

AmBank (M) Berhad
Pillar 3 Disclosure

31 March 2019

**RWCAF - Pillar 3 Disclosure
31 March 2019**

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1.0 Scope of Application

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

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

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

Capital Adequacy

BNM's guidelines on capital adequacy seek to ensure that risk exposures of financial institutions are supported by adequate level of capital to withstand losses which may result from credit and other risks associated with its business operations.

The capital adequacy ratios of the Group and the Bank are computed in accordance with the BNM guidelines on Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework (Basel II – Risk Weighted Assets) issued by BNM on 2 February 2018. The Group and the Bank have 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).

Pursuant to BNM's Capital Adequacy Framework (Capital Components), financial institutions are required to maintain minimum Common Equity Tier 1 ("CET1") Capital Ratio of 4.5%, Tier 1 Capital Ratio of 6.0% and Total Capital Ratio of 8.0% at all times. Financial institutions are also required to maintain the following capital buffers:

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

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

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

As for CCyB, BNM will communicate any decision on the CCyB rate by up to 12 months before the date from which the rate applies.

Changes in accounting policies and regulatory requirements

Adoption of MFRS 9 Financial instruments

The AMMB Group adopted MFRS 9 Financial Instruments effective 1 April 2018. MFRS 9 replaces the provisions of MFRS 139 Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement, as well as derecognition of financial instruments, impairment of financial assets and hedge accounting.

1.0 Scope of Application (Cont'd.)

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

MFRS 9 requires all financial assets, other than equity instruments and derivatives, to be classified either at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVOCI"), or at amortised cost on the basis of two criteria, namely the entity's business model for managing the assets, as well as the instruments' contractual cash flow characteristics. Certain investments in corporate bonds and sukuk that were classified as available-for-sale under MFRS 139 qualified for classification at amortised cost under MFRS 9 as they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows that are solely payments of principal and interest. The reclassification has been effected by way of a retrospective application of the effective interest method and accordingly, the related cumulative fair value loss has been reversed on 1 April 2018. In addition, certain debt investments did not meet the cash flow characteristics criterion to be classified either at FVOCI or at amortised cost and have been accordingly classified at FVTPL with related fair value loss recognised in retained earnings on 1 April 2018.

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

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

BNM had issued the revised policy documents on Financial Reporting and Financial Reporting for Islamic Banking Institutions on 2 February 2018. Certain requirements in the policy documents have been revised in response to the changes in the loan loss impairment methodology arising from the expected credit loss approach under MFRS 9. Following the application of MFRS 9 impairment requirements, the revised policy documents require banking institutions and Islamic banking institutions to maintain, in aggregate, loss allowance for non-credit-impaired exposures (commonly referred to as Stage 1 and Stage 2 expected credit losses) and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures. This revised requirement has been applied in the computation of loss allowances for the Group.

As permitted by the transitional provision of MFRS 9, comparative information in the financial statements and Pillar 3 Disclosure have not been restated. The financial effects due to adoption of MFRS 9 and compliance with BNM policy documents above are disclosed in Note A42 of the Condensed financial statements of the Group as at 30 September 2018. The financial effects disclosed included effect to the capital adequacy ratios arising from impact to capital base and risk weighted assets for changes which involved classification of financial instruments and the resultant remeasurement of these financial instruments in the new classification as well as new loan loss impairment methodology.

Frequency of Disclosure

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

Medium and Location of Disclosure

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

1.1 Basis of Consolidation

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 engaged in financial activities	Fully consolidated	Deducted from capital at the Bank 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 Bank level; consolidated in calculation of capital adequacy at the banking subsidiary consolidated level.
Associates which are licensed under FSA or engaged in financial activities	Equity accounted	Deducted in the calculation of capital.
Associates which are not licensed under FSA or engaged in financial activities	Equity accounted	Risk weighted.

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

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

2.0 Capital Management

The Group's capital management is focused on maintaining a strong capital position to support business growth and to meet the requirements of the Group's stakeholders including regulators, shareholders and rating agencies.

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

2.0 Capital Management (Cont'd.)

The capital plan takes the following into account:

- (a) Regulatory capital requirements; and
- (b) Capital requirement to support business growth, strategic objectives, buffer for material risks not captured under regulatory capital requirements and stress test results

The Group uses internal models and other quantitative techniques in its internal risk and capital assessment. They help to estimate potential future losses arising from credit, market and other material risks, and supplement the regulatory formulae to simulate the amount of capital required to support them.

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

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

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

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

2.0 Capital Management (Cont'd.)

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 capital triggers and targets on an annual basis and operationally oversees compliance with the internal capital targets ("ICT") which are approved by the Board.

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

Appropriate policies are also in place governing the 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 Ratio

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

	Group		Bank	
	2019	2018	2019	2018
Before deducting proposed dividends:				
CET 1 Capital ratio	11.868%	11.057%	11.752%	10.955%
Tier 1 Capital ratio	12.524%	12.009%	12.406%	11.903%
Total Capital ratio	17.169%	16.571%	17.038%	16.451%
After deducting proposed dividends:				
CET 1 Capital ratio	11.437%	10.714%	11.323%	10.613%
Tier 1 Capital ratio	12.094%	11.666%	11.977%	11.561%
Total Capital ratio	16.739%	16.228%	16.609%	16.109%

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

As at 31 March 2019, the gross exposure relating to the RIA financing for the Group and the Bank amounted to RM1,470.1 million (31 March 2018: RM2,869.6 million). There was no individual allowance provided for the RIA financing.

Table 2.2 : Risk-Weighted Assets and Capital Requirements

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

2019 Exposure class	Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM")		Net exposures/ EAD after CRM	Risk weighted assets	Minimum capital requirement at 8%
	RM'000		RM'000	RM'000	RM'000
1. Credit risk					
On balance sheet exposures					
Sovereigns/Central banks	12,797,986		8,546,549	-	-
Public Sector Entities ("PSEs")	40,599		40,599	8,120	650
Banks, development financial institutions ("DFIs") and multilateral development banks ("MDBs")	7,324,473		6,222,463	1,263,548	101,084
Insurance companies, Securities firms and Fund managers	10,137		10,137	10,137	811
Corporates	39,855,263		37,380,159	30,968,981	2,477,518
Regulatory retail	22,308,811		22,059,849	16,638,573	1,331,086
Residential mortgages	18,919,738		18,911,426	7,245,717	579,657
Higher risk assets	538,960		538,889	808,334	64,667
Other assets	1,163,304		1,163,304	801,241	64,099
Securitisation exposures	20,757		20,757	5,331	426
Equity exposures	76		76	76	6
Defaulted exposures	827,175		809,169	798,091	63,847
Total on balance sheet exposures	103,807,279		95,703,377	58,548,149	4,683,851
Off balance sheet exposures					
Over the counter ("OTC") derivatives	1,900,645		1,782,651	1,007,312	80,585
Credit derivatives	16		16	8	1
Off balance sheet exposures other than OTC derivatives or Credit derivatives	9,172,240		8,299,678	7,345,371	587,630
Defaulted exposures	33,120		18,653	27,876	2,230
Total off balance sheet exposures	11,106,021		10,100,998	8,380,567	670,446
Total on and off balance sheet exposures	114,913,300		105,804,375	66,928,716	5,354,297
2. Large exposure risk requirement	-		-	531,402	42,512
3. Market risk	Long position	Short position			
Interest rate risk					
- General interest rate risk	105,140,377	94,543,090		1,686,714	134,937
- Specific interest rate risk	11,721,035	1,111,827		138,597	11,088
Foreign currency risk	153,059	469,282		469,282	37,543
Equity risk					
- General risk	29,779	1,457		28,321	2,266
- Specific risk	29,779	1,457		14,295	1,144
Option risk	1,078,808	687,103		21,745	1,740
Total	118,152,837	96,814,216		2,358,954	188,718
4. Operational risk				4,059,205	324,736
5. Total RWA and capital requirements				73,878,277	5,910,263

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

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

2018 Exposure class	Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM")		Net exposures/ EAD after CRM	Risk weighted assets	Minimum capital requirement at 8%
	RM'000		RM'000	RM'000	RM'000
1. Credit risk					
On balance sheet exposures					
Sovereigns/Central banks	2,741,941		2,741,941	-	-
Public Sector Entities ("PSEs")	40,506		40,506	8,101	648
Banks, development financial institutions ("DFIs") and multilateral development banks ("MDBs")	4,203,590		4,203,590	846,062	67,685
Insurance companies, Securities firms and Fund managers	9,775		9,775	9,775	782
Corporates	37,129,038		35,450,555	30,679,006	2,454,320
Regulatory retail	22,493,744		22,272,231	16,930,198	1,354,416
Residential mortgages	16,596,432		16,583,389	6,244,859	499,589
Higher risk assets	337,548		337,470	506,204	40,496
Other assets	1,421,802		1,421,802	1,087,499	87,000
Securitisation exposures	42,970		42,970	10,591	847
Equity exposures	104		104	104	8
Defaulted exposures	733,549		722,384	693,971	55,518
Total on balance sheet exposures	85,750,999		83,826,717	57,016,370	4,561,309
Off balance sheet exposures					
Over the counter ("OTC") derivatives	2,183,907		1,931,381	1,013,712	81,097
Credit derivatives	14		14	7	1
Off balance sheet exposures other than OTC derivatives or Credit derivatives	9,659,702		8,622,974	7,663,925	613,114
Defaulted exposures	30,380		20,394	30,441	2,435
Total off balance sheet exposures	11,874,003		10,574,763	8,708,085	696,647
Total on and off balance sheet exposures	97,625,002		94,401,480	65,724,455	5,257,956
2. Large exposure risk requirement	-		-	373,899	29,912
3. Market risk					
Interest rate risk					
- General interest rate risk	111,766,654	104,238,989		1,833,381	146,670
- Specific interest rate risk	7,705,423	37,381		195,384	15,631
Foreign currency risk	148,442	591,939		591,939	47,355
Equity risk					
- General risk	109,747	34,098		75,649	6,052
- Specific risk	109,747	34,098		136,738	10,939
Option risk	1,405,269	735,720		28,266	2,261
Total	121,245,282	105,672,225		2,861,357	228,908
4. Operational risk				4,001,549	320,124
5. Total RWA and capital requirements				72,961,260	5,836,900

For 2018 and 2017, the Group does not have Restricted Investment Account ("RIA") that qualifies as a risk absorbent.

3.0 Capital Structure

The capital structure of the Group and the Bank includes capital under the following headings:

- CET 1 Capital;
- Additional Tier 1 Capital; and
- Tier 2 Capital.

3.1 CET 1 Capital

CET 1 Capital consists of the following:

a) Paid-up Capital

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

b) Retained Earnings

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

c) Other Disclosed Reserves

Other disclosed reserves comprise the following:

i) Regulatory Reserve

Regulatory reserve is maintained in accordance with paragraph 10.5 of the the BNM's Policy Document on Financial Reporting as an additional credit risk absorbent. The amount of the regulatory reserve is deducted from the calculation of CET 1 Capital.

ii) Merger Reserve

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

iii) Foreign Currency Translation Reserve/(Deficit)

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

iv) Fair Value Reserve

The Fair value reserve comprises fair value gains (net of fair value losses) on financial investments measured at FVOCI. In addition, the loss allowance arising from the recognition of expected credit losses on financial investments measured at FVOCI are accumulated in fair value reserve instead of reducing the carrying amount of the assets. To the extent the balance in the fair value reserve is a net credit position, the banking subsidiaries can recognise 45% of the balance as part of CET1 Capital. Where the balance is a net debit position, the entire balance is deducted from CET1 Capital. Before adoption of MFRS 9, the fair value gains/(losses) on financial investments measured at FVOCI was taken up in Available-For-Sale Reserve/(Deficit).

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

This account comprises of fair value gains (available-for-sale reserve) and losses (available-for-sale deficit) on financial investments available-for-sale. Where the available-for-sale reserve is a net gain outstanding balance, the Group and Bank can recognise 45% of the total outstanding balance as part of CET 1 Capital. Where the available-for-sale deficit is a net loss outstanding balance, the entire outstanding balance is deducted in CET 1 Capital.

vi) Cash Flow Hedging Reserve/(Deficit)

Cash flow hedging reserve/(deficit) comprises the portion of the gain/(losses) on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. Cash flow hedging gain 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 CET 1 Capital.

3.2 Additional Tier 1 Capital

The amount of Additional Tier 1 (“AT1”) Capital to be included in the computation of the capital adequacy ratios of the Group and the Bank is subject to the gradual phase-out treatment under paragraph 37 of BNM’s Capital Adequacy Framework (Capital Components) guideline, as the outstanding AT1 capital instruments are non-Basel III compliant capital instruments which no longer meet the criteria for inclusion in Additional Tier 1 Capital. The amount recognised under the gradual phase-out treatment shall be the lower of the aggregate cap and the amount outstanding. Table 3.1 outlines the details of the AT1 capital instruments of the Group and the Bank as well as the application of the grandfathering provisions.

Table 3.1: Additional Tier 1 Capital Instruments and the Gradual Phase-Out Treatment of the Group and the Bank

Base on 1 January 2013 for the Gradual Phase-out Treatment	
Outstanding AT1 Capital Instruments on 1 January 2013	RM'000
Non-cumulative Non-voting Guaranteed Preference Shares ¹	750,100
Innovative Tier 1 Capital - Tranche 1	300,000
Innovative Tier 1 Capital - Tranche 2	185,000
Non-Innovative Tier 1 Capital - Tranche 1 ²	200,000
Non-Innovative Tier 1 Capital - Tranche 2 ³	300,000
Total Qualifying Base	1,735,100

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%	-

Notes:

- ¹ Redeemed on the first call date 27 January 2016.
- ² Redeemed on the first call date 27 February 2019.
- ³ Redeemed on the first call date 6 March 2019.

3.2 Additional Tier 1 Capital (Cont'd.)

Innovative Tier 1 Capital

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

Innovative Tier 1 Capital Securities

On 18 August 2009, the Bank issued up to RM485 million Innovative Tier I Capital Securities under its RM500 million Innovative Tier I Capital Securities ("ITICS") Programme. The ITICS bear 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 tenure 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 the Bank's ordinary shares. Upon BNM's approval, the Bank 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.

Non-innovative Tier 1 Capital

In the financial year ended 31 March 2009, the Bank issued RM500 million Non-Innovative Tier 1 Capital ("NIT1") in nominal value comprising:

- (i) Non-Cumulative Perpetual Capital Securities ("NCPCS"), which are issued by the Bank 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 the Bank.

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 the Bank pursuant to the forward purchase contract entered into by the Bank 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 the Bank 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 the Bank 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 tenure of 30 years unless redeemed earlier under the terms of the SubNotes. The SubNotes are redeemable at the option of AmPremier on any interest payment date, which cannot be earlier than the occurrence of assignment events as stipulated under the terms of the Stapled Capital Securities.

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

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

3.3 Tier 2 Capital

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

Medium Term Notes

In the financial year 2008, the Bank implemented a RM2.0 billion nominal value Medium Term Notes ("MTN") Programme whereby 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 tenure of up to 20 years from the date of the first issuance under the MTN Programme. The MTNs shall be issued for a maturity of up to 20 years as the Issuer may select at the point of issuance provided that no MTN shall mature after expiration of the MTN Programme.

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

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

Basel III Subordinated Notes

On 30 December 2013, the Bank established a Basel III compliant Subordinated Notes programme of RM4.0 billion ("Programme") to enable the issuance of Tier 2 capital instruments from time to time.

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

On 19 December 2018, the Bank revised the terms of the Programme to include the non-viability trigger event referenced to the financial group. The revision is and will be applicable to all existing and future capital instruments issued under the Programme.

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

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

Table 3.2: Capital Structure

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
CET 1 Capital				
Ordinary shares	1,940,465	1,763,208	1,940,465	1,763,208
Regulatory reserve	280,556	372,133	280,556	372,133
Merger reserve	104,149	104,149	-	-
Fair value reserve	245,666	-	245,836	-
Available-for-sale deficit	-	(23,387)	-	(23,518)
Cash flow hedging reserve	(12,074)	3,174	(12,074)	3,174
Foreign currency translation reserve	81,246	49,075	85,109	52,974
Retained earnings	6,957,622	6,641,531	7,014,840	6,700,583
Less: Regulatory adjustments applied on CET 1 Capital				
Intangible assets	(368,654)	(400,376)	(368,654)	(400,376)
Deferred tax assets	(57,636)	(66,659)	(57,589)	(66,637)
55% of cumulative gains of FVOCI financial instruments	(135,116)	-	(135,210)	-
Cash flow hedging deficit	12,074	(3,174)	12,074	(3,174)
Regulatory reserve	(280,556)	(372,133)	(280,556)	(372,133)
Investment in ordinary shares of unconsolidated financial and insurance/takaful entities	-	-	(8,488)	(8,488)
Total CET 1 Capital	8,767,742	8,067,541	8,716,309	8,017,746
Additional Tier 1 Capital				
Additional Tier 1 Capital instruments (subject to gradual phase-out treatment)	485,000	694,040	485,000	694,040
Qualifying CET 1, Additional Tier 1 capital instruments held by third parties	3	2	-	-
Total Tier 1 Capital	9,252,745	8,761,583	9,201,309	8,711,786
Tier 2 Capital				
Tier 2 Capital instruments meeting all relevant criteria for inclusion	2,595,000	1,995,000	2,595,000	1,995,000
Tier 2 Capital instruments (subject to gradual phase-out treatment)	-	600,000	-	600,000
Qualifying CET 1, Additional Tier 1 and Tier 2 capital instruments held by third parties	1	1	-	-
General provisions*	836,609	-	840,495	-
Collective allowance and regulatory reserves	-	733,999	-	734,013
Less: Regulatory adjustments applied on Tier 2 Capital	-	-	-	-
Total Tier 2 Capital	3,431,610	3,329,000	3,435,495	3,329,013
Total Capital	12,684,355	12,090,583	12,636,804	12,040,799

* Consists of loss allowances stage 1 and stage 2 and regulatory reserve.

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

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Credit RWA	66,928,716	65,724,455	67,239,575	65,981,322
Market RWA	2,358,954	2,861,357	2,358,358	2,861,798
Operational RWA	4,059,205	4,001,549	4,037,878	3,973,753
Large exposure risk RWA for equity holdings	531,402	373,899	531,402	373,899
Total RWA	73,878,277	72,961,260	74,167,213	73,190,772

Note 1:

On 28 June 2018, the Bank increased its issued and paid-up ordinary share capital by RM177.3 million through the issuance of 16,489,024 new ordinary shares at an issue price of RM10.75 per ordinary share. The new ordinary shares issued during the current financial period rank pari passu in all respects with the existing ordinary shares of the Bank.

4.0 General Risk Management

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

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

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

The AMMB Group Risk Direction

The AMMB Group's strategic direction is to be top 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, Wealth Management) and to sustain top 4 position in each of the current engines (Corporate Loans, Debt Capital Market ("DCM"), Funds Management).

1. The AMMB Group aspires to improve on its current external rating of AA2 based on reference ratings by RAM Rating Services Berhad ("RAM").
2. The AMMB Group aims to achieve and sustain a Return on Risk Weighted Assets ("RoRWA") in the range of 1.5% to 1.8% and an RWA efficiency (CRWA/EAD) in the range of 50% to 60%, both based on Foundation Internal Ratings-Based ("FIRB").
3. The AMMB Group aims to maintain Available Financial Resources in excess of the capital requirements as estimated in the Internal Capital Adequacy Assessment Process ("ICAAP").
4. The AMMB Group recognizes the importance of funding its own business. It aims to maintain the following:
 - a. Liquidity Coverage Ratio ("LCR") at least 10 percentage points above prevailing regulatory minimum;
 - b. Stressed LCR above the regulatory requirement; and
 - c. Net Stable Funding Ratio ("NSFR") above the prevailing regulatory minimum (effective from 2019).
5. The AMMB Group aims to maintain the following Capital Adequacy Ratios (CARs) under normal conditions: CET 1, Tier 1 and total capital ratio of at least 1 percentage point above their respective regulatory minimum, including prescribed regulatory buffers.
6. The AMMB Group aims to maintain adequate controls for all key operational risks (including but not limited to regulatory, compliance, technology, conduct and reputational risks).
 - a. Keep operational losses and regulatory penalties below 2% of PATMI¹; and
 - b. Remain vigilant in risk identification and management to protect its reputation and business franchise.
7. The AMMB Group aims to limit the Group's earnings volatility such that mean Adjusted Return volatility over a period of the last 3 years is Below 0.3. (as per Perbadanan Insurans Deposit Malaysia ("PIDM") definition).

Risk Management Governance

The Board is ultimately responsible for the management of risks within the Group. The RMC 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 Level Risk Committees to assist it in managing the risks and businesses of the Group. The Management Risk Committee addresses all classes of risk within its Board delegated mandate: balance sheet risk, credit risk, legal risk, operational risk, market risk, compliance risk, reputational risk, product risk and business and IT project risk.

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

- is responsible for establishing an enterprise wide risk management framework in all areas including financial, credit, market, operational, reputational, security, 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
- through the RMC, has access to the Board and the boards of the respective banking entities to facilitate suitable escalation of issues of concern across the organization.

¹ Profit after tax and non-controlling interest

4.1 Internal Capital Adequacy Assessment Process

The core objectives of the AMMB 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 AMMB Group's capital position; and
- ensure that the capital base supports the AMMB 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 AMMB Group's Risk Appetite as set and approved by the Board.

The following key principles underpin the ICAAP:

4.1.1 The AMMB Group shall maintain an approved, documented, risk based and auditable ICAAP. The aim is to ensure the AMMB 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 AMMB Group, consistent with:

- The Group Risk Appetite, including the Bank's target credit rating category;
- Regulatory capital requirements;
- The Group's business plan and strategic objectives.

4.1.2 Management oversight

The ICAAP must be subject to Board and senior management oversight, form an integral part of the AMMB 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 AMMB Group's overall risk management strategy and governance frameworks.

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

4.1.3 Capital Management Policy

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

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

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

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

4.1.5 Capital allocation:

- capital allocation should be consistent with the AMMB Group's regulatory capital measurement framework and risk adjusted performance requirements

4.1.6 Material Risks

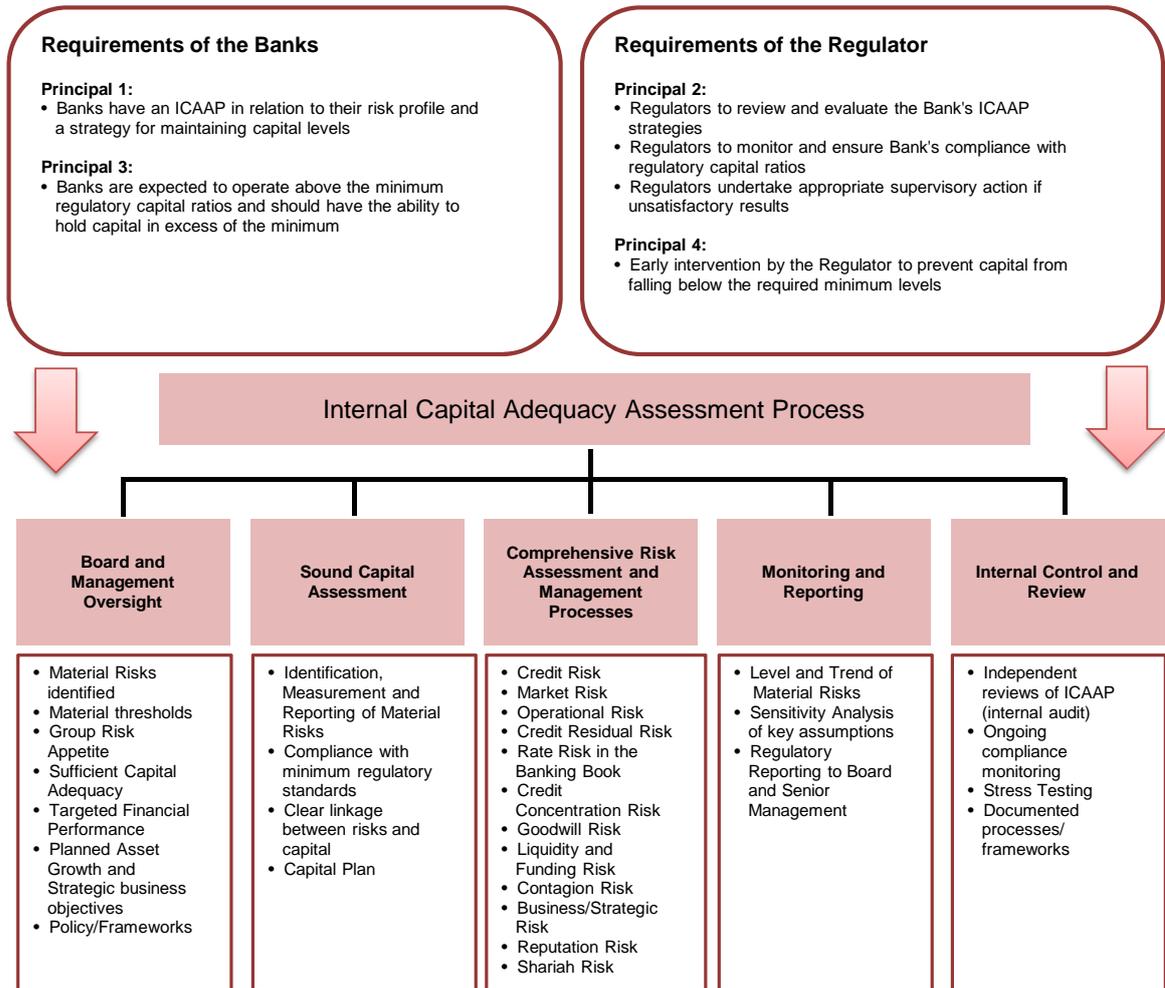
- The AMMB Group shall clearly articulate definitions of each material risk type to be included in the ICAAP; and
- processes to identify and determine the materiality of current risk types, changes to existing risk types and new risk types must be established.

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

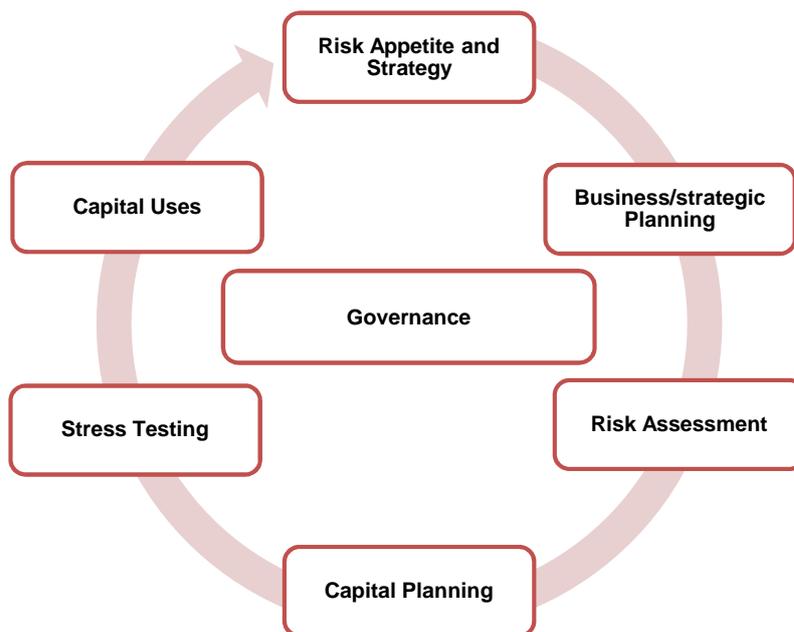
- significant departure from its ICAAP;
- concerns that the Board has about its capital adequacy along with proposed measures to address those concerns; and
- significant changes in its capital.

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

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	<ul style="list-style-type: none"> Identify/recognise credit risk on transactions and/or positions Select asset and portfolio mix
Assessment/ Measurement	<ul style="list-style-type: none"> Internal credit rating system Probability of default ("PD") Loss given default ("LGD") Exposure at default ("EAD")
Control/ Mitigation	<ul style="list-style-type: none"> Portfolio Limits, Counterparty Limits, Non-Retail Pricing and Risk based pricing for Retail Collateral and tailored facility structures
Monitoring/ Review	<ul style="list-style-type: none"> Monitor and report portfolio mix Review Classified Accounts Review Reschedule and Restructured Accounts 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's transactions and/or positions.

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

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

For retail credits, credit-scoring systems to better differentiate the quality of 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.

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);
- Non-Retail Credit Policy ("NRCP") sets out the credit principles and managing credit risk in the Wholesale Banking ("WB") and Business Banking ("BB") portfolios;
- Classified Account processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers;
- Rescheduled and Restructured ("R&R") Account Management (embedded within the NRCP for WB and BB) sets out the controls in managing R&R loans pursuant to the BNM's revised policy on Financial Reporting; and
- setting Non-Retail Pricing Guidelines which serve as a guide to the minimum returns the Group requires for the risk undertaken, taking into account operating expenses and cost of capital.

5.0 Credit Risk Management (Cont'd.)

Individual credit risk exposure exceeding certain thresholds are escalated to Credit and Commitments Committee ("CACC") for approval. In the event such exposure exceeds CACC authority it will be submitted to the 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 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, impairments, 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 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 debt instruments

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

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

- (a) where the principal or interest or both is past due¹ or the amount outstanding is in excess of approved limit (for revolving facilities), each for more than 90 days or 3 months on any material obligation²; or
- (b) for loans where repayments are scheduled on intervals of 3 months or longer, the loan is to be classified as impaired 1+30 days or 1 day+1 month past due (the 30-days grace period is to allow for exclusion of administrative default³).
- (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 loan may also be classified as impaired:
 - i. If it is probable that the Group and Bank will be unable to collect all amounts due (including both interest 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 obligation of a customer triggers a default of another loan obligation of the same customer or
 - a default of a loan 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

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

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

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

5.1 Impairment (Cont'd)

5.1.1 Definition of past due and impaired loans, advances and debt instruments (Cont'd.)

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

5.1.2 Group Provisioning Methodology

The group's provisioning methodology complies with MFRS 9 where we recognize Expected Credit Loss ("ECL") at all time to reflect changes in the credit risk of a financial instrument. The methodology incorporates historical, current and forecasted information into ECL estimation. Consequently, more timely information is required to be provided about expected credit losses.

MFRS 9 applies to all financial assets classified as amortised cost and fair value through other comprehensive income, lease receivables, trade receivables, and commitments to lend money and financial guarantee contracts.

Under MFRS 9, financial instruments are segregated into 3 stages depending on the changes in credit quality since initial recognition. We calculate 12-month ECL for Stage 1 and lifetime ECL for Stage 2 and Stage 3 exposures.

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

ECL can be assessed individually or collectively. Financial assets that are not individually significant or not individually credit impaired are collectively assessed. For financial assets that are individually significant, an assessment is performed to determine whether objective evidence of impairment exists individually.

Individual assessment is divided into two main processes - trigger assessment and measurement of impairment loss. Financial assets which are triggered by the impairment triggers will be measured for evidence of high likelihood of impairment, i.e. estimated recoveries (based on the discounted cash flow projection method and taking into account economic conditions) is less than carrying value.

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

Table 5.1 : Distribution of gross credit exposures by sector

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

2019															Total RM'000
	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	
On balance sheet exposures															
Sovereigns/Central banks	-	-	-	-	-	-	-	-	12,797,986	-	-	-	-	-	12,797,986
PSEs	-	-	-	-	-	-	-	-	40,599	-	-	-	-	-	40,599
Banks, DFIs and MDBs	-	-	-	-	-	-	-	7,324,473	-	-	-	-	-	-	7,324,473
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	-	10,137	-	-	-	-	-	-	10,137
Corporates	1,664,002	959,436	7,335,042	875,887	4,767,988	4,212,630	2,767,268	4,223,590	-	6,429,922	2,354,502	2,559,868	1,704,227	901	39,855,263
Regulatory retail	52,158	13,743	391,868	32,040	300,885	721,790	156,737	7,073	-	95,834	304,819	70,342	20,158,269	3,253	22,308,811
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	18,919,738	-	18,919,738
Higher risk assets	-	-	-	-	-	-	-	-	-	-	-	-	18,988	519,972	538,960
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	1,163,304	1,163,304
Securitisation exposures	-	-	-	-	-	-	-	20,757	-	-	-	-	-	-	20,757
Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	76	76
Defaulted exposures	615	66,595	112,183	26	13,437	40,619	5,027	-	-	162,346	9,696	6,348	409,856	427	827,175
Total for on balance sheet exposures	1,716,775	1,039,774	7,839,093	907,953	5,082,310	4,975,039	2,929,032	11,586,030	12,838,585	6,688,102	2,669,017	2,636,558	41,211,078	1,687,933	103,807,279
Off balance sheet exposures															
OTC derivatives	11,720	18,657	75,687	42	-	4,048	359,243	1,400,800	-	5,555	5,380	11,897	7,616	-	1,900,645
Credit derivatives	-	-	-	-	-	-	-	16	-	-	-	-	-	-	16
Off balance sheet exposures other than OTC derivatives or Credit derivatives	132,799	588,587	1,836,769	327,154	2,128,333	673,076	276,480	440,440	-	613,007	307,160	66,577	1,781,469	389	9,172,240
Defaulted exposures	-	-	10,255	-	2,128	498	-	-	-	9,424	293	-	10,522	-	33,120
Total for off balance sheet exposures	144,519	607,244	1,922,711	327,196	2,130,461	677,622	635,723	1,841,256	-	627,986	312,833	78,474	1,799,607	389	11,106,021
Total on and off balance sheet exposures	1,861,294	1,647,018	9,761,804	1,235,149	7,212,771	5,652,661	3,564,755	13,427,286	12,838,585	7,316,088	2,981,850	2,715,032	43,010,685	1,688,322	114,913,300

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

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

2018															Total RM'000
	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	
On balance sheet exposures															
Sovereigns/Central banks	-	-	-	-	-	-	-	-	2,741,941	-	-	-	-	-	2,741,941
PSEs	-	-	-	-	-	-	-	-	40,506	-	-	-	-	-	40,506
Banks, DFIs and MDBs	-	-	-	-	-	-	-	4,203,590	-	-	-	-	-	-	4,203,590
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	-	9,775	-	-	-	-	-	-	9,775
Corporates	1,608,079	1,003,514	6,636,313	1,119,771	4,400,863	4,256,398	1,946,016	5,384,279	-	6,039,531	1,079,522	2,137,895	1,300,221	216,636	37,129,038
Regulatory retail	28,065	5,711	195,960	7,026	96,967	220,474	35,098	3,326	-	78,960	88,825	93,582	21,617,265	22,485	22,493,744
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	16,596,432	-	16,596,432
Higher risk assets	-	-	-	-	-	-	-	-	-	-	-	-	18,960	318,588	337,548
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	1,421,802	1,421,802
Securitisation exposures	-	-	-	-	-	-	-	20,822	-	22,148	-	-	-	-	42,970
Equity exposures	-	-	7	-	-	-	-	-	-	-	-	-	-	97	104
Defaulted exposures	219	76,518	54,527	1	19,675	23,305	3,506	-	-	134,221	16,094	14,071	390,679	733	733,549
Total for on balance sheet exposures	1,636,363	1,085,743	6,886,807	1,126,798	4,517,505	4,500,177	1,984,620	9,621,792	2,782,447	6,274,860	1,184,441	2,245,548	39,923,557	1,980,341	85,750,999
Off balance sheet exposures															
OTC derivatives	15,539	167,121	133,099	-	1,487	11,724	64,914	1,706,620	-	6,286	8,928	59,285	8,575	329	2,183,907
Credit derivatives	-	-	-	-	-	-	-	14	-	-	-	-	-	-	14
Off balance sheet exposures other than OTC derivatives or Credit derivatives	157,653	581,630	1,513,598	286,842	2,448,448	687,039	301,323	325,375	-	716,740	205,100	202,443	2,228,952	4,559	9,659,702
Defaulted exposures	-	-	1,082	-	4,577	414	-	-	-	13,487	109	-	10,630	81	30,380
Total for off balance sheet exposures	173,192	748,751	1,647,779	286,842	2,454,512	699,177	366,237	2,032,009	-	736,513	214,137	261,728	2,248,157	4,969	11,874,003
Total on and off balance sheet exposures	1,809,555	1,834,494	8,534,586	1,413,640	6,972,017	5,199,354	2,350,857	11,653,801	2,782,447	7,011,373	1,398,578	2,507,276	42,171,714	1,985,310	97,625,002

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 provision and write offs during the year by sector of the Group are as follows:

2019	Agriculture RM'000	Mining and quarrying RM'000	Manufacturing RM'000	Electricity, gas and water RM'000	Construction RM'000	Wholesale and retail trade and hotels and restaurants RM'000	Transport, storage and communication RM'000	Finance and insurance RM'000	Real estate RM'000	Business activities RM'000	Education and health RM'000	Household RM'000	Others RM'000	Unallocated RM'000	Total RM'000
Impaired loans and advances	549	76,272	142,342	140	19,824	45,787	7,074	-	248,411	9,689	9,627	484,526	2,201	-	1,046,442
Past due loans	6,831	77,244	198,185	557	210,761	100,705	30,301	1,749	289,118	53,760	34,267	6,786,137	9,347	-	7,798,962
Allowances for expected credit losses	4,222	15,792	18,023	1,569	21,807	34,871	10,780	14,612	244,233	4,954	451,470	62,583	9,012	(6,411)	887,517
Charges/(writeback) for individual allowance	-	12,518	47,076	-	12,505	5,983	1,717	-	(90,932)	2,868	3,000	(3,013)	-	-	(8,278)
Write-offs against individual allowance and othe movement	-	10,533	6,244	-	12,202	6,464	760	-	2,237	-	5,961	-	-	-	44,401

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	Real estate RM'000	Business activities RM'000	Education and health RM'000	Household RM'000	Others RM'000	Unallocated RM'000	Total RM'000
Impaired loans and advances	265	82,711	81,147	110	37,226	28,054	8,966	-	291,255	8,097	18,333	495,401	2,235	-	1,053,800
Past due loans	13,053	74,926	137,102	478	84,680	85,570	26,387	7	105,822	24,405	27,389	6,794,877	4,235	-	7,378,931
Individual allowance	-	6,277	11,395	-	1,233	4,283	555	-	150,079	-	3,140	4,138	-	-	181,100
Collective allowance	5,459	3,145	33,330	1,708	27,258	20,944	12,230	21,484	19,390	8,778	2,629	287,701	56,496	-	500,552
Charges/(writeback) for individual allowance	-	15,459	41,171	-	1,152	9,697	870	-	2,764	(28)	3,140	1,933	-	-	76,158
Write-offs against individual allowance and othe movement	-	38,367	80,857	-	-	5,864	315	-	5,639	-	-	4,809	-	-	135,851

The disclosure on reconciliation of changes to loans impairment allowances of the Group can be found in Note 17(j) of the financial statement.

Table 5.3 : Geographical distribution of credit exposures

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

2019	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/Central banks	12,797,986	-	12,797,986
PSEs	40,599	-	40,599
Banks, DFIs and MDBs	4,748,420	2,576,053	7,324,473
Insurance companies, Securities firms and Fund managers	10,137	-	10,137
Corporates	39,530,517	324,746	39,855,263
Regulatory retail	22,308,811	-	22,308,811
Residential mortgages	18,919,738	-	18,919,738
Higher risk assets	538,956	4	538,960
Other assets	1,010,322	152,982	1,163,304
Securitisation exposures	20,757	-	20,757
Equity exposures	76	-	76
Defaulted exposures	777,411	49,764	827,175
Total for on balance sheet exposures	100,703,730	3,103,549	103,807,279
Off balance sheet exposures			
OTC derivatives	1,662,472	238,173	1,900,645
Credit derivatives	-	16	16
Off balance sheet exposures other than OTC derivatives or Credit derivative	9,097,249	74,991	9,172,240
Defaulted exposures	33,120	-	33,120
Total for off balance sheet exposures	10,792,841	313,180	11,106,021
Total on and off balance sheet exposures	111,496,571	3,416,729	114,913,300

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

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

2018	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/Central banks	2,673,888	68,053	2,741,941
PSEs	40,506	-	40,506
Banks, DFIs and MDBs	3,055,839	1,147,751	4,203,590
Insurance companies, Securities firms and Fund managers	9,775	-	9,775
Corporates	36,806,517	322,521	37,129,038
Regulatory retail	22,493,744	-	22,493,744
Residential mortgages	16,596,432	-	16,596,432
Higher risk assets	337,514	34	337,548
Other assets	1,305,698	116,104	1,421,802
Securitisation exposures	42,970	-	42,970
Equity exposures	104	-	104
Defaulted exposures	674,599	58,950	733,549
Total for on balance sheet exposures	84,037,586	1,713,413	85,750,999
Off balance sheet exposures			
OTC derivatives	1,975,050	208,857	2,183,907
Credit derivatives	-	14	14
Off balance sheet exposures other than OTC derivatives or Credit derivatives	9,587,959	71,743	9,659,702
Defaulted exposures	30,380	-	30,380
Total for off balance sheet exposures	11,593,389	280,614	11,874,003
Total on and off balance sheet exposures	95,630,975	1,994,027	97,625,002

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

The amounts of impaired and past due loans and advances, individual and collective allowances by geographic distribution of the Group are as follows:

2019	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans and advances	988,218	58,224	1,046,442
Past due loans	7,740,738	58,224	7,798,962
Allowances for expected credit losses	876,348	11,169	887,517

2018	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans and advances	994,850	58,950	1,053,800
Past due loans	7,319,981	58,950	7,378,931
Individual allowance	181,100	-	181,100
Collective allowance	498,592	1,960	500,552

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

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

2019	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No maturity specified RM'000	Total RM'000
On balance sheet exposures									
Sovereigns/Central banks	2,564,186	2,705,294	-	1,661,461	2,135,200	429,504	3,302,341	-	12,797,986
PSEs	-	-	-	40,588	11	-	-	-	40,599
Banks, DFIs and MDBs	5,829,798	775,240	168,318	19,247	76,866	100,472	354,532	-	7,324,473
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	10,137	-	10,137
Corporates	10,050,697	4,149,319	3,120,350	2,870,322	5,488,004	3,202,045	10,974,526	-	39,855,263
Regulatory retail	78,078	53,351	96,056	308,153	2,291,750	3,529,151	15,952,272	-	22,308,811
Residential mortgages	533	451	1,044	4,402	56,981	130,703	18,725,624	-	18,919,738
Higher risk assets	92	22	93	21	604	605	17,551	519,972	538,960
Other assets	523,309	-	-	-	-	-	-	639,995	1,163,304
Securitisation exposures	-	-	-	-	-	-	20,757	-	20,757
Equity exposures	-	-	-	-	-	-	-	76	76
Defaulted exposures	246,239	2,642	3,021	21,972	67,580	40,293	445,428	-	827,175
Total for on balance sheet exposures	19,292,932	7,686,319	3,388,882	4,926,166	10,116,996	7,432,773	49,803,168	1,160,043	103,807,279
Off balance sheet exposures									
OTC derivatives	50,072	51,997	87,959	96,674	141,673	201,888	1,270,382	-	1,900,645
Credit derivatives	-	-	-	-	16	-	-	-	16
Off balance sheet exposures other than OTC derivatives or Credit derivatives	1,149,147	581,633	579,515	1,443,736	1,553,760	488,378	3,376,071	-	9,172,240
Defaulted exposures	8,450	1,506	7,891	921	4,634	1,306	8,412	-	33,120
Total for off balance sheet exposures	1,207,669	635,136	675,365	1,541,331	1,700,083	691,572	4,654,865	-	11,106,021
Total on and off balance sheet exposures	20,500,601	8,321,455	4,064,247	6,467,497	11,817,079	8,124,345	54,458,033	1,160,043	114,913,300

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

The residual contractual maturity by major types of gross credit exposures of the Group is as follows (Cont'd.):

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	107,758	-	-	-	-	-	2,634,183	-	2,741,941
PSEs	-	3	-	-	40,503	-	-	-	40,506
Banks, DFIs and MDBs	3,368,906	330,421	150,495	-	178,391	-	175,377	-	4,203,590
Insurance companies, Securities firms and Fund managers	-	-	3,082	-	-	-	6,693	-	9,775
Corporates	9,844,252	3,244,813	1,652,802	1,673,776	6,200,985	3,432,533	11,079,877	-	37,129,038
Regulatory retail	70,175	42,793	98,294	324,262	1,888,611	4,395,914	15,673,695	-	22,493,744
Residential mortgages	547	416	1,003	3,779	56,772	126,194	16,407,721	-	16,596,432
Higher risk assets	2	-	40	111	362	783	17,662	318,588	337,548
Other assets	535,980	-	-	-	-	-	-	885,822	1,421,802
Securitisation exposures	-	-	-	-	-	-	42,970	-	42,970
Equity exposures	-	-	-	-	-	-	7	97	104
Defaulted exposures	147,390	3,629	13,850	8,287	100,292	46,395	413,706	-	733,549
Total for on balance sheet exposures	14,075,010	3,622,075	1,919,566	2,010,215	8,465,916	8,001,819	46,451,891	1,204,507	85,750,999
Off balance sheet exposures									
OTC derivatives	70,258	90,540	61,625	205,006	169,243	215,579	1,371,656	-	2,183,907
Credit derivatives	-	-	-	-	-	14	-	-	14
Off balance sheet exposures other than OTC derivatives or Credit derivatives	1,022,735	610,461	614,393	1,403,405	1,327,155	702,198	3,979,355	-	9,659,702
Defaulted exposures	1,848	776	7,867	1,666	4,330	1,844	12,049	-	30,380
Total for off balance sheet exposures	1,094,841	701,777	683,885	1,610,077	1,500,728	919,635	5,363,060	-	11,874,003
Total on and off balance sheet exposures	15,169,851	4,323,852	2,603,451	3,620,292	9,966,644	8,921,454	51,814,951	1,204,507	97,625,002

5.1 Impairment (Cont'd)

The disclosure on reconciliation of changes to loans impairment allowances of the Group can be found in Note 17(j) of the financial statement.

Table 5.6: Charge offs and recoveries for loans and advances:

	(Charge offs)/ recoveries	
	2019 RM'000	2018 RM'000
Bad debts written off during the financial year	(73,678)	(97,336)
Bad debt recoveries during the financial year	760,574	443,247

6.0 Credit Risk Exposure under the Standardised Approach

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

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

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

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

2019 Risk weights	Exposures after netting and credit risk mitigation												Total risk weighted assets
	Sovereigns and Central banks	PSEs	Banks, DFIs and MDBs	Insurance companies, Securities firms and Fund managers	Corporates	Regulatory retail	Residential mortgages	Higher risk assets	Other assets	Securitisation exposures	Equity exposures	Total exposures after netting and credit risk mitigation	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
0%	8,546,549	-	5,275	-	2,592,375	-	-	-	312,517	-	-	11,456,716	-
20%	-	40,599	7,090,195	-	4,899,931	688,105	-	-	61,932	20,661	-	12,801,423	2,560,284
35%	-	-	-	-	-	-	14,761,256	-	-	-	-	14,761,256	5,166,439
50%	-	-	606,562	-	564,679	19,618	4,304,446	-	-	-	-	5,495,305	2,747,653
75%	-	-	-	-	-	21,127,019	-	-	-	-	-	21,127,019	15,845,264
100%	-	-	-	31,683	36,399,243	2,005,488	46,583	-	788,855	-	76	39,271,928	39,271,928
150%	-	-	-	-	244,343	90,073	-	556,216	-	-	-	890,632	1,335,949
1250%	-	-	-	-	-	-	-	-	-	96	-	96	1,199
Total	8,546,549	40,599	7,702,032	31,683	44,700,571	23,930,303	19,112,285	556,216	1,163,304	20,757	76	105,804,375	66,928,716

2018 Risk weights	Exposures after netting and credit risk mitigation												Total risk weighted assets
	Sovereigns and Central banks	PSEs	Banks, DFIs and MDBs	Insurance companies, Securities firms and Fund managers	Corporates	Regulatory retail	Residential mortgages	Higher risk assets	Other assets	Securitisation exposures	Equity exposures	Total exposures after netting and credit risk mitigation	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
0%	2,741,941	-	5,042	-	2,127,381	-	-	-	334,303	-	-	5,208,667	-
20%	19,532	40,506	5,321,574	-	3,660,075	127,757	-	-	-	42,808	-	9,212,252	1,842,451
35%	-	-	-	-	-	-	13,675,577	-	-	-	-	13,675,577	4,786,452
50%	-	-	315,470	-	290,122	17,416	3,064,324	-	-	-	-	3,687,332	1,843,666
75%	-	-	-	-	-	22,980,451	-	-	-	-	-	22,980,451	17,235,338
100%	-	-	-	38,455	36,401,004	1,290,188	64,831	-	1,087,499	-	104	38,882,081	38,882,081
150%	-	-	-	-	323,082	76,362	-	355,514	-	-	-	754,958	1,132,438
1250%	-	-	-	-	-	-	-	-	-	162	-	162	2,029
Total	2,761,473	40,506	5,642,086	38,455	42,801,664	24,492,174	16,804,732	355,514	1,421,802	42,970	104	94,401,480	65,724,455

Table 6.2: Rated exposures according to ratings by ECAIs

2019		Ratings of corporate by approved ECAIs				
Exposure class	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B 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
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
PSEs	40,599	40,588	-	-	-	11
Insurance companies, Securities firms and Fund managers	31,683	-	-	-	-	31,683
Corporates	48,129,563	4,190,993	1,084,271	-	-	42,854,299
Total	48,201,845	4,231,581	1,084,271	-	-	42,885,993
2018						
		Ratings of corporate by approved ECAIs				
Exposure class	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B 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
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
PSEs	40,506	40,483	-	-	-	23
Insurance companies, Securities firms and Fund managers	38,455	-	-	-	-	38,455
Corporates	45,572,986	2,755,406	772,350	-	-	42,045,230
Total	45,651,947	2,795,889	772,350	-	-	42,083,708

Table 6.2: Rated exposures according to ratings by ECAIs (Cont'd.)

2019	Ratings of sovereigns and central banks by approved ECAIs					
	Moody's S&P Fitch	Aaa to Aa3 AAA to AA- AAA to AA-	A1 to A3 A+ to A- A+ to A-	Baa1 to Baa3 BBB+ to BBB- BBB+ to BBB-	Ba1 to B3 BB+ to B- BB+ to B-	Unrated Unrated Unrated
Exposure class		RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Sovereigns and Central banks		12,797,986	-	12,797,986	-	-
Total		12,797,986	-	12,797,986	-	-

2018	Ratings of sovereigns and central banks by approved ECAIs					
	Moody's S&P Fitch	Aaa to Aa3 AAA to AA- AAA to AA-	A1 to A3 A+ to A- A+ to A-	Baa1 to Baa3 BBB+ to BBB- BBB+ to BBB-	Ba1 to B3 BB+ to B- BB+ to B-	Unrated Unrated Unrated
Exposure class		RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Sovereigns and Central banks		2,761,473	68,053	2,693,420	-	-
Total		2,761,473	68,053	2,693,420	-	-

Table 6.2: Rated exposures according to ratings by ECAIs (Cont'd.)

2019		Ratings of banking institutions by approved ECAIs					
Exposure class	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated	
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated	
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	Unrated	
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	
On and off balance sheet exposures							
Banks, DFIs and MDBs		8,848,683	3,949,646	3,007,152	832,512	435	1,058,938
Total		8,848,683	3,949,646	3,007,152	832,512	435	1,058,938

2018		Ratings of banking institutions by approved ECAIs					
Exposure class	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated	
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated	
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	Unrated	
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	
On and off balance sheet exposures							
Banks, DFIs and MDBs		5,840,702	2,726,478	1,114,191	481,047	230	1,518,756
Total		5,840,702	2,726,478	1,114,191	481,047	230	1,518,756

Table 6.3: Securitisation according to ratings by ECAs

2019	Ratings of securitisation by approved ECAs			
	Moody's	Aaa to Aa3	A1 to A3	Unrated
Exposure class	S&P	AAA to AA-	A+ to A-	Unrated
	Fitch	AAA to AA-	A+ to A-	Unrated
	RAM	AAA to AA-	A1 to A3	Unrated
	MARC	AAA to AA-	A+ to A-	Unrated
		RM'000	RM'000	RM'000
<u>On and off balance sheet exposures</u>				
Securitisation exposures	20,757	20,661	-	96
Total	20,757	20,661	-	96

2018	Ratings of securitisation by approved ECAs			
	Moody's	Aaa to Aa3	A1 to A3	Unrated
Exposure class	S&P	AAA to AA-	A+ to A-	Unrated
	Fitch	AAA to AA-	A+ to A-	Unrated
	RAM	AAA to AA-	A1 to A3	Unrated
	MARC	AAA to AA-	A+ to A-	Unrated
		RM'000	RM'000	RM'000
<u>On and off balance sheet exposures</u>				
Securitisation exposures	42,970	42,808	-	162
Total	42,970	42,808	-	162

7.0 Credit Risk Mitigation

Main types of collateral taken by the Group

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

- cash and term deposits
- exchange traded shares, bonds, 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

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

The Group Collateral Policy, is the internally recognised collateral framework for lending 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 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, where borrower’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 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 is extended, amortisation schedules and loan covenants. These assist in managing credit risk and in providing early warning signals, whereby should loan covenants be breached, the Group and the customer 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 to Value metrics.

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

Table 7.1 : Credit Risk Mitigation

The total exposures and eligible guarantees and collateral of the Group are as follows:

2019			
Exposures	Exposures before CRM RM'000	Exposures covered by guarantees RM'000	Exposures covered by eligible financial collateral RM'000
<i>Credit risk</i>			
<u>On balance sheet exposures</u>			
Sovereigns/Central banks	12,797,986	-	4,476,942
PSEs	40,599	-	-
Banks, DFIs and MDBs	7,324,473	-	1,121,356
Insurance companies, Securities firms and Fund managers	10,137	-	-
Corporates	39,855,263	224,042	3,990,805
Regulatory retail	22,308,811	674,486	389,838
Residential mortgages	18,919,738	-	41,937
Higher risk assets	538,960	-	100
Other assets	1,163,304	-	-
Securitisation exposures	20,757	-	-
Equity exposures	76	-	-
Defaulted exposures	827,175	16,775	38,173
Total for on balance sheet exposures	103,807,279	915,303	10,059,151
<u>Off balance sheet exposures</u>			
OTC derivatives	1,900,645	-	310,019
Credit derivatives	16	-	-
Off balance sheet exposures other than OTC derivatives or Credit derivatives	9,172,240	4,867	1,476,860
Defaulted exposures	33,120	-	17,161
Total for off balance sheet exposures	11,106,021	4,867	1,804,040
Total on and off balance sheet exposures	114,913,300	920,170	11,863,191

Table 7.1 : Credit Risk Mitigation (Cont'd.)

The total exposures and eligible guarantees and collateral of the Group are as follows (Cont'd.):

2018			
Exposures	Exposures before CRM RM'000	Exposures covered by guarantees RM'000	Exposures covered by eligible financial collateral RM'000
<i>Credit risk</i>			
<u>On balance sheet exposures</u>			
Sovereigns/Central banks	2,741,941	-	-
PSEs	40,506	-	-
Banks, DFIs and MDBs	4,203,590	-	-
Insurance companies, Securities firms and Fund managers	9,775	-	-
Corporates	37,129,038	413,162	3,374,865
Regulatory retail	22,493,744	126,827	308,658
Residential mortgages	16,596,432	-	71,561
Higher risk assets	337,548	-	118
Other assets	1,421,802	-	-
Securitisation exposures	42,970	-	-
Equity exposures	104	-	-
Defaulted exposures	733,549	8,495	73,253
Total for on balance sheet exposures	85,750,999	548,484	3,828,455
<u>Off balance sheet exposures</u>			
OTC derivatives	2,183,907	-	718,631
Credit derivatives	14	-	-
Off balance sheet exposures other than OTC derivatives or Credit derivatives	9,659,702	2,908	1,691,931
Defaulted exposures	30,380	-	10,302
Total for off balance sheet exposures	11,874,003	2,908	2,420,864
Total on and off balance sheet exposures	97,625,002	551,392	6,249,319

8.0 Off Balance Sheet exposures and Counterparty Credit Risk

8.1 Off Balance Sheet exposures

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

- 1) Credit related exposures, e.g. guarantees given on behalf of customers, certain transaction-related contingent items, obligation under underwriting agreement, short term self liquidating trade-related contingencies, irrevocable commitment to extend credit and unutilised credit card line.
- 2) Derivative Financial Instruments, e.g. forward exchange contracts (forward exchange contracts and cross currency swaps) interest rate related contracts (interest rate futures and interest rate swaps), 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 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 for the exposure; 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 Bank's primary tool to mitigate

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 Group's or the counterparty's credit risk rating be upgraded or downgraded.

Table 8.1: Off Balance Sheet Exposures

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

2019	Principal/ Notional amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
Direct credit substitutes	2,038,003		2,178,266	1,789,916
Transaction related contingent items	4,564,609		2,211,922	1,729,643
Short term self liquidating trade related contingencies	809,932		161,986	144,305
Forward asset purchases	1,397,583		170,024	81,546
Obligations under an on-going underwriting agreement	100,000		-	-
Foreign exchange related contracts				
One year or less	15,335,881	64,681	177,943	108,537
Over one year to five years	1,203,514	35,880	120,016	59,256
Over five years	514,076	109,054	186,983	178,787
Interest rate related contracts				
One year or less	385,950	1,304	1,366	1,111
Over one year to five years	1,115,498	8,273	35,878	11,188
Over five years	2,223,428	43,448	259,443	177,189
Equity and commodity related contracts				
One year or less	860,040	12,886	73,096	48,729
Over one year to five years	190,657	2,989	28,960	21,277
Credit derivative contracts				
Over one year to five years	345,108	5,417	16	8
OTC Derivatives transaction subject to valid bilateral netting agreements	74,363,649	493,753	1,016,960	401,238
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	2,463,522		1,207,053	966,909
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	12,490,756		2,508,034	2,089,096
Unutilised credit card lines	3,840,372		768,075	571,832
Total	124,242,578	777,685	11,106,021	8,380,567

Table 8.1: Off Balance Sheet Exposures (Cont'd.)

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

2018	Principal/ Notional amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
Direct credit substitutes	1,832,161		1,975,044	1,500,363
Transaction related contingent items	5,033,552		2,445,333	1,872,637
Short term self liquidating trade related contingencies	638,415		127,683	121,703
Forward asset purchases	138,023		7,008	4,594
Obligations under an on-going underwriting agreement	50,000		-	-
Foreign exchange related contracts				
One year or less	45,179,329	506,617	225,181	154,476
Over one year to five years	1,487,442	112,462	131,759	51,130
Over five years	760,001	162,498	189,568	178,126
Interest rate related contracts				
One year or less	547,848	215	604	167
Over one year to five years	1,200,763	10,624	38,215	14,275
Over five years	789,677	11,423	56,874	11,375
Equity and commodity related contracts				
One year or less	797,179	30,633	85,134	45,148
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
OTC Derivatives transaction subject to valid bilateral netting agreements	55,958,676	291,104	1,408,767	526,901
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	3,294,066		1,646,808	1,333,130
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	13,522,423		2,704,573	2,278,027
Unutilised credit card lines	3,918,163		783,633	583,912
Total	135,900,849	1,134,053	11,874,003	8,708,085

Table 8.2 : Credit Derivatives Counterparty Credit Risk

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

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

* Out of the total notional exposure for protection bought as at 31 March 2019, RM150.0 million (2018: RM150.0 million) has no counterparty credit risk exposure because it is on a fully funded basis.

9.0 Securitisation

9.1 Objectives, roles and involvement

The 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; and
- 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; and
- 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 book and trading book 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 Special Purpose Vehicle ("SPV") used in securitisation exercises

Third party exposures that have been securitised via SPVs include civil servant loans/financing, personal loans 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 agencies for securitisation transactions purposes.

Table 9.1: Securitisation (Trading and Banking Book)

The securitised exposures of the Group are as follows:

2019 Underlying asset	Total exposures securitised RM'000	Past due RM'000	Impaired RM'000	Gains/losses recognised during the financial year RM'000
<u>Traditional securitisation originated by the Group</u>				
Banking book				
Corporate loans	-	-	-	-
Mortgage loans	956,048	-	949,149	-
Total traditional securitisation	956,048	-	949,149	-
Total synthetic securitisation	-	-	-	-
Total traditional and synthetic securitisation	956,048	-	949,149	-

2018 Underlying asset	Total exposures securitised RM'000	Past due RM'000	Impaired RM'000	Gains/losses recognised during the financial year RM'000
<u>Traditional securitisation originated by the Group</u>				
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	-

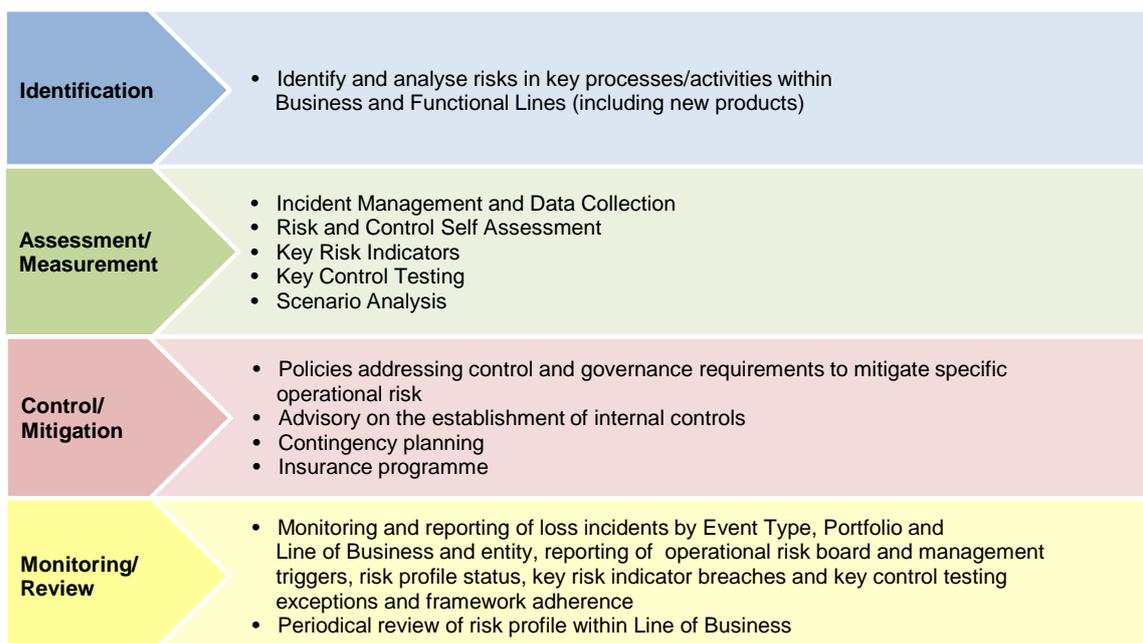
Table 9.2: Securitisation under the Standardised Approach for Banking Book Exposures

2019	Exposure value of positions purchased or retained RM'000	Exposure after CRM RM'000	Exposures subject to deduction RM'000	Distribution of exposures after CRM according to applicable risk weights				Risk weighted assets RM'000
				Rated securitisation exposures or risk weights of guarantees/credit derivatives			Unrated (look-through)	
				20% RM'000	50% RM'000	1250% RM'000	Exposure amount RM'000	
Securitisation exposures by exposure type								
Traditional securitisation originated by third party								
On Balance Sheet Exposures	20,661	20,661	-	20,661	-	-	-	4,132
Originated by the Group								
On Balance Sheet Exposures	96	96	-	-	-	96	-	1,199
Total traditional securitisation	20,757	20,757	-	20,661	-	96	-	5,331
Total synthetic securitisation	-	-	-	-	-	-	-	-
Total traditional and synthetic securitisation	20,757	20,757	-	20,661	-	96	-	5,331

2018	Exposure value of positions purchased or retained RM'000	Exposure after CRM RM'000	Exposures subject to deduction RM'000	Distribution of exposures after CRM according to applicable risk weights				Risk weighted assets RM'000
				Rated securitisation exposures or risk weights of guarantees/credit derivatives			Unrated (look-through)	
				20% RM'000	50% RM'000	1250% RM'000	Exposure amount RM'000	
Securitisation exposures by exposure type								
Traditional securitisation originated by third party								
On Balance Sheet Exposures	42,808	42,808	-	42,808	-	-	-	8,562
Originated by the Group								
On Balance Sheet Exposures	162	162	-	-	-	162	-	2,029
Total traditional securitisation	42,970	42,970	-	42,808	-	162	-	10,591
Total synthetic securitisation	-	-	-	-	-	-	-	-
Total traditional and synthetic securitisation	42,970	42,970	-	42,808	-	162	-	10,591

10.0 Operational Risk

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



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 and technology (including cyber) risk. 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 Bank is willing to accept, taking into consideration of the relevant financial and non-financial risk or return attributes in order to support the achievement of Bank's strategic plan and business objectives. The ORA statements and measurements are classified based on operational loss event types, which are grouped into five (5) categories as below and monitored via Incident Management and Data Collection, Key Risk Indicator and Key Control Testing.

- Fraud (internal & 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 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 communication, validation of FLOD effectiveness 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.)

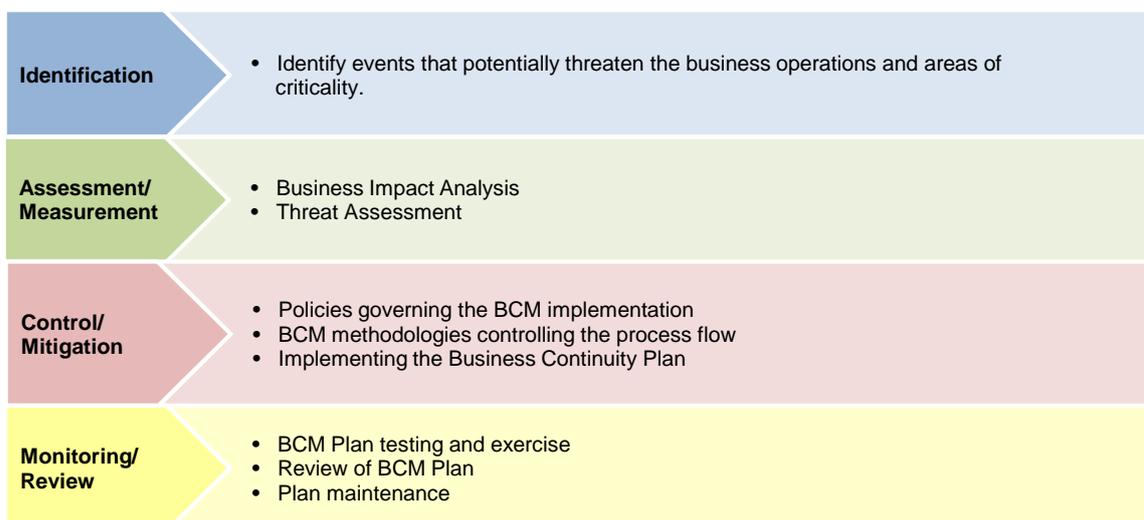
Group Operational Risk maintains close working relationships with all Line of Business, continually assisting in the identification of operational risks inherent in their respective business activities, assessing the impact and significance of these risks and ensuring that satisfactory risk mitigation measures and controls are in place. Various tools and methods are employed to identify, measure, control and monitor/report operational risk issues within the Group. The ORM/process contains the following ORM tools:

- the Incident Management and Data Collection (“IMDC”) module provides a common platform for reporting operational risk incidents that fall within one of the seven Event Types as stated in Basel II. IMDC also serves as a centralised database of operational risk incidents to model the potential exposure to operational risks in future and estimate the amount of economic capital charge.
- the Risk and Control Self Assessment (“RCSA”) is a process of continual identification, assessment of risks and controls effectiveness. By using structured questionnaires to assess and measure key risk and its corresponding controls effectiveness, RCSA provides risk profiling across the Group.
- the Key Risk Indicators (“KRI”) module provides early warning of increasing risk and/or control failures by monitoring the changes of the underlying risk measurements.
- the Key Control Testing (“KCT”) is the test steps or assessment performed periodically to assure that the key controls are in place and they are operating as intended or effective in managing the operational risks.
- Periodic validation of the RCSA/ KRIs/ KCTs are conducted by the Operational Risk Relationship Managers within Group Operational Risk to provide assurance on the integrity and continued relevance of the controls and testing implemented.
- Scenario analysis is a forward looking assessment tool to assess the severity impact on the Bank’s profitability and capital adequacy should the plausible and worse case scenarios materialise.

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

10.1 Business Continuity Management

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



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

10.1 Business Continuity Management (Cont'd.)

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

The Group is continuously reviewing the level of business operations resiliency and to enhance the BCM capability throughout all critical departments and branches across the region. Training is an integral part of the process to heighten BCM awareness and inculcate a business resiliency culture.

10.2 Cyber risk management

Cyber threat is an emerging risk as the migration to electronic platforms intensify, in part driven by the increased sophistication of cyber threats and security breaches that occurred over the past year. The AMMB Group recognises that these are constantly evolving threats, and the resilience of the AMMB Group's IT infrastructure and cyber security capabilities are of paramount importance, especially with regards to safeguarding customers' information. To mitigate the risk, AMMB Group embarked on a three-year Cyber Security Maturity Improvement Programme in FY18 to strengthen the cyber security posture and ability to protect and manage sensitive data. AMMB Group continue to further enhance the cyber security controls framework, as well as continue ongoing initiatives to educate the employees and customers about cyber security and what they can do to protect data. In FY19, the AMMB Group broadened its technology risk management capabilities by setting up a Cyber Offence team to proactively test and simulate cyber-attacks on the AMMB Group's security controls to identify potential threats and vulnerabilities that pose a risk to the AMMB Group.

10.3 Legal Risk

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

Legal risk is overseen by GMRC/GMC, upon advice by internal legal counsel and, where necessary, in consultation with external legal counsel to ensure that such risks are appropriately managed.

10.4 Regulatory Compliance Risk

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

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

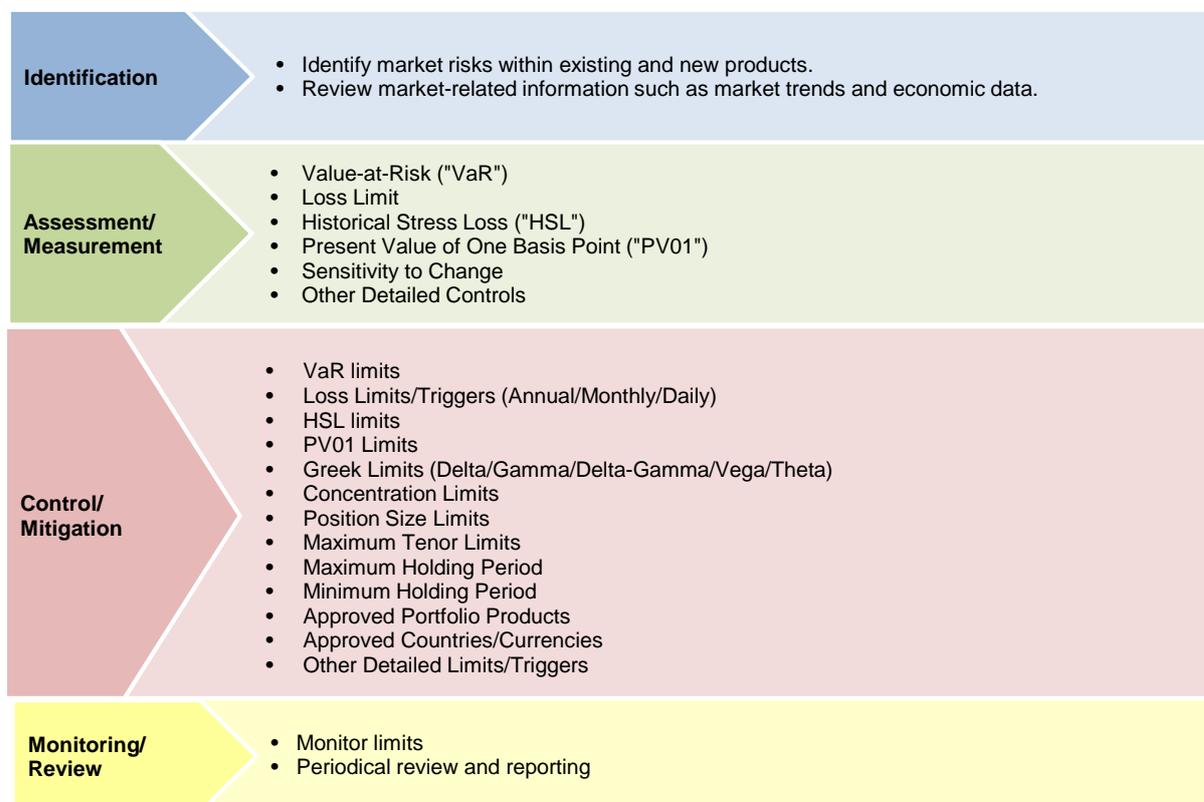
The AMMB Group continues to exercise and enhance its due diligence governance process and remains vigilant towards emerging risk as well as sensitive towards heightened regulatory surveillance and enforcement.

11.0 Market Risk

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

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



TMR arises from transactions in which the Bank acts as principal with clients or the market. It involves taking positions in fixed income, equity, foreign exchange, commodities and/or derivatives. The objectives of TMR management are to understand, accurately measure and work with the business to ensure exposures are managed within the Board and GMRC approved limit structures and risk appetite. This is done via robust TMR 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 Bank 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.

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

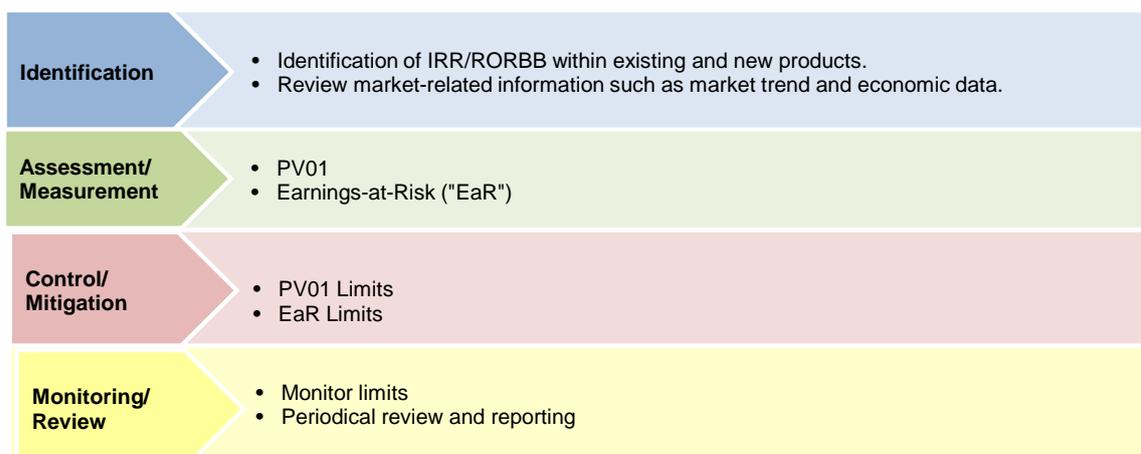
The Bank adopts the Standardised Approach for market risk capital charge computation. The capital charge serves as a buffer against losses from potential adverse market movements.

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

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:



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 and deposit taking activities) creates interest/profit rate-sensitive positions in the Bank’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 Bank’s capital.

The Board’s oversight of IRR/RORBB is supported by GALCO and/or GMRC. GALCO and/or GMRC is responsible for the alignment of Bank-wide risk appetite and funding needs, taking into consideration the Bank’s business strategies. GALCO and/or GMRC consistently oversees the Bank’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 Bank 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 Bank’s policy, positions are monitored on a daily basis and hedging strategies are employed to ensure risk exposures are maintained within Management-established limits.

The Bank measures the IRR/RORBB exposures using PV01. PV01 is a quantitative measure to assess the impact of an absolute change in economic value due to 1 basis point movement in market interest/profit rates.

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

Key assumptions in the gap and sensitivity analysis relate to the behaviour of interest/profit rates and spreads, changes in loan 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.

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

Interest Rate Risk/Rate of Return Risk in the Banking Book ("IRR/RORBB") (Cont'd.)

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 incorporates 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 Bank's exposure to a specified event.

The Bank'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 Bank's policies in the areas of product and liquidity management as well as the Trading Book and Banking book Policy, hedging policies and Non Traded 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 11.1: Market Risk Sensitivity - IRR/RORBB

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

2019 Currency (MYR)	Interest Rate/Rate of Return +100 bps RM'000	Interest Rate/Rate of Return -100 bps RM'000
Impact on Profit Before Taxation	66,090	(66,090)
Impact on Equity	(325,324)	364,235

2018 Currency (MYR)	Interest Rate/Rate of Return +100 bps RM'000	Interest Rate/Rate of Return -100 bps RM'000
Impact on Profit Before Taxation	122,433	(122,433)
Impact on Equity	(232,212)	266,223

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.

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

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

Table 12.1: Equity investments and capital requirement

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

	2019 RM'000	2018 RM'000
Non traded equity investments		
Value of quoted (publicly traded) equities	98,167	110,231
Value of unquoted (privately held) equities	519,064	317,695
Total	617,231	427,926
Net realised and unrealised (losses)/gains		
Cumulative realised gains from sales and liquidations	9,089	50,862
Total unrealised (losses)/gains	(11,930)	(8,729)
Total	(2,841)	42,133
Risk weighted assets		
Equity investments subject to a 100% risk weight	98,167	110,198
Equity investments subject to a 150% risk weight	778,596	476,593
Total	876,763	586,791
Total minimum capital requirement (8%)	70,141	46,943

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:



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

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

The Board provides the liquidity risk management oversight including setting and reviewing the liquidity risk appetite and approves the Bank's liquidity management strategy while the GALCO and/or GMRC is management committee established by the Board to oversee the overall liquidity management of the Bank. IBMR jointly with Group Treasury and Markets ("GTM") and Capital and Balance Sheet Management ("CBSM") develop the liquidity scenario assumptions that are to be approved by the Board.

The AMMB Group has put in place a Contingency Funding Plan which is established by CBSM to identify early warning signals of possible liquidity problem. The Contingency Funding Plan also sets out the detailed responsibilities among the relevant departments in the event of actual liquidity crises occurring to ensure orderly execution of procedures to restore the liquidity position and confidence in the organisation.

The Bank has in place various liquidity measurements that support the broader strategic objectives of the Bank and amongst others include the BNM LCR, Depositor Concentration Ratio and other Liquidity Ratios. IBMR is responsible for developing and monitoring the controls and limits while 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 Bank's liquidity at risk. The Bank further stresses the importance of the stable funding sources to finance placement and loans to customers. They are monitored using the loans to available funds ratio, which compares loans and advances to customers as a percentage of the Bank's total available funds.

To measure the quality of the Bank'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 instrument/long term borrowings more than 1 year.

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