# AmInvestment Bank Berhad

# Pillar 3 Disclosures

## As at 30 September 2017

# AmInvestment Bank Berhad
# Pillar 3 Disclosures
# 30 September 2017

**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 apply are AmBank (M) Berhad ("AmBank"), AmInvestment Bank Berhad ("the Bank") and AmBank Islamic Berhad (formerly known as AmIslamic Bank Berhad) ("AmBank Islamic") – which offers Islamic banking services.

The following information has been provided in order to highlight the capital adequacy of the Bank and its subsidiaries ("the Group"). The information provided has been verified by the Group internal auditors and certified by the Group Managing Director.

**Capital Adequacy Ratios**

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.

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 13 October 2015, which is based on the Basel III Capital Accord. Pursuant to this guideline on Capital Adequacy Framework (Capital Components), the minimum capital adequacy ratio to be maintained under the guideline remained at 4.5% for CET 1 capital, 6.0% for Tier 1 capital and 8% for total capital ratio. Banking institutions are also required to maintain capital buffers. The capital buffers shall comprise the sum of the following:

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

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

| | **CCB** |
|---|---|
| **Calendar year 2016** | 0.625% |
| **Calendar year 2017** | 1.25% |
| **Calendar year 2018** | 1.875% |
| **Calendar year 2019 onwards** | 2.50% |

## 1.0 Scope of Application (Cont'd.)

**Frequency of Disclosure**

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

**Medium and Location of Disclosure**

These Pillar 3 disclosures of the Group are available on Group's corporate website at www.ambankgroup.com.

## 1.1 Basis of Consolidation

For statutory accounting purposes, the consolidated financial statements of the Bank comprise the financial statements of the Bank 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 Disclosures, 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;<br>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;<br>Consolidated in 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 calculation of capital |
| Associates and jointly controlled entities which are not licensed under FSA or IFSA and not 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 Boards 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 and/or
(b) Capital requirement to support business growth, strategic objectives, buffer for material regulatory risks and stress test results.

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 & 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"). 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 of Directors ("RMCD") 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.

## 2.0 Capital Management (Contd.)

GALCO proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. For the current financial year ending 31 March 2018 ("FY 2018"), these ranges are 16.0% to 18.0% for the Common Equity Tier 1 Capital Ratio, 16.0% to 18.0% for the Tier 1 Capital Ratio, and 16.0% to 18.0% for the Total Capital Ratio.

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

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

**Table 2.1: Capital Adequacy Ratios**

(a) The capital adequacy ratios of the Group and the Bank are as follows:

| | 30.09.2017 | | 31.03.2017 | |
|---|---|---|---|---|
| | **Group** | **Bank** | **Group** | **Bank** |
| **Before deducting proposed dividends:** | | | | |
| CET 1 Capital Ratio | 36.896% | 34.192% | 38.339% | 32.916% |
| Tier 1 Capital Ratio | 36.896% | 34.192% | 38.339% | 32.916% |
| Total Capital Ratio | 37.165% | 34.192% | 38.591% | 32.916% |
| | | | | |
| **After deducting proposed dividends:** | | | | |
| CET 1 Capital Ratio | 35.360% | 32.574% | 36.880% | 31.373% |
| Tier 1 Capital Ratio | 35.360% | 32.574% | 36.880% | 31.373% |
| Total Capital Ratio | 35.630% | 32.574% | 37.132% | 31.373% |

(b) The capital adequacy ratios of the Islamic window of the Bank are as follows:

| | 30.09.2017 Islamic Window | 31.03.2017 Islamic Window |
|---|---|---|
| CET 1 Capital Ratio | 176.916% | 189.278% |
| Tier 1 Capital Ratio | 176.916% | 189.278% |
| Total Capital Ratio | 176.916% | 189.278% |

Notes:

(i) The Group has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk. With effect from 1 January 2016, the capital adequacy ratios are computed in accordance with BNM's guidelines on Capital Adequacy Framework (Capital Components) issued on 13 October 2015, which is based on the Basel III capital accord.

Company No: 23742-V

**Table 2.2 Risk-Weighted Assets and Capital Requirements**

**(a)** The aggregated breakdown of Risk Weighted Assets ("RWA") by exposures in major risk category of the Group is as follows:

| | 30.09.17 | | | | | |
|---|---|---|---|---|---|---|
| **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** | **Total Risk Weighted Assets after effects of RIA RM'000** | **Minimum capital requirement at 8% RM'000** |
| 1. **Credit risk** | | | | | | |
| **On balance sheet exposures** | | | | | | |
| Sovereigns/ Central banks | | 66,128 | 66,128 | - | - | - |
| Banks, development financial institutions ("DFIs") and multilateral development banks | | 676,480 | 676,479 | 135,296 | 135,296 | 10,824 |
| Corporates | | 343,034 | 171,431 | 95,968 | 95,968 | 7,677 |
| Regulatory retail | | 28,468 | 2,462 | 1,845 | 1,845 | 148 |
| Higher risk assets | | 11,820 | 11,820 | 17,730 | 17,730 | 1,418 |
| Other assets | | 612,798 | 612,798 | 589,211 | 589,211 | 47,137 |
| Defaulted exposures | | 10 | 10 | 16 | 16 | 1 |
| **Total for on balance sheet exposures** | | 1,738,738 | 1,541,128 | 840,066 | 840,066 | 67,205 |
| **Off balance sheet exposures:** | | | | | | |
| Off balance sheet exposures other than Over the counter ("OTC") derivatives or Credit derivatives | | 37,677 | 8,053 | 7,911 | 7,911 | 633 |
| **Total for off balance sheet exposures** | | 37,677 | 8,053 | 7,911 | 7,911 | 633 |
| **Total on and off balance sheet exposures** | | 1,776,415 | 1,549,181 | 847,977 | 847,977 | 67,838 |
| 2. **Large exposures risk requirement** | | | | - | - | - |
| 3. **Market risk** | **Long Position** | **Short Position** | | | | |
| Interest rate risk | | | | | | |
| - General interest rate risk | 7,995 | 8,008 | | - | - | - |
| Foreign currency risk | 49,061 | 113 | | 49,061 | 49,061 | 3,925 |
| Equity risk | | | | | | |
| - General risk | 1,068 | - | | 1,068 | 1,068 | 85 |
| - Specific risk | 1,068 | - | | 1,068 | 1,068 | 85 |
| Option risk | - | - | | - | - | - |
| Total | 59,192 | 8,121 | | 51,197 | 51,197 | 4,095 |
| 4. **Operational risk** | | | | 520,800 | 520,800 | 41,664 |
| 5. **Total RWA and capital requirements** | | | | 1,419,974 | 1,419,974 | 113,597 |

**Table 2.2 Risk-Weighted Assets and Capital Requirements (Contd.)**

| | 31.03.17 | | | | | |
|---|---|---|---|---|---|---|
| **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** | **Total Risk Weighted Assets after effects of RIA RM'000** | **Minimum capital requirement at 8% RM'000** |
| 1. **Credit risk** | | | | | | |
| **On balance sheet exposures** | | | | | | |
| Sovereigns/ Central banks | | 35,012 | 35,012 | - | - | - |
| Banks, development financial institutions ("DFIs") and multilateral development banks | | 585,281 | 585,281 | 117,056 | 117,056 | 9,364 |
| Corporates | | 342,908 | 98,498 | 23,053 | 23,053 | 1,844 |
| Regulatory retail | | 25,151 | 2,630 | 1,972 | 1,972 | 158 |
| Higher risk assets | | 11,820 | 11,820 | 17,730 | 17,730 | 1,418 |
| Other assets | | 675,202 | 675,202 | 658,135 | 658,135 | 52,651 |
| Defaulted exposures | | 45 | 45 | 68 | 68 | 5 |
| **Total for on balance sheet exposures** | | 1,675,419 | 1,408,488 | 818,014 | 818,014 | 65,440 |
| **Off balance sheet exposures:** | | | | | | |
| Off balance sheet exposures other than Over the counter ("OTC") derivatives or Credit derivatives | | 44,027 | 8,592 | 6,733 | 6,733 | 539 |
| **Total for off balance sheet exposures** | | 44,027 | 8,592 | 6,733 | 6,733 | 539 |
| **Total on and off balance sheet exposures** | | 1,719,446 | 1,417,080 | 824,747 | 824,747 | 65,979 |
| 2. **Large exposures risk requirement** | | | | - | - | - |
| 3. **Market risk** | **Long Position** | **Short Position** | | | | |
| Interest rate risk /Rate of return risk | | | | | | |
| - General interest rate risk/Rate of return risk | 262 | 262 | | - | - | - |
| Foreign currency risk | 33,823 | 2 | | 33,823 | 33,823 | 2,706 |
| Equity risk | | | | | | |
| - General risk | 955 | 1,048 | | 93 | 93 | 7 |
| - Specific risk | 955 | 1,048 | | 1,217 | 1,217 | 97 |
| Option risk | - | - | | - | - | - |
| Total | 35,995 | 2,360 | | 35,133 | 35,133 | 2,810 |
| 4. **Operational risk** | | | | 531,513 | 531,513 | 42,521 |
| 5. **Total RWA and capital requirements** | | | | 1,391,393 | 1,391,393 | 111,310 |

**Table 2.2 Risk-Weighted Assets and Capital Requirements (Contd.)**

(b) The breakdown of RWA by exposure in each major risk category of the Islamic window of the Bank is as follows:

| | | 30.09.17 | | | | |
|---|---|---|---|---|---|---|
| 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 | Total Risk Weighted Assets after effects of RIA RM'000 | Minimum capital requirement at 8% RM'000 |
| 1. **Credit risk** | | | | | | |
| **On balance sheet exposures** | | | | | | |
| Sovereigns/ Central banks | | 50 | 50 | - | - | - |
| Banks, DFIs and MDBs | | 323,682 | 323,682 | 64,736 | 64,736 | 5,179 |
| Other assets | | 8,768 | 8,768 | 8,768 | 8,768 | 701 |
| **Total for on balance sheet exposures** | | 332,500 | 332,500 | 73,504 | 73,504 | 5,880 |
| **Off balance sheet exposures:** | | | | | | |
| Off balance sheet exposures other than Over the counter ("OTC") derivatives or credit derivatives | | - | - | - | - | - |
| Defaulted exposures | | | | | | |
| **Total for off balance sheet exposures** | | - | - | - | - | - |
| **Total on and off balance sheet exposures** | | 332,500 | 332,500 | 73,504 | 73,504 | 5,880 |
| 2. **Large exposures risk requirement** | | - | - | - | - | - |
| | **Long Position** | **Short Position** | | | | |
| 3. **Market risk** | **-** | **-** | | | | |
| Interest rate risk /Rate of return risk | **-** | **-** | | - | - | - |
| - General interest rate risk/Rate of return risk | - | - | | - | - | - |
| - Specific interest rate risk/Rate of return risk | - | - | | - | - | - |
| Foreign currency risk | - | - | | - | - | - |
| Equity risk | - | - | | - | - | - |
| - General risk | | | | | | - |
| - Specific risk | | | | | | - |
| Option risk | - | - | | - | - | - |
| Total | - | - | | - | - | - |
| 4. **Operational risk** | | | | 49,968 | 49,968 | 3,997 |
| 5. **Total RWA and capital requirements** | | | | 123,472 | 123,472 | 9,877 |

The Islamic window of the Group did not have Restricted Investment Account ("RIA") that qualifies as a risk absorbent as at 30 September 2017 and 31 March 2017.

**Table 2.2 Risk-Weighted Assets and Capital Requirements (Contd.)**

| | | 31.03.17 | | | | |
|---|---|---|---|---|---|---|
| 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 | Total Risk Weighted Assets after effects of RIA RM'000 | Minimum capital requirement at 8% RM'000 |
| 1. **Credit risk** | | | | | | |
| **On balance sheet exposures** | | | | | | |
| Sovereigns/ Central banks | | 88 | 88 | - | - | - |
| Banks, DFIs and MDBs | | 301,501 | 301,501 | 60,300 | 60,300 | 4,824 |
| Other assets | | 6,146 | 6,146 | 6,146 | 6,146 | 492 |
| **Total for on balance sheet exposures** | | 307,735 | 307,735 | 66,446 | 66,446 | 5,316 |
| **Off balance sheet exposures:** | | | | | | |
| Off balance sheet exposures other than Over the counter ("OTC") derivatives or Credit derivatives | | - | - | - | - | - |
| Defaulted exposures | | | | | | |
| **Total for off balance sheet exposures** | | - | - | - | - | - |
| **Total on and off balance sheet exposures** | | 307,735 | 307,735 | 66,446 | 66,446 | 5,316 |
| 2. **Large exposures risk requirement** | | - | - | - | - | - |
| | **Long Position** | **Short Position** | | | | |
| 3. **Market risk** | **-** | **-** | | | | |
| Interest rate risk /Rate of return risk | - | - | | - | - | - |
| - General interest rate risk/Rate of return ris | - | - | | - | - | - |
| - Specific interest rate risk/Rate of return ris | - | - | | - | - | - |
| Foreign currency risk | - | - | | - | - | - |
| Equity risk | - | - | | - | - | - |
| - General risk | | | | | | - |
| - Specific risk | | | | | | - |
| Option risk | - | - | | - | - | - |
| Total | - | - | | - | - | - |
| 4. **Operational risk** | | | | 41,347 | 41,347 | 3,308 |
| 5. **Total RWA and capital requirements** | | | | 107,793 | 107,793 | 8,624 |

The Islamic window of the Group did not have Restricted Investment Account ("RIA") that qualifies as a risk absorbent as at 30 September 2017 and 31 March 2017.

## 3.0 Capital Structure

Table 3.1 Capital Structure summarises the capital position of the Group. The capital structure includes capital under the following headings:

- Common Equity Tier 1 ("CET1") Capital;
- 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/period and eligible reserves are accumulated resources included in the shareholder's funds in an entity's statement of financial position, with certain regulatory adjustments applied. The retained earnings is included in CET1 Capital net of any interim and/or final dividend declared, and net of any interim losses. Quarterly interim profits have been included in CET1 Capital, subject to review/audit by the external auditors.

**(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, Section 57(2) 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 Group and the Bank had previously maintained the reserve fund via transfer from retained earnings to Statutory Reserve. Arising from this change, during the current financial quarter, the Group and the Bank had reclassified balances in Statutory Reserve to Retained earnings.

**(ii) Capital Reserve and Merger Reserve**

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

**(iii) Foreign Currency Translation Reserve/(Deficit)**

Exchange gain (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) Regulatory Reserve**

Regulatory reserve is maintained in accordance with paragraph 13.1 of the BNM's guidelines on Classification and Impairment Provisions for Loans and Advances as an additional credit risk absorbent. The amount of the regulatory reserve is derecognised in the calculation of CET1 Capital.

### 3.2 Additional Tier 1 Capital

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

### 3.3 Tier 2 Capital

The main components of Tier 2 capital are collective impairment provisions and regulatory reserves (subject to a maximum of 1.25% of total credit risk-weighted assets determined under the Standardised Approach) for credit risk and subordinated debt instruments. The Bank does not have any Tier 2 capital instruments in issuance.

**Table 3.1: Capital Structure**

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 30.09.17<br>RM'000 | 31.03.17<br>RM'000 | 30.09.17<br>RM'000 | 31.03.17<br>RM'000 |
| **CET1 Capital** | | | | |
| Ordinary shares | 200,000 | 200,000 | 200,000 | 200,000 |
| Retained earnings | 280,341 | 95,252 | 311,602 | 88,943 |
| Unrealised gains on financial investments available-for-sale ("AFS") | - | - | | - |
| Foreign exchange translation reserve | 2,908 | 3,035 | | - |
| Statutory reserve | - | 200,000 | | 200,000 |
| Regulatory reserve | 2,918 | 2,800 | 2,918 | 2,800 |
| Capital reserve | 2,815 | 2,815 | | - |
| Merger reserve | 82,115 | 82,115 | | - |
| Less : Regulatory adjustments applied on CET1 capital | | | | |
| Goodwill | (36,442) | (36,442) | | - |
| Other intangibles | (3,328) | (4,170) | (2,190) | (2,513) |
| Deferred tax assets | (4,501) | (9,158) | (2,630) | (7,153) |
| 55% of cumulative gains of AFS financial instruments | | - | | - |
| Regulatory reserve attributable to loans and advances | (2,918) | (2,800) | (2,918) | (2,800) |
| Investments in capital instruments of unconsolidated financial and insurance/takaful entities | - | - | (39,847) | (39,847) |
| Deduction in excess of Tier 2* | - | - | (6,130) | (6,458) |
| **CET1 Capital/ Tier 1 Capital** | **523,908** | **533,447** | **460,805** | **432,972** |
| **Tier 2 Capital** | | | | |
| Collective impairment provisions and regulatory reserve | 3,832 | 3,505 | 3,832 | 3,505 |
| Less : Regulatory adjustments applied on Tier 2 Capital | - | - | (3,832) | (3,505) |
| **Tier 2 Capital** | **3,832** | **3,505** | **-** | **-** |
| **Total Capital** | **527,740** | **536,952** | **460,805** | **432,972** |

*The portion of regulatory adjustments not deducted from Tier 2 Capital (as the 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 Bank Negara Malaysia's Capital Adequacy Framework (Capital Components).

### 3.3 Tier 2 Capital (Cont'd.)

**Table 3.1: Capital Structure (Contd.)**

The breakdown of risk weighted assets of the Group and the Bank in the various risk categories are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | **30.09.17** | **31.03.17** | **30.09.17** | **31.03.17** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Credit risk | 847,977 | 824,747 | 1,045,023 | 1,015,958 |
| Market risk | 51,197 | 35,133 | 29,596 | 20,158 |
| Operational risk | 520,800 | 531,513 | 273,087 | 279,251 |
| Total risk weighted assets | 1,419,974 | 1,391,393 | 1,347,706 | 1,315,367 |

(b) The components of CET1 Capital of the Islamic window of the Bank is as follows:

| | **30.09.17** | **31.03.17** |
|---|---|---|
| | **RM'000** | **RM'000** |
| **CET1 Capital** | | |
| Capital Funds | 30,000 | 30,000 |
| Retained earnings | 188,778 | 174,362 |
| Less : Regulatory adjustments applied on CET1 Capital | | |
| Other intangibles | - | - |
| Deferred tax assets | (336) | (333) |
| **CET1 capital/ Tier 1 capital/ Total capital** | **218,442** | **204,029** |

The breakdown of risk weighted assets of the Islamic window of the Bank in the various risk categories are as follows:

| | **30.09.17** | **31.03.17** |
|---|---|---|
| | **RM'000** | **RM'000** |
| Credit risk | 73,504 | 66,446 |
| Operational risk | 49,968 | 41,347 |
| Total risk weighted assets | 123,472 | 107,793 |

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

**AMMB Group Risk Direction**

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

1. AMMB Group aims to maintain an external rating of AA1 or better based on reference ratings by RAM Rating Services Berhad ("RAM").
2. AMMB Group aims to achieve and sustain a Return on Risk Weighted Assets ("RoRWA") in the range of 1.5% to 1.8%.
3. AMMB Group aims to maintain Available Financial Resources in excess of the capital requirements as estimated in the Internal Capital Adequacy Assessment Process ("ICAAP").
4. AMMB Group recognizes the importance of funding its own business. It aims to maintain the following:
   a. Liquidity Coverage Ratio ("LCR") at least 10% above prevailing regulatory minimum.
   b. Net Stable Funding Ratio ("NSFR") above the prevailing regulatory minimum.
   c. Liquidity Deposit Ratio ("LDR") in the range between 90% to 95%.
5. AMMB Group aims to maintain the following capital adequacy ratios ("CARs") under normal conditions:
   CET1, Tier 1 and total capital ratio of at least 2 percentage points above regulatory minimum.
6. AMMB Group aims to maintain adequate controls for all key operational risks (including but not limited to regulatory, compliance, technology, conduct and reputational risks).
   a. Keep operational losses and regulatory penalties below 2% of Profit after Tax and Minority Interest ("PATMI").
   b. Remain vigilant in risk identification and management to protect its reputation and business franchise.
7. AMMB Group aims to limit the Group's earnings volatility such that mean Adjusted Return volatility over a period of the last 3 years is Below 0.3**. **As per Perbadanan Insurans Deposit Malaysia ("PIDM") definition.
8. AMMB Group aims to maintain Risk Weighted Average ("RWA") efficiency Credit Risk Weighted Assets ("CRWA")/ Exposure At Default ("EAD") in the range of 50% to 60%.

**Risk Management Governance**

The Board is ultimately responsible for the management of risks within the Group. The RMCD 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 committee addresses all classes of risk within its Board delegated mandate: balance sheet risk, credit risk, legal risk, operational risk, market risk, shariah risk, compliance risk, reputational risk, product risk and business and IT risk.

## 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<br>• Select asset and portfolio mix |
| **Assessment/ Measurement** | • Internal credit rating system<br>• Probability of default ("PD")<br>• Loss given default ("LGD")<br>• Exposure at default ("EAD") |
| **Control/ Mitigation** | • Portfolio Limits, Counterparty Limits<br>• Wholesale Pricing<br>• Collateral & tailored facility structures |
| **Monitoring/ Review** | • Monitor and report portfolio mix<br>Review customers under Classified Account<br>• Review customers under Rescheduled and Restructured Account<br>• 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, securities and derivative exposures. The identification of credit risk is done by assessing the potential impact of internal and external factors on the Group transactions and/or positions as well as Shariah compliance risk (please refer to Section 14 for discussion on Shariah Governance Structure).

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

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

For retail credits, credit-scoring systems to better differentiate the quality of 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 loss provision calculation;
- stress-testing; and
- enhancement to portfolio management.

**5.0 Credit Risk Management (Cont'd.)**

Lending activities are guided by internal credit policies and Risk Appetite Framework that are approved by the Board. The GRAF 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 to Value limits for asset backed loans (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 loan and advances pursuant to the BNM's revised policy on Classification and Impairment Provisions for Loans; 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 GMRC regularly meets to review the quality and diversification of the Group's loans portfolio and review the portfolio risk profile against the GRAF and recommend or approve new and amended credit risk policy.

Group Risk prepares monthly Risk Reports which detail important portfolio composition and trend analysis incorporating asset growth, asset quality, impairment, flow rates of loan 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 Standardized Approach to determine the regulatory capital charge related to credit risk exposure.

## 5.0 Credit Risk Management (Cont'd.)

### 5.1 Impairment

#### 5.1.1 Definition of past due and impaired loans and advances

All loans and advances are categorised as either:

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

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

A loans and advances is classified as impaired under the following circumstances:

(a) When the principal or interest/profit 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 where repayments are scheduled on intervals of 3 months or longer, the loan and advance 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 defaulted and impaired when the past due is 90 days from due date of the bill.

(d) A loans may also be classified as impaired:
   i. If it is probable that the bank 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 loans obligation of a cutomer triggers a default of another loan obligation of the same customer or
      - a default of a loans obligation of a customer triggers a default of a loan obligation of other customers within the same customer group.

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

   iii. If deemed appropriate by the WACC or CACC.

(e) Debt instruments (for example, corporate bond and sukuk, debt converted instruments etc.) shall be classified as impaired
   i. When the coupon /interest/profit payment or face/nominal value redemption is one (1) day past due after the grace period, where there is a stipulated grace period within the contractually agreed terms; or
   ii. When an event of default (EOD) has been declared by the Trustee/ Facility Agent[4] for reasons other than payment in default (as outlined in the Trust Deeds Guidelines issued by the SC ); 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 loans, the account is impaired after 7 days when there is shortfall to the 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 loans and advances is deemed impaired when it is classified as R&R in the Central Credit Reference Information System ("CCRIS").

---

[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.

**5.1 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 the carrying value or fair value is less than the carrying value.

**Collective Assessment**
Loans 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.

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

**Table 5.1: Distribution of gross credit exposures by sector**

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

| | 30.09.17 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Agriculture RM'000 | Construction 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 | - | - | - | 4,726 | - | - | 61,402 | - | - | 66,128 |
| Banks, DFIs and MDBs | - | - | 676,480 | - | - | - | - | - | - | 676,480 |
| Corporates | 861 | - | 76,163 | - | 3,804 | - | 49,741 | 212,447 | 18 | 343,034 |
| Regulatory retail | - | - | - | - | - | - | - | 28,468 | - | 28,468 |
| Higher risk assets | - | - | - | - | - | - | - | - | 11,820 | 11,820 |
| Other assets | - | - | - | - | - | - | - | 536,621 | 76,177 | 612,798 |
| Defaulted exposures | - | - | - | - | - | - | - | 10 | - | 10 |
| **Total for on balance sheet exposures** | 861 | - | 752,643 | 4,726 | 3,804 | - | 111,143 | 777,546 | 88,015 | 1,738,738 |
| **Off balance sheet exposures** | | | | | | | | | | |
| Off balance sheet exposures other than Over the counter derivatives or Credit derivatives | - | - | - | - | 1,935 | - | 5,880 | 29,862 | - | 37,677 |
| **Total for off balance sheet exposures** | - | - | - | - | 1,935 | - | 5,880 | 29,862 | - | 37,677 |
| **Total on and off balance sheet** | | **-** | | | | | | | | |
| **exposures** | **861** | **-** | **752,643** | **4,726** | **5,739** | **-** | **117,023** | **807,408** | **88,015** | **1,776,415** |

**Table 5.1: Distribution of gross credit exposures by sector (Contd.)**

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

| | 31.03.17 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Agriculture RM'000 | Construction 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 | - | - | - | 5,469 | - | - | 29,543 | - | - | 35,012 |
| Banks, DFIs and MDBs | - | - | 585,281 | - | - | - | - | - | - | 585,281 |
| Corporates | 861 | - | 76,148 | - | 3,807 | 5,017 | 42,669 | 214,281 | 125 | 342,908 |
| Regulatory retail | - | - | - | - | - | - | - | 25,151 | - | 25,151 |
| Higher risk assets | - | - | - | - | - | - | - | - | 11,820 | 11,820 |
| Other assets | - | - | - | - | - | - | - | 414,572 | 260,630 | 675,202 |
| Defaulted exposures | - | - | - | - | - | - | - | 45 | - | 45 |
| **Total for on balance sheet exposures** | 861 | - | 661,429 | 5,469 | 3,807 | 5,017 | 72,212 | 654,049 | 272,575 | 1,675,419 |
| **Off balance sheet exposures** | | | | | | | | | | |
| Off balance sheet exposures other than Over the counter derivatives or Credit derivatives | - | 3,391 | - | - | 1,935 | - | 6,607 | 32,094 | - | 44,027 |
| **Total for off balance sheet exposures** | - | 3,391 | - | - | 1,935 | - | 6,607 | 32,094 | - | 44,027 |
| **Total on and off balance sheet exposures** | **861** | **3,391** | **661,429** | **5,469** | **5,742** | **5,017** | **78,819** | **686,143** | **272,575** | **1,719,446** |

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

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

| | 30.09.17 | | | |
|---|---|---|---|---|
| | Business Activities RM'000 | Household RM'000 | Not allocated RM'000 | Total RM'000 |
| Impaired loans and advances | 2,115 | - | - | **2,115** |
| Individual allowance | 2,115 | - | - | **2,115** |
| Collective allowance | - | - | 915 | **915** |
| Charges/(Write-back) for individual allowances | (48) | - | - | **(48)** |
| Write-offs against individual allowance | - | - | | **-** |

| | 31.03.17 | | | |
|---|---|---|---|---|
| | Business Activities RM'000 | Household RM'000 | Not allocated RM'000 | Total RM'000 |
| Impaired loans and advances | 2,163 | - | - | **2,163** |
| Individual allowances | 2,163 | - | - | **2,163** |
| Collective allowances | - | - | 705 | **705** |
| Charges/(Write-back) for individual allowances | (88) | - | - | **(88)** |
| Write-offs against individual allowances | - | - | | **-** |

**Table 5.3: Geographical distribution of credit exposures**

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

| | 30.09.17 | | |
|---|---|---|---|
| | **In Malaysia RM'000** | **Outside Malaysia RM'000** | **Total RM'000** |
| **On balance sheet exposures** | | | |
| Sovereigns/ Central banks | 66,128 | - | 66,128 |
| Banks, DFIs and MDBs | 642,921 | 33,559 | 676,480 |
| Corporates | 343,034 | - | 343,034 |
| Regulatory retail | 28,468 | - | 28,468 |
| Higher risk assets | 11,813 | 7 | 11,820 |
| Other assets | 612,218 | 580 | 612,798 |
| Equity exposures | - | - | - |
| Defaulted exposures | 10 | - | 10 |
| **Total for on balance sheet exposures** | 1,704,592 | 34,146 | 1,738,738 |
| **Off balance sheet exposures** | | | |
| Off balance sheet exposures other than OTC derivatives or credit | 37,677 | - | 37,677 |
| **Total for off balance sheet exposures** | 37,677 | - | 37,677 |
| **Total on and off balance sheet exposures** | **1,742,269** | **34,146** | **1,776,415** |

| | 31.03.17 | | |
|---|---|---|---|
| | **In Malaysia RM'000** | **Outside Malaysia RM'000** | **Total RM'000** |
| **On balance sheet exposures** | | | |
| Sovereigns/ Central banks | 35,012 | - | 35,012 |
| Banks, DFIs and MDBs | 558,814 | 26,467 | 585,281 |
| Corporates | 342,908 | - | 342,908 |
| Regulatory retail | 25,151 | - | 25,151 |
| Higher risk assets | 11,813 | 7 | 11,820 |
| Other assets | 673,634 | 1,568 | 675,202 |
| Defaulted exposures | 45 | - | 45 |
| **Total for on balance sheet exposures** | 1,647,377 | 28,042 | 1,675,419 |
| **Off balance sheet exposures** | | | |
| Off balance sheet exposures other than OTC derivatives or Credit | 44,027 | - | 44,027 |
| **Total for off balance sheet exposures** | 44,027 | - | 44,027 |
| **Total on and off balance sheet exposures** | **1,691,404** | **28,042** | **1,719,446** |

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

All amounts of impaired and past due loans and advances, individual and collective allowances reside in Malaysia and are as follows:

| | | | 30.09.17 |
|---|---|---|---|
| | In Malaysia RM'000 | Outside Malaysia RM'000 | Total RM'000 |
| Impaired loans and advances | 2,115 | - | 2,115 |
| Individual allowance | 2,115 | - | 2,115 |
| Collective allowance | 915 | - | 915 |

| | | | 31.03.17 |
|---|---|---|---|
| | In Malaysia RM'000 | Outside Malaysia RM'000 | Total RM'000 |
| Impaired loans and advances | 2,163 | - | 2,163 |
| Individual allowance | 2,163 | - | 2,163 |
| Collective allowance | 705 | - | 705 |

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

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

| | 30.09.17 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | 108 | - | - | - | 31,217 | 30,185 | 4,618 | - | 66,128 |
| Banks, DFIs and MDBs | 676,480 | - | - | - | - | - | - | - | 676,480 |
| Corporates | 228,487 | - | 1,817 | 390 | 112,340 | - | - | - | 343,034 |
| Regulatory retail | - | 5 | 282 | 354 | 125 | 27,702 | - | - | 28,468 |
| Higher risk assets | - | - | - | - | - | - | - | 11,820 | 11,820 |
| Other assets | 593,096 | - | - | - | - | - | - | 19,702 | 612,798 |
| Defaulted exposures | 10 | - | - | - | - | - | - | - | 10 |
| **Total for on balance sheet exposures** | 1,498,181 | 5 | 2,099 | 744 | 143,682 | 57,887 | 4,618 | 31,522 | 1,738,738 |
| **Off balance sheet exposures** | | | | | | | | | |
| credit derivatives | - | 191 | 1,270 | 6,070 | 48 | - | 30,098 | - | 37,677 |
| **Total for off balance sheet exposures** | - | 191 | 1,270 | 6,070 | 48 | - | 30,098 | - | 37,677 |
| **Total on and off balance sheet exposures** | **1,498,181** | **196** | **3,369** | **6,814** | **143,730** | **57,887** | **34,716** | **31,522** | **1,776,415** |

| | 31.03.17 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | 139 | - | 29,543 | - | - | - | 5,330 | - | 35,012 |
| Banks, DFIs and MDBs | 585,281 | - | - | - | - | - | - | - | 585,281 |
| Corporates | 210,698 | 1,338 | 48 | 1,852 | 128,972 | - | - | - | 342,908 |
| Regulatory retail | 50 | 3 | 77 | 198 | 243 | 24,580 | - | - | 25,151 |
| Higher risk assets | - | - | - | - | - | - | - | 11,820 | 11,820 |
| Other assets | 654,864 | - | - | - | - | - | - | 20,338 | 675,202 |
| Defaulted exposures | 10 | - | - | - | - | 35 | - | - | 45 |
| **Total for on balance sheet exposures** | 1,451,042 | 1,341 | 29,668 | 2,050 | 129,215 | 24,615 | 5,330 | 32,158 | 1,675,419 |
| **Off balance sheet exposures** | | | | | | | | | |
| Off balance sheet exposures other than OTC derivatives or | 5 | 6,234 | 3,729 | 1,207 | 110 | - | 32,742 | - | 44,027 |
| **Total for off balance sheet exposures** | 5 | 6,234 | 3,729 | 1,207 | 110 | - | 32,742 | - | 44,027 |
| **Total on and off balance sheet exposures** | **1,451,047** | **7,575** | **33,397** | **3,257** | **129,325** | **24,615** | **38,072** | **32,158** | **1,719,446** |

**Table 5.6: Reconciliation of changes to loan impairment allowances**

The reconciliation of changes to loan impairment allowances of the Group is as follows:

| | 30.09.17 | |
|---|---|---|
| | **Individual impairment allowance RM'000** | **Collective impairment allowance RM'000** |
| **Balance at beginning of financial year** | 2,163 | 705 |
| Charge for the period – net | (48) | 210 |
| **Balance at end of financial year** | 2,115 | 915 |

| | |
|---|---|
| | **RM'000** |
| Bad debts written off during the financial year | - |
| Bad debt recoveries during the financial year | - |
| | - |

| | 31.03.17 | |
|---|---|---|
| | **Individual impairment allowance RM'000** | **Collective impairment allowance RM'000** |
| **Balance at beginning of financial year** | 2,251 | 1,272 |
| Charge for the year – net | (88) | (567) |
| **Balance at end of financial year** | 2,163 | 705 |

| | **(Charge off)/ recoveries** |
|---|---|
| | **RM'000** |
| Bad debts written off during the financial year | - |
| Bad debt recoveries during the financial year | - |
| | - |

## 6.0 Credit Risk Exposure under Standardised Approach

Depending on the exposure class, the ratings assigned by the 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

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

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

| | 30.09.17 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Exposures after netting and credit risk mitigation | | | | | | | |
| Risk Weights | Sovereigns and Central banks RM'000 | Banks, DFIs and MDBs RM'000 | Corporates RM'000 | Regulatory retail RM'000 | Higher risk assets RM'000 | Other assets RM'000 | Total Exposures after Netting and CRM RM'000 | Total Risk Weighted Assets RM'000 |
| 0% | 66,128 | - | 75,463 | - | - | 3 | 141,594 | - |
| 20% | - | 676,479 | - | - | - | 29,480 | 705,959 | 141,192 |
| 50% | - | - | 3,031 | - | - | - | 3,031 | 2,272 |
| 75% | - | - | - | - | - | - | - | - |
| 100% | - | - | 103,452 | - | - | 583,315 | 686,767 | 686,767 |
| 150% | - | - | - | 10 | 11,820 | - | 11,830 | 17,746 |
| Total | 66,128 | 676,479 | 181,946 | 10 | 11,820 | 612,798 | 1,549,181 | 847,977 |

| | 31.03.17 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Exposures after netting and credit risk mitigation | | | | | | | |
| Risk Weights | Sovereigns and Central banks RM'000 | Banks, DFIs and MDBs RM'000 | Corporates RM'000 | Regulatory retail RM'000 | Higher risk assets RM'000 | Other assets RM'000 | Total Exposures after Netting and CRM RM'000 | Total Risk Weighted Assets RM'000 |
| 0% | 35,012 | - | 75,446 | - | - | 3 | 110,461 | - |
| 20% | - | 585,281 | - | - | - | 21,330 | 606,611 | 121,322 |
| 50% | - | - | 3,390 | - | - | - | 3,390 | 1,696 |
| 75% | - | - | - | 3,287 | - | - | 3,287 | 2,465 |
| 100% | - | - | 27,597 | - | - | 653,869 | 681,466 | 681,466 |
| 150% | - | - | - | 45 | 11,820 | - | 11,865 | 17,798 |
| Total | 35,012 | 585,281 | 106,433 | 3,332 | 11,820 | 675,202 | 1,417,080 | 824,747 |

**Table 6.2: Rated Exposures according to Ratings by ECAIs**

| | 30.09.17 | | | | | |
|---|---|---|---|---|---|---|
| | Ratings of Corporate by Approved ECAIs | | | | | |
| Exposure class | 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 |
| | 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 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **On and off balance sheet exposures** | | | | | | |
| **Credit exposures (using corporate risk weights)** | | | | | | |
| Corporates | 371,156 | - | - | - | - | 371,156 |
| **Total** | 371,156 | - | - | - | - | 371,156 |

| | 31.03.17 | | | | | |
|---|---|---|---|---|---|---|
| | Ratings of Corporate by Approved ECAIs | | | | | |
| Exposure class | 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 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **On and off balance sheet exposures** | | | | | | |
| **Credit exposures (using corporate risk weights)** | | | | | | |
| Corporates | 376,693 | - | - | - | - | 376,693 |
| **Total** | 376,693 | - | - | - | - | 376,693 |

**Table 6.2: Rated Exposures according to Ratings by ECAIs (Contd)**

| | 30.09.17 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Ratings of Sovereigns and Central Banks by Approved ECAIs | | | | | | |
| Exposure Class | Moodys | Aaa to Aa3 | A1 to A3 | Baa1 to Baa3 | Ba1 to B3 | Caa1 to C | Unrated |
| | S&P | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to D | Unrated |
| | Fitch | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to D | Unrated |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **On and Off-Balance Sheet Exposures** | | | | | | | |
| Sovereigns and Central banks | 66,128 | - | 66,128 | - | - | - | - |
| **Total** | **66,128** | - | **66,128** | - | - | - | - |

| | 31.03.17 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Ratings of Sovereigns and Central Banks by Approved ECAIs | | | | | | |
| Exposure Class | Moodys | Aaa to Aa3 | | | | Caa1 to C | |
| | S&P | AAA to AA- | | | | CCC+ to D | |
| | Fitch | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to D | Unrated |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **On and Off-Balance Sheet Exposures** | | | | | | | |
| Sovereigns and Central banks | 35,012 | - | 35,012 | - | - | - | - |
| **Total** | **35,012** | - | **35,012** | - | - | - | - |

| | 30.09.17 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Ratings of Banking Institutions by Approved ECAIs | | | | | | |
| Exposure class | Moodys | Aaa to Aa3 | A1 to A3 | Baa1 to Baa3 | Ba1 to B3 | Caa1 to C | Unrated |
| | S&P | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to D | Unrated |
| | Fitch | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to D | Unrated |
| | RAM | AAA to AA3 | A1 to A3 | BBB1 to BBB3 | BB1 to B3 | C1 to D | Unrated |
| | MARC | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | C+ to D | Unrated |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **On and off balance sheet exposures** | | | | | | | |
| Banks, DFIs and MDBs | 676,480 | 35,406 | 12,560 | 199,817 | - | - | 428,697 |
| **Total** | **676,480** | 35,406 | **12,560** | **199,817** | - | - | **428,697** |

| | 31.03.17 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Ratings of Banking Institutions by Approved ECAIs | | | | | | |
| Exposure class | Moodys | Aaa to Aa3 | A1 to A3 | Baa1 to Baa3 | Ba1 to B3 | Caa1 to C | Unrated |
| | S&P | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to D | Unrated |
| | Fitch | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | CCC+ to D | Unrated |
| | RAM | AAA to AA3 | A1 to A3 | BBB1 to BBB3 | BB1 to B3 | C1 to D | Unrated |
| | MARC | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | C+ to D | Unrated |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **On and off balance sheet exposures** | | | | | | | |
| Banks, DFIs and MDBs | **585,281** | 20,002 | 12,940 | 128,815 | - | - | 423,524 |
| **Total** | **585,281** | 20,002 | **12,940** | **128,815** | - | - | **423,524** |

## 7.0 Credit Risk Mitigation

### Table 7.1: Credit Risk Mitigation

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

| | 30.09.17 | |
|---|---|---|
| **Exposures** | **Exposures before CRM RM'000** | **Exposures covered by Eligible Financial Collateral RM'000** |
| **Credit risk** | | |
| **On balance sheet exposures** | | |
| Sovereigns/ Central banks | 66,128 | - |
| Banks, DFIs and MDBs | 676,480 | 2 |
| Corporates | 343,034 | 195,378 |
| Regulatory retail | 28,468 | 26,277 |
| Higher risk assets | 11,820 | - |
| Other assets | 612,798 | - |
| Defaulted exposures | 10 | - |
| **Total for on balance sheet exposures** | 1,738,738 | 221,657 |
| **Off balance sheet exposures** | | |
| Off balance sheet exposures other than OTC derivatives or credit derivatives | 37,677 | 31,930 |
| **Total for off balance sheet exposures** | 37,677 | 31,930 |
| **Total on and off balance sheet exposures** | **1,776,415** | **253,587** |

| | 31.03.17 | |
|---|---|---|
| **Exposures** | **Exposures before CRM RM'000** | **Exposures covered by Eligible Financial Collateral RM'000** |
| **Credit risk** | | |
| **On balance sheet exposures** | | |
| Sovereigns/ Central banks | 35,012 | - |
| Banks, DFIs and MDBs | 585,281 | - |
| Corporates | 342,908 | 263,271 |
| Regulatory retail | 25,151 | 22,757 |
| Higher risk assets | 11,820 | - |
| Other assets | 675,202 | - |
| Defaulted exposures | 45 | - |
| **Total for on balance sheet exposures** | 1,675,419 | 286,028 |
| **Off balance sheet exposures** | | |
| Off balance sheet exposures other than OTC derivatives or credit derivatives | 44,027 | 37,190 |
| **Total for off balance sheet exposures** | 44,027 | 37,190 |
| **Total on and off balance sheet exposures** | **1,719,446** | **323,218** |

## 8.0 Off Balance Sheet exposures and Counterparty Credit Risk

### Table 8.1: Off Balance Sheet Exposures

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

| Description | 30.09.17 | | | |
|---|---|---|---|---|
| | 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** | - | - | - | - |
| **Assets sold with recourse** | - | | - | - |
| **Obligations under underwriting agreements** | - | | - | |
| **Foreign exchange related contracts** | | | | |
| One year or less | 7,978 | - | - | - |
| **Equity and commodity related contracts** | | | | |
| One year or less | - | - | - | - |
| **Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year** | 19 | | 9 | 7 |
| **Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year** | 188,336 | | 37,668 | 7,904 |
| **Total** | **196,333** | **-** | **37,677** | **7,911** |

| Description | 31.03.17 | | | |
|---|---|---|---|---|
| | 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** | 3,391 | - | 3,391 | 1,695 |
| **Assets sold with recourse** | - | | - | - |
| **Obligations under underwriting agreements** | - | | - | |
| **Foreign exchange related contracts** | | | | |
| One year or less | 262 | - | - | - |
| **Equity and commodity related contracts** | | | | |
| One year or less | 1,037 | | - | - |
| Over five years | - | | | |
| **Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year** | 19 | | 9 | 7 |
| **Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year** | 203,134 | | 40,627 | 5,031 |
| **Total** | **207,843** | **-** | **44,027** | **6,733** |

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

As at 30 September 2017 and 31 March 2017, the Group does not have any credit derivatives.

## 9.0 Securitisation

The Group and the Bank did not have any securitisation exposure in its trading and banking books nor did it undertake any securitisation activities during the current financial period and for year ended 31 March 2017.

## 10.0 Non-Traded Market Risk

**Table 10.1 : Market Risk Sensitivity-Interest Rate Risk / Rate of Return Risk in the Banking Book (IRR / RORBB)**

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

**Impact on Income Statement**

| | 30.09.17 | | 31.03.17 | |
|---|---|---|---|---|
| **Currency** | **Interest Rate + 100 bps (RM'000)** | **Interest Rate - 100 bps (RM'000)** | **Interest Rate + 100 bps (RM'000)** | **Interest Rate - 100 bps (RM'000)** |
| **MYR** | **317** | **(317)** | **140** | **(140)** |

**Impact on Equity**

| | 30.09.17 | | 31.03.17 | |
|---|---|---|---|---|
| **Currency** | **Interest Rate + 100 bps (RM'000)** | **Interest Rate - 100 bps (RM'000)** | **Interest Rate + 100 bps (RM'000)** | **Interest Rate - 100 bps (RM'000)** |
| **MYR** | **(4,810)** | **5,330** | **(3,358)** | **3,821** |

## 11.0 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.

## 11.0 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 11.1: Equity investments and capital requirement**

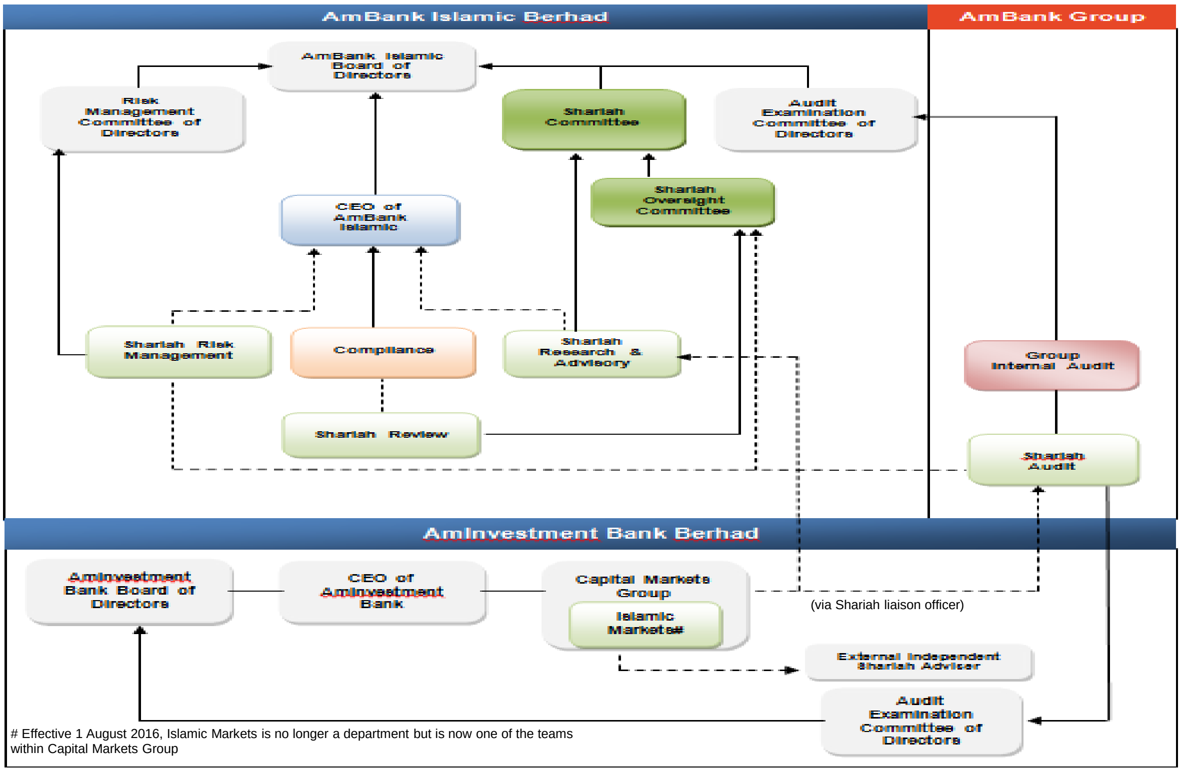
An analysis of equity investments by appropriate equity groupings and risk weighted assets of the Group are as follows:

| | 30.09.17 | 31.03.17 |
|---|---|---|
| **Non traded equity investments** | **RM'000** | **RM'000** |
| Value of quoted (publicly traded) equities | - | - |
| Value of unquoted (privately held) equities | 11,720 | 11,720 |
| **Total** | 11,720 | 11,720 |
| | | |
| **Net realised and unrealised gains/ (losses)** | | |
| Cumulative realised gains/ (losses) from sales and liquidations | - | 340 |
| Total unrealised gains/ (losses) | - | - |
| **Total** | - | 340 |
| | | |
| **Risk Weighted Assets** | | |
| Equity investments subject to a 100% risk weight | - | - |
| Equity investments subject to a 150% risk weight | 17,580 | 17,580 |
| **Total** | 17,580 | 17,580 |
| | | |
| **Total minimum capital requirement (8%)** | 1,406 | 1,406 |

## 12.0 Liquidity Risk and Funding Management

The liquidity risk management of the Bank is aligned to BNM's policy document on Liquidity Coverage Ratio ("LCR") issued by BNM on 31 March 2015.

## 13.0 Shariah Governance Structure




A Shariah governance framework is put in place in the organizational structure of the Group for its Islamic banking operations, in accordance with the requirements of BNM's "Shariah Governance Framework for Islamic Financial Institutions". This is to ensure the Islamic operations and business activities of the Group, including AmInvestment Bank Berhad ("AmInvestment Bank") comply with the Shariah principles and its requirements as prescribed by the Islamic Financial Services Act, 2013 ("IFSA 2013") and the relevant guidelines issued by the Securities Commission Malaysia ("SC").

The Bank adopts a leverage model (with some minor refinements/enhancements during the current financial period) whereby, through its Islamic window i.e. Islamic Markets ("IM"), it 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 of the Bank is accountable and responsible for the overall oversight on the Shariah governance and Shariah compliance pursuant to the IFSA 2013. The Board performs its oversight through various committees such as the Audit and Examination Committee of Directors ("AEC"), Risk Management Committee of Directors ("RMCD") and the Shariah Committee.

**Audit and Examination Committee of Directors**
AEC is a Board committee of the Bank responsible for assisting the Board in ensuring Islamic Banking operations of the Group are Shariah compliant through oversight of the Shariah Audit function performed by Group Internal Audit Department.

**Risk Management Committee of Directors**
RMCD is a Board committee of the Bank 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 Islamic capital market products and services, Shariah policies and the relevant documentation in relation to the Bank's Islamic finance and Islamic capital markets operations and business activities.

## 13.0 Shariah Governance Structure (Contd.)

**Shariah Liaison Officer, IM**

As per the leveraging model, the Bank via IM leverages on AmBank Islamic 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 line of businesses ("LOBs") under the Bank with regards to Islamic capital market products and services.

**Shariah Oversight Committee**

The Shariah Oversight Committee, which is a sub-committee to the Shariah Committee, performs an oversight function on Islamic capital market product and services 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**

Management via IM, including the Chief Executive Officer (“CEO”) of the Bank, is responsible to make reference to the Shariah Committee or the external independent Shariah advisor and/or the Shariah Oversight Committee on Shariah matters and to take necessary measures for implementation. The Management or the 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**

*Shariah research*

IM will be undertaking the Shariah research, which will include study or research of new Islamic capital market product and services, policies and guidelines (where relevant). As per the leveraging model, the findings of the Shariah research will be forwarded to the Shariah Committee (via the Shariah Secretariat) for final Shariah decisions or fatwa.

Alternatively, IM can also undertake the Shariah research with the appointed external independent Shariah adviser(s). Final Shariah decisions or fatwa by the external independent Shariah adviser(s) will then be shared by IM to the Shariah Committee, via the Shariah Secretariat.

*Shariah Advisory*

IM provides Shariah advisory which shall be based on the Shariah resolutions (fatwa) issued by the Shariah Advisory Council (“SAC”) of BNM and/or SC. As per the leveraging model, IMD shall also provide Shariah advisory based on the Shariah decision/pronouncement/resolution issued by the Shariah Committee.

Alternatively, the provision of Shariah advisory by IM can also be based on the decision/pronouncement/resolution issued by the external independent Shariah adviser(s).

Ultimately, all Shariah advice dispensed by IM shall be in line with the Shariah Resolutions (fatwa) issued by the SAC of BNM and SC, at all times.

**Shariah Risk Management**

IM's Shariah Risk Management role is accountable to the RMCD. The Shariah Risk Management is a function to systematically identify, measure, monitor and control the occurrence of Shariah non-compliance risks and to mitigate any possible non-compliant events. Endorsement by the appointed Shariah adviser for all Islamic capital market products shall provide the assurance that the Islamic capital market products satisfy the Shariah compliance.

The Shariah Risk Management is executed through the three lines of defence in managing Shariah risk. The three lines of defence are: 1st- The Business and Support Units; 2nd – Islamic Markets and Shariah Adviser (Shariah committee and/or independent Shariah adviser); 3rd – Shariah Audit.

**Shariah Review**

IM roles include to provide Shariah advisory and to review the structure, terms and conditions, documentation and issuance process of Islamic capital market products. Endorsement by the appointed Shariah adviser as part of the requirement by the SC for all the Islamic capital market products serves as assurance that the Islamic capital market products are Shariah compliant and ready for market distribution.

**Shariah Audit**

The Shariah Audit function 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 capital market products and services operations through the Shariah Audit function. The Shariah audit covers all activities particularly the operational components of AmInvestment Islamic window 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.

## 13.0 Shariah Non-Compliant Income

There had been no Shariah non-compliant incidents and income for the financial period ended 30 September 2017 and year ended 31 March 2017.