AMMB Banking Group
Pillar 3 Disclosure

31 March 2018

RWCAF- Pillar 3 Disclosure
(Applicable to the regulated banking subsidiaries of the Group)
For 31 March 2018

Contents

1.0 Scope of Application

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

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

The following information has been provided in order to highlight the capital adequacy of our regulated banking subsidiaries and a pro-forma view of the Group position on an aggregated basis. The information provided has been verified by the Group internal auditors and certified by the Group Chief Executive Officer.

BNM guidelines on capital adequacy require regulated banking subsidiaries to maintain an adequate level of capital to withstand any losses which may result from credit and other risks associated with financing operations. Each of these entities is independently held by AMMB as a regulated banking institution – there are no cross-shareholdings within or between these entities. 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 to BNM's guidelines on Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework for Islamic Banks (Capital Components) issued by the Prudential Financial Policy Department on 2 February 2018 (replacing the same guidelines issued previously on 13 October 2015), which is based on the Basel III capital accord. Pursuant to the revised BNM's guidelines, the minimum capital adequacy ratios to be maintained under the guidelines for banking subsidiaries remain consistent at 4.5% for CET1 capital, 6.0% for Tier 1 capital and 8.0% for total capital ratio. The Group's banking subsidiaries are also required to maintain capital buffers. The capital buffers shall comprise the sum of the following:

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

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

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

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

AMMB, being a financial holding company ("FHC") will be required to comply with the above BNM guidelines on minimum capital adequacy ratios at the consolidated level for FHC effective 1 January 2019.

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.

1.0 Scope of Application (Cont'd.)

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. 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; Fully consolidated in the calculation of capital adequacy at the banking subsidiary consolidated level
Subsidiaries engaged in non-financial activities	Fully consolidated	Risk weighted at the banking subsidiary entity level; Consolidated in the calculation of capital adequacy at the banking subsidiary consolidated 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	Reported as investment and risk weighted

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

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

2.0 Capital Management

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

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

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

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

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

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

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

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

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

GALCO proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. For the current financial year ended 31 March 2018 (“FY 2018”), these ranges are 9.5% to 11.5% for the Common Equity Tier ("CET1") Capital Ratio, 10.0% to 12.0% for the Tier 1 Capital Ratio, and 14.0% to 16.0% for the Total Capital Ratio. The Group has been operating within these ranges.

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

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

Table 2.1: Capital Adequacy

The capital adequacy ratios of our regulated banking subsidiaries and a pro-forma Group view are as follows:

	31.03.18			
	AmBank	**AmBank Islamic**	**AmInvestment Bank**	**Group ***
Before deducting proposed dividends:				
CET1 Capital ratio	10.955%	11.561%	41.194%	11.723%
Tier 1 Capital ratio	11.903%	11.561%	41.194%	12.413%
Total Capital ratio	16.451%	16.569%	41.452%	17.024%
After deducting proposed dividends:				
CET1 Capital ratio	10.613%	11.561%	27.529%	11.270%
Tier 1 Capital ratio	11.561%	11.561%	27.529%	11.960%
Total Capital ratio	16.109%	16.569%	27.787%	16.571%

	31.03.17			
	AmBank	**AmBank Islamic**	**AmInvestment Bank**	**Group ***
Before deducting proposed dividend:				
CET1 Capital ratio	11.230%	10.498%	32.916%	11.917%
Tier 1 Capital ratio	12.478%	10.498%	32.916%	12.809%
Total Capital ratio	16.073%	15.069%	32.916%	16.658%
After deducting proposed dividend:				
CET1 Capital ratio	10.764%	10.498%	31.373%	11.563%
Tier 1 Capital ratio	12.012%	10.498%	31.373%	12.455%
Total Capital ratio	15.607%	15.069%	31.373%	16.304%

Notes:

(I) 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 Prudential Financial Policy Department on 2 February 2018 (replacing the same guidelines issued previously on 13 October 2015), which is based on the Basel III capital accord. The Group 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 Frameworks for Islamic Banks (Basel II - Risk Weighted Assets).

(ii) Group* figures presented in this Report represent an **aggregation** of the capital positions and risk weighted assets ("RWA") of our three regulated banking institutions (consolidated for AmBank and AmInvestment Bank). The positions of each entity and group (where applicable) are published at www.ambankgroup.com.

Table 2.2 Risk-Weighted Assets and Capital Requirements

The aggregated breakdown of RWA by exposures in major risk category of AMMB Banking Group is as follows:

	31 MARCH 2018						
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		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")		6,970,934	6,970,934	1,425,549	-	1,425,549	114,044
Insurance companies, Securities firms and Fund managers		9,775	9,775	9,775	-	9,775	782
Corporates		54,514,132	52,428,185	44,623,351	2,869,566	41,753,785	3,340,302
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		339,655	339,577	509,364	-	509,364	40,749
Other assets		2,194,253	2,194,253	1,838,814	-	1,838,814	147,105
Securitisation exposures		42,970	42,970	10,591	-	10,591	847
Equity exposures		104	104	104	-	104	8
Defaulted exposures		1,230,023	1,209,465	1,367,284	-	1,367,284	109,382
Total for on balance sheet exposures		123,130,020	120,080,553	83,458,114	2,988,135	80,469,979	6,437,597
Off balance sheet exposures:							
Over the counter ("OTC") derivatives		2,400,364	2,147,838	1,146,414	-	1,146,414	91,713
Credit derivatives		14	14	7	-	7	1
Off balance sheet exposures other than OTC derivatives or credit derivatives		12,746,854	10,739,321	9,401,757	-	9,401,757	752,140
Defaulted exposures		33,620	22,056	32,934	-	32,934	2,634
Total for off balance sheet exposures		15,180,852	12,909,229	10,581,112	-	10,581,112	846,488
Total on and off balance sheet exposures		138,310,872	132,989,782	94,039,226	2,988,135	91,051,091	7,284,085
2. **Large exposures risk requirement**				373,899	-	373,899	29,912
3. **Market risk**	**Long Position**	**Short Position**					
Interest rate risk/rate of return risk							
- General interest rate risk/rate of return risk	115,881,469	106,761,483		2,046,902	-	2,046,902	163,752
- Specific interest rate risk/rate of return risk	9,507,957	249,711		198,148	-	198,148	15,852
Foreign currency risk	256,494	592,545		699,991	-	699,991	56,000
Equity risk							
- General risk	110,767	34,098		76,669	-	76,669	6,134
- Specific risk	110,767	34,098		137,758	-	137,758	11,021
Option risk	1,461,172	735,720		105,133	-	105,133	8,410
Total	127,328,626	108,407,655		3,264,601	-	3,264,601	261,169
4. **Operational risk**				5,896,314	-	5,896,314	471,706
5. **Total RWA and capital requirements**				103,574,040	2,988,135	100,585,905	8,046,872

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

As at 31 March 2018, the gross exposure and collective allowance relating to the PSIA financing financed by AmBank are RM2,869.6 million and RM2.7 million (2017:RM1,604.4 million and RM2.3 million respectively). There was no individual allowance provided for the PSIA financing. Risk weight on PSIA assets financed by AmBank are accounted for in the computation of capital adequacy of AmBank.

PSIA assets excluded from the risk-weighted capital adequacy computation of AmBank Islamic for 31 March 2018 amounted to RM2,988.1 million (2017: RM1,604.4 million).

Table 2.2 Risk-Weighted Assets and Capital Requirements (Cont'd.)
The aggregated breakdown of RWA by exposures in major risk category of AMMB Banking Group is as follows:

	31 MARCH 2017						
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		7,817,184	7,807,800	4,444	-	4,444	356
Public Sector Entities ("PSEs")		41,621	41,621	8,324	-	8,324	666
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")		7,750,663	7,750,663	1,600,086	-	1,600,086	128,006
Insurance companies, Securities firms and Fund managers		73	73	73	-	73	6
Corporates		53,600,587	51,578,897	42,690,636	1,604,369	41,086,267	3,286,902
Regulatory retail		32,650,413	32,438,383	25,228,009	-	25,228,009	2,018,241
Residential mortgages		14,569,271	14,551,934	5,377,152	-	5,377,152	430,172
Higher risk assets		120,722	120,646	180,969	-	180,969	14,477
Other assets		2,983,660	2,983,660	2,496,231	-	2,496,231	199,699
Securitisation exposures		53,095	53,095	12,303	-	12,303	984
Equity exposures		576	576	576	-	576	46
Defaulted exposures		1,275,124	1,251,096	1,370,372	-	1,370,372	109,630
Total for on balance sheet exposures		120,862,989	118,578,444	78,969,175	1,604,369	77,364,806	6,189,185
Off balance sheet exposures:							
Over the counter ("OTC") derivatives		4,007,121	4,007,121	2,070,084	-	2,070,084	165,606
Credit derivatives		14	14	7	-	7	1
Off balance sheet exposures other than OTC derivatives or credit derivatives		12,117,557	10,185,895	9,170,486	-	9,170,486	733,639
Defaulted exposures		20,952	18,114	25,408	-	25,408	2,032
Total for off balance sheet exposures		16,145,644	14,211,144	11,265,985	-	11,265,985	901,278
Total on and off balance sheet exposures		137,008,633	132,789,588	90,235,160	1,604,369	88,630,791	7,090,463
2. **Large exposures risk requirement**				30,573	-	30,573	2,446
3. **Market risk**	**Long Position**	**Short Position**					
Interest rate risk/rate of return risk							
- General interest rate risk/rate of return risk	105,407,319	98,458,791		1,773,919	-	1,773,919	141,913
- Specific interest rate risk/rate of return risk	7,012,517	306,644		136,285	-	136,285	10,904
Foreign currency risk	256,209	361,530		416,346	-	416,346	33,308
Equity risk							
- General risk	74,434	15,941		58,679	-	58,679	4,694
- Specific risk	74,434	15,941		48,390	-	48,390	3,871
Option risk	428,329	199,741		12,352	-	12,352	988
Total	113,253,242	99,358,588		2,445,971	-	2,445,971	195,678
4. **Operational risk**				6,160,989	-	6,160,989	492,879
5. **Total RWA and capital requirements**				98,872,693	1,604,369	97,268,324	7,781,466

3.0 Capital Structure

Table 3.3 Capital Structure summarises the aggregated capital position of the Group. The capital structure includes capital under the following headings:

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

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

3.1 CET1 Capital

CET1 Capital consists of the following:

(a) Paid-up Ordinary Share Capital

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

(b) Retained Earnings

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

(c) Other Disclosed Reserves

Other disclosed reserves comprise the following:

(i) Statutory Reserve

Statutory reserve is maintained in compliance with Section 47(2)(f) of the FSA and Section 57(2)(f) of IFSA and is not distributable as cash dividends.

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

(ii) Capital Reserve and Merger Reserve

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

3.1 CET 1 Capital (Cont'd.)

(c) Other Disclosed Reserves (Cont'd.)

(iii) Foreign Currency Translation Reserve/(Deficit)

Exchange gains (foreign currency translation reserve) and exchange losses (foreign currency translation deficit) arise from the translation of the financial statements of foreign operations, whose functional currencies are different from that of the Group's presentation currency.

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

Available-for-sale reserve/(deficit) is in respect of unrealised fair value gains/(losses) on financial investments available-for-sale. Where the unrealised 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 unrealised fair value changes is a net loss outstanding balance, the entire outstanding balance is deducted in CET1 Capital.

(d) 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.

(e) Regulatory Reserve

Regulatory reserve is maintained in accordance with paragraph 13.1 of the the BNM's Policy Document on Classification and Impairment Provisions for Loans/Financing as an additional credit risk absorbent. The amount of the regulatory reserve is derecognised in the calculation of CET 1 Capital.

3.2 Additional Tier 1 Capital

The amount of Additional Tier 1 Capital that can be recognised in the computation of the capital adequacy ratios of the banking subsidiaries, at both the entity and consolidated level for 2013, has been capped at 90% of the total qualifying Additional Tier 1 Capital balance outstanding as at 1 January 2013. For 2018, the amount of Additional Tier 1 Capital that can be recognised in the computation of the capital adequacy ratios are capped at 40% of the total qualifying Additional Tier 1 Capital balance outstanding as at 1 January 2013. This is in accordance with the transitional gradual phase-out treatment under the Basel III regime. As at 1 January 2013 and at present, only AmBank has Additional Tier 1 Capital Instrument in issuance. Table 3.1 outlines the application of the grandfathering provisions in respect of the Additional Tier 1 Capital Instruments of AmBank. Details of the Additional Tier 1 Capital Instruments are outlined below.

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

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

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

3.2 Additional Tier 1 Capital (Cont'd.)

Table 3.1 Additional Tier 1 Capital Instruments of AmBank and the Basel III Gradual Phase-Out Treatment (Cont'd.)

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%	-

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.

3.2 Additional Tier 1 Capital (Cont'd.)

Innovative Tier 1 Capital (Cont'd.)

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.

3.3 Tier 2 capital

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

The amount of Tier 2 Capital issued prior to 2013 that can be recognised in the computation of the capital adequacy ratios of the banking subsidiaries, at both the entity and consolidated level for 2013, has been capped at 90% of the total qualifying Tier 2 Capital balance outstanding as at 1 January 2013. For 2018 the amount of such Tier 2 Capital that can be recognised in the computation of the capital adequacy ratios is capped at 40% of the total qualifying Tier 2 Capital balance outstanding as at 1 January 2013. This is in accordance with the transitional gradual phase-out treatment under the Basel III regime. Tables 3.2(a) and 3.2(b) outline the application of the grandfathering provisions in respect of the Tier 2 Capital Instruments for AmBank and AmBank Islamic respectively. AmInvestment Bank does not have any Tier 2 Capital Instruments in issuance as at 1 January 2013 and at present. Details of the Tier 2 Capital Instruments are outlined below.

Table 3.2(a) Tier 2 Capital Instruments of AmBank and the Basel III Gradual Phase Out Treatment

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

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

Note 1 :
(a) Tranche 1 was called and cancelled on its first call date of 4 February 2013.
(b) Tranche 2 was called and cancelled on its first call date of 14 March 2013.
(c) Tranche 3 was called and early redeemed on its first call date of 16 March 2015.
(d) Tranche 4 was called and cancelled on its first call date of 28 March 2013.
(e) Tranche 5 was called and early redeemed on 28 March 2015.
(f) Tranche 7 was called and cancelled on its first call date of 10 December 2014.
(g) Tranche 8 was called and cancelled on its first call date of 16 October 2017.

3.3 Tier 2 capital (Cont'd.)

Table 3.2(b) Tier 2 Capital Instruments of AmBank Islamic and the Basel III Gradual Phase-Out Treatment

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

Note 1 :

(a) Nominal value of sukuk which amounted to RM120.0 million was purchased and cancelled as at 31 March 2014. On 30 September 2016, the Bank early redeemed the remaining portion of this tranche which amounted to RM480.0 million on its first call date.

(b) Nominal value of sukuk which amounted to RM10.0 million was purchased and cancelled as at 31 March 2014. On its first call date of 31 January 2017, the Bank early redeemed the remaining portion of this tranche which amounted to RM190.0 million.

(c) Nominal value of sukuk which amounted to RM70.0 million was purchased and cancelled as at 31 March 2014. The remaining nominal value of sukuk which amounted to RM130.0 million was called and cancelled on its first call date of 26 December 2017.

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

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.

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

3.3 Tier 2 capital (Cont'd.)

Medium Term Notes (Cont'd.)

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

Basel II Subordinated Sukuk Musharakah

On 30 September 2011, AmBank Islamic implemented a Subordinated Sukuk Musharakah programme ("Sukuk Musharakah") of up to RM2.0 billion. The purpose of the programme is to increase AmBank Islamic's Tier 2 Capital.

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

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

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

Basel III Subordinated Notes

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

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

3.3 Tier 2 capital (Cont'd.)

Basel III Subordinated Notes (Cont'd.)

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

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

Basel III Subordinated Sukuk Murabahah

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

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

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

Issue Date	First Call Date	Tenor	Interest Rate	Nominal value outstanding (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**

Table 3.3: Capital Structure

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

	31.03.18			
	AmBank RM'000	AmBank Islamic RM'000	AmInvestment Bank RM'000	Group * RM'000
CET1 Capital				
Ordinary share capital	1,763,208	1,387,107	200,000	3,350,315
Retained earnings	6,700,583	1,632,472	474,802	8,744,009
Available-for-sale deficit	(23,518)	(5,492)	-	(28,879)
Foreign exchange translation reserve	52,974	-	-	51,199
Regulatory reserve	372,133	327,683	2,918	702,734
Capital reserve	-	-	-	2,815
Merger reserve	-	-	-	186,264
Cash flow hedging reserve	3,174	-	-	3,174
Less: Regulatory adjustments applied on CET1 capital				
Goodwill	-	-	-	(36,442)
Other intangible assets	(400,376)	(1,207)	(2,137)	(404,225)
Deferred tax assets	(66,637)	-	(4,085)	(73,182)
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)	-
CET1 Capital	8,017,746	3,012,880	618,771	11,791,874
Additional Tier 1 Capital				
Additional Tier 1 Capital instruments (subject to gradual phase-out treatment)	694,040	-	-	694,040
Qualifying CET1, Additional Tier 1 capital Instruments held by third parties	-	-	-	2
Tier 1 Capital	8,711,786	3,012,880	618,771	12,485,916
Tier 2 Capital				
Tier 2 Capital instruments meeting all relevant criteria for inclusion	1,995,000	1,000,000	-	2,995,000
Tier 2 Capital instruments (subject to gradual phase-out treatment)	600,000	-	-	600,000
Qualifying CET1, Additional Tier 1 and Tier 2 capital instruments held by third parties	-	-	-	1
Collective allowance and regulatory reserve	734,013	305,028	3,871	1,042,898
Tier 2 Capital	3,329,013	1,305,028	3,871	4,637,899
Total Capital	**12,040,799**	**4,317,908**	**622,642**	**17,123,815**

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	94,039,226
Less: Credit RWA absorbed by Profit Sharing Investment Account	-	(2,988,135)	-	(2,988,135)
Total Credit RWA	65,981,322	24,402,265	1,123,584	91,051,091
Market RWA	2,861,798	277,093	105,011	3,264,601
Operational RWA	3,973,753	1,380,469	273,498	5,896,314
Large exposure risk RWA for equity holdings	373,899	-	-	373,899
Total RWA	**73,190,772**	**26,059,827**	**1,502,093**	**100,585,905**

***** Group figures presented in this Report represents an aggregation of the consolidated capital position and RWA of our regulated banking subsidiaries.

Table 3.3: Capital Structure (Cont'd.)

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

	31.03.17			
	AmBank RM'000	**AmBank Islamic RM'000**	**AmInvestment Bank RM'000**	**Group * RM'000**
CET1 Capital				
Ordinary share capital	1,763,208	1,187,107	200,000	3,150,315
Retained earnings	5,371,939	1,179,283	88,943	6,931,726
Available-for-sale deficit	(12,233)	(5,149)	-	(17,381)
Foreign exchange translation reserve	119,797	-	-	130,278
Statutory reserve	980,969	483,345	200,000	1,664,314
Regulatory reserve	163,820	58,430	2,800	225,050
Capital reserve	-	-	-	2,815
Merger reserve	-	-	-	186,264
Cash flow hedging reserve	3,010	-	-	3,010
Less: Regulatory adjustments applied on CET1 capital				
Goodwill	-	-	-	(36,442)
Other intangible assets	(406,504)	(448)	(2,513)	(411,124)
Deferred tax assets	-	-	(7,153)	(9,158)
Cash flow hedging reserve	(3,010)	-	-	(3,010)
Regulatory reserve	(163,820)	(58,430)	(2,800)	(225,050)
Investment in ordinary shares of unconsolidated financial and insurance/ takaful entities	(6,808)	-	(39,847)	-
Deduction in excess of Tier 2 capital**	-	-	(6,458)	-
CET1 Capital	7,810,368	2,844,138	432,972	11,591,607
Additional Tier 1 Capital				
Additional Tier 1 Capital instruments (subject to gradual phase-out treatment)	867,550	-	-	867,550
Qualifying CET1, Additional Tier 1 capital Instruments held by third parties	-	-	-	2
Tier 1 Capital	8,677,918	2,844,138	432,972	12,459,159
Tier 2 Capital				
Tier 2 Capital instruments meeting all relevant criteria for inclusion	900,000	850,000	-	1,750,000
Tier 2 Capital instruments (subject to gradual phase-out treatment)	983,900	130,000	-	1,113,900
Qualifying CET1, Additional Tier 1 and Tier 2 capital instruments held by third parties	-	-	-	1
Collective allowance and regulatory reserve	618,212	258,458	3,504	880,197
Less: Regulatory adjustments applied on Tier 2 Capital	(1,702)	-	(3,504)	-
Tier 2 Capital	2,500,410	1,238,458	-	3,744,098
Total Capital	**11,178,328**	**4,082,596**	**432,972**	**16,203,257**

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

	AmBank	AmBank Islamic	AmInvestment Bank	Group *
Credit RWA	63,094,846	27,107,178	1,015,958	90,235,160
Less: Credit RWA absorbed by Profit Sharing Investment Account	-	(1,604,369)	-	(1,604,369)
Total Credit RWA	63,094,846	25,502,809	1,015,958	88,630,791
Market RWA	2,231,439	178,976	20,158	2,445,971
Operational RWA	4,190,538	1,410,237	279,251	6,160,989
Large exposure risk RWA for equity holdings	30,573	-	-	30,573
Total RWA	**69,547,396**	**27,092,022**	**1,315,367**	**97,268,324**

***** Group figures presented in this Report represents an aggregation of the consolidated capital position and RWA of our regulated banking subsidiaries.

****** The portion of regulatory adjustments not deducted from Tier 2 (as the AmInvestment Bank does not have enough Tier 2 to satisfy the deduction) is deducted from the next higher level of capital as per paragraph 31.1 of the BNM's guidelines on Capital Adequacy Framework (Capital Components).

4.0 General Risk Management

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

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

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

AmBank Group Risk Direction

AmBank 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 AmBank Group aims to maintain an external rating of AA1 or better based on reference ratings by RAM Rating Services Berhad ("RAM").
2 AmBank Group aims to achieve and sustain a Return on Risk Weighted Assets ("RoRWA") in the range of 1.5% to 1.8%, based on Advanced Internal Ratings-Based ("AIRB").
3 AmBank Group aims to maintain Available Financial Resources in excess of the capital requirements as estimated in the ICAAP.
4 AmBank Group recognizes the importance of funding its own business. It aims to maintain the following:
   a. Liquidity Coverage Ratio ("LCR") at least 10% above prevailing regulatory minimum.
   b. Stressed LCR above the regulatory requirement.
   c. Net Stable Funding Ratio ("NSFR") above the prevailling regulatory minimum (effective from 2019).
5 AmBank Group aims to maintain the following Capital Adequacy Ratios ("CARs") under normal conditions: CET 1, Tier 1 and total capital ratio of at least 2 percentage points above regulatory minimum.
6 AmBank 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 Profit After Tax and Non-Controlling Interest ("PATMI").
7 AmBank Group aims to limit the Group's earnings volatility such that mean Adjusted Return volatility over a period of the last 3 years is Below 0.3**.
8 AmBank Group aims to maintain RWA efficiency (Credit Risk Weighted Assets ("CRWA")/Exposure At Default ("EAD")) in the range of 50% to 60%, based on AIRB.

Risk Management Governance

The Board is ultimately responsible for the management of risks within the 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 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, technological and emerging risks;
- essentially champions and embeds a positive risk culture across the Group to ensure that risk taking activities across the Group are aligned to the Group's risk appetite and strategies; 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 organization.

**As per PIDM definition.

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;
- Ensure the safety and soundness of the Group's capital position; and
- 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 the Group's Risk Appetite as set and approved by the Board.

The following key principles underpin the ICAAP:

4.1.1 The Group must 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:
- Group Risk Appetite, including the Group's target credit rating category;
- Regulatory Capital requirements;
- 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, form 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 Plan and Framework
The ICAAP must include an approved Capital Management Framework and Plan including:
- A strategy for maintaining capital resources over time;
- Measures that would be taken in the event capital falls below a targeted level; and
- Measures to ensure that the Group is in compliance with minimum regulatory standards.

4.1.4 The Group's quality and level of capital must be commensurate with the level of risks in the business. Sufficient capital should be maintained to:
- Meet minimum prudential requirements in all jurisdictions in which the Group operates, also any rating agency requirements, including maintaining appropriate buffers over minimum capital levels; 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:
- The Group's capital, excluding any amount held centrally for strategic contingencies (e.g. acquisitions) should be allocated to individual business units using regulatory capital allocation principles;
- Capital allocation should be consistent with the Group's regulatory capital measurement framework and risk adjusted performance requirements; and
- The Group should only retain capital that is required to meet its economic, operational, prudential and strategic requirements. Consideration should be given to returning capital in excess of that required to shareholders.

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

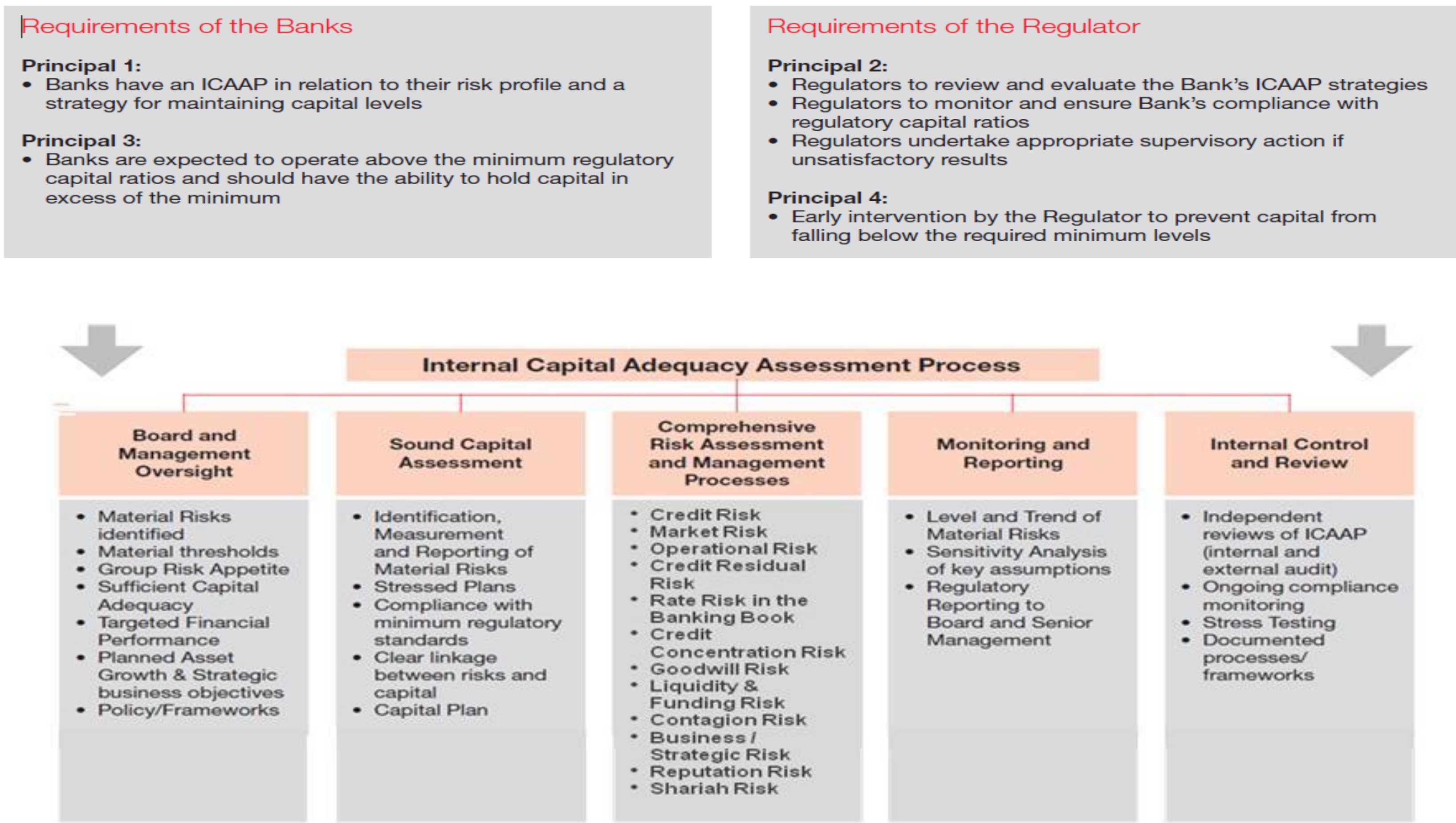
4.1.6 Material Risks

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

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

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

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:

Identification	• Identify/ recognise credit risk on transactions and/ or positions • Select asset and portfolio mix
Assessment/ Measurement	• Internal credit rating system • Probability of default ("PD") • Loss given default ("LGD") • Exposure at default ("EAD")
Control/ Mitigation	• Portfolio Limits, Counterparty Limits, • Whosale pricing • Collateral and tailored facility structures
Monitoring/ Review	• Monitor and report portfolio mix • Review customers under Classified Account • Review customers under Rescheduled and Restructured Account • Undertake post mortem credit review

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its payment obligations. Exposure to credit risk arises from 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 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. 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);
- Classified Account processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers;
- Rescheduled and Restructured ("R&R") Account Management sets out the controls in managing R&R loans/financing pursuant to the BNM's revised policy on Classification and Impairment Provisions for Loans/ Financing; and
- Setting guidelines on Wholesale Pricing which serve as a guide to the minimum returns the Group requires for the risk undertaken, taking into account operating expenses and cost of capital.

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 Group Risk Appetite Framework ("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 Loans, Advances and Financing

All loans, advances and financing are categorised as either:

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

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

A loan is classified as impaired under the following circumstances:

(a) when the principal or interest or both is past due[1] or the amount outstanding is in excess of approved limit (for revolving facilities), each for more than 90 days or 3 months on any material obligation[2] ; or

(b) for loans/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 default[3] .

(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 borrower triggers a default of another loan/financing obligation of the same borrower or
      - a default of a loan/financing obligation of a borrower triggers a default of a loan/financing obligation of other borrowers within the same borrower 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 Agent[4] 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 Methodology for Determination of Individual and Collective Allowances

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

Individual Assessment

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

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

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

Collective Assessment

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

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

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

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

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

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

[5]Excluding loans/financing with an explicit guarantee from the Government of Malaysia.

Table 5.1: Distribution of gross credit exposures by sector
The aggregated distribution of credit exposures by sector of AMMB Banking Group is as follows:

	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 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	-	-	-	-	-	-	-	3,003	5,015,560	-	-	285,847	-	-	5,304,410
PSEs	-	-	-	-	-	-	-	-	-	-	123	40,679	-	-	40,802
Banks, DFIs and MDBs	-	-	-	-	-	-	-	6,970,934	-	-	-	-	-	-	6,970,934
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	-	9,775	-	-	-	-	-	-	9,775
Corporates	3,321,999	2,749,685	9,983,058	1,425,415	6,332,719	5,517,113	2,951,188	7,356,138	-	8,574,959	1,471,551	2,993,221	1,589,292	247,794	54,514,132
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	320,145	339,655
Other assets	-	22	-	-	-	-	-	110,566	-	-	58,891	-	43,261	1,981,513	2,194,253
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	10,260,390	1,433,269	6,469,172	5,801,441	3,061,025	14,475,074	5,015,560	9,113,438	1,648,830	3,444,735	53,631,656	2,579,058	123,130,020
Off balance sheet exposures															
OTC derivatives	15,539	200,580	135,598	-	1,487	12,858	64,914	1,885,886	-	6,286	8,928	59,384	8,575	329	2,400,364
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	342,813	-	945,251	335,336	243,801	2,840,592	5,592	12,746,854
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	2,228,713	-	965,532	344,662	303,185	2,861,239	6,002	15,180,852
Total on and off balance sheet exposures	**3,639,067**	**3,654,239**	**12,497,486**	**1,739,477**	**9,734,135**	**6,788,187**	**3,640,597**	**16,703,787**	**5,015,560**	**10,078,970**	**1,993,492**	**3,747,920**	**56,492,895**	**2,585,060**	**138,310,872**

Table 5.1: Distribution of gross credit exposures by sector (Cont'd.)
The aggregated distribution of credit exposures by sector of AMMB Banking Group is as follows:

	31 MARCH 2017														
	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and 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	-	-	-	-	-	-	-	-	7,787,641	-	-	29,543	-	-	7,817,184
PSEs	-	-	-	-	-	262	-	40,539	-	-	14	806	-	-	41,621
Banks, DFIs and MDBs	-	-	-	-	-	-	-	7,750,663	-	-	-	-	-	-	7,750,663
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	-	73	-	-	-	-	-	-	73
Corporates	3,915,683	3,100,376	9,314,332	750,423	6,657,359	5,168,231	3,616,714	7,031,169	-	8,023,222	1,182,047	3,100,969	1,652,987	87,075	53,600,587
Regulatory retail	19,887	7,599	130,817	4,504	85,512	192,545	35,005	3,599	-	68,916	73,668	95,826	31,924,078	8,457	32,650,413
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	14,569,271	-	14,569,271
Higher risk assets	-	-	-	-	-	-	-	-	-	-	-	-	20,438	100,284	120,722
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	414,572	2,569,088	2,983,660
Securitisation exposures	-	-	-	-	-	-	-	30,995	-	22,100	-	-	-	-	53,095
Equity exposures	-	-	8	-	-	-	-	435	-	-	-	-	-	133	576
Defaulted exposures	595	123,870	32,005	2,423	24,718	31,616	8,146	1	-	545,125	5,740	7,345	493,021	519	1,275,124
Total for on balance sheet exposures	3,936,165	3,231,845	9,477,162	757,350	6,767,589	5,392,654	3,659,865	14,857,474	7,787,641	8,659,363	1,261,469	3,234,489	49,074,367	2,765,556	120,862,989
Off balance sheet exposures															
OTC derivatives	8,295	335,638	103,605	-	8	9,417	54,040	3,484,094	-	8,337	3,522	158	-	7	4,007,121
Credit derivatives	-	-	-	-	-	-	-	14	-	-	-	-	-	-	14
Off balance sheet exposures other than OTC derivatives or Credit derivatives	362,489	397,878	2,055,838	311,919	2,812,252	1,040,575	491,588	438,760	-	1,191,125	251,929	333,058	2,424,100	6,046	12,117,557
Defaulted exposures	-	255	506	-	273	496	227	-	-	7,039	880	-	11,195	81	20,952
Total for off balance sheet exposures	370,784	733,771	2,159,949	311,919	2,812,533	1,050,488	545,855	3,922,868	-	1,206,501	256,331	333,216	2,435,295	6,134	16,145,644
Total on and off balance sheet exposures	**4,306,949**	**3,965,616**	**11,637,111**	**1,069,269**	**9,580,122**	**6,443,142**	**4,205,720**	**18,780,342**	**7,787,641**	**9,865,864**	**1,517,800**	**3,567,705**	**51,509,662**	**2,771,690**	**137,008,633**

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

The aggregated amounts of 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 AMMB Banking Group is as follows:

	31 MARCH 2018														
	Agriculture	Mining and Quarrying	Manufacturing	Electricity, Gas and Water	Construction	Wholesale and Retail Trade and Hotels and Restaurants	Transport, Storage and Communication	Finance and Insurance	Real Estate	Business Activities	Education and Health	Household	Others	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	647,233	2,366	-	**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	-	-	-	-	-	-	-	-	-	-	-	-	-	734,778	**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**

Impaired and past due loans, advances and financing, Individual and collective allowances by sector

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

	31 MARCH 2017														
	Agriculture	Mining and Quarrying	Manufacturing	Electricity, Gas and Water	Construction	Wholesale and Retail Trade and Hotels and Restaurants	Transport, Storage and Communication	Finance and Insurance	Real Estate	Business Activities	Education and Health	Household	Others	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	842	153,931	94,910	7,963	16,349	46,449	9,869	1	707,073	10,051	8,562	629,037	4,289	-	**1,689,326**
Past due loans / financing	11,193	163,091	175,734	2,596	38,323	79,052	49,185	2,561	86,478	44,855	20,218	9,525,119	27,178	-	**10,225,583**
Individual allowance	-	30,072	54,166	5,440	3,786	602	719	-	153,941	3,257	-	7,014	-	-	**258,997**
Collective allowance	-	-	-	-	-	-	-	-	-	-	-	-	-	861,780	**861,780**
Charges / (writeback) for individual allowance	-	42,780	41,837	(241)	(6,453)	3,912	3,952	-	160,274	644	-	5,280	66	-	**252,051**
Write-offs against individual allowance and other movements	-	25,201	136,105	4,335	1,183	6,599	16,214	-	112,908	2,738	-	4,572	468	-	**310,323**

Table 5.3: Geographical distribution of credit exposures
The aggregated geographic distribution of credit exposures of AMMB Banking Group is as follows:

	31 MARCH 2018		
	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
PSEs	40,802	-	40,802
Banks, DFIs and MDBs	5,749,435	1,221,499	6,970,934
Insurance companies, Securities firms and Fund managers	9,775	-	9,775
Corporates	52,356,932	2,157,200	54,514,132
Regulatory retail	35,600,800	-	35,600,800
Residential mortgages	16,882,162	-	16,882,162
Higher risk assets	339,614	41	339,655
Other assets	2,077,117	117,136	2,194,253
Securitisation exposures	42,970	-	42,970
Equity exposures	104	-	104
Defaulted exposures	1,147,070	82,953	1,230,023
Total for on balance sheet exposures	119,483,138	3,646,882	123,130,020
Off balance sheet exposures			
OTC derivatives	2,191,507	208,857	2,400,364
Credit derivatives	-	14	14
Off balance sheet exposures other than OTC derivatives or Credit derivatives	12,250,384	496,470	12,746,854
Defaulted exposures	32,994	626	33,620
Total for off balance sheet exposures	14,474,885	705,967	15,180,852
Total on and off balance sheet exposures	133,958,023	4,352,849	138,310,872

	31 MARCH 2017		
	In Malaysia RM'000	**Outside Malaysia RM'000**	**Total RM'000**
On balance sheet exposures			
Sovereigns/ Central banks	7,808,296	8,888	7,817,184
Public Sector Entities	41,621	-	41,621
Banks, DFIs and MDBs	6,828,126	922,537	7,750,663
Insurance companies, Securities firms and Fund managers	73	-	73
Corporates	51,400,893	2,199,694	53,600,587
Regulatory retail	32,650,413	-	32,650,413
Residential mortgages	14,569,271	-	14,569,271
Higher risk assets	120,671	51	120,722
Other assets	2,895,112	88,548	2,983,660
Securitisation exposures	53,095	-	53,095
Equity exposures	576	-	576
Defaulted exposures	1,193,630	81,494	1,275,124
Total for on balance sheet exposures	117,561,777	3,301,212	120,862,989
Off balance sheet exposures			
OTC derivatives	4,003,222	3,899	4,007,121
Credit derivatives	14	-	14
Off balance sheet exposures other than OTC derivatives or Credit derivatives	11,450,243	667,314	12,117,557
Defaulted exposures	20,952	-	20,952
Total for off balance sheet exposures	15,474,431	671,213	16,145,644
Total on and off balance sheet exposures	**133,036,208**	**3,972,425**	**137,008,633**

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

The aggregated amounts of impaired and past due loans, advances and financing, individual and collective allowances by geographic distribution of AMMB Banking Group is as follows:

	31 MARCH 2018		
	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

	31 MARCH 2017		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans, advances and financing	1,607,832	81,494	1,689,326
Past due loans / financing	10,136,686	88,897	10,225,583
Individual allowance	258,988	9	258,997
Collective allowance	855,717	6,063	861,780

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

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

	31 MARCH 2018								
	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 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	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	4,516,987	1,543,500	249,135	-	178,391	54,610	180,472	247,839	6,970,934
Insurance companies, Securities firms and Fund managers	-	-	3,082	-	-	-	6,693	-	9,775
Corporates	16,216,877	4,406,381	2,090,691	2,147,135	8,646,298	5,016,738	15,990,012	-	54,514,132
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	320,145	339,655
Other assets	1,192,468	327	504	1,057	18,349	-	-	981,548	2,194,253
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	24,024,088	6,005,787	2,480,437	2,572,417	12,251,118	12,619,256	61,627,288	1,549,629	123,130,020
Off balance sheet exposures									
OTC derivatives	70,432	90,737	62,982	218,044	171,271	255,048	1,531,850	-	2,400,364
Credit derivatives	-	-	-	-	-	14	-	-	14
Off balance sheet exposures other than OTC derivatives or Credit derivatives	1,575,895	747,974	775,625	1,864,446	1,949,375	1,094,213	4,739,326	-	12,746,854
Defaulted exposures	2,036	983	7,903	2,222	5,373	1,882	13,221	-	33,620
Total for off balance sheet exposures	1,648,363	839,694	846,510	2,084,712	2,126,019	1,351,157	6,284,397	-	15,180,852
Total on and off balance sheet exposures	**25,672,451**	**6,845,481**	**3,326,947**	**4,657,129**	**14,377,137**	**13,970,413**	**67,911,685**	**1,549,629**	**138,310,872**

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

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

	31 MARCH 2017								
	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	3,548,583	-	29,543	-	215,164	264,625	3,759,269	-	7,817,184
PSEs	-	14	14	154	41,149	28	262	-	41,621
Banks, DFIs and MDBs	5,245,044	1,953,477	150,691	71,347	187,290	-	142,814	-	7,750,663
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	73	-	73
Corporates	15,442,959	4,096,140	3,654,201	1,394,826	6,321,358	6,553,914	16,137,189	-	53,600,587
Regulatory retail	108,029	32,201	92,942	260,058	2,951,858	7,339,761	21,865,564	-	32,650,413
Residential mortgages	430	334	986	4,333	54,390	138,524	14,370,274	-	14,569,271
Higher risk assets	30	-	70	14	521	822	18,980	100,285	120,722
Other assets	1,214,888	3,920	34,883	218,411	20,372	-	-	1,491,186	2,983,660
Securitisation exposures	39	-	-	-	-	-	53,056	-	53,095
Equity exposures	435	-	-	-	-	-	8	133	576
Defaulted exposures	569,358	20,230	4,966	10,604	148,527	86,269	435,170	-	1,275,124
Total for on balance sheet exposures	26,129,795	6,106,316	3,968,296	1,959,747	9,940,629	14,383,943	56,782,659	1,591,604	120,862,989
Off balance sheet exposures									
OTC derivatives	210,060	368,177	185,765	311,471	251,422	1,063,986	1,616,240	-	4,007,121
Credit derivatives	-	-	-	-	-	14	-	-	14
Off balance sheet exposures other than OTC derivatives or Credit derivatives	1,109,893	861,104	611,288	1,954,530	2,001,065	1,112,689	4,466,988	-	12,117,557
Defaulted exposures	1,187	1,509	386	2,716	2,240	3,903	9,011	-	20,952
Total for off balance sheet exposures	1,321,140	1,230,790	797,439	2,268,717	2,254,727	2,180,592	6,092,239	-	16,145,644
Total on and off balance sheet exposures	**27,450,935**	**7,337,106**	**4,765,735**	**4,228,464**	**12,195,356**	**16,564,535**	**62,874,898**	**1,591,604**	**137,008,633**

Table 5.6: Reconciliation of changes to loans/financing impairment allowances
The reconciliation of changes to aggregated loan/financing impairment allowances of AMMB Banking Group is as follows:

	31 MARCH 2018	
	Individual impairment allowance RM'000	**Collective impairment allowance RM'000**
Balance at beginning of the financial year	258,997	861,780
Charge for the financial year – net	105,151	345,200
Amount written-off	(148,170)	(470,347)
Foreign exchange differences	(7,496)	(1,855)
Balance at end of the financial year *	208,482	734,778

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

	31 MARCH 2017	
	Individual impairment allowances RM'000	**Collective impairment allowances RM'000**
Balance at beginning of the financial year	317,269	1,061,513
Charge for the financial year – net	252,052	256,261
Amount written-off	(312,026)	(458,250)
Foreign exchange differences	1,702	2,256
Balance at end of the financial year *	258,997	861,780

	(Charge off)/ recoveries RM'000
Bad debts written off during the financial year	(104,963)
Bad debt recoveries during the financial year	786,619

* During the current financial year, AmBank Islamic entered into two new PSIA contracts which amounted to a total sum of RM1,387.0 million with AmBank. As at 31 March 2018, the gross exposure (including profit receivable) relating to the PSIA financing financed by AmBank amounted to RM2,869.6 million (2017:1,604.4 million). Collective allowance which amounted to RM2.7 million (2017: RM2.3 million) is taken up by AmBank.

There was no individual allowance provided for the PSIA financing as at 31 March 2018 and 31 March 2017.

6.0 Credit Risk Exposure under Standardised Approach

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

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

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

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 AMMB Banking Group is as follows:

	31 March 2018												
	Exposures after netting and credit risk mitigation												
Risk weights	Sovereigns and Central banks RM'000	PSEs RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities firms and Fund managers RM'000	Corporates RM'000	Regulatory retail RM'000	Residental mortgages RM'000	Higher risk assets RM'000	Other assets RM'000	Securitisation exposures RM'000	Equity exposures RM'000	Total Exposures after Netting and CRM RM'000	Total Risk Weighted Assets RM'000
0%	5,304,410	-	24,871	-	4,569,973	-	-	-	334,306	-	-	10,233,560	-
20%	19,532	40,802	7,976,278	-	4,692,276	154,578	-	-	26,415	42,808	-	12,952,689	2,590,538
35%	-	-	-	-	-	-	13,908,050	-	-	-	-	13,908,050	4,867,817
50%	-	-	579,510	-	330,708	26,563	3,126,426	-	-	-	-	4,063,207	2,031,604
75%	-	-	-	-	-	31,481,241	-	-	-	-	-	31,481,241	23,610,931
100%	-	-	-	38,455	51,493,606	5,748,033	66,278	-	1,833,531	-	104	59,180,007	59,180,007
150%	-	-	-	-	685,108	127,505	-	358,253	-	-	-	1,170,866	1,756,300
1250%	-	-	-	-	-	-	-	-	-	162	-	162	2,029
Total	5,323,942	40,802	8,580,659	38,455	61,771,671	37,537,920	17,100,754	358,253	2,194,252	42,970	104	132,989,782	94,039,226

	31 MARCH 2017												
	Exposures after netting and credit risk mitigation												
Risk weights	Sovereigns and Central banks RM'000	PSEs RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities firms and Fund managers RM'000	Corporates RM'000	Regulatory retail RM'000	Residental mortgages RM'000	Higher risk assets RM'000	Other assets RM'000	Securitisation exposures RM'000	Equity exposures RM'000	Total Exposures after Netting and CRM RM'000	Total Risk Weighted Assets RM'000
0%	7,798,912	-	24,856	-	4,989,524	-	-	-	470,360	-	-	13,283,652	-
20%	13,306	41,621	8,436,951	-	4,827,125	43,407	-	-	21,336	52,958	-	13,436,704	2,687,341
35%	-	-	-	-	-	-	12,681,694	-	-	-	-	12,681,694	4,438,593
50%	8,888	-	2,499,394	-	1,460,450	26,775	2,029,702	-	-	-	-	6,025,209	3,012,603
75%	-	-	-	-	-	30,834,619	-	-	-	-	-	30,834,619	23,125,965
100%	-	-	-	30,259	49,206,193	3,848,924	66,916	-	2,491,964	-	576	55,644,832	55,644,832
150%	-	-	-	-	627,367	116,231	-	139,143	-	-	-	882,741	1,324,114
1250%	-	-	-	-	-	-	-	-	-	137	-	137	1,712
Total	7,821,106	41,621	10,961,201	30,259	61,110,659	34,869,956	14,778,312	139,143	2,983,660	53,095	576	132,789,588	90,235,160

Table 6.2: Rated Exposures according to Ratings by ECAIs

	31 MARCH 2018					
	Ratings of Corporate by Approved ECAIs					
	Moodys	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	38,455	-	-	-	-	38,455
Corporates	65,873,125	3,383,447	1,085,839	-	-	61,403,839
Total	65,952,482	3,423,930	1,085,839	-	-	61,442,713

	31 MARCH 2017					
	Ratings of Corporate by Approved ECAIs					
	Moodys	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)	42,121	40,539	96	-	-	1,486
Insurance companies, Securities firms and Fund managers	30,259	-	-	-	-	30,259
Corporates	65,040,492	3,092,990	2,629,744	-	-	59,317,758
Total	**65,112,872**	**3,133,529**	**2,629,840**	**-**	**-**	**59,349,503**

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

	31 MARCH 2018					
	Ratings of Sovereigns and Central Banks by Approved ECAIs					
	Moodys	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 2017					
	Ratings of Sovereigns and Central Banks by Approved ECAIs					
	Moodys	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	7,830,490	-	7,821,602	8,888	-	-
Total	**7,830,490**	**-**	**7,821,602**	**8,888**	**-**	**-**

	31 MARCH 2018					
	Ratings of Banking Institutions by Approved ECAIs					
	Moodys	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	8,779,275	2,837,798	1,868,167	1,001,092	230	3,071,988
Total	**8,779,275**	**2,837,798**	**1,868,167**	**1,001,092**	**230**	**3,071,988**

	31 MARCH 2017					
	Ratings of Banking Institutions by Approved ECAIs					
	Moodys	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	10,961,201	3,243,448	2,351,183	637,064	413	4,729,093
Total	**10,961,201**	**3,243,448**	**2,351,183**	**637,064**	**413**	**4,729,093**

Table 6.3: Securitisation according to Ratings by ECAIs

	31 MARCH 2018			
	Ratings of Securitisation by Approved ECAIs			
	Moodys	Aaa to Aa3	A1 to A3	Unrated
	S&P	AAA to AA-	A+ to A-	Unrated
	Fitch	AAA to AA-	A+ to A-	Unrated
	RAM	AAA to AA3	A1 to A3	Unrated
	MARC	AAA to AA-	A+ to A-	Unrated
Exposure class	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**

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

7.0 Credit Risk Mitigation

Main types of collateral taken by the Group

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

- Cash and term deposits;
- Exchange traded shares, bonds, sukuk, convertible bonds and marketable securities;
- Non-exchange traded debt securities/sukuk;
- Unit trusts (including Amanah Saham Nasional, Amanah Saham Bumiputera and mutual funds);
- Non-exchange traded shares;
- Residential and non-residential property;
- Plantation land, mining land, quarry land and vacant land;
- Passenger vehicle, commercial vehicle, construction vehicle and vessel
- Plant and machineries.

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

Where the customer risk profile is considered very sound (or by nature of the product, for instance small limit products such as credit cards), a transaction may be provided on an "unsecured" basis, this is 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, motor vehicles and exchange traded shares.

7.0 Credit Risk Mitigation

Table 7.1: Credit Risk Mitigation

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

	31 MARCH 2018		
Exposures	**Exposures before CRM RM'000**	**Exposures covered by Guarantees RM'000**	**Exposures covered by Eligible Financial Collateral RM'000**
Credit risk			
On balance sheet exposures			
Sovereigns/ Central banks	5,304,410	-	-
PSEs	40,802	-	-
Banks, DFIs And MDBs	6,970,934	-	-
Insurance companies, Securities firms and Fund managers	9,775	-	-
Corporates	54,514,132	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	339,655	-	118
Other assets	2,194,253	-	-
Securitisation exposures	42,970	-	-
Equity exposures	104	-	-
Defaulted exposures	1,230,023	11,798	202,410
Total for on balance sheet exposures	123,130,020	1,210,505	5,626,050
Off balance sheet exposures			
OTC derivatives	2,400,364	-	718,631
Credit derivatives	14	-	-
Off balance sheet exposures other than OTC derivatives or Credit derivatives	12,746,854	220,328	2,856,571
Defaulted exposures	33,620	-	11,984
Total for off balance sheet exposures	15,180,852	220,328	3,587,186
Total on and off balance sheet exposures	**138,310,872**	**1,430,833**	**9,213,236**

	31 MARCH 2017		
Exposures	**Exposures before CRM RM'000**	**Exposures covered by Guarantees RM'000**	**Exposures covered by Eligible Financial Collateral RM'000**
Credit risk			
On balance sheet exposures			
Sovereigns/ Central banks	7,817,184	-	-
PSEs	41,621	-	-
Banks, DFIs And MDBs	7,750,663	-	-
Insurance companies, securities firms and fund managers	73	-	-
Corporates	53,600,587	907,760	4,345,823
Regulatory retail	32,650,413	42,680	292,438
Residential mortgages	14,569,271	-	99,065
Higher risk assets	120,722	-	128
Other assets	2,983,660	-	-
Securitisation exposures	53,095	-	-
Equity exposures	576	-	-
Defaulted exposures	1,275,124	1,131	228,297
Total for on balance sheet exposures	120,862,989	951,571	4,965,751
Off balance sheet exposures			
OTC derivatives	4,007,121	-	-
Credit derivatives	14	-	-
Off balance sheet exposures other than OTC derivatives or Credit derivatives	12,117,557	1,873	2,646,298
Defaulted exposures	20,952	-	3,111
Total for off balance sheet exposures	16,145,644	1,873	2,649,409
Total on and off balance sheet exposures	**137,008,633**	**953,444**	**7,615,160**

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) Derivatives 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 aggregated off balance sheet exposures and counterparty credit risk of the AMMB Banking Group is as follows:

Description	31 MARCH 2018			
	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	2,159,347		2,302,230	1,803,251
Transaction related contingent Items	5,854,587		2,855,850	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 on-going underwriting agreements	105,903		-	-
Foreign exchange related contracts				
One year or less	46,477,103	542,379	226,909	156,185
Over one year to five years	1,832,176	159,830	167,246	86,617
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	1,460,763	14,902	44,226	16,647
Over five years	1,139,677	11,423	56,874	11,375
Equity and commodity related contracts				
One year or less	797,179	30,633	85,134	45,147
Over one year to five years	418,626	1,940	47,805	32,114
Credit Derivative Contracts				
Over one year to five years	334,505	6,537	14	7
Over five years	-	-	-	-
OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	56,548,649	291,104	1,581,998	620,035
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	18,710,982		4,378,736	2,871,944
Unutilised credit card lines	5,208,130		1,041,625	776,986
Total	**147,504,330**	**1,221,461**	**15,180,852**	**10,581,112**

Description	31 MARCH 2017			
	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	2,052,065		2,307,265	1,851,606
Transaction related contingent Items	5,914,536		2,829,668	2,163,653
Short Term Self Liquidating trade related contingencies	835,140		167,028	151,681
Forward Asset Purchases	680,643		28,509	9,351
Obligations under an on-going underwriting agreements	150,000		-	-
Foreign exchange related contracts				
One year or less	48,067,817	492,522	1,021,607	592,048
Over one year to five years	2,525,097	65,376	357,703	211,231
Over five years	2,140,212	395,785	783,247	456,220
Interest/Profit rate related contracts				
One year or less	9,810,942	6,210	38,691	16,611
Over one year to five years	31,205,847	134,572	952,697	387,114
Over five years	10,148,780	106,390	832,991	389,179
Equity and commodity related contracts				
One year or less	229,628	2,417	15,177	15,177
Over one year to five years	83,396	4	5,008	2,504
Credit Derivative Contracts				
Over one year to five years	361,251	11,237	14	7
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	3,925,299		1,962,649	1,603,802
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	17,383,700		4,130,891	2,884,890
Unutilised credit card lines	3,562,496		712,499	530,911
Total	**139,076,849**	**1,214,513**	**16,145,644**	**11,265,985**

Table 8.2: Credit Derivatives Counterparty Credit Risk ("CCR")
Credit derivatives that create exposures to counterparty credit risk are as follows:

		31 MARCH 2018		31 MARCH 2017	
		Sell Leg	Buy Leg *	Sell Leg	Buy Leg *
Usage	Product	Notional Exposure for Protection Sold RM'000	Notional Exposure for Protection Bought RM'000	Notional Exposure for Protection Sold RM'000	Notional Exposure for Protection Bought RM'000
Intermediation	Credit default swap	184,505	150,000	211,251	150,000

* Out of the total notional exposure for protection bought as at 31 March 2018, RM150,000,000 (2017: 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 aggregated securitised exposures of AMMB Banking Group is as follows:

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

	31 MARCH 2017			
Underlying Asset	**Total Exposures Securitised RM'000**	**Past Due RM'000**	**Impaired RM'000**	**Gains/ losses recognised during the year RM'000**
Traditional Securitisation				
Originated by the Group				
Banking Book				
Corporate loans	134,116	-	62,161	-
Mortgage loans	877,968	-	871,632	-
Total Traditional Securitisation	1,012,084	-	933,793	-
Total Synthetic Securitisation	**-**	**-**	**-**	**-**
Total Traditional and Synthetic Securitisation	**1,012,084**	**-**	**933,793**	**-**

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

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

	31 MARCH 2017						
				Distribution of Exposures after CRM according to Appplicable Risk Weights			
				Rated Securitisation Exposures or Risk weights of Guarantees/ Credit Derivatives			
Securitisation Exposures by Exposure Type	**Exposure Value of Positions Purchased or Retained RM'000**	**Exposure after CRM RM'000**	**Exposures subject to deduction RM'000**	**20% RM'000**	**50% RM'000**	**1250% RM'000**	**Risk Weighted Assets RM'000**
Traditional Securitisation							
Originated by Third Party							
On Balance Sheet Exposures	52,958	52,958	-	52,958	-	-	10,591
Originated by the Group							
On Balance Sheet Exposures	137	137	-	-	-	137	1,712
Total Traditional Securitisation	53,095	53,095	-	52,958	-	137	12,303

There are no securitisation exposure under trading book for 2018 and 2017.

10.0 Operational Risk

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

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

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external incidents which includes but is not limited to legal risk, outsourcing risk, 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 Board.

- Group Internal Audit acts as the third and final line of defence by providing independent assurance on the internal control effectiveness through periodic audit programme.

10.0 Operational Risk (Cont'd.)

Group Operational Risk maintains close working relationships with all 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.
- The RCSA, KRIs and KCTs are then validated by the Operational Risk Assurance team, which is an independent unit within Group Operational Risk.
- Scenario analysis is a forward looking assessment tool to assess the severity impact on the Bank's profitability and capital adequacy should the plausible and worse case scenarios materialise.

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

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

10.1 Business Continuity Management

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

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

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

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

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

10.2 Cyber Risks Management

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

10.3 Legal Risk

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

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

10.4 Regulatory Compliance Risk

The 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 (Board) 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.

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

TMR arises from transactions in which the 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. Business Units are required to provide an action plan to address any non-adherence to limits. The action plan must be approved by Senior Management.

The 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

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

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

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

IRR/RORBB arises from changes in market interest/profit rates that impact core net interest/profit income, future cash flows or fair values of financial instruments. This risk arises from mismatches between repricing dates of assets and liabilities, changes in yield curves, volatilities in interest/profit margins and implied volatilities on interest/profit rate options. The provision of retail and wholesale banking products and services (primarily lending/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 risk of losses arising from potential adverse movements in market interest/profit rates and volatilities using VaR. VaR is a quantitative measure of IRR/RORBB which applies recent historic market conditions to estimate the potential loss in economic value, at a certain confidence level and over a specified holding period.

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

Key assumptions in the gap and sensitivity analysis relate to the behaviour of interest/profit rates and spreads, changes in loan/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 banking book policy statements, hedging policies and Non-Traded Interest/Profit Rate Risk Framework.

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

Table 11.2: Interest Rate Risk/ Rate of Return Risk Sensitivity in the Banking Book
The aggregated IRR/ RORBB sensitivity for AMMB Banking Group is as follows:

	31 MARCH 2018	
	Interest Rate / Rate of Return +100 bps RM'000	Interest Rate / Rate of Return -100 bps RM'000
Impact on Profit Before Taxation	153,712	(153,712)
	Interest Rate / Rate of Return +100 bps RM'000	Interest Rate / Rate of Return -100 bps RM'000
Impact on Equity	(404,433)	456,632

	31 MARCH 2017	
	Interest Rate / Rate of Return +100 bps RM'000	Interest Rate / Rate of Return -100 bps RM'000
Impact on Profit Before Taxation	99,629	(99,629)
	Interest Rate / Rate of Return +100 bps RM'000	Interest Rate / Rate of Return -100 bps RM'000
Impact on Equity	(560,779)	627,654

12.0 Equities (Banking Book Positions)

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

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

- Equity investments on which capital gains are expected – These transactions are for proprietary trading.

- Equity investments made as the result of a work out of a problem exposure – From time to time, the Group will take an equity stake in a customer as part of a work out arrangement for problem exposures. These investments are made only where there is no other viable option available and form an immaterial part of the Group's equity exposures.

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

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

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

Table 12.1: Equity investments and capital requirement

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

	31 MARCH 2018	31 MARCH 2017
Non traded equity investments	**RM'000**	**RM'000**
Value of quoted (publicly traded) equities	110,231	149,246
Value of unquoted (privately held) equities	319,152	99,281
Total	**429,383**	**248,527**
Net realised and unrealised gains/ (losses)		
Cumulative realised gains from sales and liquidations	228,120	5,538
Total unrealised losses	(8,729)	5,606
Total	**219,391**	**11,144**
Risk Weighted Assets		
Equity investments subject to a 100% risk weight	110,198	149,202
Equity investments subject to a 150% risk weight	478,779	148,988
Total	**588,977**	**298,190**
Total minimum capital requirement (8%)	**47,118**	**23,855**

13.0 Liquidity Risk and Funding Management

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

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

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

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

The Group has put in place a Contingency Funding Plan 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.

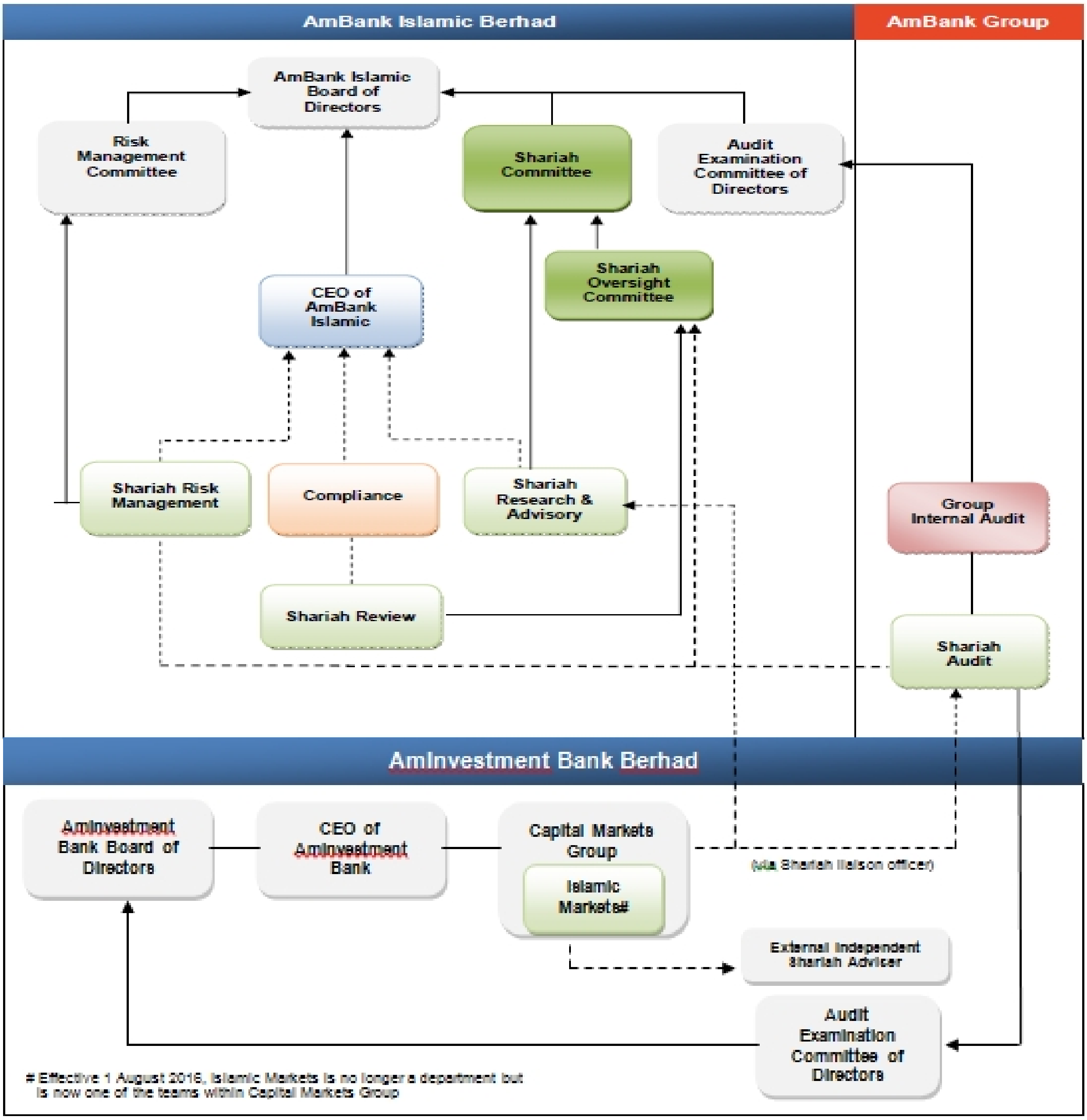
Stress testing is undertaken to assess and plan for the impact for various scenarios which may put the Group's liquidity at risk. The Group further stresses the importance of the stable funding sources to finance lending/financing to customers. They are monitored using the loans/financing to available 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.)

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 Berhad ("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.

The Group adopts a leverage model (with some minor refinements/enhancements during the current financial year) whereby, through its Islamic Window i.e. Islamic Markets ("IM"), its leverages on AmBank Islamic Shariah Governance Structure, including the SC of AmBank Islamic Berhad ("Shariah Committee"). 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.

Board of Directors
The Board is accountable and responsible for the overall oversight on the Shariah governance and Shariah compliance, including the assessment, appointment and remuneration of the Shariah Committee members. The Board performs its oversight through various committees such as the Audit & Examination Committee ("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 AMMB Group are Shariah compliant through oversight of the Shariah Audit function performed by Group Internal Audit Department. The updates on Shariah Review are also presented to the AEC.

Risk Management Committee
RMC 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. The Committee provides guidance and advice on matters pertaining to Shariah non-compliant incidences as well as treatment of Shariah non-compliant income (if any).

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

14.0 Shariah Governance Structure (Cont'd.)

Shariah Risk Management

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

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

Shariah Review

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

Shariah Audit

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

Shariah Liaison Officer, IM

As per the leveraging model, the 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") 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.

14.1 Shariah Non-Compliant incidents and income

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

15.0 Profit Sharing Investment Account ("PSIA")

Investment Account ("IA")

The Group via AmBank Islamic offers two types of Investment Account ("IA") namely, Restricted Profit Sharing Investment Account ("RPSIA") which refers to an IA where the customers provides a specific investment to 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.

Mudarabah Term Investment Account ("MTIA")

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

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 IAH provided that such losses are not due to the Group's misconduct, negligence or breach of specified terms.

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

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

MTIA Performance

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

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