2018
	RM'000
Individual allowance	
Balance at beginning of the financial year	16,041
Allowance made during the year, net (Note 35)	29,090
Amount written off	(19,817)
Balance at end of the financial year	<u>25,314</u>
Collective allowance	
Balance at beginning of the financial year	252,280
Allowance made during the year, net (Note 35)	137,829
Amount written off	(156,829)
Foreign exchange differences	(8)
Balance at end of the financial year	<u>233,272</u>

16. RECEIVABLES: INVESTMENTS NOT QUOTED IN ACTIVE MARKETS

	2019 RM'000 (Note 60)	2018 RM'000
Unquoted sukuk in Malaysia	-	782,502
Accumulated fair value changes arising from fair value hedge	-	8,331
	<u>-</u>	<u>790,833</u>

17. STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

The non-profit bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009, the amount of which is determined as a set percentage of total eligible liabilities.

18. OTHER ASSETS

	Note	2019 RM'000	2018 RM'000
Other receivables, deposits and prepayments		46,658	21,927
Amount due from related companies	(a)	213,340	140,755
Amount due from originators	(b)	18,350	20,398
Profit receivable		64,143	34,411
Tax recoverable		8,038	-
Deferred charges	(c)	56,456	53,240
		<u>406,985</u>	<u>270,731</u>

- (a) Amount due from related companies are unsecured, non-profit bearing and are repayable on demand.
- (b) Amount due from originators represents personal financing acquired from originators for onward sale to Cagamas Berhad as mentioned in Note 25.
- (c) Deferred charges represent prepaid expenses for handling fees, marketing and promotion expenses relating to financing and advances.

19. PROPERTY AND EQUIPMENT

	Leasehold improvements RM'000	Office equipment, furniture and fittings RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
Cost					
At 1 April 2017	343	122	632	330	1,427
Additions	103	46	57	-	206
Disposals	-	-	(15)	-	(15)
At 31 March 2018	446	168	674	330	1,618
Additions	-	-	6	383	389
Disposals	-	-	(5)	(185)	(190)
At 31 March 2019	446	168	675	528	1,817
Accumulated depreciation					
At 1 April 2017	339	108	516	144	1,107
Depreciation for the financial year (Note 41)	15	13	46	26	100
Disposals	-	-	(15)	-	(15)
At 31 March 2018	354	121	547	170	1,192
Depreciation for the financial year (Note 41)	21	15	45	61	142
Disposals	-	-	(5)	(88)	(93)
At 31 March 2019	375	136	587	143	1,241
Carrying amount					
At 31 March 2019	71	32	88	385	576
At 31 March 2018	92	47	127	160	426

20. INTANGIBLE ASSETS

	2019 RM'000	2018 RM'000
Computer software		
Cost		
Balance at beginning of the financial year	2,226	1,377
Additions	499	1,020
Reclassification/Adjustments	-	(171)
Balance at end of the financial year	<u>2,725</u>	<u>2,226</u>
Accumulated amortisation		
Balance at beginning of the financial year	1,019	929
Amortisation for the financial year (Note 41)	355	90
Balance at end of the financial year	<u>1,374</u>	<u>1,019</u>
Carrying amount	<u>1,351</u>	<u>1,207</u>

21. DEPOSITS FROM CUSTOMERS

	2019 RM'000	2018 RM'000
(i) By type of deposit :		
Savings deposit :		
Commodity Murabahah	2,002,816	2,005,599
Qard	15,041	14,279
Demand deposit :		
Commodity Murabahah	6,935,337	4,841,876
Qard	15,375	22,777
Term Deposit :		
Commodity Murabahah	20,771,281	19,373,738
Qard	402,099	235,533
Negotiable instruments of deposits :		
<i>Bai' Bithaman Ajil</i>	997,987	-
Total	<u>31,139,936</u>	<u>26,493,802</u>

Included in deposits from customers are deposits of RM341.7 million (31 March 2018: RM272.9 million) held as collateral for financing and advances.

21. DEPOSITS FROM CUSTOMERS (CONT'D.)

	2019	2018
	RM'000	RM'000
(ii) The deposits are sourced from the following types of customers:		
Government and statutory bodies	4,030,053	4,614,846
Business enterprises	15,833,377	10,150,411
Individuals	10,223,309	11,051,343
Others	1,053,197	677,202
	<u>31,139,936</u>	<u>26,493,802</u>
(iii) The maturity structure of term deposits and negotiable instruments of deposits are as follows:		
Due within six months	16,032,555	12,235,496
Over six months to one year	4,994,369	6,006,987
Over one year to three years	602,241	369,329
Over three years to five years	542,202	997,459
	<u>22,171,367</u>	<u>19,609,271</u>

22. INVESTMENT ACCOUNTS OF CUSTOMERS

	2019	2018
	RM'000	RM'000
Unrestricted investment accounts :		
Without maturity		
- Wakalah	18,643	20,387
With maturity		
- Mudarabah	334,808	118,569
	<u>353,451</u>	<u>138,956</u>
The investments accounts are sourced from the following types of customers:		
Business enterprises	335,052	118,793
Individuals	18,399	20,163
	<u>353,451</u>	<u>138,956</u>

22. INVESTMENT ACCOUNTS OF CUSTOMERS (CONT'D.)

(a) Movement in the investment account is as follows:

	Wakalah RM'000	Mudarabah RM'000
As at 1 April 2017	24,374	-
<u>Funding inflows/(outflows)</u>		
New placements during the financial year	-	131,744
Redemptions/withdrawals during the financial year	(3,998)	(13,209)
Income from investment	673	40
<u>Bank's share of profit</u>		
Profit distributed to mudarib	(662)	(6)
As at 31 March 2018/1 April 2018	<u>20,387</u>	<u>118,569</u>
<u>Funding inflows/(outflows)</u>		
New placements during the financial year	-	597,103
Redemptions/withdrawals during the financial year	(1,753)	(387,699)
Income from investment	633	8,178
<u>Bank's share of profit</u>		
Profit distributed to mudarib	(624)	(1,343)
As at 31 March 2019	<u>18,643</u>	<u>334,808</u>
Investment asset:		
2019		
Interbank placement	18,643	-
House financing	-	334,808
Total investment	<u>18,643</u>	<u>334,808</u>
2018		
Interbank placement	20,387	-
House financing	-	118,569
Total investment	<u>20,387</u>	<u>118,569</u>

For the current financial year and financial year ended 31 March 2018, the Bank did not impose Wakalah fees on the Investment Account Holders.

22. INVESTMENT ACCOUNTS OF CUSTOMERS (CONT'D.)

(b) Average Rate of Return and Average Performance Incentive Fee for the investment accounts are as follows:

	Investment account holder		
	Average Profit sharing ratio (%)	Average rate of return (%)	Average Performance incentive fee (%)
2019			
Maturity :			
less than 3 months	79.16	2.98	3.25
between 3 to 12 months	87.59	4.04	-
2018			
Maturity :			
less than 3 months	83.98	0.20	3.01

23. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019 RM'000	2018 RM'000
<u>Non-Mudarabah</u>		
Licensed Islamic banks	848,278	399,256
Licensed banks	328,566	-
Licensed investment banks	820,181	339,430
Other financial institutions	596,499	479,050
Bank Negara Malaysia	5,026	5,788
	<u>2,598,550</u>	<u>1,223,524</u>

24. INVESTMENT ACCOUNT DUE TO A LICENSED BANK

	Note	2019 RM'000	2018 RM'000
<u>Restricted investment account ("RA")</u>			
- Mudarabah Muqayyadah	(a)	<u>1,465,539</u>	<u>2,859,110</u>

24. INVESTMENT ACCOUNT DUE TO A LICENSED BANK (CONT'D.)

Note:

- (a) The RA contract is a contract based on the Shariah concept of Mudarabah between two parties, that is, capital provider and entrepreneur to finance a business venture where the business venture is managed solely by the Bank as the entrepreneur. The profit of the business venture is shared between both parties based on a pre-agreed ratio. Losses shall be borne solely by the capital provider. The capital provider for the RA contracts is AmBank, a related company.

On 30 April 2018, 14 May 2018 and 7 February 2019, AmBank early redeemed a placement which amounted to RM517.4 million, RM480.7 million and RM411.8 million

As at 31 March 2019, ECL allowance for the investment asset borne by AmBank amounted to RM3.7 million (31 March 2018: RM2.7 million).

As at 31 March 2019, the tenure of the RA contracts is for a period of 8 months to 11 years (31 March 2018: 6 months to 13 years).

- (b) Movements in the investment account are as follows:

	2019 RM'000	2018 RM'000
Balance at beginning of the financial year	2,859,110	1,600,000
<u>Funding inflows/(outflows)</u>		
New placements during the financial year	-	1,387,045
Redemptions during the financial year, net*	(1,393,571)	(127,935)
Income attributable to investment account holders (Note 40)	(84,674)	(92,281)
Income from investment (Note 33(a))	97,064	102,502
<u>Bank's share of profit</u>		
Profit distributed to mudarib	(12,390)	(10,221)
Balance at end of the financial year	<u>1,465,539</u>	<u>2,859,110</u>
Investment asset:		
Financing	1,465,539	2,859,110
Total investment	<u>1,465,539</u>	<u>2,859,110</u>

- * Redemption amounts are inclusive of additional placements for existing contract of RM42.7 million (31 March 2018: RM2.0 million).

24. INVESTMENT ACCOUNT DUE TO A LICENSED BANK (CONT'D.)

(c) Profit Sharing Ratio and Average Rate of Return for the investment account are as follows:

	Investment account holder			
	2019	2018	2019	2018
	Profit sharing ratio (%)	Profit sharing ratio (%)	Average rate of return (%)	Average rate of return (%)
Maturity :				
up to 1 year	-	90	-	4.50
between 1 year to 2 years	46	90	2.36	4.55
between 2 years to 5 years	90	90	4.62	4.40
more than 5 years	77	90	3.86	4.77

25. RECOURSE OBLIGATION ON FINANCING SOLD TO CAGAMAS BERHAD

Recourse obligation on financing sold to Cagamas Berhad represents the proceeds received from the Bank's financing sold directly or those acquired from the originators (as disclosed in Note 18(b)) to Cagamas Berhad with recourse. Under this arrangement, the Bank undertakes to administer the financing on behalf of Cagamas Berhad and to buy back any financing, which are regarded as defective based on prudential criteria with recourse to the Bank. Under the back-to-back arrangement with the originators, the Bank acts as the intermediary financial institution and undertakes to administer the receivables on behalf of Cagamas Berhad and to buy back any receivables which are regarded as defective based on prudential criteria with recourse against the originators.

26. TERM FUNDING

		2019 RM'000	2018 RM'000
Senior Sukuk	(a)	1,000,000	1,000,000
Structured Product	(b)	80,000	80,000
		<u>1,080,000</u>	<u>1,080,000</u>

(a) The movement in Senior Sukuk are as follows:

	2019 RM'000	2018 RM'000
Balance at beginning of the financial year	1,000,000	1,850,000
Repayment during the financial year	-	(850,000)
Balance at end of the financial year	<u>1,000,000</u>	<u>1,000,000</u>

26. TERM FUNDING (CONT'D.)

Senior Sukuk

In the financial year ended 31 March 2011, the Bank implemented a Senior Islamic securities issuance ("Senior Sukuk") programme under the Shariah principle of Musharakah with nominal value of up to RM3.0 billion. The Senior Sukuk was reaffirmed a rating of AA2/Stable by RAM.

On 20 September 2010, the Bank had issued RM550.0 million Senior Sukuk under this programme. The Senior Sukuk bears profit rate at 4.30% per annum and has a tenure of seven years.

On 5 November 2014, the Bank issued the second tranche of Senior Sukuk of RM100.0 million. This tranche bears profit rate of 4.40% per annum and has a tenure of five years.

On 6 March 2015, the Bank issued the third and fourth tranches of Senior Sukuk of RM300.0 million and RM900.0 million respectively. These tranches bear profit rate of 4.25% and 4.45% per annum and have a tenure of 2.5 years and 5 years respectively.

On 6 September 2017, the Bank redeemed the third tranche of this programme amounting to RM300.0 million.

On 20 September 2017, the Bank redeemed the first tranche of this programme amounting to RM550.0 million.

(b) The movement in structured deposits is as follows:

	2019	2018
	RM'000	RM'000
Balance at beginning of the financial year	80,000	135,000
Repayment during the financial year	-	(55,000)
Balance at end of the financial year	<u>80,000</u>	<u>80,000</u>

Structured deposits

This includes non-principal guaranteed deposit placed by customers and structured products that are only principal guaranteed on maturity. The structured products include investment products with an embedded derivative where the embedded derivative is normally linked to the performance of an underlying asset such as profit rates, equities, commodities and foreign currency rates. Upon maturity, the customer will receive either cash payment or pre-determined units of the underlying asset. The structured products will mature within 2 years to 3 years (2018: 3 years to 4 years).

27. SUBORDINATED SUKUK

	Note	2019 RM'000	2018 RM'000
Sukuk Musharakah	(a)	-	-
Sukuk Murabahah (net of unamortised issuance costs of RM Nil; 2018: RM161,000)	(b)	1,150,000	999,839
		<u>1,150,000</u>	<u>999,839</u>

(a) The movement in Subordinated Sukuk Musharakah are as follows:

	2019 RM'000	2018 RM'000
Balance at beginning of the financial year	-	130,000
Repayment during the financial year	-	(130,000)
Balance at end of the financial year	<u>-</u>	<u>-</u>

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.

As at 31 March 2018, the Sukuk Musharakah was fully redeemed.

(b) The movement in Subordinated Sukuk Murabahah are as follows:

	2019 RM'000	2018 RM'000
Balance at beginning of the financial year	999,839	849,679
Amortisation of issuance expenses	161	160
Net issuance during the financial year	500,000	150,000
Repayment during the financial year	(350,000)	-
Balance at end of the financial year	<u>1,150,000</u>	<u>999,839</u>

Base I III Subordinated Sukuk Murabahah

On 28 February 2014, the Bank implemented a Subordinated Sukuk Murabahah programme of RM3.0 billion ("Sukuk Murabahah"). The objective of the programme is to enable the issuance of Tier 2 capital from time to time, for the purpose of enhancing the Bank's total capital position. The programme is set-up in accordance to the requirements spelt out in the Capital Adequacy Framework for Islamic Banks (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.

27. SUBORDINATED SUKUK (CONT'D.)

Basel III Subordinated Sukuk Murabahah (Cont'd.)

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 Tier 2 Subordinated Sukuk have been assigned a credit rating of AA3 by RAM Rating Services Berhad ("RAM").

On 28 February 2014, the Bank had issued the first tranche of Sukuk Murabahah of RM200.0 million under this programme. The profit rate of this tranche is at 5.07% per annum, payable on a semi-annual basis and has a tenure of ten (10) years.

Subsequently, on 25 March 2014, the Bank had issued the second tranche of Sukuk Murabahah of RM150.0 million under this programme. The profit rate of this tranche is at 5.05% per annum, payable on a semi-annual basis and has a tenure of ten (10) years.

On 21 December 2015, the Bank had issued Tranche 3 of the Sukuk Murabahah amounting to RM250.0 million under this programme. The profit rate of this tranche is at 5.35% per annum, payable semi-annually and has a tenure of ten (10) years.

On 30 December 2016, the Bank had issued Tranche 4 of the Sukuk Murabahah amounting to RM10.0 million under this programme. The profit rate of this tranche is at 5.50% per annum, payable semi-annually and has a tenure of ten (10) years.

On 15 March 2017, the Bank had issued Tranche 5 of the Sukuk Murabahah amounting to RM240.0 million under this programme. The profit rate of this tranche is at 5.20% per annum, payable semi-annually and has a tenure of ten (10) years.

On 23 February 2018, the Bank had issued Tranche 6 of the Sukuk Murabahah amounting to RM150.0 million under this programme. The profit rate of this tranche is at 5.23% per annum, payable semi-annually and has a tenure of ten (10) years.

On 18 October 2018, the Bank had issued Tranche 7 of the Sukuk Murabahah amounting to RM500.0 million under this programme. The profit rate of this tranche is at 4.88% per annum, payable semi-annually and has a tenure of ten (10) years.

On 28 February 2019, the Bank early redeemed the First Tranche of the Sukuk Murabahah on its first call date with nominal value amounting to RM200.0 million.

On 25 March 2019, the Bank early redeemed the Second Tranche of the Sukuk Murabahah on its first call date with nominal value amounting to RM150.0 million.

The full amount of all tranches issued qualify for recognition of Tier 2 capital in the capital adequacy ratio computation.

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28. DEFERRED TAX ASSET/(DEFERRED TAX LIABILITY)

	2019 RM'000	2018 RM'000
Balance at beginning of the financial year		
- as previously stated	(2,947)	(89)
- effects of adopting MFRS 9	(5,981)	-
Balance at beginning of the financial year, as restated	(8,928)	(89)
Recognised in statement of profit or loss (Note 45)	7,615	(2,966)
Recognised in other comprehensive income	(4,047)	108
Balance at end of the financial year	(5,360)	(2,947)
Deferred tax liability	(5,360)	(2,947)

Deferred tax asset and liability prior to offsetting are summarised as follows:

	2019 RM'000	2018 RM'000
Deferred tax asset	14,346	10,192
Deferred tax liability	(19,706)	(13,139)
	(5,360)	(2,947)

The components and movements of deferred tax asset/(liability) during the financial year are as follows:

28. DEFERRED TAX ASSET/(DEFERRED TAX LIABILITY) (CONT'D.)

	Balance at beginning of financial year	Effects of adoption of MFRS 9 (Note 60)	Balance at beginning of financial year, as restated	Recognised in statement of profit or loss	Recognised in other comprehensive income	Balance at end of financial year
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Deferred tax asset						
2019						
Allowances for ECL	-	-	-	3,067	-	3,067
Provision for expenses	4,818	(2,568)	2,250	5,533	-	7,783
Deferred income	3,640	-	3,640	(144)	-	3,496
Available-for-sale deficit	1,734	(1,734)	-	-	-	-
	<u>10,192</u>	<u>(4,302)</u>	<u>5,890</u>	<u>8,456</u>	<u>-</u>	<u>14,346</u>
2018						
Provision for expenses	3,854	-	3,854	964	-	4,818
Deferred income	3,066	-	3,066	574	-	3,640
Available-for-sale deficit	1,626	-	1,626	-	108	1,734
	<u>8,546</u>	<u>-</u>	<u>8,546</u>	<u>1,538</u>	<u>108</u>	<u>10,192</u>
Deferred tax liability						
2019						
Excess of capital allowance over depreciation	(49)	-	(49)	(149)	-	(198)
Deferred charges	(12,678)	-	(12,678)	(699)	-	(13,377)
Other temporary differences	(412)	-	(412)	7	-	(405)
Fair value reserve	-	(1,679)	(1,679)	-	(4,047)	(5,726)
	<u>(13,139)</u>	<u>(1,679)</u>	<u>(14,818)</u>	<u>(841)</u>	<u>(4,047)</u>	<u>(19,706)</u>
2018						
Excess of capital allowance over depreciation	(30)	-	(30)	(19)	-	(49)
Deferred charges	(8,605)	-	(8,605)	(4,073)	-	(12,678)
Other temporary differences	-	-	-	(412)	-	(412)
	<u>(8,635)</u>	<u>-</u>	<u>(8,635)</u>	<u>(4,504)</u>	<u>-</u>	<u>(13,139)</u>

29. OTHER LIABILITIES

	Note	2019 RM'000	2018 RM'000
Profit payable		228,715	217,072
Other creditors and accruals		48,184	42,458
Deferred income		14,566	15,165
Advance rentals		5,350	2,568
Amount due to related companies		105	179
Provision for commitments and contingencies	(a)		
- financing commitments and financial guarantees		-	10,698
- others		15,724	-
Allowances for ECL on financing commitments and financial guarantees	(b)	18,230	-
Provision for taxation		-	6,133
		<u>330,874</u>	<u>294,273</u>

Amount due to related companies are unsecured, non-profit bearing and are repayable on demand.

(a) The movements in provision for commitments and contingencies are as follows:

	2019 RM'000	2018 RM'000
Balance at beginning of the financial year		
- as previously stated	10,698	11,521
- effects of adoption of MFRS 9	(10,698)	-
Balance at beginning of the financial year, as restated	-	11,521
Charge during the financial year (Note 38)	-	(801)
Provision taken up under impaired financing and advances*	15,724	-
Foreign exchange differences	-	(22)
Balance at end of the financial year	<u>15,724</u>	<u>10,698</u>

* Arising from the disposal of non-performing financing, the Bank had set aside provision to cover the expenditure required to settle any put-back by the purchaser of the disposed non performing financing (refer Note 59).

29. OTHER LIABILITIES (CONT'D.)

- (b) Movements in allowances for ECL on financing commitments and financial guarantees which reflect the ECL model on impairment are as follows:

	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL Not Credit Impaired RM'000	Stage 3 Lifetime ECL Credit Impaired RM'000	Total RM'000
2019				
Balance at beginning of the financial year				
- as previously stated	-	-	-	10,698
- effects of adopting MFRS 9 (Note 60 (ii))	-	-	-	4,065
Balance at beginning of the financial year, as restated	8,817	5,911	35	14,763
Allowance for/(writeback of) ECL during the year (Note 38):	1,319	2,168	(23)	3,464
- Transfer to 12 month ECL (Stage 1)	190	(2,100)	-	(1,910)
- Transfer to Lifetime ECL not credit impaired (Stage 2)	(327)	1,879	-	1,552
- Transfer to Lifetime ECL credit impaired (Stage 3)	(45)	(84)	-	(129)
New financial instruments originated	3,587	4,001	-	7,588
Net remeasurement of allowances	623	(506)	(23)	94
Financial instruments derecognised	(2,709)	(1,022)	-	(3,731)
Foreign exchange difference	(1)	4	-	3
Balance at end of the financial year	10,135	8,083	12	18,230

The movements in allowances for ECL are mainly contributed by:

- (a) Overall ECL in Stage 1 and Stage 2 increased due to increase in exposure.
 (b) ECL in Stage 3 decreased due to changes in credit risk.

30. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2019 Units'000	2018 Units'000	2019 RM'000	2018 RM'000
Issued and fully paid:				
<u>Ordinary shares</u>				
Balance at beginning of the financial year	494,369	462,922	1,387,107	1,187,107
Issuance of ordinary shares	-	31,447	-	200,000
Balance at end of the financial year	494,369	494,369	1,387,107	1,387,107

On 29 September 2017, the Bank increased its issued and paid-up ordinary share capital by RM200.0 million from RM1,187.1 million to RM1,387.1 million 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 prior financial year ranked pari passu in all respects with the existing ordinary shares of the Bank.

31. RESERVES

	Note	2019 RM'000	2018 RM'000
Regulatory reserve	(a)	164,928	327,683
Fair value reserve	(b)	39,151	-
Available-for-sale deficit	(c)	-	(5,492)
Retained earnings	(d)	1,933,885	1,632,472
		<u>2,137,964</u>	<u>1,954,663</u>

- (a) Regulatory reserve is maintained in accordance with BNM's Policy Document on Classification and Impairment Provisions for Financing as an additional credit risk absorbent.
- (b) The fair value reserve comprises fair value gains (net of fair value losses) on financial investments measured at FVOCI. In addition, the loss allowance arising from the recognition of expected credit losses on financial investments measured at FVOCI are accumulated in fair value reserve instead of reducing the carrying amount of the assets. Before the adoption of MFRS 9, the fair value gains/(losses) on financial investments measured at FVOCI was taken up in Available-For-Sale Reserve/(Deficit).
- (c) Available-for-sale deficit was in respect of net unrealised fair value losses on financial investments Available-for-sale.
- (d) The Bank can distribute dividends out of its entire retained earnings under the single-tier system.

32. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	2019 RM'000	2018 RM'000
<u>Finance income and hibah:</u>		
Financing and advances		
- Financing income	1,322,640	1,369,587
- Financing income on impaired financing	2,797	1,782
Financial assets at fair value through profit or loss	100,836	-
Financial assets held-for-trading	-	34,119
Financial investments at fair value through other comprehensive income	146,024	-
Financial investments available-for-sale	-	24,723
Financial investments at amortised cost	67,040	-
Financial investments held-to-maturity	-	53,095
Deposits and placements with banks and other financial institutions	59,115	86,646
Receivables: Investments not quoted in active markets	-	50,027
Total finance income and hibah	1,698,452	1,619,979
<u>Other operating income:</u>		
Fee and commission income:		
- Brokerage fees, commission and rebates	1	2
- Fees on financing, advances and securities	29,555	30,278
- Guarantee fees	13,266	11,089
- Remittances	139	89
- Service charges and fees	2,283	2,668
- Others	4,011	4,565
Foreign exchange	1,466	21,524
Gain from disposal of financial assets at fair value through profit or loss	7,574	-
Gain from disposal of financial assets held-for-trading	-	3,317
Gain on revaluation of financial assets at fair value through profit or loss	289	-
Gain on revaluation of financial assets held-for-trading	-	1,890
Gain from disposal of financial investments at fair value through other comprehensive income	10,270	-
Gain from disposal of financial investments available-for-sale	-	749
(Loss)/gain on derivatives	(2,772)	2,762
Others	(115)	20
Total other operating income	65,967	78,953
Total	1,764,419	1,698,932

33. INCOME DERIVED FROM INVESTMENT OF INVESTMENT ACCOUNT FUNDS

		2019	2018
		RM'000	RM'000
	Note		
Income derived from investment of:			
Restricted investment account	(a)	97,064	102,502
Unrestricted investment accounts	(b)	8,435	713
		<u>105,499</u>	<u>103,215</u>

(a) Income derived from investment of restricted investment account

Finance income and hibah:

Financing and advances

- Financing income

Total finance income and hibah

97,064	102,502
<u>97,064</u>	<u>102,502</u>

(b) Income derived from investment of unrestricted investment accounts

Finance income and hibah:

Financing and advances

- Financing income

Deposits and placements with banks and other
financial institutions

Total finance income and hibah

7,804	40
631	673
<u>8,435</u>	<u>713</u>

34. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	2019 RM'000	2018 RM'000
<u>Finance income and hibah:</u>		
Financing and advances		
- Financing income	124,543	-
- Financing income on impaired financing	263	-
Financial assets at fair value through profit or loss	9,495	-
Financial investments at fair value through other comprehensive income	13,750	-
Financial investments available-for-sale	-	104,187
Financial investments at amortised cost	6,313	-
Deposits and placements with banks and other financial institutions	5,566	-
Total finance income and hibah	159,930	104,187
<u>Other operating income:</u>		
Fee and commission income:		
- Bancassurance commission	6,757	8,160
- Fees on financing, advances and securities	2,836	30
- Guarantee fees	1,249	-
- Remittances	1,777	2,867
- Service charges and fees	2,819	2,957
- Others	2,854	-
Foreign exchange	138	-
Gain from disposal of financial assets at fair value through profit or loss	713	-
Gain on revaluation of financial assets at fair value through profit or loss	27	-
Gain from disposal of financial assets at fair value through other comprehensive income	967	-
Gain from disposal of financial investments available-for-sale	-	3,566
Loss on derivatives	(261)	(2,227)
Others	(11)	-
Total other operating income	19,865	15,353
Total	179,795	119,540

35. ALLOWANCE FOR/(WRITEBACK OF) IMPAIRMENT ON FINANCING AND ADVANCES

	2019 RM'000	2018 RM'000
Allowance for impairment on financing and advances:		
Allowances for ECL (Note 15 (j))	233,124	-
Individual allowance, net (Note 15 (k))	-	29,090
Collective allowance, net (Note 15 (k))	-	137,829
	<u>233,124</u>	<u>166,919</u>
Impaired financing and advances recovered, net	(150,504)	(105,523)
	<u>82,620</u>	<u>61,396</u>

36. IMPAIRMENT LOSSES ON FINANCIAL INVESTMENTS

	2019 RM'000	2018 RM'000
Financial investments at amortised cost - sukuk	<u>106</u>	-
Financial investments at fair value through other comprehensive income - sukuk	<u>10,799</u>	-
Total	<u>10,905</u>	-

37. IMPAIRMENT LOSSES ON OTHER FINANCIAL ASSETS

	2019 RM'000	2018 RM'000
Cash and short-term funds	<u>3</u>	-

38. PROVISION FOR COMMITMENTS AND CONTINGENCIES - ALLOWANCE/ (WRITEBACK)

	2019 RM'000	2018 RM'000
Provision for commitments and contingencies - financial commitments and financial guarantee contracts (Note 29 (b), (a))	<u>3,464</u>	<u>(801)</u>

39. INCOME ATTRIBUTABLE TO THE DEPOSITORS AND OTHERS

	2019 RM'000	2018 RM'000
<u>Non-Mudarabah fund</u>		
Deposits from customers	903,053	865,574
Deposits and placements of banks and other financial institutions	100,032	38,401
	<u>1,003,085</u>	<u>903,975</u>
Others	28,401	29,057
Total	<u>1,031,486</u>	<u>933,032</u>

40. INCOME ATTRIBUTABLE TO THE INVESTMENT ACCOUNT HOLDERS

	2019 RM'000	2018 RM'000
<u>Unrestricted</u>		
Customers - investment accounts	6,845	45
<u>Restricted</u>		
Licensed bank - investment account	84,674	92,281
	<u>91,519</u>	<u>92,326</u>

41. OTHER OPERATING EXPENSES

	2019 RM'000	2018 RM'000
Personnel costs:		
- Salaries, allowances and bonuses	14,950	12,570
- Amortisation for shares granted under AMMB ESS - writeback	(29)	(86)
- Contributions to EPF/Private Retirement Scheme	2,755	2,026
- Social security cost	76	77
- Staff incentive	2,334	1,121
- Others	2,045	2,948
	<u>22,131</u>	<u>18,656</u>
Establishment costs:		
- Amortisation of intangible assets (Note 20)	355	90
- Cleaning, maintenance and security	48	(200)
- Computerisation costs	1,394	878
- Depreciation of property and equipment (Note 19)	142	100
- Rental of premises	837	776
- Others	20	51
	<u>2,796</u>	<u>1,695</u>
Marketing and communication expenses:		
- Communication, advertising and marketing expenses	6,842	5,454
- Others	93	151
	<u>6,935</u>	<u>5,605</u>
Administration and general expenses:		
- Professional services	4,127	21,363
- Others	18,122	29,859
	<u>22,249</u>	<u>51,222</u>
Service transfer pricing expenses (net)	263,359	345,213
	<u>317,470</u>	<u>422,391</u>

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41. OTHER OPERATING EXPENSES (CONT'D.)

Included in other operating expenses are the following:

	2019	2018
	RM'000	RM'000
Auditors' remuneration		
- Audit	801	704
- Regulatory and assurance related	284	250
- Other services	472	628
	<hr/>	<hr/>

42. CHIEF EXECUTIVE OFFICER'S AND DIRECTORS' REMUNERATION

The total remuneration (including benefits-in-kind) of the Chief Executive Officer and Directors of the Bank are as follows:

2019	Salary RM'000	Fees RM'000	Bonus RM'000	Other emoluments RM'000	Benefits- in-kind RM'000	Total RM'000
Key Management Personnel:						
Chief Executive Officer						
Eqhwan Mokhzanee bin Muhammad	840	-	147	251	3	1,241
Non-Executive Directors:						
Dato' Sri Abdul Hamidy Abdul Hafiz	-	160	-	233	-	393
Raja Anuar Raja Abu Hassan (resigned on 18.2.2019)	-	133	-	91	3	227
Hjh Rosmah Ismail	-	150	-	90	5	245
Farina Farikhullah Khan	-	150	-	96	4	250
Azlan Baqee Abdullah	-	150	-	90	5	245
Dr Mohd Nordin Mohd Zain (appointed on 16.1.2019)	-	30	-	21	2	53
	-	773	-	621	19	1,413
Total remuneration	840	773	147	872	22	2,654

42. CHIEF EXECUTIVE OFFICER'S AND DIRECTORS' REMUNERATION (CONT'D.)

The total remuneration (including benefits-in-kind) of the Chief Executive Officer and Directors of the Bank are as follows (Cont'd.):

2018	Salary RM'000	Fees RM'000	Bonus RM'000	Other emoluments RM'000	Benefits- in-kind RM'000	Total RM'000
Key Management Personnel:						
Chief Executive Officer Eqhwan Mokhzanee bin Muhammad	618	-	192	274	18	1,102
Non-Executive Directors:						
Dato' Sri Abdul Hamidy Abdul Hafiz (appointed on 1.4.2017)	-	160	-	176	-	336
Raja Anuar Raja Abu Hassan	-	150	-	87	-	237
Hjh Rosmah Ismail (appointed on 1.4.2017)	-	150	-	53	-	203
Farina Farikhullah Khan (appointed on 14.4.2017)	-	144	-	75	-	219
Azlan Baqee Abdullah (appointed on 3.7.2017)	-	112	-	41	-	153
Wasim Akhtar Saifi (resigned on 15.1.2018)	-	119	-	57	-	176
	-	835	-	489	-	1,324
Total remuneration	618	835	192	763	18	2,426

43. SHARIAH COMMITTEE MEMBERS' REMUNERATION

The total remuneration of the Shariah Committee members of the Bank is as follows:

	Fees RM'000	Allowances RM'000	Total RM'000
2019			
Prof. Dr. Amir Husin Mohd Nor	35	6	41
Assoc. Prof. Datin Dr. Noor Naemah Abdul Rahman	35	6	41
Assoc. Prof. Dr. Adnan Yusoff	35	7	42
Asst. Prof. Dr. Tajul Aris Ahmad Bustami	43	9	52
Dr. Asmak Ab Rahman	35	6	41
	183	34	217
2018			
Prof. Dr. Amir Husin Mohd Nor	35	7	42
Assoc. Prof. Datin Dr. Noor Naemah Abdul Rahman	35	6	41
Assoc. Prof. Dr. Adnan Yusoff	35	6	41
Asst. Prof. Dr. Tajul Aris Ahmad Bustami	43	7	50
Dr. Asmak Ab Rahman	35	6	41
	183	32	215

44. FINANCE COSTS

Finance cost is mainly in respect of income attributable to investors of the Subordinated Sukuk and Senior Sukuk programmes.

45. TAXATION

Taxation consists of the following:

	2019 RM'000	2018 RM'000
Current tax :		
Estimated tax payable	99,764	57,543
(Over)/under provision in prior financial years	(676)	1,220
	<u>99,088</u>	<u>58,763</u>
Deferred tax (Note 28) :		
Origination and reversal of temporary differences	(7,862)	4,911
Under/(over) provision in prior financial years	247	(1,945)
	<u>(7,615)</u>	<u>2,966</u>
Taxation	<u>91,473</u>	<u>61,729</u>

Domestic income tax is calculated at the statutory tax rate of 24% (2018: 24%) on the estimated chargeable profit for the financial year.

A reconciliation of taxation applicable to profit before zakat and taxation at the statutory tax rate to taxation at the effective tax rate of the Bank is as follows:

	2019 RM'000	2018 RM'000
Profit before zakat and taxation	<u>405,674</u>	<u>302,892</u>
Taxation at Malaysian statutory tax rate	97,362	72,694
Income not subject to tax	(10,754)	(14,354)
Expenses not deductible for tax purposes	5,778	4,278
Tax recoverable recognised on income subject to tax remission	(484)	(164)
(Over)/under provision of current tax in prior financial years	(676)	1,220
Under/(over) provision of deferred tax in prior financial years	247	(1,945)
Taxation for the financial year	<u>91,473</u>	<u>61,729</u>

46. BASIC/DILUTED EARNINGS PER SHARE

	2019	2018
Net profit attributable to equity holder of the Bank (RM'000)	<u>311,800</u>	<u>239,129</u>
Number of ordinary shares at beginning of financial year ('000)	494,369	462,922
Effect of issuance of shares ('000)	<u>-</u>	<u>15,853</u>
Weighted average number of ordinary shares in issue at the end of the financial year ('000)	<u>494,369</u>	<u>478,775</u>
Basic/diluted earnings per share (sen)	<u>63.07</u>	<u>49.95</u>

47. DIVIDENDS

	2019 RM'000	2018 RM'000
Recognised during the financial year:		
Interim single-tier cash dividend of 10.0 sen per ordinary share in respect of financial year ended 31 March 2019	<u>49,437</u>	<u>-</u>

The Directors propose the payment of a final single-tier dividend of 33.0 sen per ordinary share on 494,368,541 ordinary shares amounting to approximately RM163,141,619 in respect of the current financial year ended 31 March 2019. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholder, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 March 2020.

48. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions; or if one party controls both parties.

The related parties of the Bank are:

(i) Related companies

These are subsidiaries of the holding company.

(ii) Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, either directly or indirectly. The key management personnel of the Bank includes the Chief Executive Officer and Non-Executive Directors of the Bank.

(iii) Joint ventures of the holding company ("Joint Ventures")

The joint ventures of the holding company are AmMetlife Takaful Berhad and AmMetlife Insurance Berhad.

(iv) Companies in which certain Directors have substantial financial interest

These are entities in which significant voting power in such entities; directly or indirectly resides with certain Directors of the Bank.

(v) Companies which have significant influence over the holding company

These are entities who are substantial shareholders (including its related parties) of the holding company of the Bank.

During the current financial year, the Bank disposed non-performing financing to Aiqon Islamic Sdn Bhd ("Aiqon Islamic") which is a subsidiary of Aiqon Capital Sdn Bhd ("Aiqon Capital"). Aiqon Capital is jointly controlled by a company that is controlled by the Group Executive Chairman/Chief Executive Officer of Aiqon Capital who is a close family member of a director and major shareholder of AMMB. The disposal generated a gain on disposal (after deducting incidental costs of disposal) amounting to RM80.9 million which has been accounted for under impaired financing and advances recovered in the statement of profit or loss (Note 35).

48. RELATED PARTY TRANSACTIONS (CONT'D.)

(a) In addition to the transactions detailed elsewhere in the financial statements, the Bank had the following transactions with related parties during the financial year:

	Related companies		Key management personnel		Companies which certain Directors have substantial financial interest		Joint ventures of the holding company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Income								
Profit on financing and advances	3	-	91	69	3,389	4,455	-	-
Fee income	-	-	1	-	-	-	-	-
Bancassurance commission	62	15	-	-	-	-	973	3,606
Net gain on derivatives	1,736	4,266	-	-	-	-	-	-
Service transfer pricing income	-	-	-	-	-	-	-	-
Unrealised gain on revaluation of derivatives	(6,469)	1,515	-	-	-	-	-	-
	<u>(4,668)</u>	<u>5,796</u>	<u>92</u>	<u>69</u>	<u>3,389</u>	<u>4,455</u>	<u>973</u>	<u>3,606</u>
Expenses								
Insurance premium	15	1	-	-	-	18	714	144
Other staff benefit	-	-	-	-	4	2	-	-
Marketing expenses	-	-	-	-	5	-	-	-
Profit on deposits	22,602	14,981	48	103	33	30	35	-
Profit on investment account	84,674	92,281	-	-	-	-	-	-
Service transfer pricing expense	263,359	345,213	-	-	-	-	-	-
Travelling expenses	-	-	-	-	48	90	-	-
	<u>370,650</u>	<u>452,476</u>	<u>48</u>	<u>103</u>	<u>90</u>	<u>140</u>	<u>749</u>	<u>144</u>

48. RELATED PARTY TRANSACTIONS (CONT'D.)

(b) The significant outstanding balances of the Bank with its related parties are as follows:

	Related companies		Key management personnel		Companies which certain Directors have substantial financial interest		Joint ventures of the holding company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Assets								
Derivative financial assets	34,475	82,574	-	-	-	-	-	-
Financing and advances	-	-	3,491	3,320	72,540	50,021	-	-
Other receivables	213,340	140,755	-	-	-	-	-	-
	<u>247,815</u>	<u>223,329</u>	<u>3,491</u>	<u>3,320</u>	<u>72,540</u>	<u>50,021</u>	<u>-</u>	<u>-</u>
Liabilities								
Deposits and placements	274,081	503,930	3,979	4,161	163,503	114,164	6,419	4,968
Derivative financial liabilities	22,408	13,261	-	-	-	-	-	-
Investment account due to a licensed bank	1,465,539	2,859,110	-	-	-	-	-	-
Other payables	105	179	-	-	-	-	-	-
Profit payable	5,440	11,497	445	-	-	-	-	-
	<u>1,767,573</u>	<u>3,387,977</u>	<u>4,424</u>	<u>4,161</u>	<u>163,503</u>	<u>114,164</u>	<u>6,419</u>	<u>4,968</u>
Commitments and contingencies								
Commitments	-	-	-	-	77,500	-	-	-
Contingent liabilities	5,000	5,000	-	-	18,369	20,398	-	-
Contract/Notional amount for derivatives	2,266,457	1,670,352	-	-	-	-	-	-
	<u>2,271,457</u>	<u>1,675,352</u>	<u>-</u>	<u>-</u>	<u>95,869</u>	<u>20,398</u>	<u>-</u>	<u>-</u>
Operating lease commitments	<u>646</u>	<u>1,725</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

48. RELATED PARTY TRANSACTIONS (CONT'D.)

(c) The transactions between the Bank and related parties took place at terms agreed between the parties during the financial year.

(d) Key management personnel compensation

The remuneration of the Chief Executive officer and the Directors, who are also the key management personnel, during the year is disclosed in Note 42.

49. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	2019	2018
Outstanding credit exposures with connected parties (RM'000)	785,978	353,241
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures (%)	2.42	1.13
Percentage of outstanding credit exposures with connected parties which is impaired or in default (%)	0.00	0.00

49. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES (CONT'D.)

The disclosure on Credit Transaction and Exposures with Connected Parties above is presented in accordance with Paragraph 9.1 of Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties for Islamic Banks issued on 16 July 2014.

Based on these guidelines, a connected party refers to the following:

- (i) directors of the Bank and their close relatives;
- (ii) controlling shareholder and his close relatives;
- (iii) influential shareholder and his close relatives;
- (iv) executive officer, being a member of management having authority and responsibility for planning, directing and/or controlling the activities of the Bank, and his close relatives;
- (v) officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;
- (vi) firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (v) above, or in which they have an interest as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;
- (vii) any person for whom the persons listed in (i) to (v) above is a guarantor; and
- (viii) subsidiary of or an entity controlled by the Bank and its connected parties.

Credit transactions and exposures to connected parties disclosed includes the extension of credit facility and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and financing commitments. It also includes holdings of equities and sukuk issued by the connected parties.

49. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES (CONT'D.)

The credit transactions with connected parties above are all transacted on an arm's length basis and on terms and conditions not more favourable than those entered into with other counterparties with similar circumstances and credit worthiness. Due care has been taken to ensure that the credit worthiness of the connected party is not less than that normally required of other persons.

50. CAPITAL COMMITMENTS

The Bank has no capital commitments as at 31 March 2019 and 31 March 2018.

51. OPERATING LEASE COMMITMENTS

The Bank has lease commitments in respect of rented premises and equipment on hire, all of which are classified as operating leases. The future minimum lease payments under non-cancellable operating leases, net of sub-leases are as follows:

	2019 RM'000	2018 RM'000
Within one year	542	1,040
Between one and five years	104	685
	<u>646</u>	<u>1,725</u>

The minimum lease rentals are not adjusted for operating expenses which the Bank is obligated to pay. These amounts are insignificant in relation to the minimum lease obligations. In the normal course of business, leases that expire will be renewed or replaced by leases on other properties, thus it is anticipated that future annual minimum lease commitments will not be less than rental expenses for the financial year.

52. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. The commitments and contingencies are not secured against the Bank's assets.

The principal/notional amounts of the commitments and contingencies of the Bank are as follows:

	2019 RM'000	2018 RM'000
Contingencies		
Direct credit substitutes	568,350	327,186
Transaction related contingent items	831,509	821,035
Short-term self liquidating trade-related contingencies	90,954	54,608
	<u>1,490,813</u>	<u>1,202,829</u>
Commitments		
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	4,333,925	4,991,310
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	446,645	809,748
Unutilised credit card lines	1,334,232	1,289,967
Forward asset purchase	195,620	213,975
	<u>6,310,422</u>	<u>7,305,000</u>
Derivative financial instruments		
Foreign exchange related contracts:		
- One year or less	1,973,689	1,539,601
- Over one year to five years	1,108,997	689,469
Profit rate related contracts		
- Over one year to five years	360,000	260,000
- Over five years	350,000	350,000
	<u>3,792,686</u>	<u>2,839,070</u>
Total	<u>11,593,921</u>	<u>11,346,899</u>

53. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows assets and liabilities analysed according to when they are expected to be recovered or settled.

	Up to 12 months RM'000	Over 12 months RM'000	Total RM'000
2019			
ASSETS			
Cash and short-term funds	1,568,643	-	1,568,643
Derivative financial assets	15,084	28,052	43,136
Financial assets at fair value through profit or loss	5,106,325	7,649	5,113,974
Financial investments at fair value through other comprehensive income	905,578	2,586,562	3,492,140
Financial investments at amortised cost	24,937	1,680,518	1,705,455
Financing and advances	10,046,467	18,875,982	28,922,449
Statutory deposit with Bank Negara Malaysia	-	970,000	970,000
Other assets	316,633	90,352	406,985
Property and equipment	-	576	576
Intangible assets	-	1,351	1,351
TOTAL ASSETS	17,983,667	24,241,042	42,224,709
LIABILITIES			
Deposits from customers	29,995,493	1,144,443	31,139,936
Investment accounts of customers	353,451	-	353,451
Deposits and placements of banks and other financial institutions	2,596,074	2,476	2,598,550
Investment account due to a licensed bank	1,000,000	465,539	1,465,539
Recourse obligation on financing sold to Cagamas Berhad	518,350	-	518,350
Derivative financial liabilities	14,962	40,557	55,519
Term funding	1,000,000	80,000	1,080,000
Subordinated Sukuk	-	1,150,000	1,150,000
Deferred tax liability	-	5,360	5,360
Other liabilities	283,045	47,829	330,874
Provision for zakat	2,059	-	2,059
TOTAL LIABILITIES	35,763,434	2,936,204	38,699,638

53. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONT'D.)

	Up to 12 months RM'000	Over 12 months RM'000	Total RM'000
2018			
ASSETS			
Cash and short-term funds	1,588,429	-	1,588,429
Deposits and placements with banks and other financial institutions	200,000	-	200,000
Derivative financial assets	35,762	51,646	87,408
Financial assets held-for-trading	1,584,632	-	1,584,632
Financial investments available-for-sale	1,610,206	1,228,360	2,838,566
Financial investments held-to-maturity	-	1,090,010	1,090,010
Financing and advances	9,792,719	17,983,117	27,775,836
Receivables: Investments not quoted in active markets	74,853	715,980	790,833
Statutory deposit with Bank Negara Malaysia	-	821,000	821,000
Other assets	228,601	42,130	270,731
Property and equipment	-	426	426
Intangible assets	-	1,207	1,207
TOTAL ASSETS	15,115,202	21,933,876	37,049,078
LIABILITIES			
Deposits from customers	25,127,014	1,366,788	26,493,802
Investment accounts of customers	138,956	-	138,956
Deposits and placements of banks and other financial institutions	1,219,941	3,583	1,223,524
Investment account due to a licensed bank	495,285	2,363,825	2,859,110
Recourse obligation on financing sold to Cagamas Berhad	502,055	18,350	520,405
Derivative financial liabilities	35,278	57,661	92,939
Term funding	-	1,080,000	1,080,000
Subordinated Sukuk	-	999,839	999,839
Deferred tax liability	-	2,947	2,947
Other liabilities	275,962	18,311	294,273
Provision for zakat	1,513	-	1,513
TOTAL LIABILITIES	27,796,004	5,911,304	33,707,308

54. CAPITAL MANAGEMENT

The Bank's capital management is focused on maintaining a strong capital position to support business growth, and to meet the requirements of the Bank's stakeholders including regulators, shareholders and rating agencies.

Strategic, business and capital plans are drawn up annually covering a 3 year horizon and approved by the Board. The capital plan ensures that adequate levels of capital and an optimum mix of different components of capital are maintained by the 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 risks not captured under regulatory capital requirements and stress test results.

The Bank uses internal models and other quantitative techniques in its internal risk and capital assessment. They help to estimate potential future losses arising from credit, market and other material risks, and supplement the regulatory formulae to simulate the amount of capital required to support them.

Stress testing and scenario analysis are used to ensure that the Bank's internal capital assessment considers the impact of extreme but probable 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 the 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.

54. CAPITAL MANAGEMENT (CONT'D.)

The capital that the Bank is required to hold is determined by its risk exposures after applying collaterals and other risk mitigants. BNM has the right to impose further capital requirements on Malaysian financial institutions.

The Bank has in place processes and controls to monitor and manage capital adequacy across the organisation. The Group Asset and Liability Committee ("GALCO") is responsible for overseeing and managing the Bank's statement of financial position, capital and liquidity positions.

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 capital triggers and targets on an annual basis and operationally oversees compliance with the internal capital targets ("ICT") which are approved by the Board.

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.

(a) Capital adequacy

The capital adequacy ratios of the Bank as at 31 March are as follows:

	Bank	
	2019	2018
Before deducting proposed dividends:		
Common Equity Tier 1 Capital ratio	11.654%	11.561%
Tier 1 Capital ratio	11.654%	11.561%
Total Capital ratio	16.836%	16.569%
After deducting proposed dividends:		
Common Equity Tier 1 Capital ratio	11.084%	11.561%
Tier 1 Capital ratio	11.084%	11.561%
Total Capital ratio	16.267%	16.569%

54. CAPITAL MANAGEMENT (CONT'D.)

(a) Capital adequacy (Cont'd.)

Notes:

- (i) The capital adequacy ratios are computed in accordance with BNM guidelines on Capital Adequacy Framework for Islamic Banks (Capital Components) and Capital Adequacy Framework (Basel II – Risk Weighted Assets) issued by BNM on 2 February 2018.
- (ii) Pursuant to BNM's Capital Adequacy Framework (Capital Components), financial institutions are required to maintain minimum Common Equity Tier 1 ("CET1") Capital Ratio of 4.5%, Tier 1 Capital Ratio of 6.0% and Total Capital Ratio of 8.0% at all times. The Bank also required to maintain the following capital buffers:
 - (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%

As for CCyB, BNM will communicate any decision on the CCyB rate by up to 12 months before the date from which the rate applies.

54. CAPITAL MANAGEMENT (CONT'D.)

(b) The components of Common Equity Tier 1 Capital, Tier 2 Capital and Total Capital of the Bank as at 31 March are as follows:

	2019 RM'000	2018 RM'000
<u>Common Equity Tier 1 Capital</u>		
Ordinary shares	1,387,107	1,387,107
Retained earnings	1,933,885	1,632,472
Fair value reserve	39,151	-
Available-for-sale deficit	-	(5,492)
Regulatory reserve	164,928	327,683
Less : Regulatory adjustments applied on CET1 Capital		
- Intangible assets	(1,351)	(1,207)
- 55% of cumulative gains of FVOCI	(21,533)	-
- Regulatory reserve attributable to financing and advances	(164,928)	(327,683)
CET1 Capital/Tier 1 Capital	3,337,259	3,012,880
<u>Tier 2 Capital</u>		
Tier 2 Capital instruments meeting all relevant criteria for inclusion	1,150,000	1,000,000
General provision*	334,015	-
Collective allowance and regulatory reserve	-	305,028
Tier 2 Capital	1,484,015	1,305,028
Total Capital	4,821,274	4,317,908

* Consists of stage 1 and stage 2 loss allowances and regulatory reserve.

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

	2019 RM'000	2018 RM'000
Credit RWA	28,526,091	27,390,400
Less : Credit RWA absorbed by Profit Sharing Investment Account	(1,804,893)	(2,988,135)
Total Credit RWA	26,721,198	24,402,265
Market RWA	475,926	277,093
Operational RWA	1,439,025	1,380,469
Total Risk Weighted Assets	28,636,149	26,059,827

55. RISK MANAGEMENT

55.1 GENERAL RISK MANAGEMENT

Risk Management Framework

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 risk-weighted assets ("RWA") 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 aspire to improve on its current external rating of AA2 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% and an RWA efficiency (CRWA/EAD) in the range of 50% to 60%, both based on Foundation Internal Rating Based ("FIRB").

55. RISK MANAGEMENT (CONT'D.)

55.1 GENERAL RISK MANAGEMENT (CONT'D.)

The AMMB Group Risk Direction (Cont'd.)

- 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 recognises the importance of funding its own business. It aims to maintain the following:
 - Liquidity Coverage Ratio ("LCR") at least 10 percentage points above prevailing regulatory minimum;
 - Stressed LCR above the regulatory requirement; and
 - Net Stable Funding Ratio ("NSFR") above the prevailing regulatory minimum (effective from 2019).
- The AMMB Group aims to maintain the following Capital Adequacy Ratios ("CARs") under normal conditions:
 - CET 1, Tier 1 and total capital ratio of at least 1 percentage point above their respective regulatory minimum, including prescribed regulatory buffers
- 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 Zakat ("PATZ"); and
 - 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 (as per Perbadanan Insurans Deposit Malaysia "PIDM" definition).

Risk Management Governance

The AMMB 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.

55. RISK MANAGEMENT (CONT'D.)

55.1 GENERAL RISK MANAGEMENT (CONT'D.)

Risk Management Governance (Cont'd.)

The AMMB Board has also established the Group Management Risk Committees ("GMRC") 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, technology 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; and
- through the AMMB Group RMC, has access to the Board and the Boards of the respective banking entities within AMMB Group to facilitate suitable escalation of issues of concern across the organisation.

55.2 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 • Non-Retail Pricing and Risk-based pricing for Retail • 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

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

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 AMMB 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.

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.

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

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);
- Non-Retail Credit Policy ("NRCP") sets out the credit principles and managing credit risk in the Wholesale Banking ("WB") and Business Banking ("BB") portfolios;
- Classified Account processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers;
- Rescheduled and Restructured ("R&R") Account Management (embedded within the NRCP for WB and BB) sets out the controls in managing R&R financing pursuant to the BNM's revised policy documents on Financial Reporting for Islamic Banking Institutions; and
- Setting Non-Retail Pricing Guidelines 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 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.

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

Credit Risk Exposure and Concentration

The Bank's concentrations of risk are managed by industry sector, risk grade asset quality and single customer limit. The Bank applies single customer limits ("SCL") to monitor the large exposures to single counterparty risk.

For financial assets recognised in the statement of financial position, the maximum exposure to credit risk before taking account of any collateral held or other credit enhancements equals the carrying amount. For contingent exposures, the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the instrument is called upon. For committed facilities which are undrawn, the maximum exposure to credit risk is the full amount of the committed facilities.

The following tables show the maximum exposure to credit risk from financial instruments, including derivatives, by industry and by geography, before taking account of any collateral held or other credit enhancements.

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

(i) Industry Analysis

2019	Agriculture	Mining and Quarrying	Manufacturing	Electricity, Gas and Water	Construction	Wholesale and Retail Trade and Hotel and Restaurants	Transport, Storage and Communication	Finance and Insurance	Subtotal
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	-	-	-	-	-	-	-	452,491	452,491
Derivative financial assets	-	78	2,728	-	-	674	-	39,656	43,136
Financial assets at fair value through profit or loss									
- Money market securities	-	-	-	-	-	-	-	2,291,774	2,291,774
- Unquoted sukuk	-	-	-	-	92,031	-	-	5,001	97,032
	-	-	-	-	92,031	-	-	2,296,775	2,388,806
Financial investments at fair value through other comprehensive income									
- Money market securities	-	-	-	-	-	-	-	-	-
- Unquoted sukuk	15,296	719,212	29,890	145,644	135,892	249,396	46,089	1,439,341	2,780,740
	15,296	719,212	29,890	145,644	135,892	249,396	46,089	1,439,341	2,780,740
Financial investments at amortised cost									
- Money market securities	-	-	-	-	-	-	-	-	-
- Unquoted sukuk	-	-	-	-	908,526	-	95,204	124,855	1,126,585
Allowances for ECL	-	-	-	-	-	-	-	-	-
	-	-	-	-	908,526	-	95,204	124,855	1,126,585
Financing and advances									
- Hire purchase	116	-	534	87	968	616	20,696	96	23,115
- Mortgage	1,298	1,861	3,791	-	12,915	13,163	4,111	-	36,939
- Credit card	-	-	-	-	-	-	-	-	-
- Others	11,613	7,204	29,143	2,046	24,220	78,283	13,416	783	166,708
- Corporate financing and advances:									
Term and bridging financing	1,107,198	627,421	1,297,907	41,053	196,594	490,689	684,574	39,986	4,485,402
Revolving credits	423,852	13,785	957,368	92,251	239,694	129,828	561,889	1,255,991	3,674,658
Cash lines	66,778	9,106	281,608	491	462,145	280,537	75,746	-	1,176,411
Trade	37,162	7,646	1,398,883	-	70,051	585,682	71,197	415	2,171,036
Allowances for ECL	-	-	-	-	-	-	-	-	-
	1,646,017	668,823	3,969,234	135,928	1,008,587	1,578,778	1,431,629	1,297,273	11,734,269
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	-	-	-
Other financial assets	160	3,347	448	1,625	14,878	-	1,047	262,155	283,660
Total financial assets	1,663,473	1,389,460	4,002,300	283,197	2,155,914	1,828,848	1,573,949	5,912,546	18,809,887
Commitments	181,411	43,021	1,043,153	13,626	1,593,951	617,673	322,428	87,500	3,902,763
Contingencies	2,432	31,398	354,251	21,129	772,805	93,340	107,110	5,000	1,387,465
Total commitments and contingencies	183,843	74,419	1,397,404	34,755	2,366,756	711,013	429,538	92,500	5,290,228

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

(i) Industry Analysis (Cont'd.)

2019	Subtotal from previous page RM'000	Government and Central Banks RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Allowances for ECL RM'000	Total RM'000
Cash and short-term funds	452,491	1,118,158	-	-	-	-	-	(6)	1,588,643
Derivative financial assets	43,136	-	-	-	-	-	-	-	43,136
Financial assets at fair value through profit or loss									
- Money market securities	2,291,774	2,685,147	-	-	-	-	-	-	4,976,921
- Unquoted sukuk	97,032	-	30,003	-	-	-	10,018	-	137,053
	2,388,806	2,685,147	30,003	-	-	-	10,018	-	5,113,974
Financial investments at fair value through other comprehensive income									
- Money market securities	-	449,619	-	-	-	-	-	-	449,619
- Unquoted sukuk	2,780,740	-	223,486	-	-	-	38,295	-	3,042,521
	2,780,740	449,619	223,486	-	-	-	38,295	-	3,492,140
Financial investments at amortised cost									
- Money market securities	-	260,530	-	-	-	-	-	-	260,530
- Unquoted sukuk	1,128,585	232,437	50,001	10,000	-	-	26,209	-	1,445,232
Allowances for ECL	-	-	-	-	-	-	-	(307)	(307)
	1,128,585	492,967	50,001	10,000	-	-	26,209	(307)	1,705,455
Financing and advances									
- Hire purchase	23,115	-	-	27	887	4,282,361	-	-	4,306,390
- Mortgage	36,939	-	10,534	18,452	11,509	6,784,762	-	-	6,840,196
- Credit card	-	-	-	106	-	687,285	-	-	687,401
- Others	166,708	-	3,085	12,546	7,427	2,257,747	545	-	2,446,058
- Corporate financing and advances:									
Term and bridging financing	4,485,402	-	746,664	358,602	648,083	49,637	18,748	-	6,309,136
Revolving credits	3,674,658	-	1,292,407	106,778	39,046	-	-	-	5,112,889
Cash lines	1,176,411	-	83,783	124,554	22,229	14,707	742	-	1,402,426
Trade	2,171,036	-	16,751	31,333	4,454	-	-	-	2,223,574
Allowances for ECL	-	-	-	-	-	-	-	(407,621)	(407,621)
	11,734,269	-	2,135,224	650,398	733,635	14,056,509	20,035	(407,621)	28,922,449
Statutory deposit with Bank Negara Malaysia	-	970,000	-	-	-	-	-	-	970,000
Other financial assets	283,660	25,836	17,184	140	-	-	1,136	-	327,956
Total financial assets	18,809,687	5,739,727	2,455,898	660,538	733,635	14,056,509	95,693	(407,934)	42,143,753
Commitments	3,902,763	195,620	184,450	184,178	48,585	1,794,826	-	-	6,310,422
Contingencies	1,387,465	-	38,576	59,323	5,449	-	-	-	1,490,813
Total commitments and contingencies	5,290,228	195,620	223,026	243,501	54,034	1,794,826	-	-	7,801,235

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

(i) Industry Analysis (Cont'd.)

2018	Agriculture	Mining and Quarrying	Manufacturing	Electricity, Gas and Water	Construction	Wholesale and Retail Trade and Hotel and Restaurants	Transport, Storage and Communication	Finance and Insurance	Subtotal
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	-	-	-	-	-	-	-	136,859	136,859
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	200,000	200,000
Derivative financial assets	-	-	404	-	-	58	-	86,859	87,321
Financial assets held-for-trading	-	-	-	-	-	-	-	199,560	199,560
- Money market securities	-	-	-	-	-	-	-	476,270	656,429
- Unquoted sukuk	-	-	-	100,058	70,094	-	10,007	675,830	855,999
Financial investments available- for-sale	-	-	-	100,058	70,094	-	10,007	-	-
- Money market securities	-	-	-	-	-	-	-	1,510,068	1,510,068
- Unquoted sukuk	14,984	-	39,703	-	99,708	-	115,004	562,409	831,808
	14,984	-	39,703	-	99,708	-	115,004	2,072,477	2,341,876
Financial investments held-to-maturity	-	-	-	-	821,152	-	45,000	-	868,152
- Unquoted sukuk	-	-	-	-	-	-	-	-	-
Financing and advances	-	-	-	-	-	-	-	-	-
- Hire purchase	186	-	1,037	166	2,211	1,486	665	116	5,867
- Mortgage	1,950	1,727	3,393	-	17,455	15,759	4,267	760	45,311
- Credit card	-	-	-	-	-	-	-	-	-
- Others	8,635	3,828	28,917	2,026	30,395	83,478	11,843	258	167,378
- Corporate financing and advances:	-	-	-	-	-	-	-	-	-
Term and bridging financing	1,242,700	1,005,545	1,273,749	211,573	209,704	361,006	467,936	-	4,772,213
Revolving credits	316,838	19,157	817,599	92,834	218,081	142,728	329,250	1,191,484	3,127,571
Cash lines	101,104	8,737	240,255	-	379,780	207,998	79,131	-	1,015,005
Trade	25,764	3,015	959,142	-	22,985	507,678	43,442	-	1,562,026
Less: Collective allowance	-	-	-	-	-	-	-	-	-
	1,696,977	1,040,009	3,322,092	306,399	880,611	1,320,133	936,534	1,192,616	10,695,371
Receivables: Investments not quoted in active markets	-	708,331	-	-	7,649	-	-	-	715,980
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	-	-	-
Other financial assets	160	3,286	586	1,097	13,761	-	886	168,900	188,656
Total financial assets	1,712,121	1,751,626	3,362,765	407,554	1,892,975	1,320,191	1,107,431	4,533,541	16,088,204
Commitments	233,804	117,292	1,201,109	28,421	1,567,385	652,997	384,059	27,709	4,212,776
Contingencies	976	15,454	310,760	12,462	555,623	54,719	133,888	5,000	1,088,882
Total commitments and contingencies	234,780	132,746	1,511,869	40,883	2,123,008	707,716	517,947	32,709	5,301,658

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

(i) Industry Analysis (Cont'd.)

2018	Subtotal from previous page RM'000	Government and Central Banks RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
Cash and short-term funds	136,859	1,451,570	-	-	-	-	-	1,588,429
Deposits and placements with banks and other financial institutions	200,000	-	-	-	-	-	-	200,000
Derivative financial assets	87,321	-	-	-	-	-	87	87,408
Financial assets held-for-trading								
- Money market securities	199,580	728,643	-	-	-	-	-	928,203
- Unquoted sukuk	656,429	-	-	-	-	-	-	656,429
	855,989	728,643	-	-	-	-	-	1,584,632
Financial investments available- for-sale								
- Money market securities	1,510,068	223,813	-	-	-	-	-	1,733,881
- Unquoted sukuk	831,808	-	179,667	9,806	-	-	83,404	1,104,685
	2,341,876	223,813	179,667	9,806	-	-	83,404	2,838,566
Financial investments held-to-maturity								
- Unquoted sukuk	866,152	223,858	-	-	-	-	-	1,090,010
Financing and advances								
- Hire purchase	5,867	-	37	1,284	1,708	5,774,204	27	5,783,127
- Mortgage	45,311	-	11,536	16,953	16,935	5,365,396	3,166	5,459,297
- Credit card	-	-	-	-	-	495,676	-	495,676
- Others	167,378	-	3,971	13,270	8,674	1,792,034	1,339	1,986,666
- Corporate financing and advances:								
Term and bridging financing	4,772,213	-	1,239,599	201,985	466,229	31,567	335	6,771,928
Revolving credits	3,127,571	-	837,027	35,423	613,411	5	-	4,613,437
Cash lines	1,015,005	-	177,840	90,524	20,163	13,017	-	1,316,549
Trade	1,562,026	-	8,041	11,839	522	-	-	1,582,428
Less: Collective allowance	-	-	-	-	-	-	-	(233,272)
	10,695,371	-	2,278,051	431,278	1,127,642	13,471,899	4,867	27,775,836
Receivables: Investments not quoted in active markets	715,980	-	74,853	-	-	-	-	790,833
Statutory deposit with Bank Negara Malaysia	-	821,000	-	-	-	-	-	821,000
Other financial assets	188,656	13,309	2,863	140	-	1	1,344	206,313
Total financial assets	16,088,204	3,482,193	2,535,434	441,224	1,127,642	13,471,900	89,702	38,983,027
Commitments	4,212,776	213,975	734,420	111,712	114,878	1,916,206	1,033	7,305,000
Contingencies	1,088,882	-	64,057	48,703	1,187	-	-	1,202,829
Total commitments and contingencies	5,301,658	213,975	798,477	160,415	116,065	1,916,206	1,033	8,507,829

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

(ii) Geographical Analysis

2019	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Cash and short-term funds	1,551,158	17,491	1,568,649
Less: Allowances for ECL	-	(6)	(6)
	<u>1,551,158</u>	<u>17,485</u>	<u>1,568,643</u>
Derivative financial assets	43,136	-	43,136
Financial assets at fair value through profit or loss			
- Money market securities	4,976,921	-	4,976,921
- Unquoted sukuk	137,053	-	137,053
	<u>5,113,974</u>	<u>-</u>	<u>5,113,974</u>
Financial investments at fair value through other comprehensive income			
- Money market securities	449,619	-	449,619
- Unquoted sukuk	3,042,521	-	3,042,521
	<u>3,492,140</u>	<u>-</u>	<u>3,492,140</u>
Financial investments at amortised cost			
- Money market securities	260,530	-	260,530
- Unquoted sukuk	1,445,232	-	1,445,232
Less: Allowances for ECL	(307)	-	(307)
	<u>1,705,455</u>	<u>-</u>	<u>1,705,455</u>
Financing and advances			
- Hire purchase	4,306,390	-	4,306,390
- Mortgage	6,840,196	-	6,840,196
- Credit card	687,401	-	687,401
- Others	2,448,058	-	2,448,058
- Corporate financing and advances:			
Term and bridging financing	6,309,136	-	6,309,136
Revolving credit	5,112,889	-	5,112,889
Cash lines	1,402,426	-	1,402,426
Trade	2,223,574	-	2,223,574
Less: Allowances for ECL	(407,621)	-	(407,621)
	<u>28,922,449</u>	<u>-</u>	<u>28,922,449</u>
Statutory deposit with Bank Negara Malaysia	970,000	-	970,000
Other financial assets	327,956	-	327,956
Total financial assets	<u>42,126,268</u>	<u>17,485</u>	<u>42,143,753</u>
Commitments	6,310,422	-	6,310,422
Contingencies	1,490,813	-	1,490,813
Total commitments and contingencies	<u>7,801,235</u>	<u>-</u>	<u>7,801,235</u>

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

(ii) Geographical Analysis (Cont'd.)

2018	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Cash and short-term funds	1,551,570	36,859	1,588,429
Deposits and placements with banks and other financial institutions	200,000	-	200,000
Derivative financial assets	87,408	-	87,408
Financial assets held-for-trading			
- Money market securities	928,203	-	928,203
- Unquoted sukuk	656,429	-	656,429
	1,584,632	-	1,584,632
Financial investments available-for-sale			
- Money market securities	1,733,881	-	1,733,881
- Unquoted sukuk	1,104,685	-	1,104,685
	2,838,566	-	2,838,566
Financial investments held-to-maturity			
- Unquoted sukuk	1,090,010	-	1,090,010
Financing and advances			
- Hire purchase	5,783,127	-	5,783,127
- Mortgage	5,459,297	-	5,459,297
- Credit card	495,676	-	495,676
- Others	1,986,666	-	1,986,666
- Corporate financing and advances:			
Term and bridging financing	6,771,928	-	6,771,928
Revolving credits	4,613,437	-	4,613,437
Cash lines	1,316,549	-	1,316,549
Trade	1,582,428	-	1,582,428
Less: Collective allowance	(233,272)	-	(233,272)
	27,775,836	-	27,775,836
Receivables: Investments not quoted in active markets	790,833	-	790,833
Statutory deposit with Bank Negara Malaysia	821,000	-	821,000
Other financial assets	206,313	-	206,313
Total financial assets	36,946,168	36,859	36,983,027
Commitments	7,305,000	-	7,305,000
Contingencies	1,202,829	-	1,202,829
Total commitments and contingencies	8,507,829	-	8,507,829

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

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; and
- Plant and machineries.

The Bank can only accept Shariah-approved assets 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.

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.

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

Guarantee Support

Guarantee support for financing proposals are 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, cash, motor vehicles and exchange traded shares.

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

Credit Quality

The credit quality of financial assets are analysed based on broad categories. Internal credit rating grades assigned to corporate and retail financing 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 following categories based on the descriptions appended below.

Description of the Categories for Retail Banking

Risk Grade	Category	PD Range	Description
1 to 6	Exceptionally Strong	0.0001% to 0.0737%	<ul style="list-style-type: none"> • Exceptionally good credit risk profile with exceptionally low PD of <0.1%. • Exceptionally strong and willingness to meet its financial commitments as evidenced by prompt repayment track record. • Exhibits high degree resilience to adverse development in view of its very established employment profile and track record.
7 to 12	Very Strong	0.0738% to 0.5942%	<ul style="list-style-type: none"> • Very Good credit risk profile with very low PD of <0.6%. • Very strong capacity and willingness to meet its financial commitments as evidenced by generally prompt repayment track record. • Exhibits high degree resilience to adverse development in view of its established employment profile and track record.
13 to 14	Strong	0.5943% to 1.0159%	<ul style="list-style-type: none"> • Good credit risk profile with low PD of <1.1%. • Exhibit willingness to meet its financial commitments as evidenced by good repayment track record. • Generally in a position to withstand adverse development in view of its favorable employment profile and track record.

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

Credit Quality (Cont'd.)

Description of the Categories for Retail Banking (Cont'd.)

Risk Grade	Category	PD Range	Description
15 to 16	Satisfactory	1.0160% to 2.2722%	<ul style="list-style-type: none"> Satisfactory credit risk profile with acceptable PD of <2.3%. Adequate willingness to meet its financial commitments as evidenced by satisfactory repayment track record. Generally in a position to resolve any shortcoming within an acceptable time frame in view of its satisfactory employment profile and track record.
17 to 18-	Moderate	2.2723% to 4.1028%	<ul style="list-style-type: none"> Moderate credit risk profile with moderate PD of up to 4.1%. Willingness to meet its financial commitments would be uncertain in the event of adverse changes in circumstances and economic conditions as evidenced by generally satisfactory repayment track record. Generally in position to resolve any apparent shortcoming within an acceptable time frame in view of its moderate employment profile and track record.
19+ to 20-	Marginal	4.1029% to 8.2931%	<ul style="list-style-type: none"> Marginal credit risk profile with higher PD of up to 8.2931%. Willingness to meet its financial commitments would be uncertain under normal circumstances and economic conditions as generally evidenced by fair repayment track record. Moderate employment profile and track record.
21 to 24	Substandard	>= 8.2932%	<ul style="list-style-type: none"> Substandard credit risk profile with poor PD of >=8.2932%. Exhibit less willingness to meet its financial commitments under normal circumstances and economic conditions as generally evidenced by poor repayment track record. Unfavorable employment profile and track record.

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

Credit Quality (Cont'd.)

Description of the Categories for Retail Banking (Cont'd.)

Risk Grade	Category	PD Range	Description
99	Impaired	100%	• Classified as impaired as per the prevailing Classified Account Management Policy.

Description of the categories for Non-Retail Banking

Credit Quality Classification	Description
Exceptionally Strong	<p>Highest rating, for exceptionally strong government institutions and a small number of very large multinational institutional clients. The key characteristics are:-</p> <ul style="list-style-type: none"> - Exceptionally solid and stable operating and financial performance. Debt servicing capacity has been exceptionally strong over the long term. - All available information, of which there is a substantial quantity of extremely high quality, supports the view that these historical performance standards will be maintained for the foreseeable future. - Highly unlikely to be adversely affected by foreseeable events.
Very Strong	<p>Strong government institutions or institutional clients, with identifiably higher, albeit modest, long term risk but still demonstrating solid and stable operating and financial performance. The key characteristics are:-</p> <ul style="list-style-type: none"> - Based on their activities, financial profile and past capacity to repay, counterparties with this rating carry a small, but clearly identifiable degree of risk. - Debt servicing capacity in previous period has been substantial and solid, and is projected to continue over the medium term but may be more vulnerable to changes in business, economic and financial conditions than is the case for stronger ratings.

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

Credit Quality (Cont'd.)

Description of the categories for Non-Retail Banking (Cont'd.)

Credit Quality Classification	Description
Strong	<p>Counterparties demonstrate medium to long-term operational and financial stability and consistency but they are identifiably susceptible to cyclical trends or variability in earnings. The key characteristics are:-</p> <ul style="list-style-type: none"> - Counterparties present an identifiable degree of generally acceptable risk, possibly expressing itself as variability in financial and/or operating performance. - Debt servicing capacity is quite good but adverse changes in circumstances and economic conditions are more likely to impair this capacity.
Satisfactory	<p>Counterparties demonstrate adequate medium term operational and financial stability. Protection factors are considered sufficient for prudent investment. The key characteristics are:-</p> <ul style="list-style-type: none"> - Counterparties present a mostly satisfactory risk that requires mitigation, possibly expressing itself as variability in financial and/ or operating performance. - Debt servicing capacity is satisfactory but adverse changes in circumstances and economic condition may impair this capacity. - Counterparty's financial and/ or non-financial profile provides a limited buffer to mitigate the negative impact of any future adverse changes in circumstances and economic conditions.
Moderate	<p>Counterparties demonstrate limited operational and financial stability and may have a track record of fluctuating and poor earnings and profitability evidencing their past susceptibility to cyclical trends. The key characteristics are:-</p> <ul style="list-style-type: none"> - Capacity for timely fulfillment of financial obligations exists. - Adverse economic condition or changing business environment is more likely to lead to weakened capacity to meet timely repayment in the long run. - Overall credit quality may be more volatile within this category.

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

Credit Quality (Cont'd.)

Description of the categories for Non-Retail Banking (Cont'd.)

Credit Quality Classification	Description
Marginal	<p>Counterparties demonstrate sustained operational and financial instability. The key characteristics are:-</p> <ul style="list-style-type: none"> - Erratic performance with one or more recent loss periods, increased borrowings or patchy account conduct. - Debt servicing capacity is marginal. - Often under strong, sustained competitive pressure. - Variability and uncertainty in profitability and liquidity are projected to continue over the short and possibly medium term. - Significant changes and instability in senior management may be observed.
Substandard	<p>Lowest rating for counterparties that continuously demonstrate operational and financial instability. The key characteristics are:-</p> <ul style="list-style-type: none"> - Mediocre financials with consistent loss periods, increased borrowings and/or poor account conduct. - Current and expected debt servicing capacity is inadequate. - Financial solvency is questionable and/or financial structure is weak. - Deteriorating state of business and require significant changes in strategies or practices to return business to sustainable state. - Experiencing difficulties, which may result in default in the next one to two years.
Impaired	<p>Impaired account. The key characteristic is that the counterparty has been classified as "impaired" as per the AMMB Group Classified Account Management Policy for Credit Facility.</p>

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

Impairment

Definition of Past Due and Impaired Financing and Advances and Debt Instruments

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/debt instruments is classified as impaired under the following circumstances amongst others:

- (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 1 day+1 month past due (the 30-days grace period is to allow for exclusion of administrative default³); or
- (c) For trade bills/facilities, an account is deemed defaulted and impaired when the past due is 90 days from due date of the bill.

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

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

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

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

Impairment (Cont'd.)

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

- (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; or
 - 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.
- (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 Deeds Guidelines issued by the Securities Commission of Malaysia); or
 - iii. Where it is deemed appropriate to classify as impaired and approved by the WACC.
- (f) The financing is deemed impaired when it is classified as R&R in the Central Credit Reference Information System ("CCRIS").

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.*

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

Impairment (Cont'd.)

AMMB Group Provisioning Methodology

The AMMB Group's provisioning methodology complies with MFRS 9 where the Bank recognises ECL at all time to reflect changes in the credit risk of a financial instrument. The methodology incorporates historical, current and forecasted information into ECL estimation. Consequently, more timely information is required to be provided about expected credit losses.

MFRS 9 applies to all financial assets classified as amortised cost and FVOCI, lease receivables, trade receivables, and commitments to lend money and financial guarantee contracts.

Under MFRS 9, financial instruments are segregated into 3 stages depending on the changes in credit quality since initial recognition. The Bank calculates 12-month ECL for Stage 1 and lifetime ECL for Stage 2 and Stage 3 exposures.

Measurement of ECL

MFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. A description of how the Bank determines when a SICR has occurred is explained below.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. A description of inputs, assumptions and estimation techniques used in measuring the ECL is explained below.
- A pervasive concept in measuring ECL in accordance with MFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

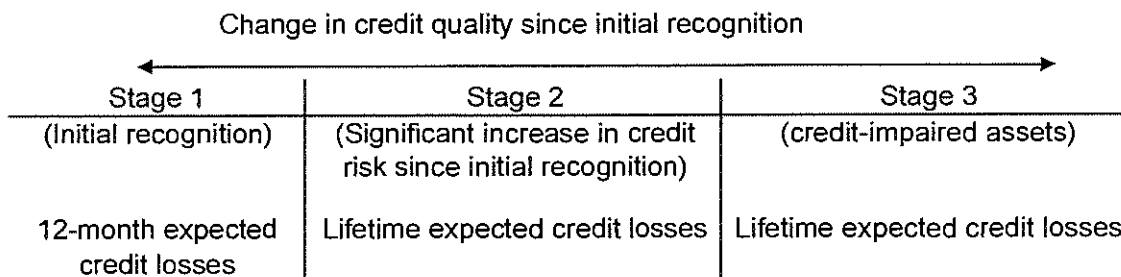
Impairment (Cont'd.)

Measurement of Expected Credit Loss ("ECL") (Cont'd.)

ECL can be assessed individually or collectively. Financial assets that are not individually significant or not individually credit impaired are collectively assessed. For financial assets that are individually significant, an assessment is performed to determine whether objective evidence of impairment exists individually.

Individual assessment is divided into two main processes - trigger assessment and measurement of impairment loss. 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.

The following diagram summarises the impairment requirements under MFRS 9 (other than purchased or originated credit-impaired financial assets):



The key judgments and assumptions adopted by the Bank in addressing the requirements of the standard are discussed below.

Significant increase in credit risk ("SICR")

The Bank considers a financial instrument to have experienced a SICR when it is more than 30 days past due on its contractual payments. This includes both quantitative and qualitative analysis, based on the Bank's historical experience, expert credit assessment and forward-looking information. The requirement is to calculate remaining Lifetime ECL at the reporting date when the financial instrument experienced SICR, compared to one year ECL calculation when exposure was initially recognised.

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

Impairment (Cont'd.)

Measurement of Expected Credit Loss ("ECL") (Cont'd.)

Significant increase in credit risk ("SICR") (Cont'd.)

(i) Quantitative

Each exposure is allocated to a credit risk grade at initial recognition based on a variety of data that is determined to be predictive of the risk of default and experienced credit judgment about the customer. Factors determining credit risk grades vary depending on nature of exposures and type of customers. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. There are 3 risk bands with Exceptionally Strong to Strong in the first risk band, Moderate to Satisfactory in the second risk band and Marginal to Substandard in the third risk band. Risk grade movement to a higher risk category may result in SICR.

(ii) Qualitative

The Bank may determine that an exposure has undergone a SICR experiences using its expert credit risk judgment and where possible, relevant historical experience based on qualitative indicators specified by the Bank's watchlist criteria that it considers as such and whose effect may not otherwise be fully reflected in quantitative analysis on a timely basis.

In relation to non-retail financial instruments, where a watchlist is used to monitor credit risk, this assessment is performed at the counterparty customer basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the Wholesale Credit Risk team.

The assessment of SICR incorporates forward-looking information and is performed on a monthly basis at a portfolio level for all financial instruments held by the Bank.

Definition of default and credit-impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The customer is considered in default if its contractual payments is more than 90 days past due.

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

Impairment (Cont'd.)

Measurement of Expected Credit Loss ("ECL") (Cont'd.)

Definition of default and credit-impaired assets (Cont'd.)

Qualitative criteria

The customer meets unlikeliness to pay criteria, which indicates the customer is in significant financial difficulty. These are instances where:

- The customer is in breach of non-financial covenant for example guarantor is deceased or become of unsound mind or non-compliance of security ratio;
- The customer is insolvent;
- The customer is in breach of financial covenant(s); and
- The customer has ceased operations due to financial distress.

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Exposure at Default ("EAD"), Probability of Default ("PD") and Loss Given Default ("LGD") throughout the Bank's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The key inputs into the measurement of ECL are the following variables:

- probability of default ("PD");
- loss given default ("LGD"); and
- exposure at default ("EAD").

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

Impairment (Cont'd.)

Measurement of Expected Credit Loss ("ECL") (Cont'd.)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (Cont'd.)

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in associated PD.

Credit risk grades are a primary input of into the determination of PD term structure for exposures. The Bank collects performance and default information about its credit risk exposures analysed by portfolio. The Bank employs statistical models to analyse data collected and generate estimates of the remaining lifetime PD of exposures.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry, and recovery costs of any collateral that is integral to the financial asset. For financing secured by retail property, Financing-to-Value ("FTV") ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective profit rate as the discount factor.

EAD represents the expected exposure in the event of default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, and potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. EAD for term financing is based on amortisation schedule whereas EAD for revolving and bullet financing is determined to be constant.

Forward-looking information incorporated in the ECL models

Forward-looking models are built based on statistical relationship established between Observed Default Rate ("ODR") and Macroeconomic variables ("MEVs").

This analysis includes the identification and calibration of relationships between changes in default rates and changes in MEVs. For most exposures, key macroeconomic indicators include Gross Domestic Product ("GDP") growth, Kuala Lumpur Interbank Offered Rate ("KLIBOR"), and Consumer Price Index ("CPI").

55. RISK MANAGEMENT (CONT'D.)**55.2 CREDIT RISK MANAGEMENT (CONT'D.)****Impairment (Cont'd.)****Measurement of Expected Credit Loss ("ECL") (Cont'd.)*****Forward-looking information incorporated in the ECL models (Cont'd.)***

There are 3 scenarios for forward-looking namely base, best and worst which requires management judgment of the economic situation i.e. normal, bullish or downturn. A weightage is applied to the scenarios to produce an appropriate forward-looking ECL to best reflect the forward-looking economic outlook.

Key variables/assumptions for ECL calculations

The recognition and measurement of ECL is highly complex and involves the use of significant judgment and estimation. This included establishing the forward-looking macroeconomic conditions into ECL as required under MFRS 9, the allowance for ECL is sensitive to the inputs used and economic assumptions underlying the estimate.

The following table shows the forecast of key economic variables used in Forward Looking models for ECL calculations for financial year ended 31 March 2019.

(Yearly values = average of forecasted quarterly values)

Macroeconomy Variable	ECL Scenario	Assigned Probabilities (%)	2019	2020	2021	2022	2023
Consumer Price Index (%)	Base Case	80%	1.45	2.1	1.78	2.25	2.88
	Optimistic	10%	1.41	2.05	1.73	2.19	2.8
	Conservative	10%	1.49	2.15	1.82	2.31	2.95
GDP Growth (%)	Base Case	80%	4.45	5.15	5.47	5.8	5.35
	Optimistic	10%	4.56	5.28	5.61	5.95	5.48
	Conservative	10%	4.34	5.02	5.34	5.66	5.22
House Price Index (%)	Base Case	80%	2.15	2.65	3.4	4.05	5.86
	Optimistic	10%	2.2	2.72	3.49	4.15	6.01
	Conservative	10%	2.1	2.58	3.32	3.95	5.72
USD/MYR Exchange Rate	Base Case	80%	4.07	3.99	3.89	3.79	3.9
	Optimistic	10%	3.97	3.6	3.56	3.49	3.8
	Conservative	10%	4.17	4.4	4.35	4.27	4
Brent Oil Price (USD/barrel)	Base Case	80%	62.5	72.25	74.5	75.5	78
	Optimistic	10%	64.06	74.06	76.36	77.39	79.95
	Conservative	10%	60.94	70.44	72.64	73.61	76.05

Write-off Policy**(i) Stage 1 write-off**

The Bank may partially write-off financial assets where full recovery is not possible taking proceeds from value of securities or where customer has been allowed time to repay on negotiated settlement basis. The outstanding contractual amounts of such assets written off during the year ended 31 March 2019 was RM213.9 million. The Bank still seeks legal recovery action, as such, credit exposures for these continue unabated.

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

Impairment (Cont'd.)

Write-off Policy (Cont'd.)

(ii) Stage 2 write-off

The Bank writes off financial assets in whole when it has exhausted all necessary recovery actions against credit exposures and there is minimal prospect of recovery and/or further recovery is not economical, then the credit exposures will be written off from both the general ledger and subsidiary ledger.

Modified Financial Assets

The Bank sometimes modifies the terms of financing provided to customers due to commercial renegotiations, or for distressed financing, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term financing.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more. The Bank continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

The following table includes summary information for financial assets with lifetime ECL whose cash flows were modified during the financial year as part of the Bank's restructuring activities and their respective effect on the Bank's financial performance:

	Financing and Advances RM'000
Amortised cost before modification	52,586
Net modification loss	<u>(421)</u>

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

Credit Quality By Class of Financial Assets

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system.

	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
2019				
Financial investments at fair value through other comprehensive income				
Risk grade				
Exceptionally Strong	77,378	-	-	77,378
Very Strong	2,444,421	-	-	2,444,421
Strong	155,369	-	-	155,369
Satisfactory	45,319	769,653	-	814,972
	<u>2,722,487</u>	<u>769,653</u>	<u>-</u>	<u>3,492,140</u>
Less: Allowances for ECL	(2,383)	(18,636)	-	(21,019)
Net carrying amount	<u>2,720,104</u>	<u>751,017</u>	<u>-</u>	<u>3,471,121</u>
Financing and advances				
Risk grade				
Exceptionally Strong	36,031	99	-	36,130
Very Strong	10,043,581	56,374	-	10,099,955
Strong	4,340,858	107,509	-	4,448,367
Satisfactory	4,180,891	1,295,583	-	5,476,474
Moderate	3,374,646	620,268	-	3,994,914
Marginal	552,138	864,087	-	1,416,225
Substandard	369,025	858,043	-	1,227,068
Unrated	1,920,617	132,268	-	2,052,885
Impaired	-	-	578,052	578,052
	<u>24,817,787</u>	<u>3,934,231</u>	<u>578,052</u>	<u>29,330,070</u>
Less: Allowances for ECL	(80,362)	(204,632)	(122,627)	(407,621)
Net carrying amount	<u>24,737,425</u>	<u>3,729,599</u>	<u>455,425</u>	<u>28,922,449</u>

55. RISK MANAGEMENT (CONT'D.)**55.2 CREDIT RISK MANAGEMENT (CONT'D.)****Credit Quality By Class of Financial Assets (Cont'd.)**

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system (Cont'd.).

	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
2019	RM'000	RM'000	RM'000	RM'000
Other financial assets				
Risk grade				
Exceptionally Strong	1,737	-	-	1,737
Very Strong	276,788	-	-	276,788
Strong	5,090	-	-	5,090
Satisfactory	26,860	3,994	-	30,854
Moderate	557	-	-	557
Unrated	12,930	-	-	12,930
Net carrying amount	323,962	3,994	-	327,956
Financing commitments and financial guarantee contracts				
Risk grade				
Exceptionally strong	9,375	-	-	9,375
Very Strong	3,003,658	7,008	-	3,010,666
Strong	1,928,550	11,148	-	1,939,698
Satisfactory	1,629,590	59,420	-	1,689,010
Moderate	470,558	132,804	-	603,362
Marginal	80,848	70,605	-	151,453
Substandard	33,933	51,781	-	85,714
Unrated	108,787	2,845	-	111,632
Impaired	-	-	4,705	4,705
	7,265,299	335,611	4,705	7,605,615
Less: Allowances for ECL	(10,135)	(8,083)	(12)	(18,230)
Net carrying amount	7,255,164	327,528	4,693	7,587,385

55. RISK MANAGEMENT (CONT'D.)**55.2 CREDIT RISK MANAGEMENT (CONT'D.)****Credit Quality By Class of Financial Assets (Cont'd.)**

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system (Cont'd.).

	Cash and short term funds RM'000	Financial investments at amortised cost RM'000	Statutory deposit with Bank Negara Malaysia RM'000
2019			
Stage 1			
Risk grade			
Exceptionally Strong	17,491	-	-
Very Strong	1,551,158	844,236	970,000
Strong	-	10,000	-
Satisfactory	-	831,409	-
Moderate	-	20,117	-
	<u>1,568,649</u>	<u>1,705,762</u>	<u>970,000</u>
Less: Allowances for ECL	(6)	(307)	-
Net carrying amount	<u>1,568,643</u>	<u>1,705,455</u>	<u>970,000</u>

Maximum exposure to credit risk-financial instruments not subject to impairment.

The table below shows the credit quality of financial assets measured at FVTPL:

	Financial assets at fair value through profit or loss RM'000	Derivative financial assets RM'000
2019		
Risk grade		
Very Strong	5,106,492	39,750
Strong	7,482	2,529
Satisfactory	-	177
Moderate	-	677
Marginal	-	3
Net carrying amount	<u>5,113,974</u>	<u>43,136</u>

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

Credit Quality By Class of Financial Assets (Cont'd.)

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system.

	Neither past due nor impaired								Past due but not impaired	Impaired	Gross amount Total	individually impaired	Individual allowance
	Exceptionally strong	Very strong	Strong	Satisfactory risk	Moderate risk	Marginal risk	Sub-standard	Unrated					
2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	36,859	1,551,570	-	-	-	-	-	-	-	-	1,588,429	-	-
Deposits and placements with banks and other financial institutions	-	200,000	-	-	-	-	-	-	-	-	200,000	-	-
Derivative financial assets	-	82,661	1,799	-	2,928	13	-	7	-	-	87,408	-	-
Financial assets held-for-trading	-	928,203	-	-	-	-	-	-	-	-	928,203	-	-
- Money market securities	-	407,850	-	248,579	-	-	-	-	-	-	656,429	-	-
- Unquoted sukuk	-	1,336,053	-	248,579	-	-	-	-	-	-	1,584,632	-	-
Financial investments available-for-sale	-	1,733,881	-	-	-	-	-	-	-	-	1,733,881	-	-
- Money market securities	-	590,210	54,558	184,982	-	-	235,270	-	-	-	1,104,665	-	-
- Unquoted sukuk	39,685	2,324,091	54,558	184,982	-	-	235,270	-	-	-	2,838,566	-	-
Financial investments - held-to-maturity	-	1,090,010	-	-	-	-	-	-	-	-	1,090,010	-	-
- Unquoted sukuk	-	1,090,010	-	-	-	-	-	-	-	-	1,090,010	-	-
Gross financing and advances*													
- Hire purchase	254	2,349,194	699,824	538,186	178,478	64,882	59,171	-	1,816,875	76,263	5,783,127	-	-
- Mortgage	544	1,234,271	1,389,417	932,884	629,721	223,316	108,176	-	873,248	67,720	5,459,297	-	-
- Credit card	-	21,915	-	133,130	133,910	61,317	48,066	-	90,000	7,338	495,676	-	-
- Others	-	6,007	4,309	1,541,243	54,456	12,921	109,736	-	242,286	18,676	1,989,634	2,968	(2,968)
- Corporate financing and advances:													
Term and bridging financing	403	3,189,489	1,300,382	993,127	581,991	54,798	239,747	-	56,118	389,159	6,785,214	319,311	(13,286)
Revolving credits	-	2,627,567	911,805	819,260	309,515	31,538	113,752	-	-	-	4,613,437	-	-
Cash lines	-	313,861	160,611	451,823	224,238	130,324	15,621	-	7,483	20,913	1,324,874	14,142	(8,325)
Trade	-	745,611	340,395	319,794	108,693	61,027	4,974	-	-	2,469	1,583,163	906	(735)
	1,201	10,467,915	4,806,743	5,529,447	2,221,202	640,123	699,243	-	3,086,010	582,538	28,034,422	337,327	(25,314)
Receivables: investments not quoted in active markets	-	350,000	7,649	433,184	-	-	-	-	-	-	790,833	-	-
Statutory deposit with Bank Negara Malaysia	-	821,000	-	-	-	-	-	-	-	-	821,000	-	-
Other financial assets*	140	186,123	3,874	6,895	-	-	814	8,467	-	-	206,313	-	-
Total financial assets	77,885	18,409,423	4,874,623	6,403,067	2,224,130	640,136	935,327	8,474	3,086,010	582,538	37,241,613	337,327	(25,314)

* The amounts presented above are gross of impairment allowances.

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

Aging Analysis of Past Due But Not Impaired Financial Assets

2018

	Up to 1 month RM'000	> 1 month to 3 months RM'000	Total RM'000
Gross financing and advances			
- Hire purchase	1,525,765	291,110	1,816,875
- Mortgage	705,357	167,891	873,248
- Credit card	67,932	22,068	90,000
- Others	181,398	60,888	242,286
- Corporate financing and advances:			
Term and bridging financing	48,894	7,224	56,118
Cash lines	7,483	-	7,483
	<u>2,536,829</u>	<u>549,181</u>	<u>3,086,010</u>

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

Estimated value of collateral for financial assets

The following table summarises the financial effects of collateral received from financing and advances:

	Gross exposure to credit risk		Financial effects of collateral		Unsecured portion of credit exposure	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Gross financing and advances						
- Hire purchase	4,306,390	5,783,127	4,095,195	5,545,342	211,195	237,785
- Mortgage	6,840,196	5,459,297	6,740,569	5,385,069	99,627	74,228
- Credit card	687,401	495,676	4,947	2,539	682,454	493,137
- Others	2,448,058	1,989,634	1,552,599	99,148	895,459	1,890,486
- Corporate financing and advances:						
Term and bridging financing	6,309,136	6,785,214	4,142,709	3,576,930	2,166,427	3,208,284
Revolving credits	5,112,889	4,613,437	1,341,802	1,172,622	3,771,087	3,440,815
Cash lines	1,402,426	1,324,874	869,700	822,066	532,726	502,808
Trade	2,223,574	1,583,163	817,516	558,496	1,406,058	1,024,667
	<u>29,330,070</u>	<u>28,034,422</u>	<u>19,565,037</u>	<u>17,162,212</u>	<u>9,765,033</u>	<u>10,872,210</u>

55. RISK MANAGEMENT (CONT'D.)

55.2 CREDIT RISK MANAGEMENT (CONT'D.)

Collateral Repossessed

There was no collateral taken into possession during the financial year and held as at the end of year.

Collateral held for credit impaired financial assets

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross exposure RM'000	Impairment allowance RM'000	Carrying amount RM'000	Fair value of collateral RM'000
2019				
Credit-impaired financial assets				
Financing and advances				
Hire purchase	63,016	23,267	39,749	59,117
Mortgage	89,860	22,849	67,011	86,187
Credit card	14,579	9,172	5,407	-
Others	15,203	7,691	7,512	6,998
Corporate financing and advances				
Term and bridging financing	354,987	48,609	306,378	354,623
Cash lines	18,080	8,665	9,415	14,051
Trade	16,824	2,374	14,450	14,906
Total credit-impaired financial assets	572,549	122,627	449,922	535,882

55. RISK MANAGEMENT (CONT'D.)

55.3 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 financing activities and market disruption, and to a lesser extent, significant drawdown of funds from previously contracted financing and purchase commitments. Funding management is the ongoing ability to raise sufficient funds to finance actual and proposed business activities at a reasonable cost. Improper funding risk management may lead to liquidity problem. On the other hand, insufficient liquidity risk management may also give rise to funding risk.

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

Identification	<ul style="list-style-type: none"> • Identify liquidity risk within existing and new business activities • Review market-related information such as market trend and economic data. • Keep abreast with regulatory requirements
Assessment/ Measurement	<ul style="list-style-type: none"> • LCR • Depositor Concentration Ratios • Other Detailed Controls
Control/ Mitigation	<ul style="list-style-type: none"> • LCR Limits • Depositors Concentration Ratios • Other Detailed Limits/Triggers
Monitoring/ Review	<ul style="list-style-type: none"> • Monitor limits • Periodical review and reporting

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.

55. RISK MANAGEMENT (CONT'D.)

55.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (CONT'D.)

The Board provides the liquidity risk management oversight including setting and reviewing the liquidity risk appetite and approves the Bank's liquidity management strategy 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 Group Treasury and Markets ("GTM") and Capital and 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.

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. Investment Banking and Market Risk ("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 lending and 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 NSFR, the Bank is already monitoring the NSFR and continues to pursue strategies to ensure the availability of cost effective liquidity.

55. RISK MANAGEMENT (CONT'D.)

55.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (CONT'D.)

Analysis of Assets and Liabilities By Remaining Contractual Maturities as per requirement of BNM's policy document Financial Reporting

2019	Up to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 12 months	>1 year to 5 years	Over 5 years	Non Specific Maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets								
Cash and short-term funds	1,568,643	-	-	-	-	-	-	1,568,643
Derivative financial assets	6,385	5,060	1,901	1,738	28,052	-	-	43,136
Financial assets at fair value through profit or loss	2,165,926	990,581	1,560,231	121,253	174,272	101,711	-	5,113,974
Financial investments at fair value through other comprehensive income	354,421	75,046	10,001	466,110	1,880,076	706,486	-	3,492,140
Financial investments at amortised cost	19,988	4,949	-	-	397,294	1,283,224	-	1,705,455
Financing and advances	9,598,659	108,469	71,424	267,915	6,653,286	12,222,696	-	28,922,449
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	970,000	-	970,000
Other assets	17,477	232,129	29,153	37,874	58,275	19,118	12,959	406,985
Property and equipment	-	-	-	-	-	-	576	576
Intangible assets	-	-	-	-	-	-	1,351	1,351
Total Assets	13,731,499	1,416,234	1,672,710	894,890	9,191,255	15,303,235	14,886	42,224,709
Liabilities								
Deposits from customers	14,765,391	6,771,953	3,463,780	4,994,369	1,143,296	1,147	-	31,139,936
Investment accounts of customers	234,673	84,288	34,490	-	-	-	-	353,451
Deposits and placements of banks and other financial institutions	1,454,948	985,462	99,740	55,924	1,676	800	-	2,598,550
Investment account due to a licensed bank	-	-	-	1,000,000	456,862	8,677	-	1,465,539
Derivative financial liabilities	6,259	4,990	2,003	1,710	29,215	11,342	-	55,519
Recourse obligation on financing sold to Cagamas Berhad	183	100,371	17,796	400,000	-	-	-	518,350
Term funding	-	-	-	1,000,000	80,000	-	-	1,080,000
Subordinated Sukuk	-	-	-	-	-	1,150,000	-	1,150,000
Deferred tax liability	-	-	-	-	-	-	5,360	5,360
Other liabilities	104,003	77,967	52,427	48,648	21,575	22,454	3,800	330,874
Provision for zakat	-	-	-	2,059	-	-	-	2,059
Total Liabilities	16,565,457	8,025,031	3,670,236	7,502,710	1,732,624	1,194,420	9,160	38,699,638
Net gap	(2,833,958)	(6,608,797)	(1,997,526)	(6,607,820)	7,458,631	14,108,815	5,726	3,525,071

55. RISK MANAGEMENT (CONT'D.)

55.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (CONT'D.)

Analysis of Assets and Liabilities By Remaining Contractual Maturities as per requirement of BNM's policy document Financial Reporting (Cont'd.)

2018	Up to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 12 months	>1 year to 5 years	Over 5 years	Non Specific Maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets								
Cash and short-term funds	1,588,429	-	-	-	-	-	-	1,588,429
Deposits and placements with banks and other financial institutions	-	200,000	-	-	-	-	-	200,000
Derivative financial assets	15,947	659	10,456	8,700	51,646	-	-	87,408
Financial assets held-for-trading	-	667,498	188,491	486,655	120,109	121,879	-	1,584,632
Financial investments available-for-sale	399,213	1,022,230	178,728	10,035	512,583	715,777	-	2,838,566
Financial investments held-to-maturity	-	-	-	-	268,858	821,152	-	1,090,010
Financing and advances	8,251,256	814,823	156,869	569,771	7,245,348	10,737,769	-	27,775,836
Receivables: Investments not quoted in active markets	-	74,853	-	-	-	715,980	-	790,833
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	821,000	-	821,000
Other assets	155,902	18,793	10,025	43,881	42,070	60	-	270,731
Property and equipment	-	-	-	-	-	-	426	426
Intangible assets	-	-	-	-	-	-	1,207	1,207
Total Assets	10,410,747	2,798,856	544,569	1,119,042	8,240,614	13,933,617	1,633	37,049,078
Liabilities								
Deposits from customers	10,438,263	5,186,132	3,495,632	6,006,987	1,366,756	32	-	26,493,802
Investment accounts of customers	68,956	70,000	-	-	-	-	-	138,956
Deposits and placements of banks and other financial institutions	903,689	155,507	143,663	17,082	3,583	-	-	1,223,524
Investment account due to a licensed bank	-	-	-	495,285	2,265,250	98,575	-	2,859,110
Recourse obligation on financing sold to Cagamas Berhad	161	327	504	501,063	18,350	-	-	520,405
Derivative financial liabilities	15,926	600	10,077	8,675	50,035	7,626	-	92,939
Term funding	-	-	-	-	1,080,000	-	-	1,080,000
Subordinated Sukuk	-	-	-	-	-	999,839	-	999,839
Deferred tax liability	-	-	-	-	-	-	2,947	2,947
Other liabilities	49,797	87,666	59,874	78,625	17,427	884	-	294,273
Provision for zakat	-	-	-	1,513	-	-	-	1,513
Total Liabilities	11,476,792	5,500,232	3,709,750	7,109,230	4,801,401	1,106,956	2,947	33,707,308
Net gap	(1,066,045)	(2,701,376)	(3,165,181)	(5,990,188)	3,439,213	12,826,661	(1,314)	3,341,770

55. RISK MANAGEMENT (CONT'D.)

55.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (CONT'D.)

Analysis of Assets and Liabilities By Remaining Contractual Maturities on undiscounted basis

2019	Up to 1	>1 month	>3 months	>6 months	>1 year	Over	Non Specific	Total
	month	to 3 months	to 6 months	to 12 months	to 5 years	5 years	Maturity	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Liabilities								
Deposits from customers	15,125,546	6,937,133	3,548,268	5,116,191	1,171,183	1,175	-	31,899,496
Investment accounts of customers	235,541	85,382	35,209	-	-	-	-	356,132
Deposits and placements of banks and other financial institutions	1,490,437	1,009,499	102,174	57,287	1,718	800	-	2,661,915
Investment account due to a licensed bank	5,146	9,748	14,372	1,019,370	482,038	10,616	-	1,541,290
Derivative financial liabilities	5,941	5,814	4,343	4,752	51,130	680	-	72,660
Recourse obligation on financing sold to Cagamas Berhad	183	110,776	17,796	408,438	-	-	-	537,193
Term funding	-	2,194	20,190	1,022,176	80,000	-	-	1,124,560
Subordinated Sukuk	12,167	6,939	10,087	29,508	1,310,602	-	-	1,369,303
Deferred tax liability	-	-	-	-	-	-	5,360	5,360
Other liabilities	49,794	2,663	8,382	15,599	22,153	1,596	1,965	102,152
Provision for zakat	-	-	-	2,059	-	-	-	2,059
Total Undiscounted Liabilities	16,924,755	8,170,148	3,760,821	7,675,380	3,118,824	14,867	7,325	39,672,120

55. RISK MANAGEMENT (CONTO.)

55.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (CONT'D.)

Analysis of Assets and Liabilities By Remaining Contractual Maturities on undiscounted basis (Cont'd.)

2018	Up to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 12 months	>1 year to 5 years	Over 5 years	Non Specific Maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Liabilities								
Deposits from customers	10,739,443	5,335,770	3,596,493	6,180,309	1,406,192	32	-	27,258,239
Investment accounts of customers	69,093	70,627	-	-	-	-	-	139,720
Deposits and placements of banks and other financial institutions	929,763	159,894	147,808	17,575	3,687	-	-	1,258,827
Investment account due to a licensed bank	11,043	19,877	28,977	541,512	2,415,253	111,705	-	3,128,367
Derivative financial liabilities	16,251	1,437	12,340	14,222	64,127	689	-	109,066
Recourse obligation on financing sold to Cagamas Berhad	167	11,452	504	514,720	18,347	-	-	545,190
Term funding	-	2,194	20,190	22,054	1,124,560	-	-	1,168,998
Subordinated Sukuk	-	6,943	18,956	376,090	747,235	-	-	1,149,224
Deferred tax liability	-	-	-	-	-	-	2,947	2,947
Other liabilities	20,050	15,482	4,212	19,002	15,883	4,085	-	78,714
Provision for zakat	-	-	-	1,513	-	-	-	1,513
Total Undiscounted Liabilities	11,785,810	5,623,776	3,829,480	7,686,997	5,795,284	116,511	2,947	34,840,805

55. RISK MANAGEMENT (CONT'D.)

55.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (CONT'D.)

Analysis of Financial Assets and Liabilities By Remaining Contractual Maturities (Cont'd.)

The table below shows the contractual expiry by maturity of the Bank's commitments and contingent liabilities. It should be noted that this is not how the Bank manages its liquidity risk for commitments and contingencies.

2019	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 5 years RM'000	Over 5 years RM'000	Total RM'000
Contingent liabilities							
Direct credit substitutes	47,704	19,398	70,430	173,473	257,345	-	568,350
Transaction-related contingent items	65,630	38,309	66,144	215,366	412,748	33,312	831,509
Short-term self liquidating trade-related contingencies	44,596	41,511	4,847	-	-	-	90,954
Commitments							
Other commitments, such as formal standby facilities and credit lines	123,147	266,008	1,292,131	408,903	597,698	2,092,683	4,780,570
Unutilised credit card lines	1,334,232	-	-	-	-	-	1,334,232
Forward asset purchase	195,620	-	-	-	-	-	195,620
Total commitments and contingent liabilities	1,810,929	365,226	1,433,552	797,742	1,267,791	2,125,995	7,801,235

55. RISK MANAGEMENT (CONT'D.)

55.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (CONT'D.)

Analysis of Financial Assets and Liabilities By Remaining Contractual Maturities (Cont'd.)

The table below shows the contractual expiry by maturity of the Bank's commitments and contingent liabilities. It should be noted that this is not how the Bank manages its liquidity risk for commitments and contingencies.

2018	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 5 years RM'000	Over 5 years RM'000	Total RM'000
Contingent liabilities							
Direct credit substitutes	10,626	14,894	66,781	132,273	102,595	17	327,186
Transaction-related contingent items	10,534	43,291	68,886	213,080	470,985	14,259	821,035
Short-term self liquidating trade-related contingencies	21,263	30,004	1,506	1,835	-	-	54,608
Commitments							
Other commitments, such as formal standby facilities and credit lines	1,135,380	359,879	159,321	511,154	1,038,365	2,596,959	5,801,058
Unutilised credit card lines	1,289,967	-	-	-	-	-	1,289,967
Forward asset purchase	213,975	-	-	-	-	-	213,975
Total commitments and contingent liabilities	2,681,745	448,068	296,494	858,342	1,611,945	2,611,235	8,507,829

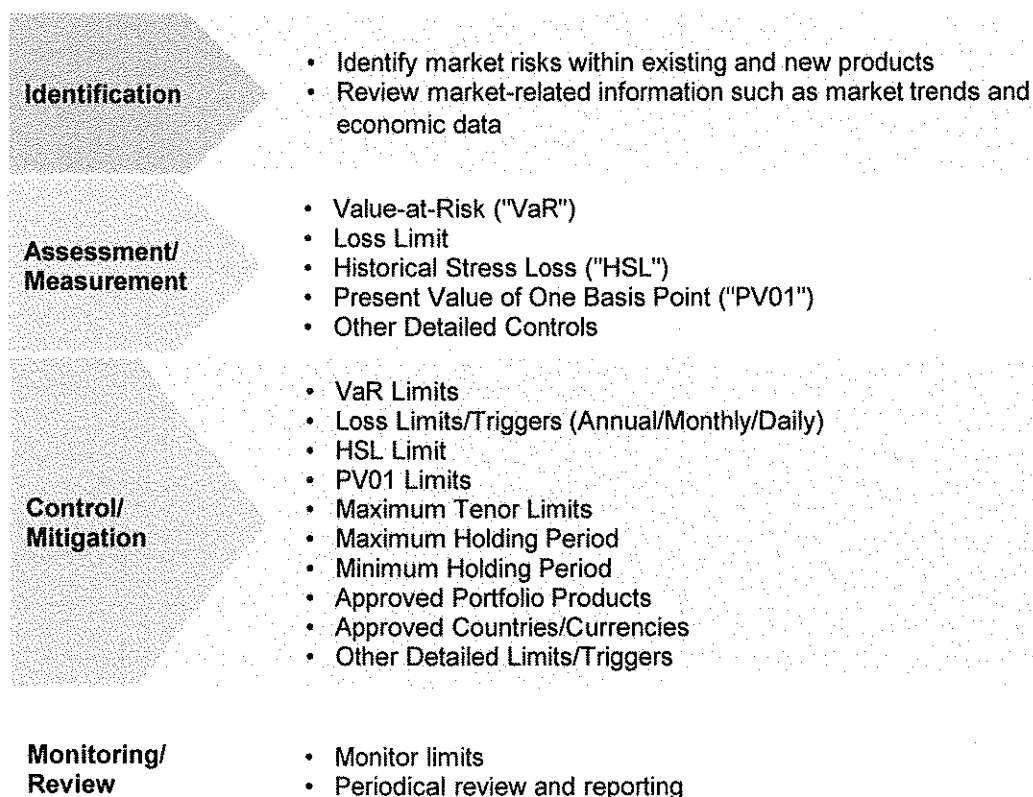
55. RISK MANAGEMENT (CONT'D.)

55.4 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 categories of market risk: Traded Market Risk ("TMR") and Non-Traded Market Risk ("NTMR"). Assessment, control and monitoring of these risks are the responsibilities of IBMR.

Traded Market Risk

The TMR management process is depicted in the table below.



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 AMMB 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.

55. RISK MANAGEMENT (CONT'D.)

55.4 MARKET RISK MANAGEMENT (CONT'D.)

Traded Market Risk (Cont'd.)

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 AMMB 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 and 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.

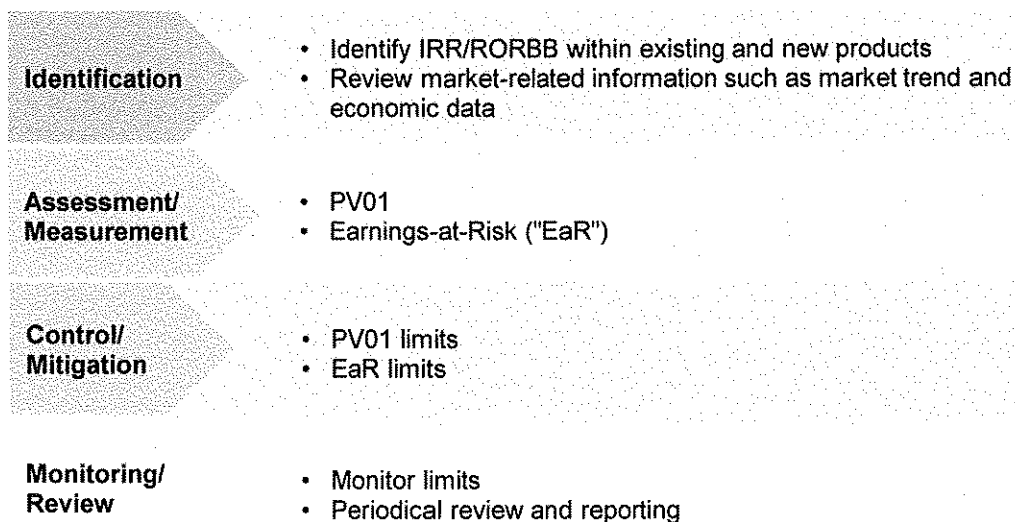
55. RISK MANAGEMENT (CONT'D.)

55.4 MARKET RISK MANAGEMENT (CONT'D.)

Non-Traded Market Risk

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

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's 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 used 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.

55. RISK MANAGEMENT (CONT'D.)

55.4 MARKET RISK MANAGEMENT (CONT'D.)

Non-Traded Market Risk (Cont'd.)

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

The Bank measures the IRR/RORBB exposures using PV01. PV01 is a quantitative measure to assess the impact of an absolute change in economic value, due to 1 basis point movement in market profit rates.

The Bank complements PV01 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 Trading Book and Banking Book Policy, 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.

55. RISK MANAGEMENT (CONT'D.)**55.4 MARKET RISK MANAGEMENT (CONT'D.)****Market Risk Sensitivity****(i) Rate of Return Risk**

Rate of return risk is the risk that the value of a financial instrument will fluctuate due to changes in market profit rate and is managed through gap and sensitivity analysis. Profit rate movements also affect the Bank's income and expense from assets and liabilities as well as capital fund. The Bank has adopted profit rate risk hedging measures to cushion the profit rate volatility.

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

Traded Market Risk:

	2019		2018	
	Rate of Return + 100 bps (RM'000)	Rate of Return - 100 bps (RM'000)	Rate of Return + 100 bps (RM'000)	Rate of Return - 100 bps (RM'000)
	Impact on profit before zakat and taxation	(19,827)	20,466	(20,415)

Non-Traded Market Risk:

	2019		2018	
	Rate of Return + 100 bps (RM'000)	Rate of Return - 100 bps (RM'000)	Rate of Return + 100 bps (RM'000)	Rate of Return - 100 bps (RM'000)
	Impact on profit before zakat and taxation	191,197	(191,137)	194,535
Impact on equity	(82,156)	87,883	(56,828)	61,657

55. RISK MANAGEMENT (CONT'D.)

55.4 MARKET RISK MANAGEMENT (CONT'D.)

(ii) Foreign Exchange Risk

Foreign exchange risk arises from changes in foreign exchange rates to exposure on the Bank's financial instruments denominated in currencies other than the functional currency of the transacting entity. Position limits are imposed to prevent the Bank from being exposed to excessive foreign exchange risk.

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

Currency	2019		2018	
	Exchange rate	Exchange rate	Exchange rate	Exchange rate
	+ 10 %	- 10 %	+ 10 %	- 10 %
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
USD	11,371	(11,371)	5,665	(5,665)
SGD	50	(50)	50	(50)
EUR	(750)	750	(6)	6
JPY	(5)	5	-	-
Others	(873)	873	238	(238)

There is no impact to equity for 2019 and 2018 in respect of foreign exchange risk.

55. RISK MANAGEMENT (CONT'D.)

55.4 MARKET RISK MANAGEMENT (CONT'D.)

(iii) Equity Price Risk

Equity price risk arises from the adverse movements in the price of equities. Equity price risk is controlled via position size limits, loss limits and VaR limits.

There is no impact to profit before zakat and taxation and equity for 2019 and 2018 in respect of equity price risk.

55.5 OPERATIONAL RISK MANAGEMENT

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

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

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

55. RISK MANAGEMENT (CONT'D.)

55.5 OPERATIONAL RISK MANAGEMENT (CONT'D.)

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

The strategy for managing operational risk in the 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 are as close as possible to the activity that creates the risk and ensuring that effective action is 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.

55. RISK MANAGEMENT (CONT'D.)

55.5 OPERATIONAL RISK MANAGEMENT (CONT'D.)

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 ORM 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 AMMB Group.
- The Key Risk Indicators ("KRI") module provides early warning of increasing risk and/or control failures by monitoring the changes of the underlying risk measurements.
- The Key Control Testing ("KCT") is the test steps or assessment performed periodically to assure that the key controls are in place and they are operating as intended or effective in managing the operational risks.
- Periodic validation of the RCSA/KRIs/KCTs are conducted by the Operational Risk Relationship Managers within Group Operational Risk to provide assurance on the integrity and continued relevance of the controls and testing implemented.
- Scenario analysis is a forward looking assessment tool to assess the severity impact on the Bank's profitability and capital adequacy should the plausible and worse case scenarios materialise.

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

55. RISK MANAGEMENT (CONT'D.)

55.5 OPERATIONAL RISK MANAGEMENT (CONT'D.)

i. 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• Plan maintenance

The BCM function is 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 AMMB Group's operations and the attendant establishing of critical functions recovery against downtimes. BCM builds the resilience and recovery capability to safeguard the interest of the AMMB Group's stakeholders by protecting the organization's franchise and reputation.

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

The AMMB Group is continuously reviewing the level of business operations resiliency to enhance the BCM capability throughout all critical departments and branches across the region. Training is an integral part of the process to heighten BCM awareness and inculcate a business resiliency culture.

55. RISK MANAGEMENT (CONT'D.)

55.6 CYBER RISK MANAGEMENT

Cyber threat is an emerging risk as the migration to electronic platforms intensify, in part driven by the increased sophistication of cyber threats and security breaches that occurred over the past year. The AMMB Group recognises that these are constantly evolving threats, and the resilience of the AMMB Group's IT infrastructure and cyber security capabilities are of paramount importance, especially with regards to safeguarding customers' information. To mitigate the risk, AMMB Group embarked on a three-year Cyber Security Maturity Improvement Programme in FY18 to strengthen the cyber security posture and ability to protect and manage sensitive data. AMMB Group continue to further enhance the cyber security controls framework, as well as continue ongoing initiatives to educate the employees and customers about cyber security and what they can do to protect data. In FY19, the AMMB Group broadened its technology risk management capabilities by setting up a Cyber Offence team to proactively test and simulate cyber-attacks on the AMMB Group's security controls to identify potential threats and vulnerabilities that pose a risk to the AMMB Group.

55.7 LEGAL RISK

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

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

55.8 REGULATORY COMPLIANCE RISK

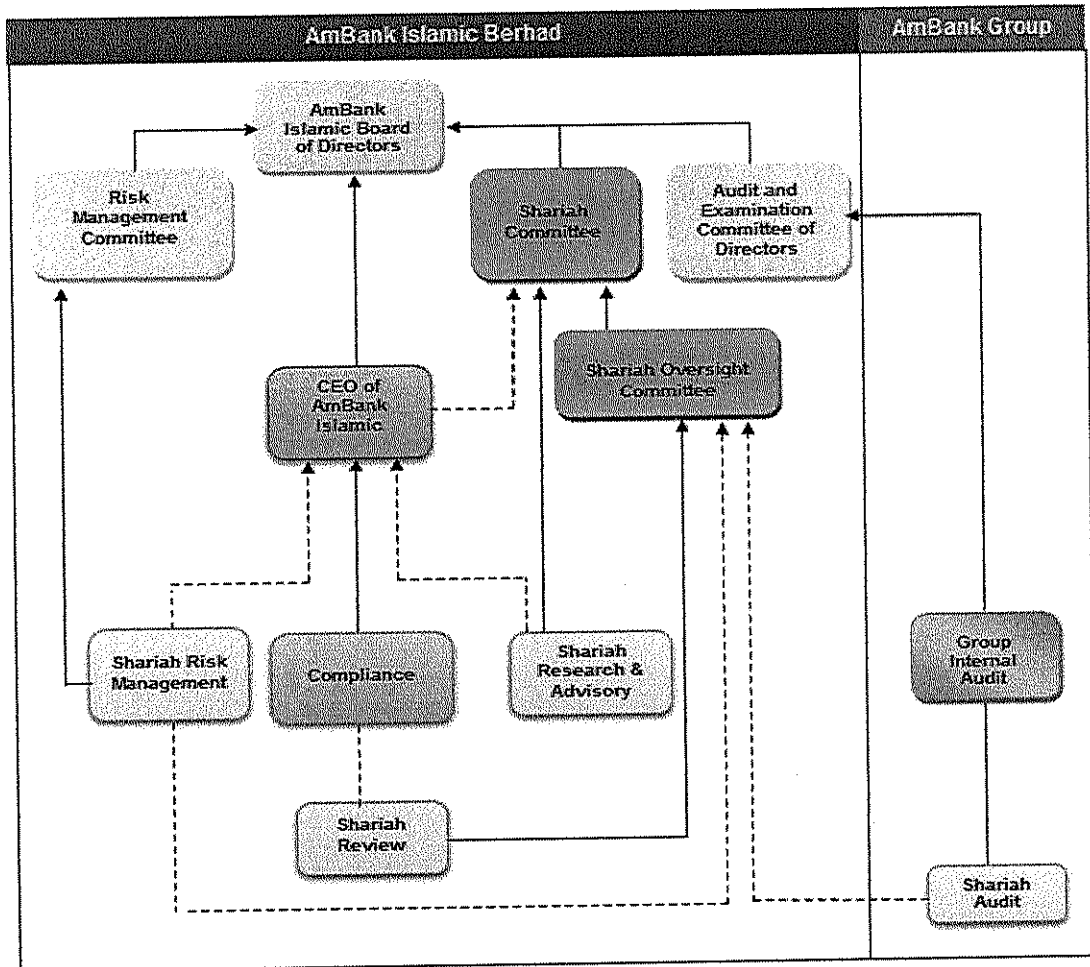
The AMMB Group has in place a compliance framework to promote the safety and soundness of the AMMB Group by minimising financial, reputational and operational risks arising from regulatory non-compliance.

The AMMB Group believes in and embraces a stronger compliance culture to reflect a corporate culture of high ethical standards and integrity where the Board 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.

55. RISK MANAGEMENT (CONT'D.)

55.9 SHARIAH RISK



The AMMB Group has established the Shariah governance structure for its Islamic banking operations in accordance with the requirements of the Islamic Financial Services Act ("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.

55. RISK MANAGEMENT (CONT'D.)

55.9 SHARIAH RISK (CONT'D.)

Apart from Shariah Research & Advisory, Shariah Risk Management and Shariah Review functions which reside in the Bank, the Bank's Shariah governance structure leverages on the AMMB Group 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 AEC, RMC and the Shariah Committee.

Audit and 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

Risk Management Committee 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 as well as on Value-based Intermediation ("VBI") initiative.

55. RISK MANAGEMENT (CONT'D.)

55.9 SHARIAH RISK (CONT'D.)

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. In that regard, the Shariah Oversight Committee is responsible to oversee on Shariah aspects, the functions of Shariah Review, Shariah Risk Management, and Shariah Audit. The Shariah Oversight Committee also 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.

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.

55. RISK MANAGEMENT (CONT'D.)

55.9 SHARIAH RISK (CONT'D.)

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.

Shariah Non-Compliant Income

For the financial year ended 31 March 2019, there was one (1) Shariah non-compliant ("SNC") incident involving SNC income of RM1,115 relating to imposition of additional late payment charges. Purification of the SNC income was made in accordance with the method approved by the Shariah Oversight Committee. To mitigate the recurrence of a similar incident, the Bank has implemented enhanced measures via system control and heightened staff awareness via focused training sessions. Given that this SNC incident is of similar nature to the one (1) SNC incident which occurred in the financial year ended 31 March 2018, both SNC incidents are grouped as a single SNC incident which were deemed to occur in the financial year ended 31 March 2018. For the financial year ended 31 March 2018, there was one (1) Shariah non-compliant (SNC) incident with SNC income of RM3,699.

56. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments are contracts that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than a forced or liquidated sale. The information presented herein represents best estimates of fair values of financial instruments at the reporting date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a number of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the assumptions could materially affect these estimates and the corresponding fair values.

In addition, fair value information for non-financial assets and liabilities such as deferred taxation are excluded, as they do not fall within the scope of MFRS 7 Financial Instruments: Disclosures, which requires the fair value information to be disclosed.

56. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONT'D.)

- a) Financial instruments not measured at fair value (excluding those financial instruments where the carrying amounts are reasonable approximation of their fair values).

	2019		2018	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
Financial assets				
Financial investments at amortised cost	1,705,456	1,758,554	-	-
Financial investments held-to- -maturity	-	-	1,090,010	1,064,610
Financing and advances * Receivables : Investments not quoted in active markets **	4,288,858	4,382,598	5,553,567	5,659,787
	-	-	715,980	735,722
	<u>5,994,314</u>	<u>6,141,152</u>	<u>7,359,557</u>	<u>7,460,119</u>
Financial liabilities				
Recourse obligation on financing sold to Cagamas Berhad	518,350	525,146	520,405	527,427
Term funding	1,080,000	1,076,896	1,080,000	1,072,268
Subordinated Sukuk	1,150,000	1,168,695	999,839	1,009,509
	<u>2,748,350</u>	<u>2,770,737</u>	<u>2,600,244</u>	<u>2,609,204</u>

Note

* excluding financing and advances of RM24,633,591,000 (2018: RM22,222,269,000) where the carrying amounts are reasonable approximation of their fair values.

** excluding receivables for investments not quoted in active markets of RM74,853,000 with maturity of less than six months for financial year ended 31 March 2018. The carrying amounts are reasonable approximation to their fair values.

56. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONT'D.)

- b) The following table provides the fair value measurement hierarchy of the Bank's assets and liabilities.

	Valuation techniques			Total RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
2019				
Financial assets measured at fair value				
Derivative financial assets	-	43,136	-	43,136
Financial assets at fair value through profit or loss				
- Money market securities	-	4,976,921	-	4,976,921
- Unquoted sukuk	-	137,053	-	137,053
Financial investments at fair value through other comprehensive income				
- Money market securities	-	449,619	-	449,619
- Unquoted sukuk	-	3,042,521	-	3,042,521
Assets for which fair values are disclosed				
Financial investments at amortised cost	-	1,758,554	-	1,758,554
Financing and advances	-	4,382,598	-	4,382,598
	-	14,790,402	-	14,790,402
Financial liabilities measured at fair value				
Derivative financial liabilities	-	55,519	-	55,519
Financial liabilities for which values are disclosed				
Recourse obligation of financing sold to Cagamas Berhad	-	525,146	-	525,146
Term funding	-	1,076,896	-	1,076,896
Subordinated Sukuk	-	1,168,695	-	1,168,695
	-	2,826,256	-	2,826,256

56. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONT'D.)

- b) The following table provides the fair value measurement hierarchy of the Bank's assets and liabilities (Cont'd.).

	Valuation techniques			Total RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
2018				
Financial assets measured at fair value				
Derivative financial assets	-	87,408	-	87,408
Financial assets held-for-trading				
- Money market securities	-	928,203	-	928,203
- Unquoted sukuk	-	656,429	-	656,429
Financial investments available-for-sale				
- Money market securities	-	1,733,881	-	1,733,881
- Unquoted sukuk	-	1,104,685	-	1,104,685
Assets for which fair values are disclosed				
Financial investments held-to-maturity	-	1,064,610	-	1,064,610
Financing and advances	-	5,659,787	-	5,659,787
Receivables : Investments not quoted in active markets	-	725,734	9,988	735,722
	-	11,960,737	9,988	11,970,725
Financial liabilities measured at fair value				
Derivative financial liabilities	-	92,939	-	92,939
Financial liabilities for which fair values are disclosed				
Recourse obligation of financing sold to Cagamas Berhad	-	527,427	-	527,427
Term funding	-	1,072,268	-	1,072,268
Subordinated Sukuk	-	1,009,509	-	1,009,509
	-	2,702,143	-	2,702,143

56. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONT'D.)

Determination of fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

(a) Financial assets and financial liabilities for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (less than six months), the carrying amounts approximate to their fair value.

(b) Financial investments at amortised cost

Fair value of securities is based on observable mid prices at reporting date and where observable mid prices are not available, the fair value is based on net tangible asset backing.

(c) Financing and advances

The fair value of variable rate financing and advances are estimated to approximate their carrying values. For fixed rate financing and advances, the fair values are estimated based on expected future cashflows of contractual instalments discounted at prevailing indicative rates adjusted for credit risk. For impaired financing and advances, the fair values are deemed to approximate the carrying value (net of impairment losses).

(d) Term funding and debt capital

The Bank uses observable mid prices to estimate the fair values and where mid prices are not available, the fair values are estimated by discounting the expected future cashflows using market indicative rates of instruments with similar risk profile.

(e) Recourse obligation on financing sold to Cagamas Berhad

The fair value for Recourse obligation on financing sold to Cagamas Berhad is determined based on the discounted cash flows of future instalment payments at prevailing rates quoted by Cagamas Berhad as at reporting date.

56. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONT'D.)

Determination of fair value (Cont'd.)

(d) Recourse obligation on financing sold to Cagamas Berhad

The fair values for recourse obligation on financing sold to Cagamas Berhad are determined based on discounted cash flows of future installment payments at prevailing rates quoted by Cagamas Berhad as at reporting date.

(e) Contingent liabilities and undrawn credit facilities

The fair value of contingent liabilities and undrawn credit facilities are not readily ascertainable. These financial instruments are presently not sold or traded. They generate fees that are in line with market prices for similar arrangements. The estimated fair value may be represented by the present value of the fees expected to be received, less associated costs and potential loss that may arise should these commitments crystallise. The Bank assesses that their respective fair values are unlikely to be significant given that the overall level of fees involved is not significant.

Determination of fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 : Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 : Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3 : Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial assets and liabilities measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets and liabilities for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Bank's own models whereby the majority of assumptions are market observable.

56. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONT'D.)

Determination of fair value hierarchy (Cont'd.)

Non market observable inputs means that fair values are determined, in whole or in part, using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument, nor are they based on available market data. The main asset classes in this category is unquoted debt instruments. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Bank. Therefore, unobservable inputs reflect the Bank's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Bank's own data.

57. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements excluding financial assets not subject to offset and that are only subject to collateral arrangements (e.g. financing and advances) are as follows:

	Gross amount of recognised financial assets/liabilities RM'000	Gross amounts offset in the statement of financial position RM'000	Amounts presented in the statement of financial position RM'000	Amount not offset in the statement of financial position		Net amount RM'000
				Financial instruments RM'000	Cash collateral received/pledged RM'000	
2019						
Derivative financial assets (Note 8)	43,136	-	43,136	(29,356)	-	13,780
Derivative financial liabilities (Note 8)	55,519	-	55,519	(29,356)	-	26,163
2018						
Derivative financial assets (Note 8)	87,408	-	87,408	(13,721)	-	73,687
Derivative financial liabilities (Note 8)	92,939	-	92,939	(13,721)	-	79,218

58. BUSINESS SEGMENT ANALYSIS

Segment information is presented in respect of the Bank's business segments. The business segment information is prepared based on internal management reports, which are regularly reviewed by the Chief Operating Decision-Maker in order to allocate resources to a segment and to assess its performance.

The Bank comprises the following main business segments:

(a) Retail Banking

Retail Banking continues to focus on building mass affluent, affluent and small business customers. Retail Banking offers products and financial solutions which includes auto finance, mortgages, personal financing, credit cards, small business financing, priority banking services, wealth management, remittance services and deposits.

(b) Business Banking

Business Banking ("BB") focuses on the small and medium sized enterprises segment, which comprises Enterprise Banking and Commercial Banking. Solutions offered to Enterprise Banking customers encompass Capital Expenditure ("CAPEX") financing, Working Capital financing and Cash Management, and while Commercial Banking offers the same suite of products, it also provides more sophisticated structures such as Contract Financing, Development Financing, and Project Financing. Previously, BB was not disclosed as a reputable segment and included in Wholesale Banking division in review of its contribution to the Group in terms of revenue, profit and total assets. Accordingly, the comparatives have been restated to conform with current presentation.

(c) Wholesale Banking

Wholesale Banking comprises Corporate Banking and Group Treasury and Markets:

(i) Corporate Banking

Corporate Banking offers a full range of products and services of corporate lending, trade finance, and cash management solutions to wholesale banking clients.

(ii) Group Treasury and Markets

Group Treasury and Markets includes proprietary trading as well as providing full range of Shariah compliant products and services relating to treasury activities, including foreign exchange, derivatives and fixed income. It also offers Shariah compliant customised investment solutions for customers.

58. BUSINESS SEGMENT ANALYSIS (CONT'D.)

(d) Investment Banking

Investment Banking offer Islamic advisory services and a wide range of Shariah-compliant financial and investment solutions that include sukuk origination, Islamic equity or equity related capital markets offerings, Islamic structured finance and Islamic syndicated financing.

(e) Group Funding and Others

Group Funding and Others comprise activities to maintain the liquidity of the Bank as well as support operations of its main business units and non-core operations of the Bank.

Measurement of Segment Performance

The segment performance is measured on income, expenses and profit basis. These are shown after allocation of certain centralised costs, funding income and expenses directly associated with each segment. Transactions between segments are recorded within the segment as if they are third party transactions and are eliminated on aggregation.

Operating Revenue

Operating revenue of the Bank comprises all type of revenue derived from the business segments.

Major Customers

No revenue from one single customer amounted to greater than 10% of the Bank's revenue for the current and previous financial year.

Note:

- (i) The revenue generated by a majority of the operating segments substantially comprise finance income. The Chief Operating Decision Maker relies primarily on the net finance income information to assess the performance of, and to make decisions about resources to be allocated to these operating segments.
- (ii) The financial information by geographical segment is not presented as the Bank's activities are principally conducted in Malaysia.

58. BUSINESS SEGMENT ANALYSIS

2019

	Retail banking RM'000	Business banking RM'000	Wholesale banking		Investment banking RM'000	Group funding and others RM'000	Total RM'000
			Corporate banking RM'000	Group treasury and market RM'000			
External revenue	792,591	165,457	715,576	227,242	2,015	146,832	2,049,713
Revenue from other segments	(4,281)	(64,820)	(403,774)	272,943	208	199,724	-
Total operating revenue	788,310	100,637	311,802	500,185	2,223	346,556	2,049,713
Net finance income	347,581	61,600	223,360	26,431	35	74,740	733,747
Other income	29,402	9,428	29,181	17,087	1,987	(696)	86,389
Net income	376,983	71,028	252,541	43,518	2,022	74,044	820,136
Other operating expenses of which:	(198,439)	(7,744)	(52,557)	(5,338)	(1)	(53,391)	(317,470)
<i>Depreciation of Property and Equipment</i>	(1)	-	-	-	-	(141)	(142)
<i>Amortisation of Intangible Assets</i>	(11)	-	-	-	-	(344)	(355)
Profit before impairment losses	178,544	63,284	199,984	38,180	2,021	20,653	502,666
Allowance for impairment losses on financing and advances	(12,146)	(32,646)	(27,556)	-	-	(10,272)	(82,620)
(Allowance)/writeback for impairment losses on financial investments	-	-	(12,787)	2,923	-	(1,041)	(10,905)
Impairment losses on other financial assets	-	-	-	-	-	(3)	(3)
Writeback off/(allowance for) provision for commitments and contingencies	1,292	(397)	(2,406)	-	-	(1,953)	(3,464)
Profit before zakat and taxation	167,690	30,241	157,235	41,103	2,021	7,384	405,674
Zakat and taxation	(40,246)	(7,258)	(37,736)	(9,885)	(485)	1,716	(93,874)
Profit for the financial year	127,444	22,983	119,499	31,238	1,536	9,100	311,800
Other information							
Total segment assets	14,093,276	3,049,923	12,711,914	8,512,163	-	3,857,433	42,224,709
Total segment liabilities	13,898,836	1,216,624	4,154,190	12,276,357	1,536	7,152,095	38,699,638
Cost to income ratio	52.6%	10.9%	20.8%	12.3%	0.0%	72.1%	38.7%
Gross financing and advances	14,261,476	3,067,726	12,000,868	-	-	-	29,330,070
Net financing and advances	14,026,403	3,046,918	11,866,317	-	-	(17,189)	28,922,449
Impaired financing and advances	182,658	82,782	307,109	-	-	-	572,549
Deposits	13,754,343	1,193,071	4,091,903	11,715,383	-	2,983,786	33,738,486
Additions to:							
Property and equipment	-	-	-	-	-	389	389
Intangible assets	-	-	-	-	-	499	499

56. BUSINESS SEGMENT ANALYSIS (CONT'D.)

2018

	Wholesale banking					Group funding and others RM'000	Total RM'000
	Retail banking RM'000	Business banking RM'000	Corporate banking RM'000	Group treasury and market RM'000	Investment banking RM'000		
External revenue	755,122	117,760	709,773	92,388	4,193	242,451	1,921,687
Revenue from other segments	7,100	(42,384)	(412,142)	365,370	587	81,469	-
Total operating revenue	762,222	75,376	297,631	457,758	4,780	323,920	1,921,687
Net finance income	350,706	46,671	223,287	7,467	344	63,746	682,221
Other income	26,691	6,889	26,973	5,693	2,670	22,541	93,657
Net income	379,397	53,560	250,260	13,160	3,214	86,287	785,878
Other operating expenses of which:	(269,230)	(9,672)	(53,351)	(7,512)	(1,514)	(81,112)	(422,391)
<i>Depreciation of Property and Equipment</i>	(1)	-	-	-	-	(99)	(100)
<i>Amortisation of Intangible Assets</i>	(13)	-	-	-	-	(77)	(90)
Profit before impairment losses	110,167	43,888	196,909	5,648	1,700	5,175	363,487
(Allowance)/writeback for impairment losses on financing and advances	(46,356)	(7,637)	(17,728)	-	4	10,319	(61,396)
(Allowance for)/writeback of provision for commitments and contingencies	(1,331)	(275)	2,406	-	1	-	801
Profit before zakat and taxation	62,460	35,976	181,589	5,648	1,705	15,494	302,892
Zakat and taxation	(14,995)	(8,634)	(43,581)	(1,355)	(409)	5,211	(63,763)
Profit for the financial year	47,465	27,342	138,008	4,293	1,296	20,705	239,129
Other information							
Total segment assets	13,641,900	2,293,234	12,778,115	3,017,058	690	5,318,081	37,049,078
Total segment liabilities	14,367,606	933,242	2,470,421	10,069,182	17,435	5,849,422	33,707,308
Cost to income ratio	71.0%	18.1%	21.3%	57.1%	47.1%	94.0%	53.7%
Gross financing and advances	13,727,734	2,305,605	12,000,492	-	591	-	28,034,422
Net financing and advances	13,579,682	2,290,493	11,959,061	-	569	(53,969)	27,775,836
Impaired financing and advances	169,998	73,488	339,052	-	-	-	582,538
Deposits	14,249,053	916,745	2,409,766	9,685,566	16,291	439,905	27,717,326
Additions to:							
Property and equipment	-	-	-	-	-	206	206
Intangible assets	-	-	-	-	-	1,020	1,020

Note:

- The financial information by geographical segment is not presented as the Bank's activities are principally conducted in Malaysia.
- Operating revenue of the Bank comprises financing income and hibah and other operating income.

59. SIGNIFICANT EVENTS

AMMB's debt restructuring programme

On 11 December 2018, at two Extraordinary General Meetings ("EGM") of the holding company, AMMB Holdings Berhad ("AMMB"):

- (i) the holders of Senior Notes issued under the AMMB's Senior and/or Subordinated Medium Term Notes programme of up to RM2.0 billion in nominal value approved the early redemption of the outstanding RM500.0 million Senior Notes due to mature on 8 August 2019. As at 18 December 2018, AMMB had fully settled the outstanding Senior Notes with nominal value of RM500.0 million;
- (ii) the holders of AMMB's Subordinated Notes issued under a Tier 2 Subordinated Notes programme of up to RM10.0 billion approved a bond swap of the outstanding RM1.425 billion in nominal value of Subordinated Notes in exchange for AMMB's:
 - RM1.025 billion in nominal value of Subordinated Notes issued by AmBank under a Subordinated Notes programme of up to RM4.0 billion; and
 - RM400.0 million in nominal value of Subordinated Sukuk issued by the Bank, under a Subordinated Sukuk Murabahah programme of up to RM3.0 billion.

On the same day, the Bank and AmBank held two separate EGM to obtain consent from Noteholders and Sukukholders respectively to revise the terms and conditions of the Subordinated Notes/Sukuk for outstanding tranches and new issuances. The revision was made to incorporate a non-viability trigger event in relation to the financial group ("Group-level Trigger") as the two programmes were structured previously with loss absorption at point of non-viability referenced to the entity only, without Group-level Trigger. The above revisions were approved by Bank Negara Malaysia via letters dated 24 July 2018 and the Noteholders and Sukukholders at the EGM for AmBank and the Bank respectively. The bond swap transaction was completed on 18 December 2018.

The early redemption of Senior Notes and bond swap transaction undertaken was part of AMMB's debt restructuring programme to maintain the Group's Tier 2 debt rating at AA3.

59. SIGNIFICANT EVENTS (CONT'D.)

Disposal of non-performing financing

After implementing a two-phase competitive bidding process, the Bank on 3 January 2019 entered into a sale and purchase agreement ("SPA") to dispose its non-performing financing to Aiqon Islamic. Aiqon Islamic is a wholly-owned subsidiary of Aiqon Capital which is jointly controlled by an entity that is controlled by the Group Executive Chairman/Chief Executive Officer of Aiqon Capital, who is a close family member of a director and major shareholder of AMMB.

The disposal involves an outright sale of portfolio of accounts ("Portfolio") which includes industrial hire-purchase, small and medium industry financing, auto financing, mortgage, personal financing under cooperative and credit cards previously had been written-off in full from the Bank's books. The disposal forms part of the Bank's debt recovery strategy to strengthen its financing management, resolution processes and to monetise the Portfolio.

The disposal was completed as at 31 March 2019 with the granting of order by the High Court for the vesting of the Portfolio on 5 March 2019, and the gain on disposal (after deducting incidental costs of disposal) which amounted to RM80.9 million has been accounted for under impaired financing and advances recovered in the statement of profit or loss (Note 35).

This disposal is a related party transaction as disclosed in Note 48.

For a period of 2 years from the completion of the disposal, Aiqon Islamic is entitled to put-back to or require the repurchase by the Bank for any of the financing in the Portfolio that are not conforming to the representations made under the respective SPA. The occurrence of put-back is assessed to be probable. In making this judgement, the Bank considered, among others, the voluminous nature and the age of the Portfolio. As at 31 March 2019, a provision of RM15.7 million has been recognised in the statement of financial position, representing the estimated expenditure required to settle any obligations arising from the put-back as disclosed in Note 29 (a). The provision amount shall be assessed periodically and adjusted to reflect the current best estimate of the expenditure required to settle the obligation until the expiry of the put-back period in the financial year ending 31 March 2021.

60. FINANCIAL IMPACT ARISING FROM ADOPTION OF MFRS 9 FINANCIAL INSTRUMENTS**Adoption of MFRS 9 Financial Instruments****i. Classification and measurement of financial instruments**

On 1 April 2018, the Bank management has assessed which business models apply to the financial assets held by the Bank at the date of initial application of MFRS 9 (1 April 2018) and has classified its financial instruments into the appropriate MFRS 9 categories. The main effects resulting from this reclassification are as follows:

	Measurement category		Carrying amount		
	Under MFRS 139	Under MFRS 9	Under MFRS 139 RM'000	Remeasur- ement and impairment RM'000	Under MFRS 9 RM'000
Financial assets					
Cash and short-term funds	Amortised cost (Financing and receivables)	Amortised cost	1,588,429	(3)	1,588,426
Financial assets held-for-trading	FVTPL (HFT)	FVTPL	1,584,632	-	1,584,632
Financial investments available-for-sale	FVOCI (AFS)	Amortised cost	341,935	5,167	347,102
Financial investments available-for-sale	FVOCI (AFS)	FVOCI (Debt)	2,496,631	-	2,496,631
Financial investments held-to-maturity	Amortised cost (HTM)	Amortised cost	1,090,010	(201)	1,089,809
Financing and advances	Amortised cost (Financing and receivables)	Amortised cost	27,775,836	(143,964)	27,631,872
Receivables: Investments not quoted in active markets	Amortised cost (Financing and receivables)	FVTPL	7,649	(1,160)	6,489
Receivables: Investments not quoted in active markets	Amortised cost (Financing and receivables)	FVOCI	783,184	9,053	792,237

60. FINANCIAL IMPACT ARISING FROM ADOPTION OF MFRS 9 FINANCIAL INSTRUMENTS (CONT'D.)

Adoption of MFRS 9 Financial Instruments (Cont'd.)

ii. Reconciliation of financial instruments from MFRS 139 to MFRS 9

	Amount RM'000
Cash and short-term funds	
Closing balance under MFRS 139 as at 31 March 2018	1,588,429
Allowances for ECL (Note 6 (a))	(3)
Opening balance under MFRS 9 as at 1 April 2018	<u>1,588,426</u>
Financial investments held-to-maturity	
Closing balance under MFRS 139 as at 31 March 2018	1,090,010
Reclassification to Financial Investments at amortised cost	<u>(1,090,010)</u>
Opening balance under MFRS 9 as at 1 April 2018	<u>-</u>
Financing and advances	
Closing balance under MFRS 139 as at 31 March 2018	27,775,836
Allowances for ECL (Note 15 (j))	<u>(143,964)</u>
Opening balance under MFRS 9 as at 1 April 2018	<u>27,631,872</u>
Receivables: Investments not quoted in active markets	
Closing balance under MFRS 139 as at 31 March 2018	790,833
Reclassification to Financial assets at FVTPL	<u>(7,649)</u>
Reclassification to Financial investments at FVOCI (debt)	<u>(783,184)</u>
Opening balance under MFRS 9 as at 1 April 2018	<u>-</u>
Financial assets at amortised costs	
Closing balance under MFRS 139 as at 31 March 2018	-
Reclassification from Financial investments held-to-maturity	1,090,010
Reclassification from Financial investments available-for-sale	341,935
Remeasurement from FV to amortised cost	5,167
Allowances for ECL (Note 13 (a))	<u>(201)</u>
Opening balance under MFRS 9 as at 1 April 2018	<u>1,436,911</u>
	<u>30,657,209</u>

60. FINANCIAL IMPACT ARISING FROM ADOPTION OF MFRS 9 FINANCIAL INSTRUMENTS (CONT'D.)**Adoption of MFRS 9 Financial Instruments (Cont'd.)**

ii. Reconciliation of financial instruments from MFRS 139 to MFRS 9 (Cont'd.)

	Amount RM'000
<u>Fair value through profit and loss (FVTPL)</u>	
Financial assets held-for-trading	
Closing balance under MFRS 139 as at 31 March 2018	1,584,632
Reclassification to Financial assets at FVTPL	<u>(1,584,632)</u>
Opening balance under MFRS 9 as at 1 April 2018	<u>-</u>
Financial assets at FVTPL	
Closing balance under MFRS 139 as at 31 March 2018	-
Reclassification from Financial assets held-for-trading	1,584,632
Reclassification from Receivables: Investments not quoted in active markets	7,649
Remeasurement for reclassification	<u>(1,160)</u>
Opening balance under MFRS 9 as at 1 April 2018	<u>1,591,121</u>
Total financial assets measured at fair value through profit or loss	<u>1,591,121</u>
	Amount RM'000
<u>Fair value through other comprehensive income (FVOCI)</u>	
Financial assets available-for-sale	
Closing balance under MFRS 139 as at 31 March 2018	2,838,566
Reclassification to Financial investments at amortised cost	(341,935)
Reclassification to Financial investments at FVOCI (debt)	<u>(2,496,631)</u>
Opening balance under MFRS 9 as at 1 April 2018	<u>-</u>
Financial assets at FVOCI (debt)	
Closing balance under MFRS 139 as at 31 March 2018	-
Reclassification from Financial investments available-for-sale	2,496,631
Reclassification from Receivables: Investments not quoted in active markets	783,184
Remeasurement from amortised cost to FV	<u>9,053</u>
Opening balance under MFRS 9 as at 1 April 2018	<u>3,288,868</u>
Total financial assets measured at fair value through other comprehensive income	<u>3,288,868</u>

60. FINANCIAL IMPACT ARISING FROM ADOPTION OF MFRS 9 FINANCIAL INSTRUMENTS (CONT'D.)

Adoption of MFRS 9 Financial Instruments (Cont'd.)

ii. Reconciliation of financial instruments from MFRS 139 to MFRS 9 (Cont'd.)

	Amount RM'000
Other assets	
Closing balance under MFRS 139 as at 31 March 2018	270,731
Tax impact on impairment	32,412
Opening balance under MFRS 9 as at 1 April 2018	<u>303,143</u>
Deferred tax liabilities	
Closing balance under MFRS 139 as at 31 March 2018	2,947
Tax impact on unrealised gain on FVOCI reserve	3,413
Tax impact on impairment	2,568
Opening balance under MFRS 9 as at 1 April 2018	<u>8,928</u>
Other liabilities	
Closing balance under MFRS 139 as at 31 March 2018	294,273
Allowances for ECL for provision for commitments and contingencies (Note 29 (b))	4,065
Tax impact on impairment	(5,855)
Tax impact on remeasurement of investments to FVTPL	(278)
Opening balance under MFRS 9 as at 1 April 2018	<u>292,205</u>

60. FINANCIAL IMPACT ARISING FROM ADOPTION OF MFRS 9 FINANCIAL INSTRUMENTS (CONT'D.)**Adoption of MFRS 9 Financial Instruments (Cont'd.)**

iii. Reconciliation of impairment allowances balance

The following table reconciles the prior period's closing impairment allowance measured in accordance with the MFRS139 incurred loss model or provision under MFRS137 to the new impairment allowance measured in accordance with the MFRS9 expected loss model at 1 April 2018:

	Loss allowance under MFRS139/ Provision under MFRS137 RM'000	Remeasure- ments RM'000	Loss allowance under MFRS9 RM'000
Financing and receivables and held-to-maturity under MFRS 139/ Financial assets at amortised cost under MFRS 9			
Cash and short-term funds	-	3	3
Financial investments at amortised cost	-	201	201
Financing and advances	258,586	143,964	402,550
Total	258,586	144,168	402,754
Available-for-sale under MFRS 9/ Financial assets at FVOCI under MFRS 9			
Financial investments at FVOCI (Note 11)	-	10,220	10,220
Total	-	10,220	10,220
Financing commitments and financial guarantee contracts issued			
Financing commitments	9,466	4,161	13,627
Financial guarantee contracts	1,232	(96)	1,136
Total	10,698	4,065	14,763

60. FINANCIAL IMPACT ARISING FROM ADOPTION OF MFRS 9 FINANCIAL INSTRUMENTS (CONT'D.)

Adoption of MFRS 9 Financial Instruments (Cont'd.)

iv. The adoption of MFRS 9 resulted in the following financial effects to the statement of financial position of the Bank:

(a) Reconciliation of statement of financial position

	31 March 2018 RM'000	Reclassification and remeasurement RM'000	Impairment RM'000	1 April 2018 RM'000
ASSETS				
Cash and short-term funds	1,588,429	-	(3)	1,588,426
Deposits and placements with banks and other financial institutions	200,000	-	-	200,000
Derivative financial assets	87,408	-	-	87,408
Financial assets at fair value through profit or loss	-	1,591,121	-	1,591,121
Financial assets held-for-trading	1,584,632	(1,584,632)	-	-
Financial investments at fair value through other comprehensive income	-	3,288,868	-	3,288,868
Financial investments available-for-sale	2,838,566	(2,838,566)	-	-
Financial investments at amortised cost	-	1,437,112	(201)	1,436,911
Financial investments held-to-maturity	1,090,010	(1,090,010)	-	-
Financing and advances	27,775,836	-	(143,964)	27,631,872
Receivables: Investments not quoted in active markets	790,833	(790,833)	-	-
Statutory deposit with Bank Negara Malaysia	821,000	-	-	821,000
Other assets	270,731	-	32,412	303,143
Property and equipment	426	-	-	426
Intangible assets	1,207	-	-	1,207
TOTAL ASSETS	37,049,078	13,060	(111,756)	36,950,382
LIABILITIES AND EQUITY				
Deposits from customers	26,493,802	-	-	26,493,802
Investment accounts of customers	138,956	-	-	138,956
Deposits and placements of banks and other financial institutions	1,223,524	-	-	1,223,524
Investment account due to a licensed bank	2,859,110	-	-	2,859,110
Recourse obligation on financing sold to Cagamas Berhad	520,405	-	-	520,405
Derivative financial liabilities	92,939	-	-	92,939
Term funding	1,080,000	-	-	1,080,000
Subordinated Sukuk	999,839	-	-	999,839
Deferred tax liability	2,947	3,413	2,568	8,928
Other liabilities	294,273	(278)	(1,790)	292,205
Provision for zakat	1,513	-	-	1,513
TOTAL LIABILITIES	33,707,308	3,135	778	33,711,221
Share capital	1,387,107	-	-	1,387,107
Reserves	1,954,663	9,925	(112,534)	1,852,054
Retained earnings	1,632,472	(882)	39,776	1,671,366
Regulatory reserve	327,683	-	(162,530)	165,153
AFS reserve/(deficit)	(5,492)	5,492	-	-
Fair value reserve	-	5,315	10,220	15,535
Equity attributable to equity holder of the Bank	3,341,770	9,925	(112,534)	3,239,161
TOTAL LIABILITIES AND EQUITY	37,049,078	13,060	(111,756)	36,950,382

60. FINANCIAL IMPACT ARISING FROM ADOPTION OF MFRS 9 FINANCIAL INSTRUMENTS (CONT'D.)

Adoption of MFRS 9 Financial Instruments (Cont'd.)

iv. The adoption of MFRS 9 resulted in the following financial effects to the statement of financial position of the Bank (Cont'd.):

(b) The adoption of MFRS 9 resulted in the following financial effects to reserves of the Bank:

	Effects of adoption of MFRS 9 RM'000
Retained earnings	
Closing balance under MFRS 139 as at 31 March 2018	1,632,472
Recognition of allowance for ECL	(158,452)
Tax impact on allowance for ECL	35,698
Transfer from regulatory reserve	162,530
Fair value changes on financial assets at FVTPL	(1,160)
Tax impact on remeasurement of assets to FVTPL	278
Opening balance under MFRS 9 as at 1 April 2018	<u>1,671,366</u>
Regulatory reserve	
Closing balance under MFRS 139 as at 31 March 2018	327,683
Transfer to retained earnings	(162,530)
Opening balance under MFRS 9 as at 1 April 2018	<u>165,153</u>
Available-for-sale deficit	
Closing balance under MFRS 139 as at 31 March 2018	(5,492)
Transfer to fair value reserve	5,492
Opening balance under MFRS 9 as at 1 April 2018	<u>-</u>
Fair value reserve	
Closing balance under MFRS 139 as at 31 March 2018	-
Transfer from available-for-sale deficit	(5,492)
Fair value changes for financial investments available-for-sale reclassified to financial investments at amortised cost	5,167
Fair value changes for Receivables: Investment not quoted in active markets reclassified to financial investments at FVOCI	9,053
Fair value changes on financial investments at FVOCI	
Recognition of allowance for ECL	10,220
Tax impact on unrealised fair value changes	(3,413)
Opening balance under MFRS 9 as at 1 April 2018	<u>15,535</u>

(c) The adoption of MFRS 9 resulted in the following financial effects to capital adequacy ratios of the Bank:

	31 March 2018	Effects of adoption of MFRS 9	1 April 2018
CET 1 Capital (RM'000)	3,012,880	51,378	3,064,258
Tier 1 Capital (RM'000)	3,012,880	51,378	3,064,258
Total Capital (RM'000)	4,317,908	51,013	4,368,921
Risk weighted assets (RM'000)	26,059,827	(29,148)	26,030,679
CET 1 Capital Ratio	11.561%	0.211%	11.772%
Tier 1 Capital Ratio	11.561%	0.211%	11.772%
Total Capital Ratio	16.569%	0.215%	16.784%