

AMMB Holdings Berhad

Pillar 3 Disclosure

31 March 2019

RWCAF- Pillar 3 Disclosure (Applicable to the regulated banking subsidiaries of the Group) For 31 March 2019

Contents

	Page	
1	Scope of Application	1
2	Capital Management	4
3	Capital Structure	9
4	General Risk Management	16
5	Credit Risk Management	19
6	Credit Risk Exposure under Standardised Approach	31
7	Credit Risk Mitigation	36
8	Off Balance Sheet Exposures and Counterparty Credit Risk	38
9	Securitisation	41
10	Operational Risk	45
11	Market Risk Management	48
12	Equities (Banking Book Positions)	51
13	Liquidity Risk and Funding Management	52
14	Shariah Governance Structure	53
15	Profit Sharing Investment Account ("PSIA")	56
16	Attestation	57

1.0 Scope of Application

The Risk Weighted Capital Adequacy Framework - (Basel II) Disclosure Requirements ("Pillar 3") and Capital Adequacy Framework for Islamic Banks (CAFIB)-Disclosure Requirements (Pillar 3) policy documents issued by Bank Negara Malaysia ("BNM") on 7 August 2010 aim to enhance the transparency of disclosures on the risk management practices and capital adequacy of banking institutions. The two policy documents are applicable to all banking institutions licensed under the Financial Services Act 2013 ("FSA") and Islamic Financial Service Act 2013 ("IFSA").

The banking subsidiaries of AMMB Holdings Berhad ("AMMB") to which the policy documents apply are AmBank (M) Berhad ("AmBank"), AmInvestment Bank Berhad ("AmInvestment Bank") and AmBank Islamic Berhad ("AmBank Islamic").

The Pillar 3 Disclosure and regulatory capital ratio calculations are prepared at the consolidated AMMB Holdings Berhad level excluding investment in insurance entities and joint ventures ("the Group"). Investment in insurance entities is deducted from the regulatory capital. The information provided has been verified by the Group internal auditors and certified by the Group Chief Executive Officer.

Capital Adequacy

BNM's guidelines on capital adequacy seek to ensure that risk exposures of financial institutions are supported by adequate level of capital to withstand losses which may result from credit and other risks associated with its business operations. Each entity's standalone and consolidated capital adequacy position and more detailed quantitative disclosures are available via our website at www.ambankgroup.com.

The capital adequacy ratios are computed in accordance with BNM's guidelines on Capital Adequacy Framework (Capital Components), Capital Adequacy Framework for Islamic Banks (Capital Components) and Capital Adequacy Framework (Basel II – Risk Weighted Assets) issued by BNM on 2 February 2018. 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. In addition, a financial institution is also required to maintain capital buffers which comprise the sum of the following:

- (a) a Capital Conservation Buffer ("CCB") of 2.5%; and
- (b) a Countercyclical Capital Buffer ("CCyB") determined as the weighted-average of the prevailing CCyB rates applied in the jurisdictions in which the bank has credit exposures.

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

	CCB
Calendar year 2018	1.875%
Calendar year 2019 onwards	2.5%

AMMB, being a financial holding company ("FHC") is required to comply with BNM's capital adequacy requirements at the consolidated level effective from 1 January 2019.

1.0 Scope of Application (Cont'd.)

Changes in accounting policies and regulatory requirements

Adoption of MFRS 9 Financial instruments

The Group adopted MFRS 9 *Financial Instruments* effective 1 April 2018. 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.

MFRS 9 requires all financial assets, other than equity instruments and derivatives, to be classified either at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVOCI"), or at amortised cost 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. Certain investments in corporate bonds and sukuk that were classified as available-for-sale under MFRS 139 qualified for classification at amortised cost under MFRS 9 as they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows that are solely payments of principal and interest. The reclassification has been effected by way of a retrospective application of the effective interest method and accordingly, the related cumulative fair value loss has been reversed on 1 April 2018. In addition, certain debt investments 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.

The loan loss impairment methodology is fundamentally changed under MFRS 9 as it replaces MFRS 139's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. The impairment requirements based on ECL approach is applicable for all loans and other debt financial assets not held at FVTPL, as well as loan commitments and financial guarantee contracts. The allowances for expected losses are determined based on the ECL associated with the probability of default ("PD") 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 PD over the lifetime of the asset.

Compliance with BNM policy documents on Financial Reporting and Financial Reporting for Islamic Banking Institutions

BNM had issued the revised policy documents on *Financial Reporting* and *Financial Reporting for Islamic Banking Institutions* on 2 February 2018. Certain requirements in the policy documents have been revised in response to the changes in the loan loss impairment methodology arising from the expected credit loss approach under MFRS 9. 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 ECL) 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 reserve in the financial statements.

As permitted by the transitional provision of MFRS 9, comparative information in the financial statements have not been restated. The financial effects due to adoption of MFRS 9 and compliance with BNM policy documents above are disclosed in Note 60 *Changes in accounting policies* in the annual financial statements of the Group. The financial effects disclosed included effect to the capital adequacy ratios arising from impact to capital base and risk weighted assets for changes which involved classification of financial instruments and the resultant remeasurement of these financial instruments in the new classification as well as new loan loss impairment methodology.

Comparative information

As the Group is presenting disclosures on the basis of FHC for the current year, the corresponding quantitative disclosures in the preceding reporting period have been re-presented on the basis of FHC.

1.0 Scope of Application (Cont'd.)

Frequency of Disclosure

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

Medium and Location of Disclosure

The Pillar 3 disclosures of the Group is available on our corporate website at www.ambankgroup.com.

1.1 Basis of Consolidation

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

For purposes of this Pillar 3 Disclosure, the consolidation basis used is the same as that used for regulatory capital adequacy purposes except for the exclusion of investment in insurance entities and joint ventures. The following table shows the differences between the scope of statutory and regulatory consolidation.

Type of entity	Accounting treatment	
	Statutory reporting	Basel III regulatory reporting
Subsidiaries licensed under FSA or IFSA or engaged in financial activities	Fully consolidated	Deducted from capital at the banking subsidiary entity level; Consolidated in the calculation of capital adequacy at the banking subsidiary consolidated level and FHC level
Subsidiaries engaged in non-financial activities	Fully consolidated	Risk weighted at the banking subsidiary entity level; Consolidated in the calculation of capital adequacy at the banking subsidiary consolidated level and FHC level
Associates and jointly controlled entities which are licensed under FSA or IFSA or engaged in financial activities	Equity accounted	Deducted in the calculation of capital
Associates and jointly controlled entities which are not licensed under FSA or IFSA or engaged in financial activities	Equity accounted	Risk weighted

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

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

2.0 Capital Management

The Group's capital management is focused on maintaining a strong capital position to support business growth and to meet the requirements of the Group'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 capital structure are maintained by the Group 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 and not captured under regulatory capital requirements and stress test results.

The Group 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 Group'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 Group and how these events could be mitigated. The Group's target capital levels are set taking into account its risk appetite and its risk profile under future expected and stressed economic scenarios.

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

The capital that the Group 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 Group 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 Group'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 Group's capital position and any actions impacting the capital levels. The Audit and Examination Committee ("AEC") reviews specific risk areas and the issues discussed at the capital management committees.

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 ongoing assessment of the demand for capital and the updating of the Group's capital plan.

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

Table 2.1: Capital Adequacy Ratios

The capital adequacy ratios of the Group and banking subsidiaries are as follows:

	31 March 2019			
	AmBank	AmBank Islamic	AmInvestment Bank	Group
Before deducting proposed dividends:				
CET1 Capital ratio	11.752%	11.654%	43.711%	12.328%
Tier 1 Capital ratio	12.406%	11.654%	43.711%	12.328%
Total Capital ratio	17.038%	16.836%	44.174%	15.864%
After deducting proposed dividends:				
CET1 Capital ratio	11.323%	11.084%	41.539%	11.890%
Tier 1 Capital ratio	11.977%	11.084%	41.539%	11.890%
Total Capital ratio	16.609%	16.267%	42.001%	15.426%

	31 March 2018			
	AmBank	AmBank Islamic	AmInvestment Bank	Group* (Restated)
Before deducting proposed dividend:				
CET1 Capital ratio	10.955%	11.561%	41.194%	11.384%
Tier 1 Capital ratio	11.903%	11.561%	41.194%	11.384%
Total Capital ratio	16.451%	16.569%	41.452%	13.951%
After deducting proposed dividend:				
CET1 Capital ratio	10.613%	11.561%	27.529%	11.081%
Tier 1 Capital ratio	11.561%	11.561%	27.529%	11.082%
Total Capital ratio	16.109%	16.569%	27.787%	13.649%

Notes:

- (1) The capital adequacy ratios are computed in accordance to BNM's guidelines on Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework for Islamic Banks (Capital Components) issued by the Bank Negara Malaysia on 2 February 2018, which is based on the Basel III capital accord. The Group has adopted the Standardised Approach for Credit and Market Risks and the Basic Indicator Approach for Operational Risk, based on BNM's Guidelines on Capital Adequacy Framework (Basel II - Risk Weighted Assets) and Capital Adequacy Framework for Islamic Banks (Risk Weighted Assets) issued on 2 February 2018.
- (2) The Company, being a financial holding company ("FHC") i.e. a financial holding company approved pursuant to section 112(3) of the FSA or section 124(3) of the IFSA and holds investment directly or indirectly in corporations that are engaged predominantly in banking business or Islamic banking business, has complied with BNM guidelines on minimum capital adequacy ratios and capital buffer requirements at the consolidated level effective 1 January 2019 and is presenting the capital adequacy ratios on FHC basis for 2019.

Table 2.1: Capital Adequacy Ratios (Cont'd.)

For regulatory capital reporting purposes, the consolidated level comprise the consolidation of all its financial and non-financial subsidiaries, excluding investments in insurance subsidiaries as per BNM's guidelines on Capital Adequacy Framework (Capital Components). Under the guidelines, investments in insurance subsidiaries shall be deducted in the calculation of CET1 Capital ratio.

* Restated Group figures for 2018 presented above are on a FHC basis. The positions of each entity as presented above and group (where applicable) are also published at www.ambankgroup.com. Previously, the Group presented the capital adequacy ratios and components of capital base and risk weighted assets on an aggregation basis representing the aggregated capital positions and risk weighted assets of its three regulated banking subsidiaries.

Table 2.2 Risk-Weighted Assets and Capital Requirements

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

31 MARCH 2019							
Exposure class	RM'000	Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM") RM'000	Net exposures/ EAD after CRM RM'000	Risk weighted assets RM'000	Risk Weighted Assets Absorbed by PSIA RM'000	Total Risk Weighted Assets after effects of PSIA RM'000	Minimum capital requirement at 8% RM'000
1. Credit risk							
On balance sheet exposures:							
Sovereigns/central banks		15,668,440	11,417,003	-	-	-	-
Public Sector Entities ("PSEs")		43,788	43,788	8,758	-	8,758	701
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")		7,720,202	6,618,192	1,332,606	-	1,332,606	106,608
Insurance companies, Securities firms and Fund managers		30,040	30,040	30,040	-	30,040	2,403
Corporates		57,589,616	54,627,651	44,506,840	-	44,506,840	3,560,547
Regulatory retail		36,149,070	34,708,260	27,549,751	334,809	27,214,942	2,177,195
Residential mortgages		19,224,228	19,215,900	7,362,039	-	7,362,039	588,963
Higher risk assets		544,749	544,678	817,017	-	817,017	65,361
Other assets		1,941,237	1,941,237	1,541,050	-	1,541,050	123,284
Securitisation exposures		20,757	20,757	5,331	-	5,331	426
Equity exposures		76	76	76	-	76	6
Defaulted exposures		1,285,677	1,265,866	1,340,490	-	1,340,490	107,239
Total for on balance sheet exposures		140,217,880	130,433,448	84,493,998	334,809	84,159,189	6,732,733
Off balance sheet exposures:							
Over the counter ("OTC") derivatives		1,856,891	1,738,897	1,030,294	-	1,030,294	82,424
Credit derivatives		16	16	8	-	8	1
Off balance sheet exposures other than OTC derivatives or credit derivatives		12,101,850	10,091,053	8,852,653	-	8,852,653	708,212
Defaulted exposures		35,657	20,608	30,809	-	30,809	2,465
Total for off balance sheet exposures		13,994,414	11,850,574	9,913,764	-	9,913,764	793,102
Total on and off balance sheet exposures		154,212,294	142,284,022	94,407,762	334,809	94,072,953	7,525,835
2. Large exposures risk requirement				531,792	-	531,792	42,543
3. Market risk							
Interest rate risk/rate of return risk							
- General interest rate risk/rate of return risk	113,572,764	97,715,906		2,047,521	-	2,047,521	163,802
- Specific interest rate risk/rate of return risk	17,040,367	1,172,972		142,510	-	142,510	11,401
Foreign currency risk	284,047	459,329		552,039	-	552,039	44,163
Equity risk							
- General risk	30,206	1,457		28,749	-	28,749	2,300
- Specific risk	30,206	1,457		14,723	-	14,723	1,178
Option risk	1,078,808	687,103		21,745	-	21,745	1,740
Total	132,036,398	100,038,224		2,807,287	-	2,807,287	224,584
4. Operational risk				5,880,399	-	5,880,399	470,432
5. Total RWA and capital requirements				103,627,240	334,809	103,292,431	8,263,394

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

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

31 MARCH 2018 (Restated)							
Exposure class	RM'000	Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM")	Net exposures/ EAD after CRM	Risk weighted assets	Risk Weighted Assets Absorbed by PSIA	Total Risk Weighted Assets after effects of PSIA	Minimum capital requirement at 8%
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
1. Credit risk							
On balance sheet exposures:							
Sovereigns/central banks		5,304,410	5,304,410	-	-	-	-
Public Sector Entities ("PSEs")		40,802	40,802	8,160	-	8,160	653
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")		5,396,792	5,396,792	1,068,952	-	1,068,952	85,516
Insurance companies, Securities firms and Fund managers		9,775	9,775	9,775	-	9,775	782
Corporates		51,645,224	49,559,277	41,754,445	-	41,754,445	3,340,356
Regulatory retail		35,600,800	34,670,975	27,311,726	118,569	27,193,157	2,175,453
Residential mortgages		16,882,162	16,869,103	6,353,396	-	6,353,396	508,272
Higher risk assets		162,797	162,719	244,078	-	244,078	19,526
Other assets		2,332,073	2,332,073	1,976,634	-	1,976,634	158,131
Securitisation exposures		42,970	42,970	10,591	-	10,591	847
Equity exposures		104	104	104	-	104	8
Defaulted exposures		1,230,023	1,209,466	1,367,283	-	1,367,283	109,383
Total for on balance sheet exposures		118,647,932	115,598,466	80,105,144	118,569	79,986,575	6,398,927
Off balance sheet exposures:							
Over the counter ("OTC") derivatives		2,146,762	1,894,237	1,031,910	-	1,031,910	82,553
Credit derivatives		14	14	7	-	7	1
Off balance sheet exposures other than OTC derivatives or credit derivatives		12,636,754	10,629,220	9,356,806	-	9,356,806	748,544
Defaulted exposures		33,620	22,056	32,934	-	32,934	2,635
Total for off balance sheet exposures		14,817,150	12,545,527	10,421,657	-	10,421,657	833,733
Total on and off balance sheet exposures		133,465,082	128,143,993	90,526,801	118,569	90,408,232	7,232,660
2. Large exposures risk requirement				113,034	-	113,034	9,043
3. Market risk							
Interest rate risk/rate of return risk							
- General interest rate risk/rate of return risk	115,881,468	106,761,483		2,046,901	-	2,046,901	163,752
- Specific interest rate risk/rate of return risk	9,507,958	249,711		198,149	-	198,149	15,852
Foreign currency risk	229,193	597,016		689,415	-	689,415	55,153
Equity risk							
- General risk	110,767	34,098		76,669	-	76,669	6,133
- Specific risk	110,767	34,098		137,757	-	137,757	11,021
Option risk	1,405,269	735,720		105,133	-	105,133	8,411
Total	127,245,422	108,412,126		3,254,024	-	3,254,024	260,322
4. Operational risk				5,763,170	-	5,763,170	461,054
5. Total RWA and capital requirements				99,657,029	118,569	99,538,460	7,963,079

3.0 Capital Structure

Table 3.2 summarises the capital position and capital structure of the Group and its banking subsidiaries. The capital structure is made up of:

- Common Equity Tier 1 (“CET1”) Capital;
- Additional Tier 1 Capital; and
- Tier 2 Capital

3.1 CET1 Capital

CET1 Capital consists of the following:

(a) Paid-up Capital

Issued and paid-up capital that represents the most subordinated claim in liquidation of the financial institution.

(b) Retained Earnings

Retained earnings are included in CET1 Capital net of any interim and final dividend declared, and net of any interim losses. Quarterly interim profits that are reviewed or audited by external auditors are included in the computation of CET1 Capital.

(c) Fair Value Reserve

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. To the extent the balance in the fair value reserve is a net credit position, the banking subsidiaries can recognise 45% of the balance as part of CET1 Capital. Where the balance is a net debit position, the entire balance is deducted from CET1 Capital. Before adoption of MFRS 9, the fair value gains/(losses) on financial investments measured at FVOCI was taken up in Available-For-Sale Reserve/(Deficit).

(d) Available-For-Sale Reserve/(Deficit)

Available-for-sale reserve/(deficit) is in respect of fair value gains/(losses) on financial investments available-for-sale. Where the fair value changes is a net gain outstanding balance, the banking subsidiaries can recognise 45% of the total outstanding balance as part of CET1 Capital. Where the fair value changes is a net loss outstanding balance, the entire outstanding balance is deducted in CET1 Capital.

(e) Foreign Currency Translation Reserve/(Deficit)

Foreign exchange gains and losses arise from the translation of the financial statements of foreign operations, whose functional currencies are different from that of the Group's reporting currency.

(f) Regulatory Reserve

Regulatory reserve is maintained in accordance with paragraph 10.5 of the the BNM's Policy Document on Financial Reporting and paragraph 10.9 of the the BNM's Policy Document on Financial Reporting for Islamic Banking Institutions as an additional credit risk absorbent. The amount of the regulatory reserve is deducted from the calculation of CET1 Capital.

(g) Cash Flow Hedging Reserve/(Deficit)

Cash flow hedging reserve/(deficit) comprises the portion of the gains/(losses) on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. Cash flow hedging gains as at the reporting period is classified as cash flow hedging reserve and cash flow hedging losses is classified as cash flow hedging deficit. The amount of the cash flow hedging reserve/(deficit) is derecognised in the calculation of CET1 Capital.

3.1 CET 1 Capital (Cont'd.)

(h) Other disclosed reserves comprise:

(i) Executive Share Scheme reserve

Executive Share Scheme ("ESS") reserve represents the equity-settled scheme shares granted to employees. The reserve is made up of the cumulative value of services received from employees recorded over the vesting period commencing from the grant date of equity-settled scheme shares and is reduced by the expiry of the scheme shares.

(ii) Shares held in trust for ESS

Shares held in trust for ESS represent shares purchased under the ESS as mentioned above.

3.2 Additional Tier 1 Capital

The amount of Additional Tier 1 ("AT1") Capital to be included in the computation of the capital adequacy ratios of the banking subsidiaries, at both the entity and consolidated level, is subject to the gradual phase-out treatment under paragraph 37 of BNM's Capital Adequacy Framework (Capital Components) guideline, as the outstanding AT1 capital instruments are non-Basel III compliant capital instruments which no longer meet the criteria for inclusion in Additional Tier 1 Capital. The amount recognised under the gradual phase-out treatment shall be the lower of the aggregate cap and the amount outstanding. As at 1 January 2013 and at present, only AmBank has AT1 Capital Instrument in issuance. Table 3.1 outlines the details of the AT1 capital instruments of AmBank as well as the application of the grandfathering provisions.

Table 3.1 AT1 Capital Instruments of AmBank and the Gradual Phase-Out Treatment of AmBank

Based on 1 January 2013 for the Gradual Phase-out Treatment	
Instruments	RM'000
Non-cumulative Non-voting Guaranteed Preference Shares ¹	750,100
Innovative Tier 1 Capital - Tranche 1	300,000
Innovative Tier 1 Capital - Tranche 2	185,000
Non-Innovative Tier 1 Capital - Tranche 1 ²	200,000
Non-Innovative Tier 1 Capital - Tranche 2 ³	300,000
Total Qualifying Base	1,735,100

Notes:

¹ Redeemed on the first call date 27 January 2016.

² Redeemed on the first call date 27 February 2019.

³ Redeemed on the first call date 6 March 2019.

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

3.2 Additional Tier 1 Capital (Cont'd.)

Innovative Tier 1 Capital

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

(a) Innovative Tier 1 Capital Securities

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

(b) Non-innovative Tier 1 Capital

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

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

(collectively known as "Stapled Capital Securities").

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

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

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

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

On 27 February 2019 and 6 March 2019, AmBank redeemed the first and second tranches of the NIT1 capital securities respectively and had cancelled the NIT1 Capital Securities Programme on 6 March 2019.

3.3 Tier 2 capital

The main components of Tier 2 Capital are Basel III compliant subordinated debt capital instruments and Stage 1 and Stage 2 loss allowances and regulatory reserve (subject to a maximum of 1.25% of total credit risk-weighted assets determined under the Standardised Approach).

3.3 Tier 2 capital (Cont'd.)

Medium Term Notes

In the financial year ended 31 March 2008, AmBank implemented a RM2.0 billion nominal value Medium Term Notes ("MTN") Programme. The proceeds raised from the MTN Programme had been utilised for the refinancing of existing subordinated debts and for general working capital requirements.

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

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

During the financial year, on the first call date of 9 April 2018, AmBank fully redeemed tranche 6 with nominal value of RM600.0 million and cancelled the programme.

Basel III Subordinated Notes

On 30 December 2013, AmBank established a Basel III compliant Subordinated Notes programme of RM4.0 billion ("Programme") to enable the issuance of Tier 2 capital instruments from time to time. The Programme has a tenure of 30 years from the date of the first issuance under the Programme. Each issuance of Tier 2 Subordinated Notes under the Programme shall have a tenure of at least 5 years from the issue date, and is callable on any coupon payment date after a minimum period of 5 years from the date of issuance.

The salient features of the Subordinated Notes issued under this programme and outstanding as at 31 March 2019 are as follows:

Issue Date	First Call Date	Tenor	Profit Rate	Nominal value outstanding (RM million)
15 March 2017	15 March 2022	10 years Non-Callable 5 years	5.20% per annum	500
16 October 2017	16 October 2027	10 years Non-Callable 5 years	4.90% per annum	570
23 February 2018	23 February 2023	10 years Non-Callable 5 years	5.23% per annum	175
14 March 2018	14 March 2023	10 years Non-Callable 5 years	5.23% per annum	350
15 November 2018	14 November 2023	10 years Non-Callable 5 years	4.98% per annum	1,000
Total				2,595

3.3 Tier 2 capital (Cont'd.)

Basel III Subordinated Sukuk Murabahah

On 28 February 2014, AmBank Islamic had established a Basel III compliant Subordinated Sukuk Murabahah programme of RM3.0 billion ("Murabahah Programme") to enable the issuance of Tier 2 Capital from time to time.

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

The salient features of the Sukuk Murabahah issued under this programme and outstanding as at 31 March 2019 are as follows:

Issue Date	First Call Date	Tenor	Profit Rate	Nominal value outstanding (RM million)
21 December 2015	21 December 2020	10 years Non-Callable 5 years	5.35% per annum	250
30 December 2016	30 December 2021	10 years Non-Callable 5 years	5.50% per annum	10
15 March 2017	15 March 2022	10 years Non-Callable 5 years	5.20% per annum	240
23 February 2018	23 February 2023	10 years Non-Callable 5 years	5.23% per annum	150
18 October 2018	18 October 2023	10 years Non-Callable 5 years	4.88% per annum	500
Total				1,150

Table 3.2: Capital Structure

The components of CET1 Capital, Additional Tier 1 Capital, Tier 2 Capital and Total Capital of the Group and banking subsidiaries are as follows:

	31 March 2019			
	AmBank RM'000	AmBank Islamic RM'000	AmInvestment Bank RM'000	Group RM'000
CET1 Capital				
Ordinary share capital	1,940,465	1,387,107	200,000	5,551,557
Retained earnings	7,014,840	1,933,885	296,696	10,773,243
Fair value reserve	245,836	39,151	1,089	460,863
Foreign exchange translation reserve	85,109	-	-	94,089
Regulatory reserve	280,556	164,928	4,674	450,158
Cash flow hedging deficit	(12,074)	-	-	(12,074)
Other disclosed reserves	-	-	-	(26,188)
Less: Regulatory adjustments applied on CET1 capital				
Goodwill	-	-	-	(2,092,645)
Other intangible assets	(368,654)	(1,351)	(1,750)	(386,109)
Deferred tax assets	(57,589)	-	(3,051)	(53,957)
Cash flow hedging deficit	12,074	-	-	12,074
55% of cumulative fair value gains in Fair value reserve	(135,210)	(21,533)	(599)	(253,475)
Regulatory reserve	(280,556)	(164,928)	(4,674)	(450,158)
Investment in ordinary shares of unconsolidated financial and insurance/takaful entities	(8,488)	-	(49,809)	(1,334,000)
Deduction in excess of Tier 2 capital**	-	-	-	-
CET1 Capital	8,716,309	3,337,259	442,576	12,733,378
Additional Tier 1 Capital				
Additional Tier 1 Capital instruments (subject to gradual phase-out treatment)	485,000	-	-	-
Qualifying CET1, Additional Tier 1 capital Instruments held by third parties	-	-	-	439
Tier 1 Capital	9,201,309	3,337,259	442,576	12,733,817
Tier 2 Capital				
Tier 2 Capital instruments meeting all relevant criteria for inclusion	2,595,000	1,150,000	-	-
Qualifying CET1, Additional Tier 1 and Tier 2 capital instruments held by third parties (Note 1)	-	-	-	2,476,745
General provisions*	840,495	334,015	4,684	1,175,912
Less: Regulatory adjustments applied on Tier 2 Capital	-	-	-	-
Tier 2 Capital	3,435,495	1,484,015	4,684	3,652,657
Total Capital	12,636,804	4,821,274	447,260	16,386,474
The breakdown of the risk weighted assets ("RWA") in various categories of risk are as follows:				
Credit RWA	67,239,575	28,526,091	732,342	94,407,762
Less: Credit RWA absorbed by Profit Sharing Investment Account	-	(1,804,893)	-	(334,809)
Total Credit RWA	67,239,575	26,721,198	732,342	94,072,953
Market RWA	2,358,358	475,926	28,644	2,807,287
Operational RWA	4,037,878	1,439,025	251,510	5,880,399
Large exposure risk RWA for equity holdings	531,402	-	-	531,792
Total RWA	74,167,213	28,636,149	1,012,496	103,292,431

* Consists of Stage 1 and Stage 2 loss allowances and regulatory reserves

Table 3.2: Capital Structure (Cont'd.)

The components of CET1 Capital, Additional Tier 1 Capital, Tier 2 Capital and Total Capital of the the Group and banking subsidiaries are as follows:

31 March 2018

	AmBank RM'000	AmBank Islamic RM'000	AmInvestment Bank RM'000	Group (Restated) RM'000
CET1 Capital				
Ordinary share capital	1,763,208	1,387,107	200,000	5,551,557
Retained earnings	6,700,583	1,632,472	474,802	9,711,873
Available-for-sale deficit	(23,518)	(5,492)	-	(54,889)
Foreign exchange translation reserve	52,974	-	-	61,600
Regulatory reserve	372,133	327,683	2,918	702,734
Cash flow hedging reserve	3,174	-	-	3,174
Other remaining disclosed reserves	-	-	-	(24,192)
Less: Regulatory adjustments applied on CET1 capital				
Goodwill	-	-	-	(2,092,645)
Other intangible assets	(400,376)	(1,207)	(2,137)	(422,024)
Deferred tax assets	(66,637)	-	(4,085)	(65,940)
Cash flow hedging reserve	(3,174)	-	-	(3,174)
Regulatory reserve	(372,133)	(327,683)	(2,918)	(702,734)
Investment in ordinary shares of unconsolidated financial and insurance/takaful entities	(8,488)	-	(49,809)	(1,334,000)
CET1 Capital	8,017,746	3,012,880	618,771	11,331,340
Additional Tier 1 Capital				
Additional Tier 1 Capital instruments (subject to gradual phase-out treatment)	694,040	-	-	-
Qualifying CET1, Additional Tier 1 capital Instruments held by third parties	-	-	-	458
Tier 1 Capital	8,711,786	3,012,880	618,771	11,331,798
Tier 2 Capital				
Tier 2 Capital instruments meeting all relevant criteria for inclusion (Note 1)	1,995,000	1,000,000	-	1,425,000
Tier 2 Capital instruments (subject to gradual phase-out treatment)	600,000	-	-	-
Qualifying CET1, Additional Tier 1 and Tier 2 capital instruments held by third parties	-	-	-	91
Collective allowance and regulatory reserve	734,013	305,028	3,871	1,130,103
Tier 2 Capital	3,329,013	1,305,028	3,871	2,555,194
Total Capital	12,040,799	4,317,908	622,642	13,886,992

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

Credit RWA	65,981,322	27,390,400	1,123,584	90,526,801
Less: Credit RWA absorbed by Profit Sharing Investment Account	-	(2,988,135)	-	(118,569)
Total Credit RWA	65,981,322	24,402,265	1,123,584	90,408,232
Market RWA	2,861,798	277,093	105,011	3,254,024
Operational RWA	3,973,753	1,380,469	273,498	5,763,170
Large exposure risk RWA for equity holdings	373,899	-	-	113,034
Total RWA	73,190,772	26,059,827	1,502,093	99,538,460

Note 1:

On 18 December 2018, AMMB early redeemed RM1,425 million Tier 2 Subordinated Notes, that were issued on a back-to-back arrangement with AmBank and AmBank Islamic under the Basel III RM10.0 billion Tier 2 Subordinated Notes Programme ("Programme"), and cancelled the Programme thereafter.

Post the revision of AmBank's Basel III RM4.0 billion Tier 2 Subordinated Notes Programme and AmBank Islamic's Basel III RM3.0 billion Sukuk Murabahah Programme on 19 December 2018 which incorporated the non-viability trigger event referenced to AMMB Group, the recognition of Tier 2 capital instruments issued by AmBank and AmBank Islamic at the consolidated level is subject to the treatment specified in paragraph 17.6 of Bank Negara Malaysia's Capital Adequacy Framework (Capital Components) issued on 2 February 2018.

4.0 General Risk Management

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

The Risk Appetite Framework is approved annually by the Board taking into account the Group's desired external rating and targeted profitability/return on 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 Group operates in.

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

AmBank Group Risk Direction

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

- 1 AMMB Group aspires to improve on its current external rating of AA2 based on reference ratings by RAM Rating Services Berhad ("RAM").
- 2 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 Ratings-Based ("FIRB").
- 3 AMMB Group aims to maintain Available Financial Resources in excess of the capital requirements as estimated in the Internal Capital Adequacy Assessment Process ("ICAAP").
- 4 AMMB Group recognizes the importance of funding its own business. It aims to maintain the following:
 - a. Liquidity Coverage Ratio ("LCR") at least 10 percentage points above prevailing regulatory minimum;
 - b. Stressed LCR above the regulatory requirement;
 - c. Net Stable Funding Ratio ("NSFR") above the prevailing regulatory minimum (effective from 2019).
- 5 AMMB Group aims to maintain the following Capital Adequacy Ratios ("CAR") 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.
- 6 AMMB Group aims to maintain adequate controls for all key operational risks (including but not limited to regulatory, compliance, technology, conduct and reputational risks).
 - a. Keep operational losses and regulatory penalties below 2% of PATMI*.
 - b. Remain vigilant in risk identification and management to protect its reputation and business franchise.
- 7 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 Insurance Deposit Malaysia ("PIDM") definition)

Risk Management Governance

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

The Board has also established the Management Risk Committees to assist it in managing the risks and businesses of the Group. The management committees 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 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 Group to ensure that risk taking activities across the Group are aligned to the Group's risk appetite and strategies; and
- through the Risk Management Committee, has access to the Board and the boards of the respective banking entities to facilitate suitable escalation of issues of concern across the organisation.

*Profit after tax and non-controlling interests.

4.1 Internal Capital Adequacy Assessment Process

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

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

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

The following key principles underpin the ICAAP:

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

- The Group Risk Appetite, including the Group's target credit rating;
- Regulatory Capital requirements; and
- The Board and Management's targeted financial performance; and
- The Group's planned asset growth and strategic business objectives.

4.1.2 Management Oversight

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

- Undergo regular, effective and comprehensive review;
- Satisfy regulatory requirements;
- Be capable of independent assessment and validation; and
- Be incorporated into the Group's overall risk management strategy and governance frameworks.

4.1.3 Capital Management Policy

The ICAAP shall include an approved Capital Management Policy which contains:

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

4.1.4 The Group's quality and level of capital shall commensurate with the level of risks exposures. Sufficient capital shall be maintained to:

- Meet minimum prudential requirements (including capital buffer requirements) in all jurisdictions in which the the Group operates, and any requirements that may be imposed by the stakeholders of the Group; and
- Be consistent with the Group's overall risk profile and financial positions, taking into account its strategic focus and business plan.

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

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

4.1.5 Capital allocation:

- Capital allocation shall be consistent with Group's regulatory capital measurement framework and risk adjusted performance requirements.

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

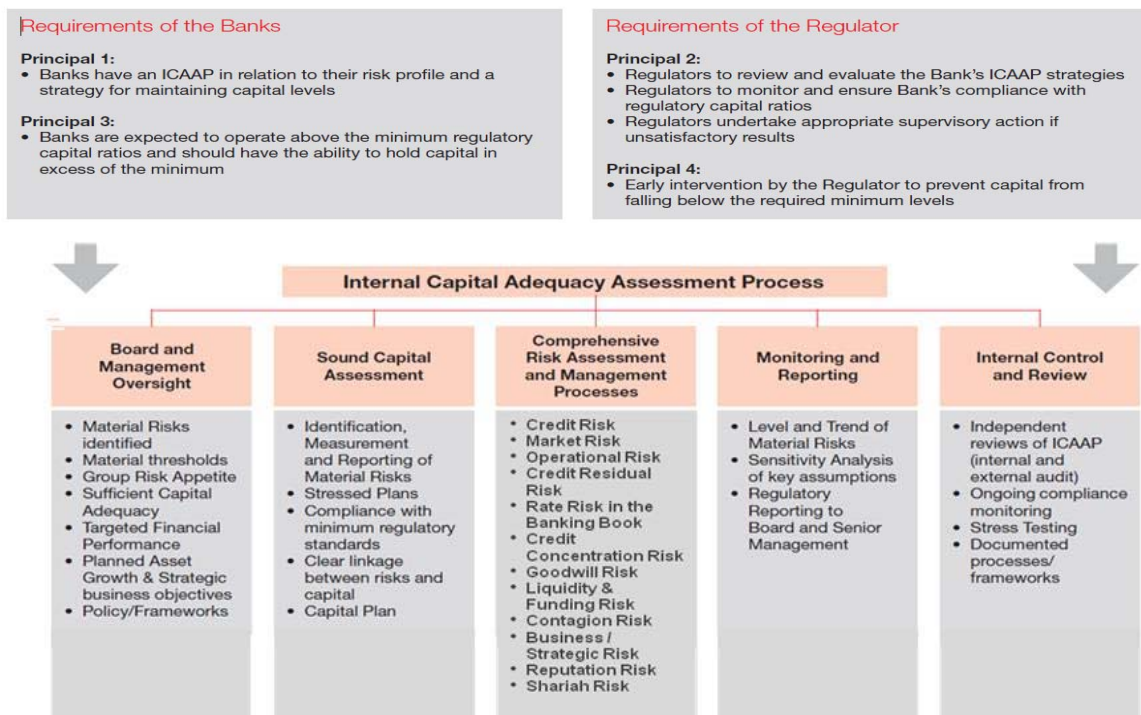
4.1.6 Material Risks

- The Group shall clearly articulate definitions of each material risk type to be included in the ICAAP; and
- Processes to identify and determine the materiality of current risk types, changes to existing risk types and new risk types.

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

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

ICAAP Framework

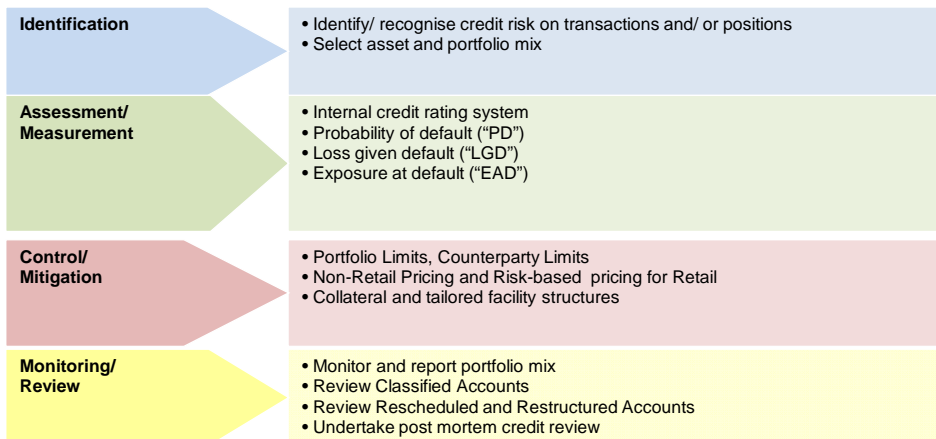


Overview of ICAAP process and setting Internal Capital Targets



5.0 Credit Risk Management

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



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

The primary objective of credit risk management is to maintain accurate risk recognition - identification and measurement, to ensure that credit risk exposure is in line with the Group's 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 banking subsidiaries' 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 banking subsidiaries' credit exposures and the overall credit assessment is conducted either through a program lending or discretionary lending approach.

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

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

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

5.0 Credit Risk Management (Cont'd.)

Lending/financing activities are guided by internal credit policies and Risk Appetite Framework that are approved by the Board of Directors. The Group'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 Group's optimal portfolio mix. Credit risk portfolio management strategies include, amongst others:

- Concentration threshold/review trigger:
 - single counterparty credit;
 - industry sector; and
 - country;
- Setting Loan/Financing to Value limits for asset backed loans/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 loans/financing pursuant to the BNM's revised policy documents on Financial Reporting and Financial Reporting for Islamic Banking Institutions; and
- Setting Non-Retail Pricing Guidelines which serve as a guide to the minimum returns the Group requires for the risk undertaken, taking into account operating expenses and cost of capital.

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

The Group Management Risk Committee ("GMRC") regularly meets to review the quality and diversification of the Group's loan/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 loan/financing delinquency buckets and exposures by industry sectors are reported monthly by Group Risk to executive management and to all meetings of the Board.

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

5.1 Impairment

5.1.1 Definition of Past Due and Impaired for Loans, Advances, Financing and Debt Instruments

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

A loan/financing/debt instrument is classified as impaired under the following circumstances amongst others:

- (a) when the principal or interest/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 loans/financing where repayments are scheduled on intervals of 3 months or longer, the loan/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 default and impaired when the past due is 90 days from due date of the bill.
- (d) a loan/financing may also be classified as impaired:
 - i. if it is probable that the Group will be unable to collect all amounts due (including both interest/ 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 loan/financing obligation of a customer triggers a default of another loan/financing obligation of the same customer or
 - a default of a loan/financing obligation of a customer triggers a default of a loan/financing obligation of other customers within the same customer group.The Watchlist & 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 /interest payment or face/ nominal value redemption is one (1) day past due after the grace period, where there is a stipulated grace period within the contractually agreed terms; or
 - ii. when an event of default ("EOD") has been declared by the Trustee/ Facility Agent⁴ for reasons other than payment in default (as outlined in the Trust Deed Guidelines issued by the Securities Commission of Malaysia); or
 - iii. where it is deemed appropriate to classify as impaired and approved by the WACC.
- (f) in the case of stock broking and futures broking:
 - i. for margin loan/financing, the account is impaired after 7 days when there is shortfall to market value i.e. the collateral value is lower than the outstanding balance
 - ii. for futures business, the account is impaired when the overlosses are not remedied within 30 days and are not secured against dealer's retention funds.
- (g) the loan/ financing is deemed impaired when it is classified as rescheduled or restructured ("R&R") in the Central Credit Reference Information System ("CCRIS").

5.1 Impairment (Cont'd.)

5.1.2 Group Provisioning Methodology

The Group's provisioning methodology complies with MFRS 9 where we recognize Expected Credit Loss ("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 provisioning 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 Group calculates 12-month ECL for Stage 1 and lifetime ECL for Stage 2 and Stage 3 exposures.

- i. Stage 1: For performing financial instruments which credit risk not been significantly increased since initial recognition.
- ii. Stage 2: For underperforming financial instruments which credit risk have significantly increased since initial recognition.
- iii. Stage 3: For financial instruments which are credit impaired.

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.

¹For 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.

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

³Administrative 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.

⁴In 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.

Table 5.1: Distribution of gross credit exposures by sector

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

31 MARCH 2019															
	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotels and Restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Government and Central Banks RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On balance sheet exposures															
Sovereigns/ Central banks	-	-	-	-	-	-	-	-	15,668,440	-	-	-	-	-	15,668,440
PSEs	-	-	-	-	-	-	-	-	43,788	-	-	-	-	-	43,788
Banks, DFIs and MDBs	-	-	-	-	-	-	-	7,720,202	-	-	-	-	-	-	7,720,202
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	-	30,040	-	-	-	-	-	-	30,040
Corporates	3,350,306	1,619,875	11,069,648	1,228,445	6,915,036	5,591,979	5,107,688	4,900,644	-	9,181,958	3,086,705	3,527,010	2,009,367	955	57,589,616
Regulatory retail	64,270	14,053	455,978	35,901	340,318	831,428	187,356	7,954	-	101,270	347,041	79,979	33,680,255	3,267	36,149,070
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	19,224,228	-	19,224,228
Higher risk assets	-	-	-	-	-	-	-	-	-	-	-	-	19,528	525,221	544,749
Other assets	-	-	-	-	-	-	-	78,303	-	-	29,614	-	62,192	1,771,128	1,941,237
Securitisation exposures	-	-	-	-	-	-	-	20,757	-	-	-	-	-	-	20,757
Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	76	76
Defaulted exposures	615	68,586	128,309	26	13,667	51,577	65,875	-	-	405,396	12,141	8,136	530,922	427	1,285,677
Total for on balance sheet exposures	3,415,191	1,702,514	11,653,935	1,264,372	7,269,021	6,474,984	5,360,919	12,757,900	15,712,228	9,688,624	3,475,501	3,615,125	55,526,492	2,301,074	140,217,880
Off balance sheet exposures															
OTC derivatives	11,720	18,700	96,586	42	-	5,233	388,192	1,305,970	-	5,555	5,380	11,897	7,616	-	1,856,891
Credit derivatives	-	-	-	-	-	-	-	16	-	-	-	-	-	-	16
Off balance sheet exposures other than OTC derivatives															
or Credit derivatives	210,864	622,375	2,454,555	352,675	3,115,198	948,064	487,543	370,950	-	714,491	379,762	131,153	2,313,560	660	12,101,850
Defaulted exposures	-	110	10,458	-	2,128	498	-	-	-	9,920	293	-	12,250	-	35,657
Total for off balance sheet exposures	222,584	641,185	2,561,599	352,717	3,117,326	953,795	875,735	1,676,936	-	729,966	385,435	143,050	2,333,426	660	13,994,414
Total on and off balance sheet exposures	3,637,775	2,343,699	14,215,534	1,617,089	10,386,347	7,428,779	6,236,654	14,434,836	15,712,228	10,418,590	3,860,936	3,758,175	57,859,918	2,301,734	154,212,294

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

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

31 MARCH 2018 (Restated)															
	Agriculture	Mining and	Manufacturing	Electricity, Gas	Construction	Wholesale and	Transport, Storage	Finance and	Government	Real Estate	Business	Education and	Household	Others	Total
	RM'000	Quarrying	RM'000	and Water	RM'000	Retail Trade and	and	Insurance	and Central	RM'000	Activities	Health	RM'000	RM'000	RM'000
		RM'000		RM'000		Hotels and	Communication	RM'000	Banks		RM'000	RM'000			
On balance sheet exposures															
Sovereigns/ Central banks	-	-	-	-	-	-	-	-	5,304,410	-	-	-	-	-	5,304,410
PSEs	-	-	-	-	-	-	-	-	40,802	-	-	-	-	-	40,802
Banks, DFIs and MDBs	-	-	-	-	-	-	-	5,396,792	-	-	-	-	-	-	5,396,792
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	-	9,775	-	-	-	-	-	-	9,775
Corporates	3,321,999	2,749,685	9,982,711	1,425,415	6,332,719	5,517,113	2,951,188	4,487,579	-	8,574,959	1,471,551	2,993,221	1,589,291	247,793	51,645,224
Regulatory retail	37,342	7,796	221,944	7,853	114,930	252,460	39,619	3,836	-	84,138	102,108	104,831	34,595,167	28,776	35,600,800
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	16,882,162	-	16,882,162
Higher risk assets	-	-	-	-	-	-	-	-	-	-	-	-	19,510	143,287	162,797
Other assets	-	22	-	-	-	-	-	110,566	-	-	58,891	-	43,261	2,119,333	2,332,073
Securitisation exposures	-	-	-	-	-	-	-	20,822	-	22,148	-	-	-	-	42,970
Equity exposures	-	-	7	-	-	-	-	-	-	-	-	-	-	97	104
Defaulted exposures	762	78,766	55,381	1	21,523	31,868	70,218	-	-	432,193	16,157	20,157	502,264	733	1,230,023
Total for on balance sheet exposures	3,360,103	2,836,269	10,260,043	1,433,269	6,469,172	5,801,441	3,061,025	10,029,370	5,345,212	9,113,438	1,648,707	3,118,209	53,631,655	2,540,019	118,647,932
Off balance sheet exposures															
OTC derivatives	15,539	200,580	135,598	-	1,487	12,858	64,914	1,632,284	-	6,286	8,928	59,384	8,576	328	2,146,762
Credit derivatives	-	-	-	-	-	-	-	14	-	-	-	-	-	-	14
Off balance sheet exposures other than OTC derivatives or Credit derivatives	263,425	617,333	2,099,661	306,208	3,258,899	973,473	514,470	232,711	-	945,251	335,336	243,801	2,840,593	5,593	12,636,754
Defaulted exposures	-	57	1,837	-	4,577	415	188	-	-	13,995	398	-	12,072	81	33,620
Total for off balance sheet exposures	278,964	817,970	2,237,096	306,208	3,264,963	986,746	579,572	1,865,009	-	965,532	344,662	303,185	2,861,241	6,002	14,817,150
Total on and off balance sheet exposures	3,639,067	3,654,239	12,497,139	1,739,477	9,734,135	6,788,187	3,640,597	11,894,379	5,345,212	10,078,970	1,993,369	3,421,394	56,492,896	2,546,021	133,465,082

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

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

31 MARCH 2019															
	Agriculture	Mining and Quarrying	Manufacturing	Electricity, Gas and Water	Construction	Wholesale and Retail Trade and Hotels and Restaurants	Transport, Storage and Communication	Finance and Insurance	Real Estate	Business Activities	Education and Health	Household	Others	Not allocated	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Impaired loans, advances and financing	549	78,910	164,196	140	23,340	57,184	73,801	1	538,642	12,110	13,397	656,191	2,201	-	1,620,662
Past due loans / financing	9,039	77,250	219,754	572	223,304	121,275	104,059	9,824	580,841	79,182	40,537	9,624,174	9,349	-	11,099,160
Allowances for Expected Credit Losses	8,789	25,088	37,453	2,319	27,532	40,301	23,531	16,640	295,349	8,431	452,382	316,595	49,370	(3,309)	1,300,471
Charges / (writeback) for individual allowance	-	12,562	53,034	147	7,455	32,153	5,375	-	(67,703)	2,479	3,000	(3,013)	-	-	45,489
Write-offs against individual allowance and other movements	-	11,365	6,244	7,177	12,202	32,607	2,373	-	29,632	741	5,961	-	-	-	108,302

31 MARCH 2018 (Restated)															
	Agriculture	Mining and Quarrying	Manufacturing	Electricity, Gas and Water	Construction	Wholesale and Retail Trade and Hotels and Restaurants	Transport, Storage and Communication	Finance and Insurance	Real Estate	Business Activities	Education and Health	Household	Others	Not allocated	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Impaired loans, advances and financing	836	86,517	83,010	7,140	46,033	43,944	85,956	-	599,355	11,823	24,192	647,234	2,365	-	1,638,405
Past due loans / financing	16,397	79,036	141,431	2,091	98,030	103,068	114,220	267	442,947	47,889	37,830	9,946,571	4,375	-	11,034,152
Individual allowance	-	7,707	11,395	7,030	4,201	4,283	3,603	-	160,182	2,802	3,140	4,139	-	-	208,482
Collective allowance	7,976	5,446	47,715	2,254	31,820	23,897	15,828	22,486	29,358	10,395	3,965	476,132	56,552	954	734,778
Charges / (writeback) for individual allowance	-	16,003	39,085	16,148	415	10,199	3,282	-	15,403	(456)	3,140	1,932	-	-	105,151
Write-offs against individual allowance and other movements	-	38,367	81,856	14,557	-	6,518	398	-	9,163	-	-	4,807	-	-	155,666

Table 5.3: Geographical distribution of credit exposures

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

	31 MARCH 2019		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ Central banks	15,668,440	-	15,668,440
PSEs	43,788	-	43,788
Banks, DFIs and MDBs	5,084,995	2,635,207	7,720,202
Insurance companies, Securities firms and Fund managers	30,040	-	30,040
Corporates	57,264,870	324,746	57,589,616
Regulatory retail	36,149,070	-	36,149,070
Residential mortgages	19,224,228	-	19,224,228
Higher risk assets	544,738	11	544,749
Other assets	1,788,211	153,026	1,941,237
Securitisation exposures	20,757	-	20,757
Equity exposures	76	-	76
Defaulted exposures	1,235,913	49,764	1,285,677
Total for on balance sheet exposures	137,055,126	3,162,754	140,217,880
Off balance sheet exposures			
OTC derivatives	1,618,718	238,173	1,856,891
Credit derivatives	-	16	16
Off balance sheet exposures other than OTC derivatives or Credit derivatives	12,026,859	74,991	12,101,850
Defaulted exposures	35,657	-	35,657
Total for off balance sheet exposures	13,681,234	313,180	13,994,414
Total on and off balance sheet exposures	150,736,360	3,475,934	154,212,294

	31 MARCH 2018 (Restated)		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ Central banks	5,236,357	68,053	5,304,410
Public Sector Entities	40,802	-	40,802
Banks, DFIs and MDBs	4,175,093	1,221,699	5,396,792
Insurance companies, Securities firms and Fund managers	9,775	-	9,775
Corporates	51,322,703	322,521	51,645,224
Regulatory retail	35,600,800	-	35,600,800
Residential mortgages	16,882,162	-	16,882,162
Higher risk assets	162,756	41	162,797
Other assets	2,215,138	116,935	2,332,073
Securitisation exposures	42,970	-	42,970
Equity exposures	104	-	104
Defaulted exposures	1,171,073	58,950	1,230,023
Total for on balance sheet exposures	116,859,733	1,788,199	118,647,932
Off balance sheet exposures			
OTC derivatives	1,937,905	208,857	2,146,762
Credit derivatives	-	14	14
Off balance sheet exposures other than OTC derivatives or Credit derivatives	12,565,011	71,743	12,636,754
Defaulted exposures	33,620	-	33,620
Total for off balance sheet exposures	14,536,536	280,614	14,817,150
Total on and off balance sheet exposures	131,396,269	2,068,813	133,465,082

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

The impaired and past due loans, advances and financing and impairment allowances by geographic distribution of the Group is as follows:

31 MARCH 2019			
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans, advances and financing	1,562,438	58,224	1,620,662
Past due loans / financing	11,040,936	58,224	11,099,160
Allowances for Expected Credit Losses	1,289,302	11,169	1,300,471

31 MARCH 2018 (Restated)			
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans, advances and financing	1,579,455	58,950	1,638,405
Past due loans / financing	10,975,202	58,950	11,034,152
Individual allowance	208,482	-	208,482
Collective allowance	732,818	1,960	734,778

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

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

	31 MARCH 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 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No maturity specified RM'000	Total RM'000
On balance sheet exposures									
Sovereigns/ central banks	3,782,747	2,705,294	-	1,661,461	2,280,921	614,130	4,623,887	-	15,668,440
PSEs	-	-	25	40,588	11	-	3,164	-	43,788
Banks, DFIs and MDBs	6,079,122	624,837	173,343	44,368	127,069	256,152	415,311	-	7,720,202
Insurance companies, Securities firms and Fund managers	-	-	-	-	30,040	-	-	-	30,040
Corporates	16,731,563	5,522,875	3,487,877	3,005,053	8,166,667	5,048,600	15,626,981	-	57,589,616
Regulatory retail	87,139	68,258	121,170	370,129	3,912,883	5,848,199	25,741,292	-	36,149,070
Residential mortgages	598	476	1,188	4,649	62,868	145,028	19,009,421	-	19,224,228
Higher risk assets	92	22	93	21	604	605	18,091	525,221	544,749
Other assets	1,012,054	371	17,796	-	-	-	-	911,016	1,941,237
Securitisation exposures	-	-	-	-	-	-	20,757	-	20,757
Equity exposures	-	-	-	-	-	-	-	76	76
Defaulted exposures	560,258	3,888	5,308	28,734	93,488	62,553	531,448	-	1,285,677
Total for on balance sheet exposures	28,253,573	8,926,021	3,806,800	5,155,003	14,674,551	11,975,267	65,990,352	1,436,313	140,217,880
Off balance sheet exposures									
OTC derivatives	44,673	48,825	93,900	96,685	140,089	191,333	1,241,386	-	1,856,891
Credit derivatives	-	-	-	-	16	-	-	-	16
Off balance sheet exposures other than OTC derivatives or Credit derivatives	1,536,235	704,230	909,800	1,903,853	2,429,588	688,792	3,929,352	-	12,101,850
Defaulted exposures	8,681	1,506	7,891	1,534	4,798	1,306	9,941	-	35,657
Total for off balance sheet exposures	1,589,589	754,561	1,011,591	2,002,072	2,574,491	881,431	5,180,679	-	13,994,414
Total on and off balance sheet exposures	29,843,162	9,680,582	4,818,391	7,157,075	17,249,042	12,856,698	71,171,031	1,436,313	154,212,294

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

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

	31 MARCH 2018 (Restated)								Total RM'000
	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No maturity specified RM'000	
On balance sheet exposures									
Sovereigns/ central banks	1,560,377	-	-	-	35,248	69,780	3,639,005	-	5,304,410
PSEs	-	11	29	59	40,612	-	91	-	40,802
Banks, DFIs and MDBs	3,643,378	1,241,301	98,640	-	178,391	54,610	180,472	-	5,396,792
Insurance companies, Securities firms and Fund managers	-	-	3,082	-	-	-	6,693	-	9,775
Corporates	16,216,877	4,406,381	2,090,691	1,649,626	6,861,750	4,529,218	15,890,681	-	51,645,224
Regulatory retail	80,102	50,637	120,026	408,346	3,151,598	7,212,180	24,577,911	-	35,600,800
Residential mortgages	613	426	1,056	4,042	59,838	139,376	16,676,811	-	16,882,162
Higher risk assets	2	-	40	111	362	783	18,212	143,287	162,797
Other assets	1,171,029	327	504	1,057	18,349	-	-	1,140,807	2,332,073
Securitisation exposures	-	-	-	-	-	-	42,970	-	42,970
Equity exposures	-	-	-	-	-	-	7	97	104
Defaulted exposures	456,662	4,505	15,874	11,667	120,422	125,789	495,104	-	1,230,023
Total for on balance sheet exposures	23,129,040	5,703,588	2,329,942	2,074,908	10,466,570	12,131,736	61,527,957	1,284,191	118,647,932
Off balance sheet exposures									
OTC derivatives	70,116	90,146	58,409	206,455	169,243	209,511	1,342,882	-	2,146,762
Credit derivatives	-	-	-	-	-	14	-	-	14
Off balance sheet exposures other than OTC derivatives or Credit derivatives	1,575,895	747,974	764,625	1,858,896	1,949,375	1,094,213	4,645,776	-	12,636,754
Defaulted exposures	2,036	983	7,903	2,222	5,373	1,882	13,221	-	33,620
Total for off balance sheet exposures	1,648,047	839,103	830,937	2,067,573	2,123,991	1,305,620	6,001,879	-	14,817,150
Total on and off balance sheet exposures	24,777,087	6,542,691	3,160,879	4,142,481	12,590,561	13,437,356	67,529,836	1,284,191	133,465,082

Table 5.6: Reconciliation of changes to loans/financing impairment allowances

The disclosure on reconciliation of loan loss allowances can be found in Note 16 of the annual financial statements. Charge offs and recoveries that have been taken up directly to the statement of profit or loss are as follows:

31 MARCH 2019	
	(Charge off)/ recoveries
	RM'000
Bad debts written off during the financial year	(107,990)
Bad debt recoveries during the financial year	945,390

31 MARCH 2018	
	(Charge off)/ recoveries
	RM'000
Bad debts written off during the financial year	(118,242)
Bad debt recoveries during the financial year	569,675

6.0 Credit Risk Exposure under Standardised Approach

The ratings by the following External Credit Assessment Institutions ("ECAIs") are used by the Group to assign risk-weights for sovereign banking institutions, corporates and securitisations, where applicable, in accordance with the Capital Adequacy Framework (Basel II - Risk-Weighted Assets):

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

6.0 Credit Risk Exposure under the Standardised Approach (Cont'd.)

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

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

31 MARCH 2019													
Exposures after netting and credit risk mitigation													
Risk weights	Sovereigns and Central banks	PSEs	Banks, DFIs and MDBs	Insurance Companies, Securities firms and Fund managers	Corporates	Regulatory retail	Residential mortgages	Higher risk assets	Other assets	Securitisation exposures	Equity exposures	Total Exposures after Netting and CRM	Total Risk Weighted Assets
	RM'000												
0%	11,417,003	-	55,713	-	5,155,601	-	-	-	312,521	-	-	16,940,838	-
20%	-	43,788	7,317,210	-	6,539,887	767,962	-	-	109,583	20,661	-	14,799,091	2,959,818
35%	-	-	-	-	-	-	15,004,698	-	-	-	-	15,004,698	5,251,644
50%	-	-	548,107	-	714,385	27,680	4,375,746	-	-	-	-	5,665,918	2,832,959
75%	-	-	-	-	-	28,278,396	-	-	-	-	-	28,278,396	21,208,797
100%	-	-	-	35,814	50,912,875	7,962,498	47,870	-	1,519,133	-	76	60,478,266	60,478,266
150%	-	-	-	-	417,626	136,533	-	562,560	-	-	-	1,116,719	1,675,079
1250%	-	-	-	-	-	-	-	-	-	96	-	96	1,199
Total	11,417,003	43,788	7,921,030	35,814	63,740,374	37,173,069	19,428,314	562,560	1,941,237	20,757	76	142,284,022	94,407,762

31 MARCH 2018 (Restated)													
Exposures after netting and credit risk mitigation													
Risk weights	Sovereigns and Central banks	PSEs	Banks, DFIs and MDBs	Insurance Companies, Securities firms and Fund managers	Corporates	Regulatory retail	Residential mortgages	Higher risk assets	Other assets	Securitisation exposures	Equity exposures	Total Exposures after Netting and CRM	Total Risk Weighted Assets
	RM'000												
0%	5,304,410	-	24,871	-	4,569,972	-	-	-	334,307	-	-	10,233,560	-
20%	19,532	40,802	6,418,941	-	4,692,276	154,578	-	-	26,416	42,808	-	11,395,353	2,279,071
35%	-	-	-	-	-	-	13,908,049	-	-	-	-	13,908,049	4,867,817
50%	-	-	227,662	-	330,707	26,563	3,126,427	-	-	-	-	3,711,359	1,855,680
75%	-	-	-	-	-	31,481,241	-	-	-	-	-	31,481,241	23,610,931
100%	-	-	-	9,794	48,624,700	5,748,034	66,278	-	1,971,350	-	104	56,420,260	56,420,260
150%	-	-	-	-	685,108	127,505	-	181,396	-	-	-	994,009	1,491,013
1250%	-	-	-	-	-	-	-	-	-	162	-	162	2,029
Total	5,323,942	40,802	6,671,474	9,794	58,902,763	37,537,921	17,100,754	181,396	2,332,073	42,970	104	128,143,993	90,526,801

Table 6.2: Rated Exposures according to Ratings by ECAIs

31 MARCH 2019						
Ratings of Corporate by Approved ECAIs						
Group	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure class	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)	43,788	40,588	-	-	-	3,200
Insurance companies, Securities firms and Fund managers	35,814	-	-	-	-	35,814
Corporates	68,710,148	5,444,275	1,538,878	-	-	61,726,995
Total	68,789,750	5,484,863	1,538,878	-	-	61,766,009
31 MARCH 2018 (Restated)						
Ratings of Corporate by Approved ECAIs						
Group	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure class	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)	40,902	40,483	-	-	-	419
Insurance companies, Securities firms and Fund managers	9,794	-	-	-	-	9,794
Corporates	63,004,219	3,383,447	1,085,839	-	-	58,534,933
Total	63,054,915	3,423,930	1,085,839	-	-	58,545,146

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

31 MARCH 2019						
Ratings of Sovereigns and Central Banks by Approved ECAIs						
Group	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
Exposure Class	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Sovereigns and Central banks	15,668,440	-	15,668,440	-	-	-
Total	15,668,440	-	15,668,440	-	-	-

31 MARCH 2018 (Restated)						
Ratings of Sovereigns and Central Banks by Approved ECAIs						
Group	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
Exposure Class	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Sovereigns and Central banks	5,323,942	68,053	5,255,889	-	-	-
Total	5,323,942	68,053	5,255,889	-	-	-

31 MARCH 2019						
Ratings of Banking Institutions by Approved ECAIs						
Group	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
Exposure class	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Banks, DFIs and MDBs	9,067,681	4,131,919	3,166,806	832,512	435	936,009
Total	9,067,681	4,131,919	3,166,806	832,512	435	936,009

31 MARCH 2018 (Restated)						
Ratings of Banking Institutions by Approved ECAIs						
Group	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
Exposure class	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Banks, DFIs and MDBs	6,870,090	2,070,405	1,868,167	481,047	230	2,450,241
Total	6,870,090	2,070,405	1,868,167	481,047	230	2,450,241

Table 6.3: Securitisation according to Ratings by ECAs

31 MARCH 2019				
Ratings of Securitisation by Approved ECAs				
	Moody's	Aaa to Aa3	A1 to A3	Unrated
	S&P	AAA to AA-	A+ to A-	Unrated
	Fitch	AAA to AA-	A+ to A-	Unrated
Group	RAM	AAA to AA3	A1 to A3	Unrated
Exposure class	MARC	AAA to AA-	A+ to A-	Unrated
	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures				
Securitisation exposures	20,757	20,661	-	96
Total	20,757	20,661	-	96

31 MARCH 2018 (Restated)				
Ratings of Securitisation by Approved ECAs				
	Moody's	Aaa to Aa3	A1 to A3	Unrated
	S&P	AAA to AA-	A+ to A-	Unrated
	Fitch	AAA to AA-	A+ to A-	Unrated
Group	RAM	AAA to AA3	A1 to A3	Unrated
Exposure class	MARC	AAA to AA-	A+ to A-	Unrated
	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures				
Securitisation exposures	42,970	42,808	-	162
Total	42,970	42,808	-	162

7.0 Credit Risk Mitigation

Main types of collateral taken by the Group

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

- Cash and term deposits;
- Exchange traded shares, bonds, sukuks, convertible bonds and marketable securities;
- Non-exchange traded debt securities/sukuks;
- 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.

In the case of the Group's Islamic Banking operations, only Shariah approved assets can be accepted as permissible collateral.

In addition to rating customer's PD via an internal risk rating system, the Group uses Security Indicators ("SIs") in its non-retail portfolio to assess the strength of collateral supporting its exposures.

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

The Group Collateral Policy is the internally recognised collateral framework for lending/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 Group has standard collateral instruments, and where applicable, security interests are registered.

Guarantee Support

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

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

Use of credit derivatives and netting for risk mitigation

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

Transaction structuring to mitigate credit risk

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

Concentrations of credit risk mitigation

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

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

7.0 Credit Risk Mitigation

Table 7.1: Credit Risk Mitigation

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

Exposures	31 MARCH 2019		
	Exposures before CRM RM'000	Exposures covered by Guarantees RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit risk			
On balance sheet exposures			
Sovereigns/Central banks	15,668,440	-	4,476,942
PSEs	43,788	-	-
Banks, DFIs And MDBs	7,720,202	-	1,121,356
Insurance companies, Securities firms and Fund managers	30,040	-	-
Corporates	57,589,616	921,932	4,957,523
Regulatory retail	36,149,070	751,201	1,891,007
Residential mortgages	19,224,228	-	42,007
Higher risk assets	544,749	-	100
Other assets	1,941,237	-	-
Securitisation exposures	20,757	-	-
Equity exposures	76	-	-
Defaulted exposures	1,285,677	20,836	128,802
Total for on balance sheet exposures	140,217,880	1,693,969	12,617,737
Off balance sheet exposures			
OTC derivatives	1,856,891	-	310,019
Credit derivatives	16	-	-
Off balance sheet exposures other than OTC derivatives or Credit derivatives	12,101,850	205,061	2,849,696
Defaulted exposures	35,657	-	17,843
Total for off balance sheet exposures	13,994,414	205,061	3,177,558
Total on and off balance sheet exposures	154,212,294	1,899,030	15,795,295

Exposures	31 MARCH 2018 (Restated)		
	Exposures before CRM RM'000	Exposures covered by Guarantees RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit risk			
On balance sheet exposures			
Sovereigns/Central banks	5,304,410	-	-
PSEs	40,802	-	-
Banks, DFIs And MDBs	5,396,792	-	-
Insurance companies, Securities firms and Fund managers	9,775	-	-
Corporates	51,645,224	1,045,712	4,141,934
Regulatory retail	35,600,800	152,995	1,209,929
Residential mortgages	16,882,162	-	71,659
Higher risk assets	162,797	-	118
Other assets	2,332,073	-	-
Securitisation exposures	42,970	-	-
Equity exposures	104	-	-
Defaulted exposures	1,230,023	11,798	202,410
Total for on balance sheet exposures	118,647,932	1,210,505	5,626,050
Off balance sheet exposures			
OTC derivatives	2,146,762	-	718,631
Credit derivatives	14	-	-
Off balance sheet exposures other than OTC derivatives or Credit derivatives	12,636,754	220,328	2,856,571
Defaulted exposures	33,620	-	11,984
Total for off balance sheet exposures	14,817,150	220,328	3,587,186
Total on and off balance sheet exposures	133,465,082	1,430,833	9,213,236

8.0 Off Balance Sheet exposures and Counterparty Credit Risk

8.1 Off Balance Sheet exposures

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

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

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

8.2 Counterparty Credit Risk

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

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

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

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

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

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

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

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

8.0 Off Balance Sheet exposures and Counterparty Credit Risk

Table 8.1: Off Balance Sheet Exposures

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

Description	31 MARCH 2019			
	Principal Amount RM'000	Positive Fair Value of		Risk Weighted Assets RM'000
		Derivative Contracts RM'000	Credit Equivalent Amount RM'000	
Direct Credit Substitutes	2,590,041		2,730,291	2,186,367
Transaction related contingent Items	5,392,151		2,625,694	2,027,460
Short Term Self Liquidating trade related contingencies	900,886		180,177	162,390
Forward Asset Purchases	1,593,203		177,224	83,866
Obligations under on-going underwriting agreements	100,000		-	-
Foreign exchange related contracts				
One year or less	15,552,024	67,932	164,665	107,587
Over one year to five years	1,758,012	35,993	120,037	80,763
Over five years	514,076	109,054	186,983	178,787
Interest/Profit rate related contracts				
One year or less	385,950	1,304	1,407	1,152
Over one year to five years	793,844	8,614	23,718	8,755
Over five years	2,223,428	43,448	230,448	171,390
Equity and commodity related contracts				
One year or less	318,228	3,590	22,362	14,475
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
Other Commodity Contracts				
One year or less	541,812	9,296	50,734	34,254
Over one year to five years	190,657	2,989	28,960	21,277
Over five years	-	-	-	-
Credit Derivative Contracts				
Over one year to five years	345,108	5,417	16	8
OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	73,174,047	476,286	1,027,577	411,854
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	16,558,502		1,430,368	1,138,817
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	2,910,184		3,958,832	2,513,032
Unutilised credit card lines	5,174,605		1,034,921	771,530
Total	131,016,758	763,923	13,994,414	9,913,764

Description	31 MARCH 2018 (Restated)			
	Principal Amount RM'000	Positive Fair Value of		Risk Weighted Assets RM'000
		Derivative Contracts RM'000	Credit Equivalent Amount RM'000	
Direct Credit Substitutes	2,147,797		2,285,681	1,799,941
Transaction related contingent Items	5,849,587		2,855,851	2,173,847
Short Term Self Liquidating trade related contingencies	693,023		138,605	132,220
Forward Asset Purchases	351,998		11,737	9,323
Obligations under an on-going underwriting agreements	105,903		-	-
Foreign exchange related contracts				
One year or less	45,581,677	541,013	209,840	148,860
Over one year to five years	1,832,176	159,830	131,759	68,874
Over five years	760,001	162,498	189,568	178,126
Interest/Profit rate related contracts				
One year or less	547,848	215	604	167
Over one year to five years	1,200,763	10,624	32,147	13,062
Over five years	439,677	3,797	28,100	5,620
Equity and commodity related contracts				
One year or less	352,010	4,411	25,283	18,570
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
Other Commodity Contracts				
One year or less	445,169	26,222	59,852	26,578
Over one year to five years	418,626	1,941	47,805	32,114
Over five years	-	-	-	-
Credit Derivative Contracts				
One year or less	-	-	-	-
Over one year to five years	334,505	6,537	14	7
OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	55,056,550	208,529	1,421,804	539,939
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	4,103,833		2,051,691	1,667,121
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	18,243,224		4,285,183	2,830,303
Unutilised credit card lines	5,208,130		1,041,626	776,985
Total	143,672,497	1,125,617	14,817,150	10,421,657

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

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

Group		31 March 2019		31 MARCH 2018	
		Sell Leg	Buy Leg *	Sell Leg	Buy Leg *
Usage	Product	Notional Exposure for Protection Sold RM'000	Notional Exposure for Protection Bought RM'000	Notional Exposure for Protection Sold RM'000	Notional Exposure for Protection Bought RM'000
Intermediation	Credit default swap	195,108	150,000	184,505	150,000

* Out of the total notional exposure for protection bought as at 31 March 2019, RM150,000,000 (31 March 2018: RM150,000,000) has no counterparty credit risk exposure because it is on a fully funded basis.

9.0 Securitisation

9.1 Objectives, roles and involvement

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

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

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

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

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

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

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

9.3 Governance

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

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

9.4 Risk measurement and reporting of securitisation exposures

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

9.5 SPV used in securitisation exercises

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

9.6 Accounting Policies for Securitisation

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

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

- (a) substantially all risks and rewards associated with the assets have been transferred, in which case, they are derecognised in full; or
- (b) if a significant portion, but not all, of the risks and rewards have been transferred, the asset is derecognised entirely if the transferee has the ability to sell the financial asset, otherwise the asset continues to be recognised to the extent of the Group's continuing involvement.

9.7 Use of external rating agencies

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

9.0 Securitisation

Table 9.1: Securitisation (Trading and Banking Book)

The securitised exposures of the Group is as follows:

31 MARCH 2019				
Underlying Asset	Total Exposures Securitized RM'000	Past Due RM'000	Impaired RM'000	Gains/ losses recognised during the year RM'000
Traditional Securitisation				
Originated by the Group				
<u>Banking Book</u>				
Corporate loans	-	-	-	-
Mortgage loans	956,048	-	949,149	-
Total Traditional Securitisation	956,048	-	949,149	-
Total Synthetic Securitisation	-	-	-	-
Total Traditional and Synthetic Securitisation	956,048	-	949,149	-

31 MARCH 2018 (Restated)				
Underlying Asset	Total Exposures Securitized RM'000	Past Due RM'000	Impaired RM'000	Gains/ losses recognised during the year RM'000
Traditional Securitisation				
Originated by the Group				
<u>Banking Book</u>				
Corporate loans	143,306	-	133,689	-
Mortgage loans	915,944	-	909,098	-
Total Traditional Securitisation	1,059,250	-	1,042,787	-
Total Synthetic Securitisation	-	-	-	-
Total Traditional and Synthetic Securitisation	1,059,250	-	1,042,787	-

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

31 MARCH 2019							
Group	Exposure Value of Positions Purchased or Retained RM'000	Exposure after CRM RM'000	Exposures subject to deduction RM'000	Distribution of Exposures after CRM according to Applicable Risk Weights			Risk Weighted Assets RM'000
				Rated Securitisation Guarantees/ 20% RM'000	Exposures or Credit Derivatives 50% RM'000	Risk weights of 1250% RM'000	
Securitisation Exposures by Exposure Type							
Traditional Securitisation Originated by Third Party							
On Balance Sheet Exposures	20,661	20,661	-	20,661	-	-	4,132
Originated by the Group							
On Balance Sheet Exposures	96	96	-	-	-	96	1,199
Total Traditional Securitisation	20,757	20,757	-	20,661	-	96	5,331

31 MARCH 2018 (Restated)							
Group	Exposure Value of Positions Purchased or Retained RM'000	Exposure after CRM RM'000	Exposures subject to deduction RM'000	Distribution of Exposures after CRM according to Applicable Risk Weights			Risk Weighted Assets RM'000
				Rated Securitisation Guarantees/ 20% RM'000	Exposures or Credit Derivatives 50% RM'000	Risk weights of 1250% RM'000	
Securitisation Exposures by Exposure Type							
Traditional Securitisation Originated by Third Party							
On Balance Sheet Exposures	42,808	42,808	-	42,808	-	-	8,562
Originated by the Group							
On Balance Sheet Exposures	162	162	-	-	-	162	2,029
Total Traditional Securitisation	42,970	42,970	-	42,808	-	162	10,591

There are no securitisation exposure under trading book as at 31 March 2019 and 31 March 2018.

10.0 Operational Risk Management

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

Identification	<ul style="list-style-type: none"> Identify and analyse risks 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 the establishment of internal controls 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 legal risk, outsourcing risk, technology (including cyber) risk and Shariah risk (Please refer to Section 14 for discussion on Shariah Governance Structure). It excludes strategic, systemic and reputational risk.

Operational Risk Appetite (“ORA”) is set as part of overall GRAF, which sets the acceptable tolerance levels of operational risk that the Group 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 Group’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 Group is anchored on the three (3) lines of defence concept which are as follows:

- The first line of defence (“FLOD”) is responsible for the management of operational risk in order that accountability and ownership is as close as possible to the activity that creates the risk and ensuring that effective action is taken to manage them. Enhanced First Line of Defence provides a business specific focus on the implementation of operational risk management activities and supports more effective day-to-day monitoring of operational risks.
- In the second line, Group Operational Risk is responsible for exercising governance over operational risk through the management of the operational risk framework, policy development and communication, quality assurance of internal controls, operational risk measurement and 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.

10.0 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 Group. The ORM process contains the following ORM tools:

- The Incident Management and Data Collection (“IMDC”) module provides a common platform for reporting operational risk incidents that fall within one of the seven Event Types as stated in Basel II. IMDC also serves as a centralised database of operational risk incidents to model the potential exposure to operational risks in future and estimate the amount of economic capital charge.
- The Risk and Control Self Assessment (“RCSA”) is a process of continual identification, assessment of risks and controls effectiveness. By using structured questionnaires to assess and measure key risk and its corresponding controls effectiveness, RCSA provides risk profiling across the Group.
- The Key Risk Indicators (“KRI”) module provides early warning of increasing risk and/or control failures by monitoring the changes of the underlying risk measurements.
- The Key Control Testing (“KCT”) is the test steps or assessment performed periodically to assure that the key controls are in place and they are operating as intended or effective in managing the operational risks.
- 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 Group'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 (including cyber) risk, shariah risk, legal risk and business continuity management.

10.1 Business Continuity Management

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

Identification	<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 BCM 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 Group’s operations and the establishing of critical functions recovery against downtimes. BCM builds the resilience and recovery capability to safeguard the interest of the Group’s stakeholders by protecting our brand and reputation.

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

The 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.

10.2 Cyber Risk Management

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

10.3 Legal Risk

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

Legal risk is overseen by Group Management Risk Committee/Group Management Committee (“GMRC/GMC”), upon advice by internal legal counsel and, where necessary, in consultation with external legal counsel to ensure that such risks are appropriately managed.

10.4 Regulatory Compliance Risk

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

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

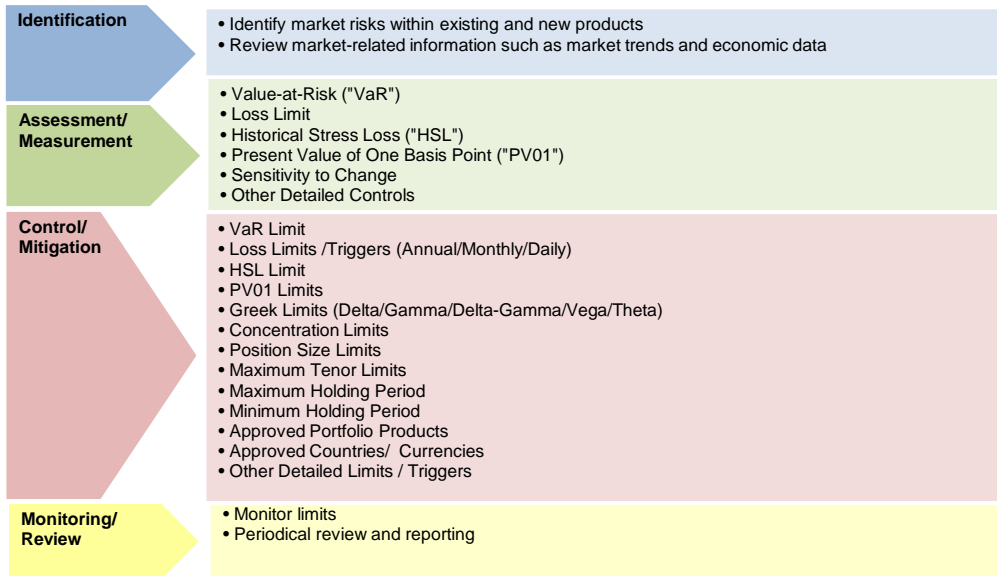
The Group continues to exercise and enhance its due diligence governance process and remains vigilant towards emerging risk as well as sensitive towards heightened regulatory surveillance and enforcement.

11.0 Market Risk Management

Market risk is the risk of losses due to adverse changes in the level or volatility of market rates or prices, such as interest/profit rates, credit spreads, equity prices and foreign exchange rates. The Group 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 Investment Banking and Markets Risk (“IBMR”).

11.1 Traded Market Risk (“TMR”)

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



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

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

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

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

11.1 Traded Market Risk (“TMR”) (Cont’d)

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

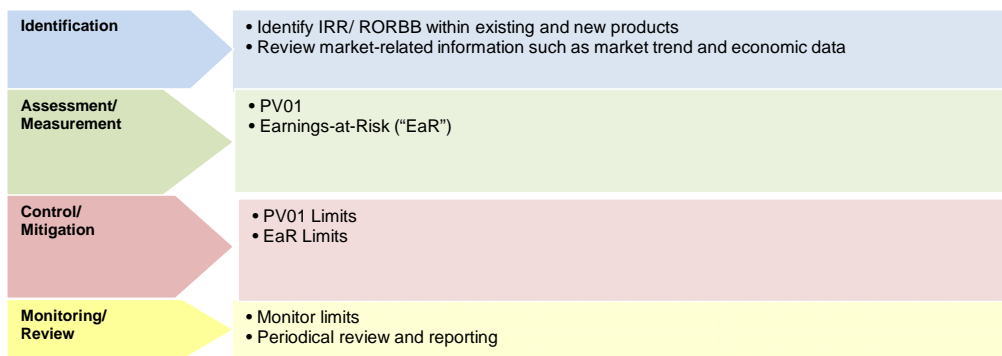
The Group adopts the Standardised Approach for market risk capital charge computation. The capital charge serves as a buffer against losses from potential adverse market movements.

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

11.2 Non-Traded Market Risk (“NTMR”)

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

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



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

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

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

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

The Group measures the IRR/RORBB exposures using Present Value of 1 basis point ("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 interest/ profit rates.

The Group complements PV01 by stress testing IRR/RORBB exposures to highlight potential risk that may arise from extreme market events that are rare but plausible.

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

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

The Group's strategy seeks to optimise exposure to IRR/RORBB within Management-approved limits. This is achieved through the ability to reposition the interest/profit rate exposure of the statement of financial position using dynamic product and funding strategies, supported by interest/profit rate hedging activities using interest/profit rate swaps and other derivatives. These approaches are governed by the Group'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 Interest/Profit Rate Risk Framework.

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

Table 11.2: Interest Rate Risk/Rate of Return Risk Sensitivity in the Banking Book

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

	31 MARCH 2019	
	Interest Rate/Rate of Return +100 bps RM'000	Interest Rate/Rate of Return -100 bps RM'000
Impact on Profit Before Taxation	62,680	(62,680)
	Interest Rate/Rate of Return +100 bps RM'000	Interest Rate/Rate of Return -100 bps RM'000
Impact on Equity	(504,920)	561,306

	31 MARCH 2018 (Restated)	
	Interest Rate/Rate of Return +100 bps RM'000	Interest Rate/Rate of Return -100 bps RM'000
Impact on Profit Before Taxation	153,584	(153,584)
	Interest Rate/Rate of Return +100 bps RM'000	Interest Rate/Rate of Return -100 bps RM'000
Impact on Equity	(428,774)	486,994

12.0 Equities (Banking Book Positions)

Equity risk is the potential loss that may be incurred on equity investments in the banking book. The Group's equity exposures in the banking book are primarily categorised as equity investments that are taken for strategic and other objectives. Where an equity investment is undertaken for a strategic purpose, such investment will be made only after extensive analysis and due diligence. Equity investments undertaken for other business objectives are principally in conjunction with initiatives or measures promoted by the relevant regulatory authorities or trade bodies in which the Group will jointly with other financial institutions invest in such entities to attain various objectives, such as socio-economic development, promoting the further development of the financial market, the provision of facilities to improve customer service, and support for human capital development for the betterment of the Malaysian banking industry. The Board's approvals are required prior to committing to all forms of equity investment under this category and, where relevant, the necessary regulatory approval or notification will be obtained or met.

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

Measurement of equity securities - Upon adoption of MFRS 9, management has elected at initial recognition to irrevocably designate certain equity investment not held for trading at FVOCI. When this election is used, fair value gains and losses are recognised in other comprehensive income.

Table 12.1: Equity investments and capital requirement

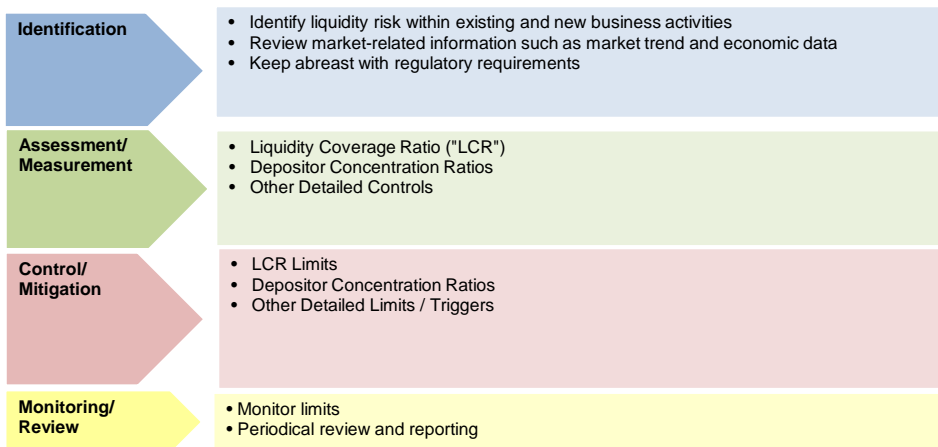
An analysis of equity investments by appropriate equity groupings and risk weighted assets of the Group is as follows:

	31 MARCH 2019	31 MARCH 2018 (Restated)
	RM'000	RM'000
Non traded equity investments		
Value of quoted (publicly traded) equities	-	1,146
Value of unquoted (privately held) equities	524,213	142,294
Total	524,213	143,440
Net realised and unrealised gains/ (losses)		
Cumulative realised gains from sales and liquidations	1,841	55,473
Total unrealised losses	(3)	(362)
Total	1,838	55,111
Risk Weighted Assets		
Equity investments subject to a 100% risk weight	-	1,146
Equity investments subject to a 150% risk weight	786,320	213,441
Total	786,320	214,587
Total minimum capital requirement (8%)	62,906	17,167

13.0 Liquidity Risk and Funding Management

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

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



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

The Board provides the liquidity risk management oversight including setting and reviewing the liquidity risk appetite and approves the Group'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 Group. 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 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 Group has in place various liquidity measurements that support the broader strategic objectives of the Group and amongst others include the BNM LCR, Depositor Concentration Ratio and other Liquidity Ratios. IBMR is responsible for developing and monitoring the controls and limits while the GTM is responsible for the consolidated liquidity management execution and to ensure the controls and limits are within the thresholds.

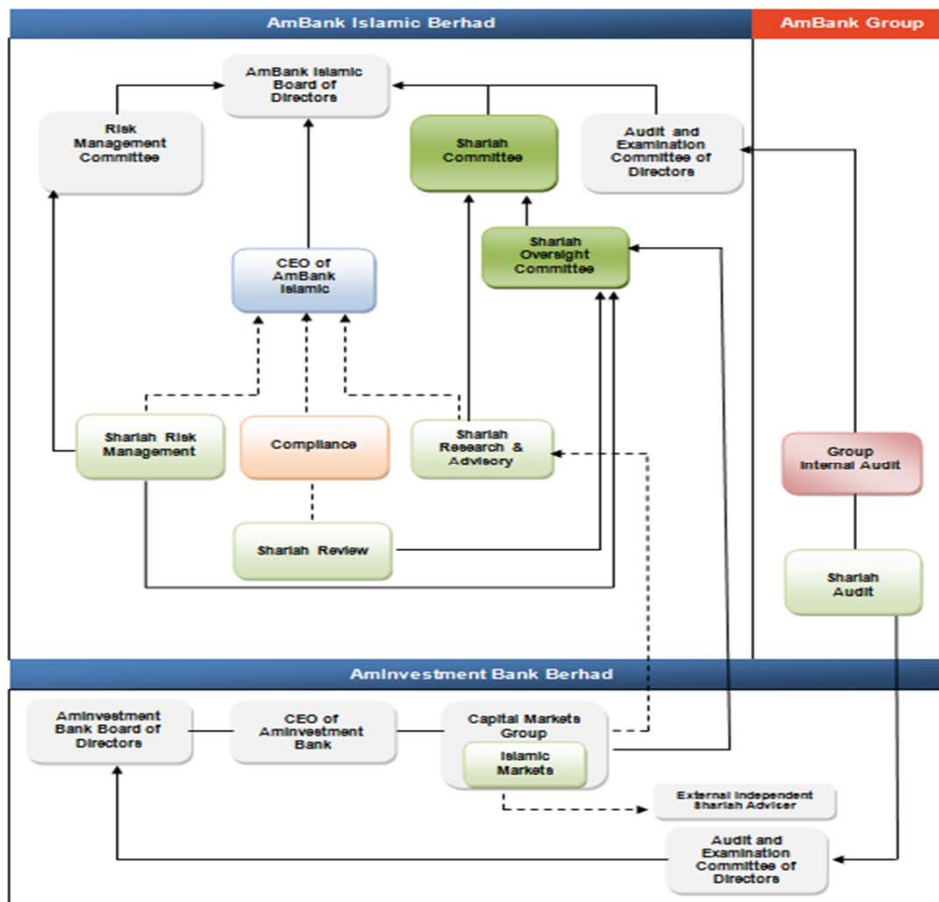
Stress testing is undertaken to assess and plan for the impact for various scenarios which may put the Group's liquidity at risk. The Group further stresses the importance of the stable funding sources to finance placement/lending and loans/financing to customers. They are monitored using the loans/financing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

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

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

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

14.0 Shariah Governance Structure



14.0 Shariah Governance Structure (Cont'd.)

AmBank Islamic

The Group has established the Shariah governance structure for its Islamic banking operations in accordance with the requirements of the Islamic Financial Services Act ("IFSA 2013") and BNM's "Shariah Governance Framework for Islamic Financial Institutions". This is to ensure that the operations and business activities of AmBank Islamic comply with Shariah principles and its requirements.

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

Board of Directors

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

Audit and Examination Committee of Directors

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

Risk Management Committee

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

Shariah Committee

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

Shariah Oversight Committee

The Shariah Oversight Committee, which is a sub-committee to the Shariah Committee, performs an oversight function on banking operations from Shariah perspective. 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

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

Shariah Research and Advisory

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

14.0 Shariah Governance Structure (Cont'd.)

Shariah Risk Management

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

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

Shariah Review

The Shariah Review Section is accountable to the Shariah 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.

AmInvestment Bank

The Group adopts a leverage model whereby, the Islamic Window of AmInvestment Bank i.e. Islamic Markets ("IM"), leverages on AmBank Islamic's Shariah Governance Structure, including the Shariah Committee ("SC") of AmBank Islamic. Alternatively, IM may also opt for independent external Shariah advisor(s) as approved by the SC when necessary and will be on ad-hoc basis.

Shariah Liaison Officer, IM

As per the leveraging model, AmInvestment Bank via IM leverages on AmBank Islamic's Shariah Governance Structure, through its appointed Shariah Liaison Officer(s) who shall communicate with the Shariah secretariat at AmBank Islamic ("Shariah Secretariat") which is part of the Shariah Research & Advisory, in escalating Shariah matters/issues to the Shariah Committee, if any. IM is a one-stop centre and point-of-reference for the relevant lines of business ("LOBs") under the Group with regards to Islamic capital market products and services.

Shariah Risk Management

IM's Shariah Risk Management role is accountable to the RMC. A designated team namely the Shariah Risk Management team within the Group Operational Risk is responsible for the management of Shariah risk for the Bank. The Shariah Risk Management is a function to systematically identify, measure, monitor and control the occurrence of Shariah non-compliance risks and to mitigate any possible non-compliant events. Endorsement by the appointed Shariah adviser for all Islamic capital markets products shall provide the assurance that the Islamic capital markets products satisfy the Shariah compliance.

The Shariah Risk Management is executed through the three lines of defence in managing Shariah risk. The three lines of defence are: 1st- Capital Markets Group (via Islamic Markets unit) ; 2nd – Shariah Risk Management, the Bank's Compliance and the appointed Shariah Adviser (Shariah Committee and/or independent Shariah adviser), where applicable; 3rd – Group Internal Audit Department.

Shariah Review

The Shariah Review's role is to review the activities of Capital Markets Group which covers the function of Islamic Markets and Islamic capital markets product including and not limited to sukuk issuance and Islamic financing syndication process. Endorsement by the appointed Shariah adviser which is part of the requirements by the SC for all Islamic capital markets products serves as assurance that the Islamic capital markets products are Shariah compliant and ready for market distribution.

14.0 Shariah Governance Structure (Cont'd.)

Shariah Non-Compliant incidents and income

For the financial year ended 31 March 2019, there was one (1) Shariah non-compliant ("SNC") incident involving SNC income of approximately RM1,115.00 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 Group 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 was 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 incident with SNC income of approximately RM3,699.00.

15.0 Profit Sharing Investment Account ("PSIA")

Investment Account ("IA")

The Group via AmBank Islamic offers two types of Investment Account ("IA") namely, Restricted Investment Account ("RIA") which refers to an IA where the customers provides a specific investment to AmBank Islamic and Unrestricted Investment Account ("UA") which refers to an IA where the customer provides AmBank Islamic with mandate to make the ultimate investment decision without specifying any particular restriction or condition. Both RIA and UA are based on Shariah concept of Mudarabah Muqayyadah. Currently, the RIA arrangement undertaken by AmBank Islamic is with a subsidiary of the Group and is eliminated upon consolidation.

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

Mudarabah Term Investment Account ("MTIA")

AmBank Islamic has widened the scope of business beyond credit intermediation by acting the investment intermediation role via the introduction of UA product.

The investment mandate, strategy and parameters for UA are in accordance with the governance set up by AmBank Islamic to ensure effective and efficient oversight on business activities and operations of UA in safeguarding the customer's interest.

AmBank Islamic had established proper governance to facilitate effective monitoring and control of the overall management and conduct of the investment account. A management dedicated unit was established to ensure management development and implementation of operation policies that govern the conduct of IA are observed. On a periodical basis, a Fund Performance Report shall be made available in AmBank Islamic's website disclosing the performance of the underlying assets which in turn facilitates the IAH in making their investment decision.

MTIA Performance

As at 31 March 2019, balance of MTIA stood at RM334.8 million. The performance of MTIA is as described in the table below :

As at 31 March 2019	%
Return on Assets ("ROA")	4.61
Average Net Distributable Income Attributable to IAH	3.85
Average Profit Sharing Ratio to IAH	83.58

16.0 Attestation

Group Chief Executive Officer Declaration

Risk Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3)

I hereby declare that the Risk Weighted Capital Adequacy Framework (Basel II) – Disclosures given in the Pillar 3 Report are, to the best of my knowledge and belief, accurate, complete and not misleading.



Dato' Sulaiman Bin Mohd Tahir
Group Chief Executive Officer

Date: 30th April 2019