

AmBank Islamic Berhad

CAFIB - Pillar 3 Disclosure

As at 30 September 2018

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30 September 2018

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1.0 Scope of Application

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

The banking subsidiaries of AMMB Holdings Berhad (“AMMB”) to which the Policy apply are AmBank (M) Berhad (“AmBank”), AmInvestment Bank Berhad (“AmInvestment Bank”) and AmBank Islamic (“the Bank”).

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

Capital Adequacy

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.

The capital adequacy ratios of the Bank are computed in accordance to the guidelines on Capital Adequacy Framework for Islamic Banks (Capital Components) and Capital Adequacy Framework for Islamic Banks (Risk Weighted Assets) issued by BNM on 2 February 2018. The Bank 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 for Islamic Banks (Risk Weighted Assets).

Pursuant to BNM’s Capital Adequacy Framework for Islamic Banks (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. Financial institutions are 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.

1.0 Scope of Application (Cont'd.)

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

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

Changes in accounting policies and regulatory requirements

Adoption of MFRS 9 Financial instruments

The AMMB 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/profit. The reclassification has been effected by way of a retrospective application of the effective interest/profit 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/financing 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/financing and other debt financial assets not held at FVTPL, as well as loan/financing commitments and financial guarantee contracts. The allowances for expected losses are determined based on the expected credit losses 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 probability of default over the lifetime of the asset.

1.0 Scope of Application (Cont'd.)

Changes in accounting policies and regulatory requirements (Cont'd.)

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/financing 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 expected credit losses) and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures. This revised requirement has been applied in the computation of loss allowances for the AMMB Group.

As permitted by the transitional provision of MFRS 9, comparative information in the financial statements and Pillar 3 Disclosure have not been restated. The financial effects due to adoption of MFRS 9 and compliance with BNM policy documents above are disclosed in Note A41 of the Condensed financial statements of the Bank as at 30 September 2018. 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/financing loss impairment methodology.

Frequency of Disclosure

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

Medium and Location of Disclosure

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

2.0 Capital Management

The capital and risk management of AMMB's banking subsidiaries are collectively and centrally managed by the Capital and Balance Sheet Management department. The AMMB Group's capital management is focused on maintaining a strong capital position to support business growth and to meet the requirements of the AMMB 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 Bank to support its strategy. The capital plan takes the following into account:

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

2.0 Capital Management (Cont'd.)

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

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

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

The Bank periodically assess the capital demand for material risks, and support its internal capital adequacy assessment. Each material risk is assessed, relevant mitigants considered, and appropriate levels of capital determined.

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

The Bank has in place processes and controls to monitor and manage capital adequacy across the organisation. The Group Asset and Liability Committee ("GALCO") is responsible for overseeing and managing the Bank's statement of financial position, capital and liquidity positions.

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

GALCO proposes internal capital triggers and targets on an annual basis and operationally oversees compliance with the internal capital targets ("ICT") which are approved by the Board. For the period ended 30 September 2018, the Bank has been operating above the ICT.

The Capital and Balance Sheet Management department is responsible for the ongoing assessment of the demand for capital and the updating of the Bank's capital plan.

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

2.0 Capital Management (Cont'd.)

Table 2.1: Capital Adequacy Ratios

The capital adequacy ratios of the Bank are as follows:

	30 September	31 March
	2018	2018
Before deducting proposed dividends:		
Common Equity Tier 1 Capital ratio	11.533%	11.561%
Tier 1 capital ratio	11.533%	11.561%
Total capital ratio	16.337%	16.569%
After deducting proposed dividends:		
Common Equity Tier 1 capital ratio	11.354%	11.561%
Tier 1 capital ratio	11.354%	11.561%
Total capital ratio	16.157%	16.569%

Investment Account ("IA")

Restricted Investment Account ("RA")

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

As at 30 September 2018, the gross exposure and collective allowance relating to the IA financing were RM1,861.1 million and RM6.2 million respectively (31 March 2018: RM2,869.6 million and RM2.7 million respectively). There was no individual allowance provided for the RA financing.

Restricted Investment Account ("RA") and Mudarabah Term Investment Account ("MTIA") arrangement

IA assets excluded from the risk weighted capital adequacy computation of the Bank for 30 September 2018 amounted to RM2,038.9 million (31 March 2018: RM2,988.1 million) and the risk weight on these IA assets are accounted for in the computation of capital adequacy of AmBank.

Table 2.2: Risk Weighted Assets and Capital Requirements

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

30 September 2018

Exposure Class		Gross Exposures/ Exposure At Default ("EAD") before Credit Risk Mitigation ("CRM")	Net Exposures/ EAD after CRM	Risk Weighted Assets	Risk Weighted Assets Absorbed by PSIA	Total Risk Weighted Assets after effects of PSIA	Minimum Capital Requirement at 8%
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
1. Credit Risk							
On-Balance Sheet Exposures							
Sovereigns/Central Banks		2,289,763	2,289,763	-	-	-	-
Public Sector Entities ("PSE")		669	669	134	-	134	11
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDBs")		2,154,096	2,154,096	426,791	-	426,791	34,143
Insurance Companies, Securities Firms and Fund Managers		3,831	3,831	3,831	-	3,831	306
Corporates		17,995,006	17,703,668	14,069,251	1,861,142	12,208,109	976,649
Regulatory Retail		13,585,584	12,494,610	10,670,971	177,744	10,493,227	839,458
Residential Mortgages		297,183	297,166	113,306	-	113,306	9,064
Higher Risk Assets		546	546	818	-	818	65
Other Assets		107,787	107,787	107,787	-	107,787	8,623
Defaulted Exposures		456,128	454,714	545,600	-	545,600	43,648
Total for On-Balance Sheet Exposures		36,890,593	35,506,850	25,938,489	2,038,886	23,899,603	1,911,967
Off-Balance Sheet Exposures							
Over the counter ("OTC") Derivatives		204,559	204,559	145,633	-	145,633	11,651
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		3,124,158	2,065,672	1,699,406	-	1,699,406	135,952
Defaulted Exposures		2,222	1,562	2,344	-	2,344	188
Total for Off-Balance Sheet Exposures		3,330,939	2,271,793	1,847,383	-	1,847,383	147,791
Total On and Off-Balance Sheet Exposures		40,221,532	37,778,643	27,785,872	2,038,886	25,746,986	2,059,758
2. Large Exposure Risk Requirement		-	-	-	-	-	-
3. Market Risk							
	Long Position	Short Position					
Rate of Return Risk							
- General rate of return risk	5,819,890	3,293,894		250,258	-	250,258	20,021
- Specific rate of return risk	2,559,104	35,200		1,552	-	1,552	124
Foreign Currency Risk	113,668	518		113,668	-	113,668	9,093
Total	8,492,662	3,329,612		365,478	-	365,478	29,238
4. Operational Risk				1,404,676		1,404,676	112,374
5. Total RWA and Capital Requirements				29,556,026	2,038,886	27,517,140	2,201,370

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

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

31 March 2018

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

3.0 Capital Structure

The capital structure of the Bank are made up of:

- Common Equity Tier 1 Capital;
- Tier 2 Capital

3.1 Common Equity Tier 1 Capital

Common Equity Tier 1 Capital consists of the following:

Paid up Capital

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

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.

Other Disclosed Reserves

Other disclosed reserves comprise the following:

- **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).
- **Available-for-Sale Reserve/(Deficit)**
This account comprises of fair value gains (available-for-sale reserve) and losses (available-for-sale deficit) on financial investments available-for-sale. Where the available-for-sale reserve is a net gain outstanding balance, the Bank can recognise 45% of the total outstanding balance as part of CET 1 Capital. Where the available-for-sale deficit is a net loss outstanding balance, the entire outstanding balance is deducted in CET 1 Capital.
- **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 CET 1 Capital by virtue of the regulatory reserve being attributable to financing and advances.

3.2 Additional Tier 1 Capital

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

3.3 Tier 2 Capital

The main components of Tier 2 Capital are Basel III compliant subordinated debt capital instruments and loans/financing provisions (subject to a maximum of 1.25% of total credit risk-weighted assets determined under the Standardised Approach).

Basel III Subordinated Sukuk Murabahah

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

The Programme has a tenure of thirty (30) years from the date of the first issuance under the Programme. Each issuance of Tier 2 Subordinated Sukuk under 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 30 September 2018 are as follows:

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

3.3 Tier 2 Capital (Cont'd.)

Table 3.2: Capital Structure

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

	30 September 2018 RM'000	31 March 2018 RM'000
<u>Common Equity Tier 1 ("CET1") Capital</u>		
Ordinary shares	1,387,107	1,387,107
Retained earnings	1,805,249	1,632,472
Fair value reserve	20,108	-
Available-for-sale deficit	-	(5,492)
Regulatory reserve	163,187	327,683
Less : Regulatory adjustments applied on CET1 Capital		
- Intangible assets	(1,425)	(1,207)
- Deferred tax assets	(26,359)	-
- Regulatory reserve attributable to financing and advances	(163,187)	(327,683)
- 55% of cumulative gains of financial instruments at FVOCI	(11,059)	-
CET 1 Capital/ Tier 1 Capital	3,173,621	3,012,880
<u>Tier 2 Capital</u>		
Tier 2 Capital instruments meeting all relevant criteria for inclusion	1,000,000	1,000,000
Collective allowance and regulatory reserves	321,837	305,028
Tier 2 Capital	1,321,837	1,305,028
Total Capital	4,495,458	4,317,908

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

	30 September 2018 RM'000	31 March 2018 RM'000
Credit RWA	27,785,872	27,390,400
Less : Credit RWA absorbed by PSIA	(2,038,886)	(2,988,135)
Total Credit RWA	25,746,986	24,402,265
Market RWA	365,478	277,093
Operational RWA	1,404,676	1,380,469
Total Risk Weighted Assets	27,517,140	26,059,827

4.0 General Risk Management

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

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

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

The AMMB Group Risk Direction

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

- The AMMB Group aspire to improve on its current external rating of AA2 based on reference ratings by RAM Rating Services Berhad ("RAM").
- The AMMB Group aims to achieve and sustain a Return on Risk Weighted Assets ("RoRWA") in the range of 1.5% to 1.8% and an RWA efficiency (RWA/EAD) in the range of 50% to 60%, both based on Foundation Internal Rating Based ("FIRB").
- The AMMB Group aims to maintain Available Financial Resources in excess of the capital requirements as estimated in the Internal Capital Adequacy Assessment Process ("ICAAP").
- The AMMB Group recognizes the importance of funding its own business. It aims to maintain the following:
 - Liquidity Coverage Ratio ("LCR") at least 10 percentage points above prevailing regulatory minimum.
 - Stressed LCR above the regulatory requirement.
 - Net Stable Funding Ratio ("NSFR") above the prevailing regulatory minimum (effective from 2019).
- The AMMB Group aims to maintain the following Capital Adequacy Ratios ("CARs") under normal conditions:
 - CET 1, Tier 1 and total capital ratio of at least 1 percentage point above their respective regulatory minimum, including prescribed regulatory buffers.

4.0 General Risk Management (Cont'd.)

The AMMB Group Risk Direction (Cont'd.)

- The AMMB Group aims to maintain adequate controls for all key operational risks (including but not limited to regulatory, compliance, technology, conduct and reputational risks):
 - Keep operational losses and regulatory penalties below 2% of Profit after Tax and Zakat ("PATZ").
 - Remain vigilant in risk identification and management to protect its reputation and business franchise.
- The AMMB Group aims to limit the Group's earnings volatility such that mean Adjusted Return volatility over a period of the last 3 years is Below 0.3 (as per Perbadanan Insurans Deposit Malaysia "PIDM" definition).

Risk Management Governance

The Board is ultimately responsible for the management of risks within the AMMB Group. The Risk Management Committee ("RMC") is formed to assist the Board in discharging its duties in overseeing the overall management of all risks covering market risk, liquidity risk, credit risk and operational risk and IT and Cyber Risk.

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

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

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

5.0 Credit Risk Management

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

Identification	<ul style="list-style-type: none"> • Identify/recognise credit risk on transactions and/or positions • Select asset and portfolio mix
Assessment/ Measurement	<ul style="list-style-type: none"> • Internal credit rating system • Probability of default (“PD”) • Loss given default (“LGD”) • Exposure at default (“EAD”)
Control/ Mitigation	<ul style="list-style-type: none"> • Portfolio Limits, Counterparty Limits • Wholesale Pricing • Collateral and tailored facility structures
Monitoring/ Review	<ul style="list-style-type: none"> • Monitor and report portfolio mix • Review Classified Accounts • Review Rescheduled and Restructured Account • Undertake post mortem credit review

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

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

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

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

5.0 Credit Risk Management (Cont'd.)

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

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

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

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

5.0 Credit Risk Management (Cont'd.)

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

The Group Management Risk Committee (“GMRC”) regularly meets to review the quality and diversification of the Bank’s financing portfolio and review the portfolio risk profile against the GRAF, and recommend or approve new and amended credit risk policy.

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

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

5.1 Impairment

5.1.1 Definition of Past Due and Impaired Financing and Advances

All financing and advances are categorised as either:

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

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

5.1 Impairment (Cont'd.)

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

A financing is classified as impaired under the following circumstances:

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

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

- iii. if deemed appropriate by the WACC or CACC.

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

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

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

5.1 Impairment (Cont'd.)

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

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

5.1.2 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 model is forward looking and incorporates historical, current and forecasted information into ECL estimation. Consequently, more timely information is required to be provided about expected credit losses.

MFRS 9 applies to all financial assets classified as amortised cost and fair value through other comprehensive income, 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. We calculate 12-month ECL for Stage 1 and lifetime ECL for Stage 2 and Stage 3 exposures.

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

Table 5.1: Distribution of gross credit exposures by sector

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

30 September 2018	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Government and Central Banks RM'000	Real Estate RM'000	Business Activity RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On-Balance Sheet Exposures															
Sovereigns/Central Banks	-	-	-	-	-	-	-	-	2,289,763	-	-	-	-	-	2,289,763
Public Sector Entities Banks, DFIs and MDBs	-	-	-	-	-	-	-	-	-	669	-	-	-	-	669
Insurance Companies, Securities Firms and Fund Managers	-	-	-	-	-	-	-	3,831	-	-	-	-	-	-	3,831
Corporates	1,666,487	1,085,703	3,368,893	442,849	1,964,675	1,267,128	1,890,953	2,184,533	-	2,660,033	794,754	569,438	99,553	7	17,995,006
Regulatory Retail	9,857	332	36,102	1,547	18,867	34,849	9,359	440	-	4,063	18,574	4,401	13,447,193	-	13,585,584
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	-	-	297,183	-	297,183
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	-	546	-	546
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	107,787	107,787
Defaulted Exposures	14	2,138	3,832	-	1,099	11,667	59,390	-	-	246,463	2,278	2,135	126,515	597	456,128
Total for On Balance Sheet Exposures	1,676,358	1,088,173	3,408,827	444,396	1,984,641	1,313,644	1,959,702	4,342,900	2,289,763	2,910,559	816,275	575,974	13,970,990	108,391	36,890,593
Off-Balance Sheet Exposures															
OTC Derivatives	-	-	15,572	98	-	1,139	35,828	151,903	-	-	-	19	-	-	204,559
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	90,295	35,650	586,459	24,703	1,012,969	225,320	231,173	17,781	-	162,715	102,916	55,076	578,831	270	3,124,158
Defaulted Exposures	-	181	-	-	-	10	-	-	-	508	-	-	1,523	-	2,222
Total for Off-Balance Sheet Exposures	90,295	35,831	602,031	24,801	1,012,969	226,469	267,001	169,684	-	163,223	102,916	55,095	580,354	270	3,330,939
Total On and Off-Balance Sheet Exposures	1,766,653	1,124,004	4,010,858	469,197	2,997,610	1,540,113	2,226,703	4,512,584	2,289,763	3,073,782	919,191	631,069	14,551,344	108,661	40,221,532

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

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

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

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

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

30 September 2018	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Not Allocated RM'000	Total RM'000
Impaired financing	19	2,699	5,197	5,540	6,155	38,574	60,946	-	291,816	673	4,136	170,018	2	-	585,775
Past due financing	7,306	6	44,689	5,564	18,102	81,240	65,314	8,615	309,042	26,961	7,421	3,116,989	567	-	3,691,816
Individual allowance	-	558	-	5,540	114	25,520	1,200	-	45,281	-	-	-	-	-	78,213
Collective allowance	3,682	1,087	45,101	896	5,461	6,495	4,580	1,191	27,689	1,765	847	227,875	147	10,977	337,793
Charges/(Writeback) for individual allowance	-	(113)	-	109	(4,987)	25,520	(275)	-	14,538	7	-	-	-	-	34,799
Write-offs against individual allowance	-	759	-	1,600	-	-	1,573	-	20,446	741	-	-	-	-	25,119

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

Table 5.3: Geographical distribution of credit exposures

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

30 September 2018	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	2,289,763	-	2,289,763
Public Sector Entities	669	-	669
Banks, DFIs and MDBs	2,101,178	52,918	2,154,096
Insurance Companies, Securities Firms and Fund Managers	3,831	-	3,831
Corporates	17,995,006	-	17,995,006
Regulatory Retail	13,585,584	-	13,585,584
Residential Mortgages	297,183	-	297,183
Higher Risk Assets	546	-	546
Other Assets	107,787	-	107,787
Defaulted Exposures	456,128	-	456,128
Total for On Balance Sheet Exposures	36,837,675	52,918	36,890,593
Off-Balance Sheet Exposures			
OTC Derivatives	204,559	-	204,559
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	3,124,158	-	3,124,158
Defaulted Exposures	2,222	-	2,222
Total for Off-Balance Sheet Exposures	3,330,939	-	3,330,939
Total On and Off-Balance Sheet Exposures	40,168,614	52,918	40,221,532

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

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

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

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

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

30 September 2018	Total
	RM'000
Impaired financing	585,775
Past due financing	3,691,816
Individual allowances	78,213
Collective allowances	337,793

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

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

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

30 September 2018	>6 months							No Maturity specified RM'000	Total RM'000
	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000		
On-Balance Sheet Exposures									
Sovereigns/Central Banks	506,303	-	-	101,643	4,155	234,824	1,442,838	-	2,289,763
Public Sector Entities	-	9	9	68	-	-	583	-	669
Banks, DFIs and MDBs	594,221	1,188,688	295,712	-	-	55,067	20,408	-	2,154,096
Insurance Companies, Securities Firms and Fund Managers	-	-	-	-	-	-	3,831	-	3,831
Corporates	6,459,370	910,005	465,667	389,008	2,987,237	1,661,917	5,121,802	-	17,995,006
Regulatory Retail	9,915	6,592	24,998	105,576	1,568,091	2,426,640	9,443,772	-	13,585,584
Residential Mortgages	76	7	69	368	4,204	14,571	277,888	-	297,183
Higher Risk Assets	-	-	-	-	-	-	546	-	546
Other Assets	172	349	538	932	17,417	-	-	88,379	107,787
Defaulted Exposures	308,112	790	1,599	4,510	26,596	22,087	92,434	-	456,128
Total for On-Balance Sheet Exposures	7,878,169	2,106,440	788,592	602,105	4,607,700	4,415,106	16,404,102	88,379	36,890,593
Off-Balance Sheet Exposures									
OTC Derivatives	1,824	3,759	2,213	40,812	5,105	42,228	108,618	-	204,559
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	562,418	116,138	363,480	294,958	820,604	245,820	720,740	-	3,124,158
Defaulted Exposures	232	-	-	-	731	19	1,240	-	2,222
Total for Off-Balance Sheet Exposures	564,474	119,897	365,693	335,770	826,440	288,067	830,598	-	3,330,939
Total On and Off-Balance Sheet Exposures	8,442,643	2,226,337	1,154,285	937,875	5,434,140	4,703,173	17,234,700	88,379	40,221,532

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

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

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

Table 5.6: Reconciliation of changes to financing impairment allowances

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

30 September 2018	Individual impairment allowances RM'000	Collective impairment allowances RM'000
Balance at beginning of financial year		
- as previously stated	25,314	233,272
- impact of adopting MFRS 9	43,219	100,745
	68,533	334,017
Charge for the period – net	34,799	85,937
Foreign exchange differences	-	5
Amount written-off	(25,119)	(82,166)
Balance at end of financial period	78,213	337,793
30 September 2018		(Charge off)/recoveries RM'000
Bad debts written off during the period		(15,404)
Bad debt recoveries during the period		60,515

31 March 2018	Individual impairment allowances RM'000	Collective impairment allowances RM'000
Balance at beginning of financial year	16,041	252,280
Charge for the year – net	29,090	137,829
Foreign exchange differences	-	(8)
Amount written-off	(19,817)	(156,829)
Balance at end of financial year	25,314	233,272
31 March 2018		(Charge off)/recoveries RM'000
Bad debts written off during the year		(20,905)
Bad debt recoveries during the year		126,428

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

** As at 30 September 2018, the gross exposure and collective allowance relating to the PSIA financing amounted to RM1,861.1 million and RM6.2 million respectively (31 March 2018 :RM2,869.6 million and RM2.7 million respectively). There was no individual allowance provided for the PSIA financing.

6.0 Credit Risk Exposure under the Standardised Approach

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

- Moody's Investors Service ("Moody's")
- Fitch Rating ("Fitch")
- RAM Rating Services Berhad ("RAM")
- Malaysian Rating Corporation Berhad ("MARC")

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

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

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

30 September 2018

Risk Weights	Exposures after Netting and Credit Risk Mitigation										
	Sovereigns and Central Banks	Public Sector Entities	Banks, DFIs and MDBs	Insurance Companies, Securities Firms and Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Total Exposures after Netting and Credit Risk Mitigation	Total Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	2,289,763	-	20,143	-	2,914,786	-	-	-	-	5,224,692	-
20%	-	669	2,140,908	-	1,172,025	31,534	-	-	-	3,345,136	669,027
35%	-	-	-	-	-	-	239,408	-	-	239,408	83,793
50%	-	-	121,017	-	43,886	5,795	68,616	-	-	239,314	119,657
75%	-	-	-	-	-	7,714,620	-	-	-	7,714,620	5,785,965
100%	-	-	-	7,631	15,322,173	5,352,578	1,392	-	107,787	20,791,561	20,791,561
150%	-	-	-	-	171,562	51,251	-	1,099	-	223,912	335,869
Total	2,289,763	669	2,282,068	7,631	19,624,432	13,155,778	309,416	1,099	107,787	37,778,643	27,785,872

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

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

31 March 2018

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

Table 6.2: Rated Exposures according to Ratings by ECAIs

30 September 2018

Exposure Class	Ratings of Corporate by Approved ECAIs			
	Moody's Fitch RAM MARC	Aaa to Aa3 AAA to AA- AAA to AA3 AAA to AA-	A1 to A3 A+ to A- A to A3 A+ to A-	Unrated Unrated Unrated Unrated
	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)	669	-	-	669
Insurance Companies, Securities Firms and Fund managers	7,631	-	-	7,631
Corporates	20,922,545	714,020	348,639	19,859,886
Total	20,930,845	714,020	348,639	19,868,186

31 March 2018

Exposure Class	Ratings of Corporate by Approved ECAIs			
	Moody's Fitch RAM MARC	Aaa to Aa3 AAA to AA- AAA to AA3 AAA to AA-	A1 to A3 A+ to A- A to A3 A+ to A-	Unrated Unrated Unrated Unrated
	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)	396	-	-	396
Corporates	19,949,522	628,041	313,489	19,007,992
Total	19,949,918	628,041	313,489	19,008,388

Table 6.2: Rated Exposures according to Ratings by ECAs (Cont'd.)**30 September 2018**

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks	2,289,763	-	2,289,763	-	-	-	-
Total	2,289,763	-	2,289,763	-	-	-	-

31 March 2018

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks	2,498,072	-	2,498,072	-	-	-	-
Total	2,498,072	-	2,498,072	-	-	-	-

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

30 September 2018

Exposure Class	Ratings of Banking Institutions by Approved ECAIs				
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	RII	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
Exposure Class	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures					
Banks, DFIs and MDBs	2,282,068	380,202	400,625	116,017	1,385,224
Total	2,282,068	380,202	400,625	116,017	1,385,224

31 March 2018

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

7.0 Credit Risk Mitigation

Table 7.1: Credit Risk Mitigation

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

Exposures	Exposures before CRM RM'000	Exposures covered by guarantees/credit derivatives RM'000	Exposures covered by Eligible Financial Collateral RM'000
30 September 2018			
Credit Risk			
<u>On-Balance Sheet Exposures</u>			
Sovereigns/Central Banks	2,289,763	-	-
Public Sector Entities	669	-	-
Banks, DFIs and MDBs	2,154,096	-	-
Insurance Companies, Securities Firms and Fund Managers	3,831	-	-
Corporates	17,995,006	1,027,165	731,945
Regulatory Retail	13,585,584	30,747	1,392,432
Residential Mortgages	297,183	-	86
Higher Risk Assets	546	-	-
Other Assets	107,787	-	-
Defaulted Exposures	456,128	3,541	93,911
Total On-Balance Sheet Exposures	36,890,593	1,061,453	2,218,374
<u>Off-Balance Sheet Exposures</u>			
OTC Derivatives	204,559	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	3,124,158	200,316	1,289,061
Defaulted Exposures	2,222	-	764
Total Off-Balance Sheet Exposures	3,330,939	200,316	1,289,825
Total On and Off-Balance Sheet Exposures	40,221,532	1,261,769	3,508,199

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

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 Bank are as follows:

30 September 2018

Description	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Direct credit substitutes	542,829		542,829	361,983
Transaction related contingent items	925,230		462,615	341,323
Short term self liquidating trade related contingencies	88,136		17,627	17,468
Forward asset purchases	136,811		8,608	6,462
Obligations under an on-going underwriting agreement	-		-	-
Foreign exchange related contracts	795,335	55,543	52,656	52,656
One year or less	411,716	33,006	13,869	13,869
Over one year to five years	383,619	22,537	38,787	38,787
Profit rate related contracts	1,010,000	2,710	8,546	3,929
Over one year to five years	660,000	2,710	8,546	3,929
Over five years	350,000	-	-	-
OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	2,627,794	-	143,357	89,048
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	572,346		286,173	224,058
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	4,572,682		1,511,847	528,322
Unutilised credit card lines	1,483,406		296,681	222,134
Total	12,754,569	58,253	3,330,939	1,847,383

31 March 2018

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

9.0 Securitisation

The Bank did not have any securitisation exposure in its trading book and banking book nor did it undertake any securitisation activities during the financial period ended 30 September 2018 and financial year ended 31 March 2018.

10.0 Non-Traded Market Risk

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

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

30 September 2018	Rate of Return + 100 bps RM'000	Rate of Return - 100 bps RM'000
Impact on profit before zakat and taxation	(2,253)	2,253
Impact on equity	(195,647)	214,761

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

11.0 Equities (Banking Book Positions)

The Bank did not have any equity investment as at 30 September 2018 and 31 March 2018.

12.0 Liquidity Risk and Funding Management

The liquidity risk management of the Bank is aligned to BNM's policy document on LCR issued by BNM.

13.0 Shariah Non-Compliant Income

For the quarter ended 30 September 2018, there was one (1) Shariah non-compliant (“SNC”) incident involving SNC income of approximately RM1,115 relating to imposition of additional late payment charges. Purification of the SNC income will be made in accordance with the method approved by the Shariah Oversight Committee. To mitigate the recurrence of a similar incident, the Bank has implemented enhanced measures via system control and to increase staff awareness via focused training sessions. Given that this SNC incident is of similar nature to the one (1) SNC incident involving SNC income of approximately RM3,699 which occurred in the financial year ended 31 March 2018, both SNC incidents are grouped as a single SNC incident which were deemed to occur in the financial year ended 31 March 2018.

14.0 Investment Account (“IA”)

The Bank offers two types of Investment Account (“IA”) namely, Restricted Investment Account (“RA”) which refers to an IA where the Investment Account Holder (“IAH”) provides a specific investment to the Bank and Unrestricted Investment Account (“UA”) which refers to an IA where the customer provides the Bank with mandate to make the ultimate investment decision without specifying any particular restriction or condition. Both RA and UA are based on the Shariah concept of Mudarabah Muqayyadah (“Mudarabah”).

Mudarabah means a profit sharing contract between the IAH as the fund provider and the Bank as the fund manager in which the IAH provides capital to be managed by the Bank. Any profit generated from the capital is shared between the IAH and the Bank 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 the Bank’s misconduct, negligence or breach of specified terms. The IA is not covered by PIDM.

14.1 Restricted Investment Account (“RA”)

The RA is an arrangement between the Bank and AmBank to finance a specific business venture whereby AmBank solely provides capital and the business ventures are managed solely by the Bank as the fund manager. AmBank records its exposure in the arrangement as "Investment Account", whereas the Bank records its exposure as "financing and advances".

The RA exposes AmBank to the risks and rewards of the financing, and accordingly, AmBank accounts for all impairment allowances and risk weighted assets arising from the RA arrangement.

14.0 Investment Account (“IA”) (Cont'd.)

14.2 Mudarabah Term Investment Account (“MTIA”)

The Bank has widened the scope of business beyond credit intermediation by acting as an 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 IAH’s interest.

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

MTIA Performance

As at 30 September 2018, balance of MTIA stood at RM177.7 million. The performance of MTIA is as described in the table below :

As at 31 September 2018	%
Return on Assets (“ROA”)	4.61
Average Net Distributable Income Attributable to the IAH	3.84
Average Profit Sharing Ratio to the IAH	83.36