AmInvestment Bank Berhad

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 (“Policy”) aim to enhance the transparency of disclosures on the risk management practices and capital adequacy of banking institutions. The Policy is applicable to all banking institutions licensed under the Financial Services Act 2013 (“FSA”).

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

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

Capital Adequacy

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 to the 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 capital buffers which comprise the sum of the following:

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

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

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

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

MFRS 9 requires all financial assets, other than equity instruments and derivatives, to be classified either at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVOCI"), or at amortised cost on the basis of two criteria, namely the entity’s business model for managing the assets, as well as the instruments’ contractual cash flow characteristics.

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

1.0 Scope of Application (Cont'd.)

Compliance with BNM policy documents on Financial Reporting and Financial Reporting for Islamic Banking Institutions (Cont'd.)

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 45 of the annual financial statements of the Group as at 31 March 2019. 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 periods.

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

1.1 Basis of Consolidation

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

For purposes of this Pillar 3 Disclosures, the consolidation basis used is the same as that used for regulatory capital adequacy purposes. The following table shows the differences between the scope of statutory and regulatory consolidation.

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

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

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

2.0 Capital Management

The capital adequacy of AMMB Group and its banking subsidiaries are collectively and centrally managed by the Capital and Balance Sheet Management department. The Group's capital management is focused on maintaining a strong capital position to support business growth and to meet the requirements of the Group's stakeholders including regulators, shareholders and rating agencies.

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

The capital plan takes the following into account:
(a) Regulatory capital requirements and
(b) Capital requirement to support business growth, strategic objectives, buffer for material regulatory risks and stress test results.

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

Stress testing and scenario analysis are used to ensure that the Group's internal capital assessment considers the impact of extreme but 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 Group periodically assesses the capital demand for material risks, and support its internal capital adequacy assessment. Each material risk is assessed, relevant mitigants considered, and appropriate levels of capital determined.

The capital that the Group is required to hold is determined by its actual and forecasted statement of financial position, commitments & contingencies, counterparty and other risk exposures after applying collateral and other mitigants, based on the Group's risk rating methodologies 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.

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.

2.0 Capital Management (Contd.)

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

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

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

Table 2.1: Capital Adequacy Ratios

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

	31.03.2019		31.03.2018	
	Group	**Bank**	**Group**	**Bank**
Before deducting proposed dividends:				
CET 1 Capital Ratio	43.008%	43.711%	45.466%	41.194%
Tier 1 Capital Ratio	43.008%	43.711%	45.466%	41.194%
Total Capital Ratio	43.394%	44.174%	45.713%	41.452%
After deducting proposed dividends:				
CET 1 Capital Ratio	41.193%	41.539%	32.349%	27.529%
Tier 1 Capital Ratio	41.193%	41.539%	32.349%	27.529%
Total Capital Ratio	41.579%	42.001%	32.596%	27.787%

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

	31.03.2019 Islamic Window	31.03.2018 Islamic Window
CET 1 Capital Ratio	97.460%	179.983%
Tier 1 Capital Ratio	97.460%	179.983%
Total Capital Ratio	97.460%	179.983%

Notes:

(i) The Group has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk. With effect from 1 January 2016, the capital adequacy ratios are computed in accordance with BNM's guidelines on Capital Adequacy Framework (Capital Components) issued on 2 February 2018, which is based on the Basel III capital accord.

Company No: 23742-V

Table 2.2 Risk-Weighted Assets and Capital Requirements

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

		31.03.19				
Exposure class	**RM'000**	**Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM") RM'000**	**Net exposures/ EAD after CRM RM'000**	**Risk weighted assets RM'000**	**Total Risk Weighted Assets after effects of RIA RM'000**	**Minimum capital requirement at 8% RM'000**
1. **Credit risk**						
On balance sheet exposures						
Sovereigns/ Central banks		66,065	66,065	-	-	-
Banks, development financial institutions ("DFIs") and multilateral development banks		305,838	305,838	61,168	61,168	4,893
Corporates		346,058	184,646	109,200	109,200	8,736
Regulatory retail		30,152	1,727	1,295	1,295	104
Higher risk assets		2,989	2,989	4,483	4,483	359
Other assets		549,790	549,790	511,666	511,666	40,933
Defaulted exposures		13	13	20	20	2
Total for on balance sheet exposures		1,300,905	1,111,068	687,832	687,832	55,027
Off balance sheet exposures:						
Off balance sheet exposures other than						
Over the counter ("OTC") derivatives		27,674	5,648	5,465	5,465	437
or Credit derivatives		9	9	14	14	1
Total for off balance sheet exposures		27,683	5,657	5,479	5,479	438
Total on and off balance sheet exposures		1,328,588	1,116,725	693,311	693,311	55,465
2. **Large exposures risk requirement**				-	-	-
3. **Market risk**	**Long Position**	**Short Position**				
Interest rate risk						
- General interest rate risk	387	390		-	-	-
Foreign currency risk	47,525	24		47,525	47,525	3,802
Equity risk						
- General risk	427	-		427	427	34
- Specific risk	427	-		427	427	34
Total	48,766	414		48,379	48,379	3,870
4. **Operational risk**				470,246	470,246	37,620
5. **Total RWA and capital requirements**				1,211,936	1,211,936	96,955

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

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

	31.03.18					
Exposure class	**RM'000**	**Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM") RM'000**	**Net exposures/ EAD after CRM RM'000**	**Risk weighted assets RM'000**	**Total Risk Weighted Assets after effects of RIA RM'000**	**Minimum capital requirement at 8% RM'000**
1. **Credit risk**						
On balance sheet exposures						
Sovereigns/ Central banks		64,397	64,397	-	-	-
Banks, development financial institutions ("DFIs") and multilateral development banks		858,967	858,967	171,793	171,793	13,743
Corporates		324,548	157,371	81,925	81,925	6,554
Regulatory retail		30,943	3,094	2,321	2,321	186
Higher risk assets		1,557	1,557	2,335	2,335	187
Other assets		674,903	674,903	653,767	653,767	52,301
Defaulted exposures		10	10	16	16	1
Total for on balance sheet exposures		1,955,325	1,760,299	912,157	912,157	72,972
Off balance sheet exposures:						
Off balance sheet exposures other than Over the counter ("OTC") derivatives or Credit derivatives		39,459	13,427	12,214	12,214	977
Total for off balance sheet exposures		39,459	13,427	12,214	12,214	977
Total on and off balance sheet exposures		1,994,784	1,773,726	924,371	924,371	73,949
2. **Large exposures risk requirement**				-	-	-
	Long Position	**Short Position**				
3. **Market risk**						
Interest rate risk /Rate of return risk						
- General interest rate risk/Rate of return risk	3,405	3,413		-	-	-
Foreign currency risk	47,244	425		47,244	47,244	3,780
Equity risk						
- General risk	1,020	-		1,020	1,020	82
- Specific risk	1,020	-		1,020	1,020	82
Option risk	55,903	-		76,867	76,867	6,149
Total	108,592	3,838		126,151	126,151	10,093
4. **Operational risk**				514,296	514,296	41,144
5. **Total RWA and capital requirements**				1,564,818	1,564,818	125,186

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

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

	31.03.19					
Exposure class	RM'000	Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM") RM'000	Net exposures / EAD after CRM RM'000	Risk weighted assets RM'000	Total Risk Weighted Assets after effects of RIA RM'000	Minimum capital requirement at 8% RM'000
1. **Credit risk**						
On balance sheet exposures						
Sovereigns/ Central banks		41	41	-	-	-
Banks, DFIs and MDBs		61,854	61,854	12,371	12,371	990
Other assets		36,229	36,229	36,229	36,229	2,898
Total for on balance sheet exposures		98,124	98,124	48,600	48,600	3,888
Off balance sheet exposures:						
Off balance sheet exposures other than Over the counter ("OTC") derivatives or credit derivatives		-	-	-	-	-
Total for off balance sheet exposures		-	-	-	-	-
Total on and off balance sheet exposures		98,124	98,124	48,600	48,600	3,888
2. **Large exposures risk requirement**		-	-	-	-	-
	Long Position	**Short Position**				
3. **Market risk**	**-**	**-**				
Interest rate risk /Rate of return risk	**-**	**-**		-	-	-
- General interest rate risk/Rate of return risk	-	-		-	-	-
- Specific interest rate risk/Rate of return risk	-	-		-	-	-
Foreign currency risk	-	-		-	-	-
Equity risk	-	-		-	-	-
- General risk						-
- Specific risk						-
Option risk	-	-		-	-	-
Total	-	-		-	-	-
4. **Operational risk**				45,645	45,645	3,652
5. **Total RWA and capital requirements**				94,245	94,245	7,540

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

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

		31.03.18				
Exposure class	**RM'000**	**Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM") RM'000**	**Net exposures/ EAD after CRM RM'000**	**Risk weighted assets RM'000**	**Total Risk Weighted Assets after effects of RIA RM'000**	**Minimum capital requirement at 8% RM'000**
1. **Credit risk**						
On balance sheet exposures						
Sovereigns/ Central banks		58	58	-	-	-
Banks, DFIs and MDBs		339,448	339,448	67,890	67,890	5,431
Other assets		6,620	6,620	6,620	6,620	530
Total for on balance sheet exposures		346,126	346,126	74,510	74,510	5,961
Off balance sheet exposures:						
Off balance sheet exposures other than Over the counter ("OTC") derivatives or Credit derivatives		-	-	-	-	-
Defaulted exposures						
Total for off balance sheet exposures		-	-	-	-	-
Total on and off balance sheet exposures		346,126	346,126	74,510	74,510	5,961
2. **Large exposures risk requirement**		-	-	-	-	-
	Long Position	**Short Position**				
3. **Market risk**	**-**	**-**				
Interest rate risk /Rate of return risk	-	-		-	-	-
- General interest rate risk/Rate of return ris	-	-		-	-	-
- Specific interest rate risk/Rate of return ris	-	-		-	-	-
Foreign currency risk	-	-		-	-	-
Equity risk	-	-		-	-	-
- General risk						-
- Specific risk						-
Option risk	-	-		-	-	-
Total	-	-		-	-	-
4. **Operational risk**				52,971	52,971	4,238
5. **Total RWA and capital requirements**				127,481	127,481	10,198

The Islamic window of the Group did not have Restricted Investment Account ("RIA") that qualifies as a risk absorbent as at 31 March 2019 and 31 March 2018.

3.0 Capital Structure

The capital structure of the Bank and the Group are made up of:

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

3.1 CET1 Capital

CET1 Capital consists of the following:

(a) Ordinary Shares
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) Capital Reserve and Merger Reserve
The capital reserve and merger reserve represent reserves arising from the transfer of subsidiaries pursuant to schemes of arrangement under group restructuring which involved capital reduction and was accounted for using the merger accounting method.

(ii) Foreign Currency Translation Reserve/(Deficit)
Foreign exchange gains and losses arise from the translation of the financial statements of foreign subsidiaries, whose functional currencies are different from that of the Group's reporting currency.

(iii) 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).

(iv) 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.

3.2 Additional Tier 1 Capital

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

3.3 Tier 2 Capital

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

Table 3.1: Capital Structure

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

	Group		Bank	
	31.03.19 RM'000	**31.03.18 RM'000**	**31.03.19 RM'000**	**31.03.18 RM'000**
CET1 Capital				
Ordinary shares	200,000	200,000	200,000	200,000
Retained earnings	278,205	470,006	296,696	474,802
Unrealised gains on financial investments at FVOCI	1,089	-	1,089	-
Foreign exchange translation reserve	2,440	2,124	-	-
Statutory reserve	-	-	-	-
Regulatory reserve	4,674	2,918	4,674	2,918
Capital reserve	2,815	2,815		-
Merger reserve	82,115	82,115		-
Less : Regulatory adjustments applied on CET1 capital				
Goodwill	(36,442)	(36,442)	-	-
Other intangibles	(2,118)	(2,642)	(1,750)	(2,137)
Deferred tax assets	(6,276)	(6,523)	(3,051)	(4,085)
55% of cumulative gains of FVOCI financial instruments	(599)	-	(599)	
Regulatory reserve attributable to loans and advances	(4,674)	(2,918)	(4,674)	(2,918)
Investments in capital instruments of unconsolidated financial and insurance/takaful entities	-	-	(49,809)	(49,809)
CET1 Capital/ Tier 1 Capital	**521,229**	**711,453**	**442,576**	**618,771**
Tier 2 Capital				
General provisions*	4,684	-	4,684	-
Collective impairment provisions and regulatory reserve	-	3,871	-	3,871
Less : Regulatory adjustments applied on Tier 2 Capital	-	-	-	-
Tier 2 Capital	**4,684**	**3,871**	**4,684**	**3,871**
Total Capital	**525,913**	**715,324**	**447,260**	**622,642**

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

Table 3.1: Capital Structure (Contd.)

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

	Group		Bank	
	31.03.19 RM'000	**31.03.18 RM'000**	**31.03.19 RM'000**	**31.03.18 RM'000**
Credit risk	693,311	924,371	732,342	1,123,584
Market risk	48,379	126,151	28,644	105,011
Operational risk	470,246	514,296	251,510	273,498
Total risk weighted assets	1,211,936	1,564,818	1,012,496	1,502,093

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

	31.03.19 RM'000	**31.03.18 RM'000**
CET1 Capital		
Capital Funds	30,000	30,000
Retained earnings	62,091	199,750
Less : Regulatory adjustments applied on CET1 Capital		
Other intangibles		-
Deferred tax assets	(240)	(306)
CET1 capital/ Tier 1 capital/ Total capital	**91,851**	**229,444**

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

	31.03.19 RM'000	**31.03.18 RM'000**
Credit risk	48,600	74,510
Operational risk	45,645	52,971
Total risk weighted assets	94,245	127,481

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.

AMMB Group Risk Direction

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

1 AMMB Group aspires to improve on its current external rating of AA2 based on reference ratings by RAM Rating Services Berhad ("RAM").

2 AMMB Group aims to achieve and sustain a Return on Risk Weighted Assets ("RoRWA") in the range of 1.5% to 1.8% and an RWA efficiency (Credit RWA ("CRWA")/ Exposure At Default ("EAD")) in the range of 50% to 60%, both based on Foundation Internal Ratings Based ("FIRB").

3 AMMB Group aims to maintain Available Financial Resources in excess of the capital requirements as estimated in the Internal Capital Adequacy Assessment Process ("ICAAP").

4 AMMB Group recognizes the importance of funding its own business. It aims to maintain the following:
a. Liquidity Coverage Ratio ("LCR") at least 10 percentage points above prevailing regulatory minimum of 100%.
b. Stressed LCR above the regulatory requirement of 100%; and
c. Net stable funding ratio ("NSFR") above the prevailing regulatory minimum (effective from 2019)

5 AMMB Group aims to maintain the following capital adequacy ratios ("CARs") under normal conditions:
CET1, Tier 1 and total capital ratio of at least 1 percentage points above their respective regulatory minimum, including prescribed regulatory buffers.

6 AMMB Group aims to maintain adequate controls for all key operational risks (including but not limited to regulatory, compliance, technology, conduct and reputational risks).
a. Keep operational losses and regulatory penalties below 2% of PATNCI*.
b. Remain vigilant in risk identification and management to protect its reputation and business franchise.

7 AMMB Group aims to limit the Group's earnings volatility such that mean Adjusted Return volatility over a period of the last 3 years is Below 0.3**.

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

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

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

*PATNCI - Profit after Tax and Non-Controlling Interests

**As per Perbadanan Insurans Deposit Malaysia ("PIDM") definition.

4.1 Internal Capital Adequacy Assessment Process

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

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

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

The following key principles underpin the ICAAP:

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

- The Group Risk Appetite, including the Group's target credit rating category;
- Regulatory Capital requirements;

4.1.2 Management Oversight

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

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

4.1.3 Capital Management Plan and Policy

The ICAAP shall include an approved Capital Management Framework and Plan including:

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

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

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

4.1.5 Capital allocation:

- The Group's capital, excluding any amount held centrally for strategic contingencies (e.g. acquisitions) should be allocated to individual business units using regulatory capital allocation principles;
- Capital allocation should be consistent with the Group's regulatory capital measurement framework and risk adjusted performance requirements; and
- The Group should only retain capital that is required to meet its economic, operational, prudential and strategic requirements. Consideration should be given to returning capital in excess of that required to shareholders.

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

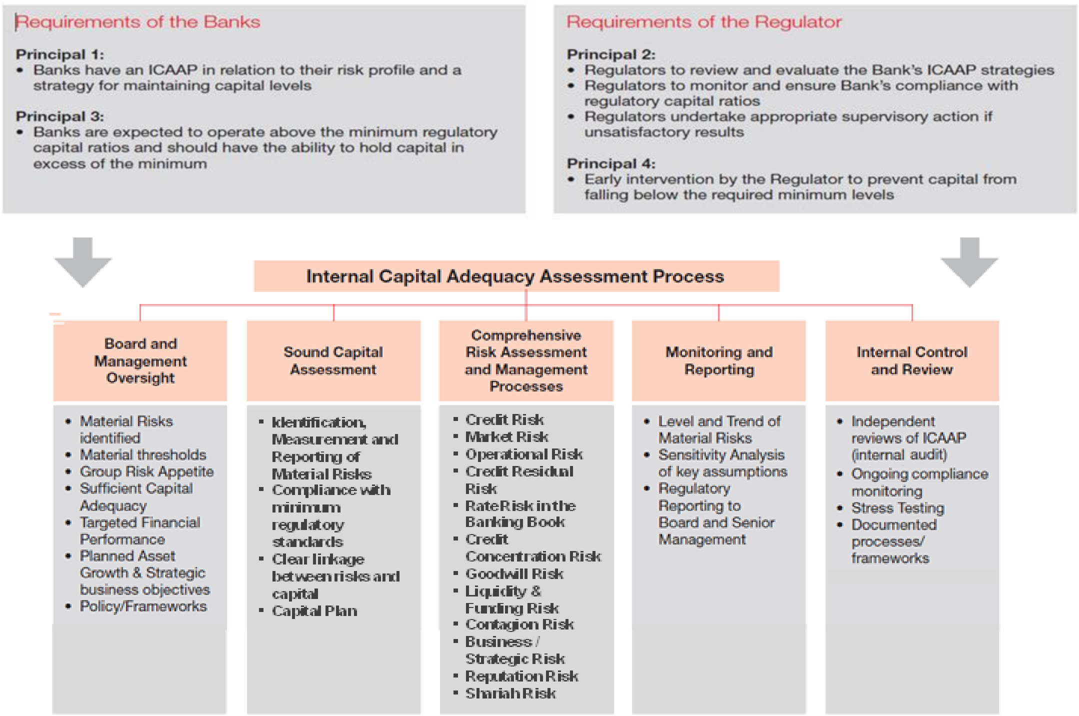
4.1.6 Material Risks

- The Group 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, change 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.

ICAAP Framework



Overview of ICAAP process and setting Internal Capital Targets

5.0 Credit Risk Management

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

Identification	• Identify/recognise credit risk on transactions and/or positions • Select asset and portfolio mix
Assessment/ Measurement	• Internal credit rating system • Probability of default ("PD") • Loss given default ("LGD") • Exposure at default ("EAD")
Control/ Mitigation	• Portfolio Limits, Counterparty Limits • Non Retail Pricing • Collateral & tailored facility structures
Monitoring/ Review	• Monitor and report portfolio mix Review Classified Accounts • Review Rescheduled 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 transactions and/or positions as well as Shariah compliance risk (please refer to Section 14 for discussion on Shariah Governance Structure).

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

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

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

To support credit risk management, our rating models for major portfolios have been upgraded to facilitate:
- improvement in the accuracy of individual obligor risk ratings;
- enhancement to pricing models;
- loan loss provision calculation;
- stress-testing; and
- enhancement to portfolio management.

5.0 Credit Risk Management (Cont'd.)

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

- Concentration threshold/review trigger:
  - single counterparty credit;
  - industry sector; and
  - country.
- Setting Loan to Value limits for asset backed loans (i.e., property exposures and other collateral);
  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 loan and advances pursuant to the BNM's revised policy on Classification and Impairment Provisions for Loans; and
- Setting Non Retail Pricing guidelines which serve as a guide to the minimum returns the Group requires for the risk undertaken, taking into account operating expenses and cost of capital.

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

The GMRC regularly meets to review the quality and diversification of the Group's loans portfolio and review the portfolio risk profile against the GRAF and recommend or approve new and amended credit risk policy.

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

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

5.0 Credit Risk Management (Cont'd.)

5.1 Impairment

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

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

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

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

(b) For loans where repayments are scheduled on intervals of 3 months or longer, the loan and advance is to be classified as impaired 1+30 days or 1 day +1 month past due (the 30-days grace period is to allow for exclusion of administrative default[3]).

(c) For trade bills/facilities, an account is deemed defaulted and impaired when the past due is 90 days from due date of the bill.

(d) A loan may also be classified as impaired if amongst others:
   i. If it is probable that the bank will be unable to collect all amounts due (including both interest/ profit and principal) according to the contractual terms of the agreement; or
   ii. Due to cross-default. Cross-default occurs when:
      - a default of a loans obligation of a cutomer triggers a default of another loan obligation of the same customer or
      - a default of a loans obligation of a customer triggers a default of a loan obligation of other customers within the same customer group.

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

(e) Debt instruments (for example, corporate bond and sukuk, debt converted instruments etc.) shall be classified as impaired
   i. When the coupon /interest/profit payment or face/nominal value redemption is one (1) day past due after the grace period, where there is a stipulated grace period within the contractually agreed terms; or
   ii. When an event of default (EOD) has been declared by the Trustee/ Facility Agent[4] for reasons other than payment in default (as outlined in the Trust Deeds Guidelines issued by the SC); or
   iii. Where it is deemed appropriate to classify as impaired and approved by the WACC.

(f) In the case of stock broking and futures broking:
   i. For margin loans, the account is impaired after 7 days when there is shortfall to the market value i.e. the collateral value is lower than the outstanding balance.
   ii. For futures business, the account is impaired when the overlosses are not remedied within 30 days and are not secured against dealer's retention funds.

(g) The loans and advances is deemed impaired when it is classified as R&R in the Central Credit Reference Information System ("CCRIS").

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

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

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

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

5.1 Impairment (Cont'd.)

5.1.2 Group Provisioning Methodology

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

MFRS 9 provisioning applies to all financial assets classified as amortised cost and 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

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.

Table 5.1: Distribution of gross credit exposures by sector

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

	31.03.19									
	Agriculture RM'000	**Mining and Quarrying RM'000**	**Construction RM'000**	**Finance and Insurance RM'000**	**Government and Central Banks RM'000**	**Business Activities RM'000**	**Education and Health RM'000**	**Household RM'000**	**Others RM'000**	**Total RM'000**
On balance sheet exposures										
Sovereigns/ Central banks	-	-	-	-	66,065	-	-	-	-	66,065
Banks, DFIs and MDBs	-	-	-	305,838	-	-	-	-	-	305,838
Corporates	863	-	803	79,077	-	-	56,211	209,049	55	346,058
Regulatory retail	-	-	-	-	-	-	-	30,152	-	30,152
Higher risk assets	-	-	-	-	-	-	-	-	2,989	2,989
Other assets	-	-	-	78,303	-	29,614	-	62,192	379,681	549,790
Defaulted exposures	-	-	-	-	-	-	-	13	-	13
Total for on balance sheet exposures	863	-	803	463,218	66,065	29,614	56,211	301,406	382,725	1,300,905
Off balance sheet exposures										
Off balance sheet exposures other than Over the counter derivatives or Credit derivatives	-	-	-	16	-	-	4,833	22,825	-	27,674
Defaulted exposures	-	-	-	-	-	-	-	9	-	9
Total for off balance sheet exposures	-	-	-	16	-	-	4,833	22,834	-	27,683
Total on and off balance sheet exposures	**863**	-	**803**	**463,234**	**66,065**	**29,614**	**61,044**	**324,240**	**382,725**	**1,328,588**

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

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

	31.03.18										
	Agriculture RM'000	**and RM'000**	**Finance and Insurance RM'000**	**Government and Central Banks RM'000**	**Real Estate RM'000**	**Business Activities RM'000**	**Education and Health RM'000**	**Household RM'000**	**Others RM'000**	**Total RM'000**
On balance sheet exposures										
Sovereigns/ Central banks	-	-	-	64,397	-	-	-	-	-	64,397
Banks, DFIs and MDBs	-	-	858,967	-	-	-	-	-	-	858,967
Corporates	862	-	76,147	-	3,809	-	47,847	195,876	7	324,548
Regulatory retail	-	-	-	-	-	-	-	30,943	-	30,943
Higher risk assets	-	-	-	-	-	-	-	-	1,557	1,557
Other assets	-	22	110,566	-	-	58,891	-	43,261	462,163	674,903
Defaulted exposures	-	-	-	-	-	-	-	10	-	10
Total for on balance sheet exposures	862	22	1,045,680	64,397	3,809	58,891	47,847	270,090	463,727	1,955,325
Off balance sheet exposures										
Off balance sheet exposures other than Over the counter derivatives or Credit derivatives	-	-	-	-	1,690	-	5,545	32,224	-	39,459
Total for off balance sheet exposures	-	-	-	-	1,690	-	5,545	32,224	-	39,459
Total on and off balance sheet exposures	**862**	**22**	**1,045,680**	**64,397**	**5,499**	**58,891**	**53,392**	**302,314**	**463,727**	**1,994,784**

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

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

	31.03.19			
	Business Activities RM'000	**Household RM'000**	**Not allocated RM'000**	**Total RM'000**
Impaired loans and advances	1,671	-	-	**1,671**
Allowance for expected credit loss	1,671	-	4	1,675
Charges/(Write-back) for individual allowances	(396)	-	-	**(396)**

	31.03.18			
	Business Activities RM'000	**Household RM'000**	**Not allocated RM'000**	**Total RM'000**
Impaired loans and advances	2,067	-	-	**2,067**
Individual allowances	2,067	-	-	**2,067**
Collective allowances	-	-	954	**954**
Charges/(Write-back) for individual allowances	(96)	-	-	**(96)**

Table 5.3: Geographical distribution of credit exposures

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

	31.03.19		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ Central banks	66,065	-	66,065
Banks, DFIs and MDBs	264,175	41,663	305,838
Corporates	346,058	-	346,058
Regulatory retail	30,152	-	30,152
Higher risk assets	2,982	7	2,989
Other assets	549,746	44	549,790
Equity exposures	-	-	-
Defaulted exposures	13	-	13
Total for on balance sheet exposures	1,259,191	41,714	1,300,905
Off balance sheet exposures			
Off balance sheet exposures other than OTC derivatives or credit	27,674	-	27,674
Defaulted exposures	9	-	9
Total for off balance sheet exposures	27,683	-	27,683
Total on and off balance sheet exposures	**1,286,874**	**41,714**	**1,328,588**

	31.03.18		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ Central banks	64,397	-	64,397
Banks, DFIs and MDBs	821,878	37,089	858,967
Corporates	324,548	-	324,548
Regulatory retail	30,943	-	30,943
Higher risk assets	1,550	7	1,557
Other assets	674,072	831	674,903
Defaulted exposures	10	-	10
Total for on balance sheet exposures	1,917,398	37,927	1,955,325
Off balance sheet exposures			
Off balance sheet exposures other than OTC derivatives or Credit	39,459	-	39,459
Total for off balance sheet exposures	39,459	-	39,459
Total on and off balance sheet exposures	**1,956,857**	**37,927**	**1,994,784**

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

The impaired and past due loans and advances and impairment allowances reside in Malaysia and are as follows:

			31.03.19
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans and advances	1,671	-	1,671
Allowance for expected credit loss	1,675	-	1,675

			31.03.18
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans and advances	2,067	-	2,067
Individual allowance	2,067	-	2,067
Collective allowance	954	-	954

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

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

	31.03.19								
	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	84	-	-	-	60,997	-	4,984	-	66,065
Banks, DFIs and MDBs	305,838	-	-	-	-	-	-	-	305,838
Corporates	229,261	-	-	6,136	35,215	-	75,446	-	346,058
Regulatory retail	-	-	467	10	188	29,487	-	-	30,152
Higher risk assets	-	-	-	-	-	-	-	2,989	2,989
Other assets	532,652	-	-	-	-	-	-	17,138	549,790
Defaulted exposures	13	-	-	-	-	-	-	-	13
Total for on balance sheet exposures	1,067,848	-	467	6,146	96,400	29,487	80,430	20,127	1,300,905
Off balance sheet exposures									
Off balance sheet exposures other than OTC derivatives or credit derivatives	120	1,346	229	1,122	129	-	24,728	-	27,674
Defaulted exposures	9	-	-	-	-	-	-	-	9
Total for off balance sheet exposures	129	1,346	229	1,122	129	-	24,728	-	27,683
Total on and off balance sheet exposures	**1,067,977**	**1,346**	**696**	**7,268**	**96,529**	**29,487**	**105,158**	**20,127**	**1,328,588**

	31.03.18								
	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	120	-	-	-	31,107	30,167	3,003	-	64,397
Banks, DFIs and MDBs	858,967	-	-	-	-	-	-	-	858,967
Corporates	203,051	1,290	1,275	4,801	114,131	-	-	-	324,548
Regulatory retail	3	-	67	126	169	30,578	-	-	30,943
Higher risk assets	-	-	-	-	-	-	-	1,557	1,557
Other assets	656,327	-	-	-	-	-	-	18,576	674,903
Defaulted exposures	10	-	-	-	-	-	-	-	10
Total for on balance sheet exposures	1,718,478	1,290	1,342	4,927	145,407	60,745	3,003	20,133	1,955,325
Off balance sheet exposures									
Off balance sheet exposures other than OTC derivatives or credit derivatives	4,284	1,321	1,318	3,521	723	-	28,292	-	39,459
Total for off balance sheet exposures	4,284	1,321	1,318	3,521	723	-	28,292	-	39,459
Total on and off balance sheet exposures	**1,722,762**	**2,611**	**2,660**	**8,448**	**146,130**	**60,745**	**31,295**	**20,133**	**1,994,784**

Reconciliation of changes to loan impairment allowances

The disclosure on reconciliation of changes to loans impairment allowances of the Group can be found in Note 15(i) and (j) of the financial statements. There are no charge offs and recoveries for loans and advances that have been taken up directly to the statement of profit or loss during the financial year.

6.0 Credit Risk Exposure under Standardised Approach

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

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

6.0 Credit Risk Exposure under the Standardised Approach

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

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

	31.03.19							
	Exposures after netting and credit risk mitigation							
Risk Weights	Sovereigns and Central banks RM'000	Banks, DFIs and MDBs RM'000	Corporates RM'000	Regulatory retail RM'000	Higher risk assets RM'000	Other assets RM'000	Total Exposures after Netting and CRM RM'000	Total Risk Weighted Assets RM'000
0%	66,065	-	75,446	-	-	3	141,514	-
20%	-	305,837	-	-	-	47,652	353,489	70,698
75%	-	-	-	2,458	-	-	2,458	1,844
100%	-	-	114,116	-	-	502,136	616,252	616,252
150%	-	-	-	23	2,989	-	3,012	4,517
Total	66,065	305,837	189,562	2,481	2,989	549,791	1,116,725	693,311

	31.03.18							
	Exposures after netting and credit risk mitigation							
Risk Weights	Sovereigns and Central banks RM'000	Banks, DFIs and MDBs RM'000	Corporates RM'000	Regulatory retail RM'000	Higher risk assets RM'000	Other assets RM'000	Total Exposures after Netting and CRM RM'000	Total Risk Weighted Assets RM'000
0%	64,397	-	75,447	-	-	3	139,847	-
20%	-	858,967	-	-	-	26,415	885,382	177,076
75%	-	-	-	7,945	-	-	7,945	5,959
100%	-	-	90,501	-	-	648,484	738,985	738,985
150%	-	-	-	10	1,557	-	1,567	2,351
Total	64,397	858,967	165,948	7,955	1,557	674,902	1,773,726	924,371

Table 6.2: Rated Exposures according to Ratings by ECAIs

	31.03.19					
	Ratings of Corporate by Approved ECAIs					
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>On and off balance sheet exposures</u>						
Credit exposures (using corporate risk weights)						
Corporates	364,962	-	-	-	-	364,962
Total	364,962	-	-	-	-	364,962

	31.03.18					
	Ratings of Corporate by Approved ECAIs					
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>On and off balance sheet exposures</u>						
Credit exposures (using corporate risk weights)						
Corporates	350,617	-	-	-	-	350,617
Total	350,617	-	-	-	-	350,617

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

	31.03.19						
	Ratings of Sovereigns and Central Banks by Approved ECAIs						
Exposure Class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central banks	66,065	-	66,065	-	-	-	-
Total	**66,065**	-	**66,065**	-	-	-	-

	31.03.18						
	Ratings of Sovereigns and Central Banks by Approved ECAIs						
Exposure Class	Moodys	Aaa to Aa3				Caa1 to C	
	S&P	AAA to AA-				CCC+ to D	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central banks	64,397	-	64,397	-	-	-	-
Total	**64,397**	-	**64,397**	-	-	-	-

	31.03.19						
	Ratings of Banking Institutions by Approved ECAIs						
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures							
Banks, DFIs and MDBs	305,838	50,613	22,088	111,255	-	-	121,882
Total	**305,838**	50,613	**22,088**	**111,255**	-	-	**121,882**

	31.03.18						
	Ratings of Banking Institutions by Approved ECAIs						
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures							
Banks, DFIs and MDBs	858,967	40,657	18,054	359,851	-	-	440,405
Total	**858,967**	40,657	**18,054**	**359,851**	-	-	**440,405**

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)

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

The Group Collateral Policy is the internally recognised collateral framework for lending 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

Currently, the Bank does not use guarantee support for risk mitigation.

Use of credit derivatives and netting for risk mitigation

Currently, the Bank does not use credit derivatives 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 Bank are exchange traded shares and unit trusts.

7.0 Credit Risk Mitigation

Table 7.1: Credit Risk Mitigation

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

	31.03.19	
Exposures	Exposures before CRM RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit risk		
On balance sheet exposures		
Sovereigns/ Central banks	66,065	-
Banks, DFIs and MDBs	305,838	-
Corporates	346,058	201,298
Regulatory retail	30,152	28,685
Higher risk assets	2,989	-
Other assets	549,790	-
Defaulted exposures	13	-
Total for on balance sheet exposures	1,300,905	229,983
Off balance sheet exposures		
Off balance sheet exposures other than OTC derivatives or credit derivatives	27,674	23,781
Defaulted exposures	9	-
Total for off balance sheet exposures	27,683	23,781
Total on and off balance sheet exposures	**1,328,588**	**253,764**

	31.03.18	
Exposures	Exposures before CRM RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit risk		
On balance sheet exposures		
Sovereigns/ Central banks	64,397	-
Banks, DFIs and MDBs	858,967	-
Corporates	324,548	194,185
Regulatory retail	30,943	28,116
Higher risk assets	1,557	-
Other assets	674,903	-
Defaulted exposures	10	-
Total for on balance sheet exposures	1,955,325	222,301
Off balance sheet exposures		
Off balance sheet exposures other than OTC derivatives or credit derivatives	39,459	27,640
Total for off balance sheet exposures	39,459	27,640
Total on and off balance sheet exposures	**1,994,784**	**249,941**

8.0 Off Balance Sheet exposures and Counterparty Credit Risk

8.1 OFF- BALANCE SHEET EXPOSURE & COUNTER PARTY CREDIT RISK

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

(1) Credit related exposures, e.g. guarantees given on behalf of customers, obligation under underwriting agreement and irrevocable commitment to extend credit.

(2) Derivatives Financial Instruments, e.g. forward exchange contracts (forward exchange contracts and cross currency swaps), equity related contracts (option and futures).

(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 Group Risk Appetite Framework.

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 Bank's exposure. The markets covered by this treatment for transactions entered by the Bank includes interest/profit rates, foreign exchange and equities.

For each individual contract, the pre-settlement risk exposure is normally calculated based on the sum of the marked-to-market ("MTM") value of 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 recognize 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 confine to a standardised underlying instruments. 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 counterparty credit risk is by taking collateral.

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

8.0 Off Balance Sheet exposures and Counterparty Credit Risk

Table 8.1: Off Balance Sheet Exposures

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

Description	31.03.19 Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Direct Credit Substitutes	-	-	-	-
Obligations under an on going underwriting agreements	-		-	
Foreign exchange related contracts				
One year or less	390	-	-	-
Equity and commodity related contracts				
One year or less	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	19		9	14
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	138,372		27,674	5,465
Total	**138,781**	**-**	**27,683**	**5,479**

Description	31.03.18 Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Direct Credit Substitutes	-	-	-	-
Obligations under an on going underwriting agreements	55,903		-	
Foreign exchange related contracts				
One year or less	3,411	-	-	-
Equity and commodity related contracts				
One year or less	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	19		9	7
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	197,249		39,450	12,207
Total	**256,582**	**-**	**39,459**	**12,214**

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

As at 31 March 2019 and 31 March 2018, the Group does not have any credit derivatives.

9.0 Securitisation

The Group and the Bank did not have any securitisation exposure in its trading and banking books nor did it undertake any securitisation activities during the current financial period and for the year ended 31 March 2019.

10.0 Operational Risk

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

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

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external incidents which includes but is not limited to outsourcing risk, technology (including cyber) risk and Shariah risk (Please refer to Section 14 for discussion on Shariah Governance Structure). It excludes strategic, systemic and reputational risk.

Operational Risk Appetite ("ORA") is set as part of overall GRAF, which sets the acceptable tolerance levels of operational risk that the Group is willing to accept, taking into consideration of the relevant financial and non-financial risk or return attributes in order to support the achievement of Group's strategic plan and business objectives. The ORA statements and measurements are classified based on operational loss event types, which are grouped into five (5) categories as below and monitored via Incident Management and Data Collection, Key Risk Indicator and Key Control Testing.

- Fraud (internal & 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, validation of FLOD effectiveness and capital allocation, 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.

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

10.0 Operational Risk (Cont'd.)

- 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 (including cyber) risk, shariah risk, legal risk and business continuity management.

10.1 Business Continuity Management

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

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

The BCM function is an integral part of Operational Risk Management. It places the importance of maintaining a BCM framework and policies to identify events that could potentially threaten the Group's operations and the 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 the organization's franchise and reputation.

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

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

10.2 Cyber risk management

Cyber threat is an emerging risk as the migration to the electronic platform intensifies, in part driven by the increased sophistication of cyber threats. As digitization has presented us with opportunities to innovate our banking solutions, and with greater volumes of data stored digitally now than before, the resilience of the Group's IT infrastructure and cyber security capabilities are of paramount importance, especially with regards to safeguarding customers' information. Thus, we are mindful of the need to have adequate safeguards against cyber-security threats. To this end, in FY19, the Group has acknowledged the importance of cyber security and resiliency and therefore, has broadened its technology risk management capabilities to encompass IT risk, information security risk and cyber risk management.

10.3 Legal Risk

In all jurisdictions that the Group conducts its business, there could be potential legal risks arising from breaches of applicable laws, unenforceability of contracts, lawsuits, adverse judgement, 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 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 Management

Market risk is the risk of losses due to adverse changes in the level or volatility of market rates or prices, such as interest/profit rates, credit spreads, equity prices and foreign exchange rates. The Bank differentiates between two categories of market risk: Traded Market Risk ("TMR") and Non-Traded Market Risk ("NTMR"). Assessment, control and monitoring of these risks are the responsibilities of Investment Banking and Markets Risk ("IBMR").

11.1 Traded Market Risk ("TMR")

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

Identification	• Identify market risks within existing and new products • Review market-related information review such as market trends and economic data
Assessment/ Measurement	• Value-at-Risk ("VaR") • Loss Limit • Historical Stress Loss ("HSL") • Other Detailed Controls
Control/ Mitigation	• VaR Limits • Loss Limits/Triggers (Annual/Monthly/Daily) • HSL Limit • Position Size Limits • Maximum Tenor Limits • Maximum Holding Period • Approved Porfolio Products • Approved Countries/ Currencies • Other Detailed Limits/ Triggers
Monitoring/ Review	• Monitor limits • Periodical review and reporting

11.1 Traded Market Risk (Cont'd.)

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 traded market risk measurement, limit setting, limit monitoring, and collaboration and agreement with Business Units.

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

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

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:

Identification	• Identify IRR/RORBB within existing and new products. • Review market-related information such as market trends and economic data
Assessment/ Measurement	• Present value of 1 basis point ("PV01") • Earnings-at-Risk ("EaR")
Control/ Mitigation	• PV01 Limits • EaR Limits
Monitoring/ Review	• Monitor limits • Periodical review and reporting

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

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

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 Bank's capital.

The Board's oversight of IRR/RORBB is supported by the GALCO and/or GMRC. GALCO and/or GMRC is responsible for the alignment of Bank's risk appetite and funding needs, taking into consideration 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 borrowings 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/financing and deposit product balances due to behavioural characteristics under different interest/profit rate environments. Material assumptions include the repricing characteristics and the stickiness of indeterminate or non-maturity deposits and loans/financings.

The rate scenarios may include rapid ramping of interest/profit rates, gradual ramping of interest/profit rates, and narrowing or widening of spreads. Usually each analysis incorporate what management deems the most appropriate assumptions about customer behaviour in an interest/profit rate scenario. However, in certain cases, assumptions are deliberately changed to test the 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. These approaches are governed by 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-Interest Rate Risk / Rate of Return Risk in the Banking Book (IRR / RORBB)

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

Impact on Income Statement

	31.03.19		31.03.18	
Currency	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**
MYR	**1,991**	**(1,991)**	**1,877**	**(1,877)**

Impact on Equity

	31.03.19		31.03.18	
Currency	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**
MYR	**(5,854)**	**6,379**	**(4,798)**	**5,310**

12.0 Equities (Banking Book Positions)

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

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

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

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

Table 12.1: Equity investments and capital requirement

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

	31.03.19	31.03.18
Non traded equity investments	**RM'000**	**RM'000**
Value of quoted (publicly traded) equities	-	-
Value of unquoted (privately held) equities	2,889	1,457
Total	2,889	1,457
Net realised and unrealised gains/ (losses)		
Cumulative realised gains/ (losses) from sales and liquidations	-	177,258
Total unrealised gains/ (losses)		-
Total	-	177,258
Risk Weighted Assets		
Equity investments subject to a 100% risk weight	-	-
Equity investments subject to a 150% risk weight	4,333	2,186
Total	4,333	2,186
Total minimum capital requirement (8%)	347	175

13.0 Liquidity Risk and Funding Management

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

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

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

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

The liquidity risk management of the Bank is aligned to the LCR policy 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 liquidy 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.

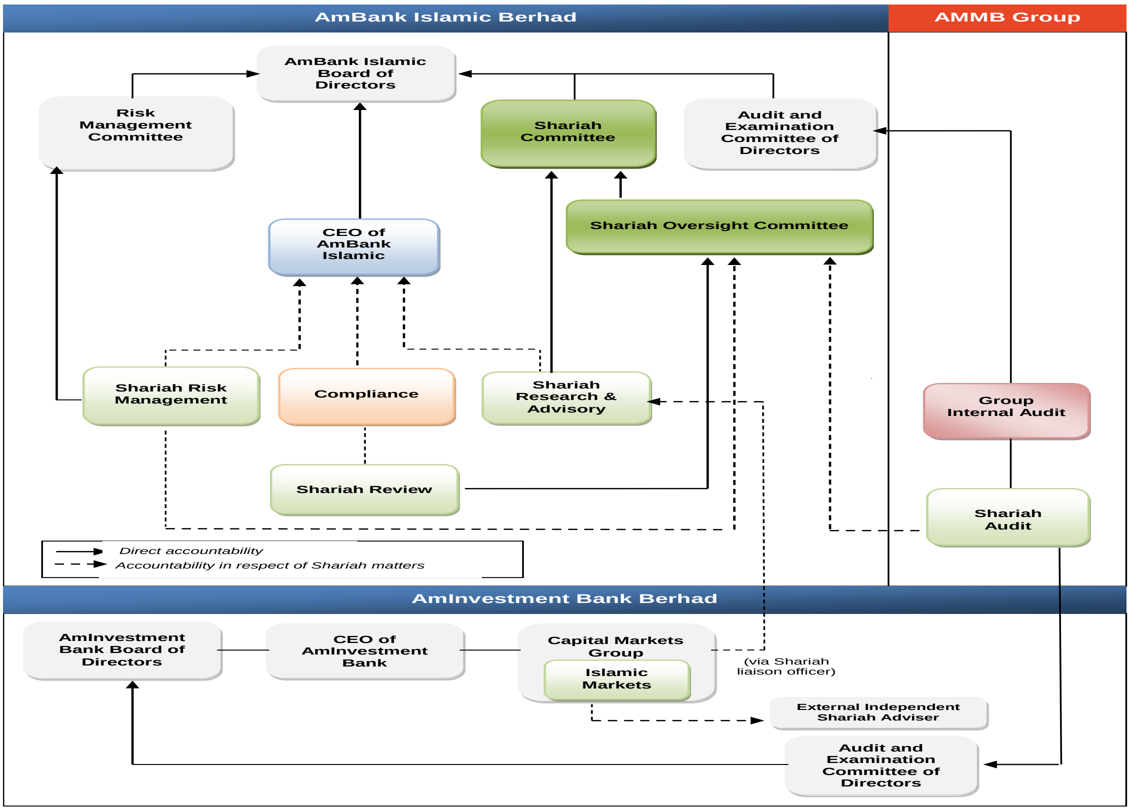
The AMMB Group has put in place a Contingency Funding Plan which is established by CBSM to identify early warning signals of possible liquidity problem. The Contingency Funding Plan also sets out the detailed responsibilities among the relevant departments in the event of actual liquidity crises occurring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

The Bank has in place liquidity measurement such as BNM LCR that support the broader strategic objectives of the Bank. 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.

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

14.0 Shariah Governance Structure



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

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

Board of Directors

The Board of the Bank is accountable and responsible for the overall oversight on the Shariah governance and Shariah compliance pursuant to the IFSA 2013. The Board performs its oversight through various committees such as the Audit and Examination Committee of Directors ("AEC"), Risk Management Committee ("RMC") and the Shariah Committee.

Audit and Examination Committee ("AEC") of Directors

AEC is a Board committee of the Bank responsible for assisting the Board in ensuring Islamic Banking/Islamic capital markets operations of the Group are Shariah compliant through oversight of the Shariah Audit function performed by Group Internal Audit Department.

Risk Management Committee

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

Shariah Committee

The Shariah Committee is responsible and accountable on matters related to Shariah. This includes advising the Board and Management on Shariah matters and endorsing and validating Islamic capital market products and services, Shariah policies and the relevant documentation in relation to the Bank's Islamic finance and Islamic capital markets operations and business activities.

14.0 Shariah Governance Structure (Contd.)

Shariah Liaison Officer, IM

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

Shariah Oversight Committee

The Shariah Oversight Committee, which is a sub-committee to the Shariah Committee, performs an oversight function on Islamic capital markets product and services from Shariah perspective. In that regard, the Shariah Oversight Committee is responsible to oversee on Shariah aspects, the functions of Shariah Review, Shariah Risk Management, and Shariah Audit. The Shariah Oversight Committee also provides guidance and advice on matters pertaining to Shariah non-compliant incidences as well as treatment of Shariah non-compliant income (if any).

Management

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

Shariah Research & Advisory

Shariah research

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

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

Shariah Advisory

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

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

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

Shariah Risk Management

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

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

Shariah Review

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

Shariah Audit

The Shariah Audit function is accountable to the AEC. A designated team within the Group Internal Audit Department is responsible to conduct independent assessment on the level of Shariah compliance of Islamic capital market products and services operations through the Shariah Audit function. The Shariah audit covers all activities particularly the operational components of AmInvestment Islamic window that are subjected to the risk of Shariah non-compliance including but not limited to products, operational processes, the technology supporting the operations, the people involved in key areas of risk, documentation and contracts, policies and procedures and other activities that require the adherence to Shariah principles.

14.1 Shariah Non-Compliant Income

There had been no Shariah non-compliant incidents and income for the financial year ended 31 March 2019 and year ended 31 March 2018.