Registration No. 196901000166 (8515-D)

AmBank (M) Berhad

Pillar 3 Disclosure

31 March 2020

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1.0 Scope of Application

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

The information provided in this Pillar 3 Disclosure of the Bank and its subsidiaries ("the Group") has been verified by the Group internal auditors and certified by the Chief Executive Officer.

Capital Adequacy

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

The capital adequacy ratios of the Group and the Bank are computed in accordance with BNM's policy document on Capital Adequacy Framework (Capital Components) issued on 5 February 2020 and Capital Adequacy Framework (Basel II – Risk Weighted Assets) issued on 3 May 2019. The Group and the Bank have adopted the Standardised Approach for Credit and Market Risks and the Basic Indicator Approach for Operational Risk, based on BNM's Guidelines on Capital Adequacy Framework (Basel II - Risk Weighted Assets).

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

(a) a Capital Conservation Buffer ("CCB") of 2.5%; and
(b) a Countercyclical Capital Buffer ("CCyB") determined as the weighted-average of the prevailing CCyB rates applied in the jurisdictions in which the banking institution has credit exposures. BNM will communicate any decision on the CCyB rate by up to 12 months before the date from which the rate applies.
(c) a Higher Loss Absorbency ("HLA") requirement for a financial institution that is designated as a domestic systemically important bank ("DSIB").

Adoption of MFRS 9 Financial instruments

The Group has adopted MFRS 16 for the first time since 1 April 2019. In its transition to MFRS 16, the Group has elected to apply the simplified transition approach whereby the comparative amounts were not restated. The financial impact of the adoption of MFRS 16 on the financial statements of the Group are as disclosed in Note 54(a). The financial effects disclosed included impact to the capital adequacy ratios arising from impact to capital base and risk weighted assets for changes arising from recognition of Right-of-Use assets.

Frequency of Disclosure

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

Medium and Location of Disclosure

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

1.1 Basis of Consolidation

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

Type of entity	Accounting treatment	
	Statutory reporting	**Basel III regulatory reporting**
Subsidiaries licensed under FSA or engaged in financial activities	Fully consolidated	Deducted from capital at the Bank level; fully consolidated in the calculation of capital adequacy at consolidated level.
Subsidiaries engaged in non-financial activities	Fully consolidated	Risk weighted at the Bank level; consolidated in calculation of capital adequacy at consolidated level.
Associates which are licensed under FSA or engaged in financial activities	Equity accounted	Deducted in the calculation of capital.
Associates which are not licensed under FSA or engaged in financial activities	Equity accounted	Risk weighted.

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

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

2.0 Capital Management

The Group's capital management approach is focused on maintaining a strong capital position that supports the Group's strategic objectives and risk appetite. In line with the Group's annual 3-year strategy plan, a capital plan is developed to ensure that adequate level of capital and an optimum capital structure is maintained to meet regulatory requirements, the Group's strategic objectives and stakeholders' expectations.

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

2.0 Capital Management (Cont'd.)

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

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

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

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

2.0 Capital Management (Cont'd.)

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

Table 2.1: Capital Adequacy Ratio

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

	Group		Bank	
	2020	2019	2020	2019
Before deducting proposed dividends:				
CET 1 Capital ratio	12.342%	11.868%	12.220%	11.752%
Tier 1 Capital ratio	12.342%	12.524%	12.220%	12.406%
Total Capital ratio	16.903%	17.169%	16.769%	17.038%
After deducting proposed dividends:				
CET 1 Capital ratio	12.167%	11.437%	12.046%	11.323%
Tier 1 Capital ratio	12.167%	12.094%	12.046%	11.977%
Total Capital ratio	16.728%	16.739%	16.595%	16.609%

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

As at 31 March 2020, the gross exposure relating to the RA financing for the Group and the Bank amounted to RM719.9 million (31 March 2019: RM1,470.1 million). There was no stage 3 expected credit losses provided for the RIA financing.

Table 2.2 : Risk-Weighted Assets and Capital Requirements

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

2020 Exposure class	Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM")		Net exposures/ EAD after CRM	Risk weighted assets	Minimum capital requirement at 8%
	RM'000		RM'000	RM'000	RM'000
1. **Credit risk**					
On balance sheet exposures					
Sovereigns/Central banks	15,387,040		15,387,040	35,178	2,814
Banks, development financial institutions ("DFIs") and multilateral development banks ("MDBs")	4,277,967		4,277,967	881,108	70,489
Insurance companies, Securities firms and Fund managers	7,010		7,010	7,010	561
Corporates	41,777,920		39,936,866	32,380,406	2,590,432
Regulatory retail	20,643,659		20,448,584	15,417,595	1,233,408
Residential mortgages	20,443,798		20,436,971	7,935,178	634,814
Higher risk assets	607,151		607,141	910,711	72,857
Other assets	1,524,832		1,524,832	1,250,210	100,017
Securitisation exposures	10,780		10,780	3,263	261
Equity exposures	44		44	44	3
Defaulted exposures	921,304		902,265	953,999	76,320
Total on balance sheet exposures	**105,601,505**		**103,539,500**	**59,774,702**	**4,781,976**
Off balance sheet exposures					
Over the counter ("OTC") derivatives	2,772,078		2,635,355	1,758,858	140,709
Credit derivatives	12		12	6	-
Off balance sheet exposures other than OTC derivatives or Credit derivatives	14,900,064		7,722,667	6,818,203	545,456
Defaulted exposures	33,332		22,998	34,362	2,749
Total off balance sheet exposures	**17,705,486**		**10,381,032**	**8,611,429**	**688,914**
Total on and off balance sheet exposures	**123,306,991**		**113,920,532**	**68,386,131**	**5,470,890**
2. **Large exposure risk requirement**	-		-	657,669	52,614
3. **Market risk**	**Long position**	**Short position**			
Interest rate risk					
- General interest rate risk	107,888,094	101,012,032		1,807,659	144,613
- Specific interest rate risk	8,776,474	2,031,742		14,553	1,165
Foreign currency risk	127,439	429,657		429,657	34,373
Equity risk					
- General risk	43,833	4,228		39,606	3,168
- Specific risk	43,833	4,228		34,437	2,755
Option risk	176,759	208,370		26,343	2,107
Total	**117,056,432**	**103,690,257**		**2,352,255**	**188,181**
4. **Operational risk**				4,232,330	338,586
5. **Total RWA and capital requirements**				**75,628,385**	**6,050,271**

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

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

2019 (Restated)* Exposure class	Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM")		Net exposures/ EAD after CRM	Risk weighted assets	Minimum capital requirement at 8%
	RM'000		RM'000	RM'000	RM'000
1. **Credit risk**					
On balance sheet exposures					
Sovereigns/Central banks	8,321,044		8,321,044	-	-
Public Sector Entities ("PSEs")	40,599		40,599	8,120	650
Banks, development financial institutions ("DFIs") and multilateral development banks ("MDBs")	6,203,116		6,203,116	1,259,679	100,774
Insurance companies, Securities firms and Fund managers	10,137		10,137	10,137	811
Corporates	39,855,263		37,380,160	30,968,981	2,477,518
Regulatory retail	22,308,811		22,059,849	16,638,573	1,331,086
Residential mortgages	18,919,738		18,911,426	7,245,717	579,657
Higher risk assets	538,960		538,889	808,334	64,667
Other assets	1,163,304		1,163,304	801,241	64,099
Securitisation exposures	20,757		20,757	5,331	426
Equity exposures	76		76	76	6
Defaulted exposures	827,175		809,169	798,091	63,847
Total on balance sheet exposures	**98,208,980**		**95,458,526**	**58,544,280**	**4,683,541**
Off balance sheet exposures					
Over the counter ("OTC") derivatives	1,900,645		1,782,651	1,007,312	80,585
Credit derivatives	16		16	8	1
Off balance sheet exposures other than OTC derivatives or Credit derivatives	14,770,539		8,544,529	7,349,240	587,939
Defaulted exposures	33,120		18,653	27,876	2,230
Total off balance sheet exposures	**16,704,320**		**10,345,849**	**8,384,436**	**670,755**
Total on and off balance sheet exposures	**114,913,300**		**105,804,375**	**66,928,716**	**5,354,297**
2. **Large exposure risk requirement**	-		-	531,402	42,512
3. **Market risk**	**Long position**	**Short position**			
Interest rate risk					
- General interest rate risk	105,140,377	94,543,090		1,686,714	134,937
- Specific interest rate risk	11,721,035	1,111,827		138,597	11,088
Foreign currency risk	153,059	469,282		469,282	37,543
Equity risk					
- General risk	29,779	1,457		28,321	2,266
- Specific risk	29,779	1,457		14,295	1,144
Option risk	1,078,808	687,103		21,745	1,740
Total	**118,152,837**	**96,814,216**		**2,358,954**	**188,718**
4. **Operational risk**				4,059,205	324,736
5. **Total RWA and capital requirements**				**73,878,277**	**5,910,263**

* Refer to Note 1 in Table 8.1.

3.0 Capital Structure

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

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

3.1 CET 1 Capital

CET 1 Capital consists of the following:

a) Paid-up Capital

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

b) Retained Earnings

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

c) 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.

d) Merger Reserve

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

e) Foreign Currency Translation Reserve/(Deficit)

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

f) Fair Value Reserve

The Fair value reserve comprises fair value gains (net of fair value losses) on financial investments measured at fair value through other comprehensive income ("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 Bank 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.

g) Cash Flow Hedging Reserve/(Deficit)

Cash flow hedging reserve/(deficit) comprises the portion of the gains/(losses) on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. Cash flow hedging gain as at the reporting period is classified as cash flow hedging reserve and cash flow hedging losses is classified as cash flow hedging deficit. The amount of the cash flow hedging reserve/(deficit) is derecognised in the calculation of CET 1 Capital.

3.2 Additional Tier 1 Capital

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

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

Base on 1 January 2013 for the Gradual Phase-out Treatment	
Outstanding AT1 Capital Instruments on 1 January 2013	**RM'000**
Non-cumulative Non-voting Guaranteed Preference Shares[1]	750,100
Innovative Tier 1 Capital - Tranche 1[2]	300,000
Innovative Tier 1 Capital - Tranche 2[3]	185,000
Non-Innovative Tier 1 Capital - Tranche 1[4]	200,000
Non-Innovative Tier 1 Capital - Tranche 2[5]	300,000
Total Qualifying Base	**1,735,100**

Calendar year	**Cap on Additional Tier 1 Capital Instruments that can be recognised in capital adequacy computation each year**	
	Cap (%)	**Cap (RM'000)**
2013	90%	1,561,590
2014	80%	1,388,080
2015	70%	1,214,570
2016	60%	1,041,060
2017	50%	867,550
2018	40%	694,040
2019	30%	520,530
2020	20%	347,020
2021	10%	173,510
2022	0%	-

Notes:

[1] Redeemed on the first call date 27 January 2016.
[2] Redeemed on the first call date 19 August 2019.
[3] Redeemed on the first call date 30 September 2019.
[4] Redeemed on the first call date 27 February 2019.
[5] Redeemed on the first call date 6 March 2019.

Innovative Tier 1 Capital

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

3.2 Additional Tier 1 Capital (Cont'd.)

Innovative Tier 1 Capital Securities

On 18 August 2009, the Bank issued up to RM485 million Innovative Tier I Capital Securities under its RM500 million Innovative Tier I Capital Securities ("ITICS") Programme. The ITICS bear a fixed interest (non-cumulative) rate at issuance date (interest rate is 8.25% per annum) and step up 100 basis points after the First Call Date (10 years after issuance date) and interest is payable semi annually in arrears. The maturity date is 30 years from the issue date. The ITICS facility is for a tenure of 60 years from the first issue date and has a principal stock settlement mechanism to redeem the ITICS via cash through the issuance of the Bank's ordinary shares. Upon BNM's approval, the Bank may redeem in whole but not in part the relevant tranche of the ITICS at any time on the 10th anniversary of the issue date of that tranche or on any interest payment date thereafter.

On 19 August 2019 and 30 September 2019, the Bank redeemed the first and second tranches of the ITICS respectively and had cancelled the ITICS Programme on 30 September 2019.

3.3 Tier 2 Capital

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

Basel III Subordinated Notes

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

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

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

The salient features of the Subordinated Notes issued under this programme and outstanding as at 31 March 2020 are as follows:

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

Table 3.3: Capital Structure

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

	Group		Bank	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
CET 1 Capital				
Ordinary shares	1,940,465	1,940,465	1,940,465	1,940,465
Regulatory reserve	311,003	280,556	311,003	280,556
Retained earnings	7,326,502	6,957,622	7,380,683	7,014,840
Fair value reserve	244,735	245,666	244,851	245,836
Foreign currency translation reserve	95,766	81,246	99,587	85,109
Merger reserve	104,149	104,149	-	-
Cash flow hedging deficit	(28,155)	(12,074)	(28,155)	(12,074)
Less: Regulatory adjustments applied on CET 1 Capital				
Intangible assets	(264,492)	(368,654)	(264,492)	(368,654)
Deferred tax assets	(33,475)	(57,636)	(33,439)	(57,589)
55% of cumulative gains of FVOCI financial instruments	(134,604)	(135,116)	(134,668)	(135,210)
Cash flow hedging deficit	28,155	12,074	28,155	12,074
Regulatory reserve	(311,003)	(280,556)	(311,003)	(280,556)
Investment in ordinary shares of unconsolidated financial entities	-	-	(8,488)	(8,488)
Unrealised fair value gains on financial liabilities due to changes in own credit risk	(1,086)	-	(1,086)	-
Total CET 1 Capital	**9,277,960**	**8,767,742**	**9,223,413**	**8,716,309**
Additional Tier 1 Capital				
Additional Tier 1 Capital instruments (subject to gradual phase-out treatment)	-	485,000	-	485,000
Qualifying CET 1, Additional Tier 1 capital instruments held by third parties	3	3	-	-
Total Tier 1 Capital	**9,277,963**	**9,252,745**	**9,223,413**	**9,201,309**
Tier 2 Capital				
Tier 2 Capital instruments meeting all relevant criteria for inclusion	2,595,000	2,595,000	2,595,000	2,595,000
Qualifying CET 1, Additional Tier 1 and Tier 2 capital instruments held by third parties	1	1	-	-
General provisions*	852,502	836,609	856,496	840,495
Total Tier 2 Capital	**3,447,503**	**3,431,610**	**3,451,496**	**3,435,495**
Total Capital	**12,725,466**	**12,684,355**	**12,674,909**	**12,636,804**

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

	Group		Bank	
	2020	2019	2020	2019
	RM'000	RM'000	RM'000	RM'000
Credit RWA	68,200,137	66,928,716	68,519,699	67,239,575
Market RWA	2,352,255	2,358,954	2,351,627	2,358,358
Operational RWA	4,232,330	4,059,205	4,217,469	4,037,878
Large exposure risk RWA for equity holdings	471,676	531,402	471,676	531,402
Total RWA	**75,256,398**	**73,878,277**	**75,560,471**	**74,167,213**

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

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 capital employed ("ROCE") and is reviewed periodically throughout the financial year by both the executive management and the Board to consider any fine tuning/amendments taking into account prevailing or expected changes to the environment that the Group operates in.

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

The AMMB Holdings Berhad ("AMMB") Group Risk Direction

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

1. The AMMB Group aspires to maintain its current financial institution external rating of AA2 based on reference ratings by RAM Rating Services Berhad ("RAM").
2. The AMMB Group aims to maintain a minimum ROCE of 12% and an RWA efficiency (CRWA/EAD) in the range of 40% to 50%, both based on Foundation Internal Ratings-Based ("FIRB").
3. The AMMB Group aims to maintain Available Financial Resources in excess of the capital requirements as estimated in the Internal Capital Adequacy Assessment Process ("ICAAP").
4. The AMMB Group recognizes the importance of funding its own business. It aims to maintain the following:
   - Liquidity Coverage Ratio ("LCR") (both consolidated and entity level) at least 10 percentage points above prevailing regulatory minimum;
   - Stressed LCR (both consolidated and entity level) above the regulatory requirement; and
   - Net Stable Funding Ratio ("NSFR") (Financial Holding Company ("FHC") level) above the prevailing regulatory minimum (effective from 2020).
5. The AMMB Group aims to maintain its Total Capital Ratio at the Group's Internal Capital Trigger under normal conditions.
6. The AMMB Group aims to maintain adequate controls for all key operational risks (including but not limited to regulatory, compliance, technology, conduct and reputational risks).
   - Keep operational losses and regulatory penalties below 2% of PATMI[1]; and
   - Remain vigilant in risk identification and management to protect its reputation and business franchise.

Risk Management Governance

The Board is ultimately responsible for the management of risks within the Group. The RMC is formed to assist the Board in discharging its duties in overseeing the overall management of all risks including but not limited to market risk, liquidity risk, credit risk, operational risk, IT and cyber risk.

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

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

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

[1] Profit after tax and non-controling interest

4.0 General Risk Management (Cont'd.)

Impact of COVID-19

Risk management is an integral part of the AMMB Group's culture and is embedded within its business, operations and decision making processes. AmBank Group as a sustainable-conscious organisation has implemented various progressive measures through the Crisis Management Programme following the Movement Control Order ("MCO") implemented nationwide arising from the COVID-19 pandemic, namely:

- engaging technology capabilities while keeping cybersecurity risk checked-in, given the allowed higher levels of remote access to data and core systems
- ensuring key services to customers remain available throughout the period while taking precautions to keep in compliance with the MCO

AMMB Group welcomed the stimulus plan announced by the Government as relief had been provided to both individuals as well as SMEs and had announced a 24-hour turnaround time for Special Relief Fund applications for SMEs, a scheme largely guaranteed by the government.

It is too soon for the Group and the Bank to see the full impact of COVID-19 on its portfolio, however, the financial markets are witnessing a wave of increased volatility, coupled with the drastic drop in oil price. The forward looking strategies would be aligned to the government's direction.

Group Risk Management as a whole is working towards monitoring, mitigating and addressing the fast-moving and unknown variables of the COVID-19 outbreak to ensure significant areas of risks are covered by reviewing the portfolio credit quality, enhancing policies and controls and reevaluating the provisioning models to minimize the potential impact to the Bank.

4.1 Internal Capital Adequacy Assessment Process

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

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

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

The following key principles underpin the ICAAP:

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

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

4.1.2 Management oversight

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

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

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

4.1.3 Capital Management Policy

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

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

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

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

4.1.5 Capital allocation:

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

4.1.6 Material Risks

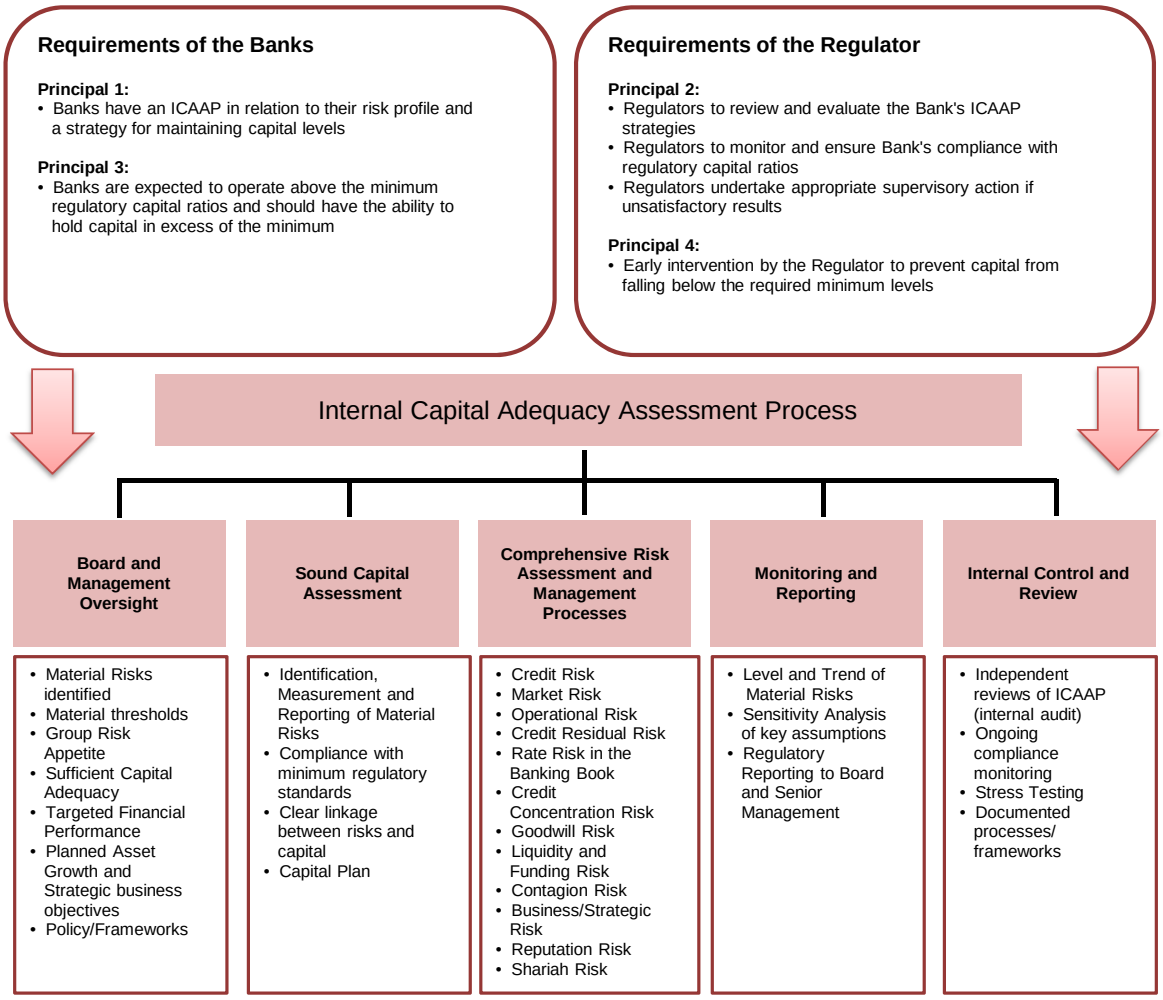
- The AMMB Group shall clearly articulate definitions of each material risk type to be included in the ICAAP; and
- processes to identify and determine the materiality of current risk types, changes to existing risk types and new risk types must be established.

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

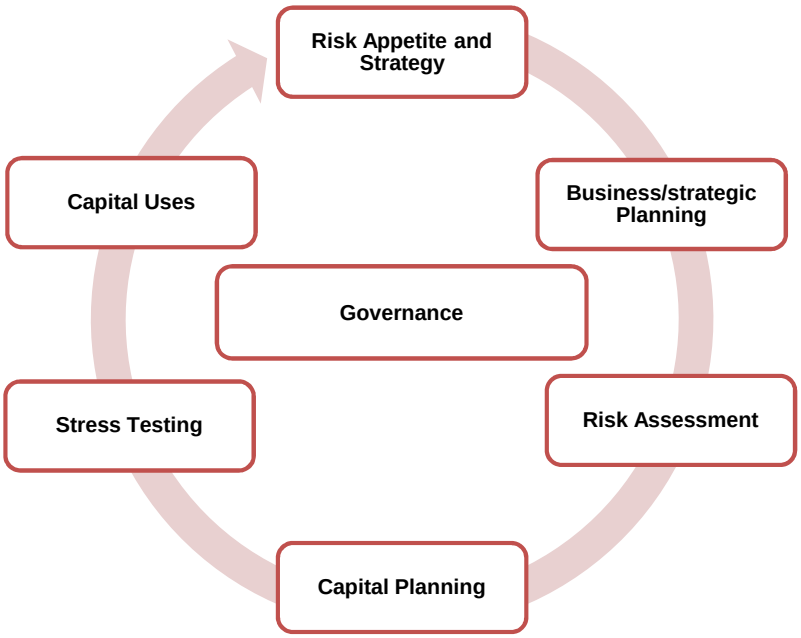
- significant departure from its ICAAP;
- concerns that the Board has about its capital adequacy along with proposed measures to address those concerns; and
- significant changes in its capital.

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

ICAAP Framework



Overview of ICAAP process and setting Internal Capital Targets



5.0 Credit Risk Management

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

Identification	• 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 and Risk based pricing for Retail • Collateral and 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's transactions and/or positions.

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

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

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

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

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

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

- concentration threshold/review trigger:
  - single counterparty credit;
  - industry sector; and
  - country.
- setting Loan to Value limits for asset backed loans (i.e., property exposures and other collateral);
- Non-Retail Credit Policy ("NRCP") sets out the credit principles and managing credit risk in the Wholesale Banking ("WB") and Business Banking ("BB") portfolios;
- Classified Account processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers;
- Rescheduled and Restructured (“R&R”) Account Management (embedded within the NRCP for WB and BB) sets out the controls in managing R&R loans pursuant to the BNM’s revised policy on Financial Reporting;

5.0 Credit Risk Management (Cont'd.)

- Setting Retail risk-based segment pricing, taking into account expected credit loss, operational expenses and credit cost; and
- Setting Retail risk controls capping for exceptional credit approval, to ensure credit approval practice is aligned with the credit policies and GRAF

Individual credit risk exposure exceeding certain thresholds are escalated to Credit and Commitments Committee (“CACC”) for approval. In the event such counterparty exposure exceeds RM160.0 million in aggregate or group counterparty exceed RM1.0 billion in aggregate it will be submitted to the Board Credit Committee (“BCC”) for review with powers to veto, as the case may be.

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

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

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

5.1 Impairment

The Group’s Classified Account Management ("CAM") Policy and its corresponding Guidelines for the respective Line of Businesses are established to align with the Malaysian Financial Reporting Standards ("MFRS") and related BNM’s policies/ guidelines. In general, an asset is considered impaired when:

a. the Group considers that an obligor is “unlikely to repay” in full its credit obligations to the Group;

b. the obligor has breached its contractual payment obligations and past due for more than 90 days; and

c. other indicators stipulated in the CAM guidelines indicating the unlikeliness to repay are hit.

5.1.1 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 ECL.

MFRS 9 applies to all financial assets classified as amortised cost and FVOCI, 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 credit risk had not been significantly increased in credit risk since initial recognition.
ii. Stage 2 : For underperforming financial instruments which credit risk had significantly increased since initial recognition.
iii. Stage 3 : For financial instruments which are credit impaired.

5.1 Impairment (Cont'd)

5.1.1 Group Provisioning Methodology (Cont'd.)

The following diagram summarises the impairment requirements under MFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(credit-impaired assets)
12-month expected credit	Lifetime expected credit losses	Lifetime expected credit losses

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 is as follows:

2020	Agriculture	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Wholesale and retail trade and hotels and restaurants	Transport, storage and communication	Finance and insurance	Government and central banks	Real estate	Business activities	Education and health	Household	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On balance sheet exposures															
Sovereigns/Central banks	-	-	-	-	-	-	-	-	15,387,040	-	-	-	-	-	15,387,040
Banks, DFIs and MDBs	-	-	-	-	-	-	-	4,277,967	-	-	-	-	-	-	4,277,967
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	-	7,010	-	-	-	-	-	-	7,010
Corporates	1,507,425	1,332,361	8,870,743	1,446,711	4,454,605	4,703,177	3,114,933	3,854,715	-	6,042,382	2,158,630	3,016,089	1,271,959	4,190	41,777,920
Regulatory retail	44,495	11,016	460,254	46,294	333,874	775,370	119,645	9,466	-	94,196	270,582	63,059	18,413,511	1,897	20,643,659
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	20,443,798	-	20,443,798
Higher risk assets	-	-	-	-	-	-	-	-	-	-	-	-	18,568	588,583	607,151
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	1,524,832	1,524,832
Securitisation exposures	-	-	-	-	-	-	-	10,780	-	-	-	-	-	-	10,780
Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	44	44
Defaulted exposures	36,547	37,735	174,551	204	34,741	50,968	11,106	-	-	67,557	24,999	5,544	476,910	442	921,304
Total for on balance sheet exposures	1,588,467	1,381,112	9,505,548	1,493,209	4,823,220	5,529,515	3,245,684	8,159,938	15,387,040	6,204,135	2,454,211	3,084,692	40,624,746	2,119,988	105,601,505
Off balance sheet exposures															
OTC derivatives	15,861	33,134	228,306	207	2,019	9,828	607,555	1,697,333	-	3,903	106,315	3,344	64,273	-	2,772,078
Credit derivatives	-	-	-	-	-	-	-	12	-	-	-	-	-	-	12
Off balance sheet exposures other than OTC derivatives or Credit derivatitives	139,854	444,752	1,525,604	372,788	1,821,487	744,127	299,570	1,446,850	5,446,856	579,274	271,704	77,195	1,729,275	728	14,900,064
Defaulted exposures	-	-	3,659	-	7,905	43	79	-	-	9,353	81	-	12,212	-	33,332
Total for off balance sheet exposures	155,715	477,886	1,757,569	372,995	1,831,411	753,998	907,204	3,144,195	5,446,856	592,530	378,100	80,539	1,805,760	728	17,705,486
Total on and off balance sheet exposures	**1,744,182**	**1,858,998**	**11,263,117**	**1,866,204**	**6,654,631**	**6,283,513**	**4,152,888**	**11,304,133**	**20,833,896**	**6,796,665**	**2,832,311**	**3,165,231**	**42,430,506**	**2,120,716**	**123,306,991**

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

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

2019 (Restated)*	Agriculture	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Wholesale and retail trade and hotels and restaurants	Transport, storage and communication	Finance and insurance	Government and central banks	Real estate	Business activities	Education and health	Household	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On balance sheet exposures															
Sovereigns/Central banks	-	-	-	-	-	-	-	-	8,321,044	-	-	-	-	-	8,321,044
PSEs	-	-	-	-	-	-	-	-	40,599	-	-	-	-	-	40,599
Banks, DFIs and MDBs	-	-	-	-	-	-	-	6,203,116	-	-	-	-	-	-	6,203,116
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	-	10,137	-	-	-	-	-	-	10,137
Corporates	1,664,002	959,436	7,335,042	875,887	4,767,988	4,212,630	2,767,268	4,223,590	-	6,429,922	2,354,502	2,559,868	1,704,227	901	39,855,263
Regulatory retail	52,158	13,743	391,868	32,040	300,885	721,790	156,737	7,073	-	95,834	304,819	70,342	20,158,269	3,253	22,308,811
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	18,919,738	-	18,919,738
Higher risk assets	-	-	-	-	-	-	-	-	-	-	-	-	18,988	519,972	538,960
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	1,163,304	1,163,304
Securitisation exposures	-	-	-	-	-	-	-	20,757	-	-	-	-	-	-	20,757
Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	76	76
Defaulted exposures	615	66,595	112,183	26	13,437	40,619	5,027	-	-	162,346	9,696	6,348	409,856	427	827,175
Total for on balance sheet exposures	1,716,775	1,039,774	7,839,093	907,953	5,082,310	4,975,039	2,929,032	10,464,673	8,361,643	6,688,102	2,669,017	2,636,558	41,211,078	1,687,933	98,208,980
Off balance sheet exposures															
OTC derivatives	11,720	18,657	75,687	42	-	4,048	359,243	1,400,800	-	5,555	5,380	11,897	7,616	-	1,900,645
Credit derivatives	-	-	-	-	-	-	-	16	-	-	-	-	-	-	16
Off balance sheet exposures other than OTC derivatives or Credit derivatitives	132,799	588,587	1,836,769	327,154	2,128,333	673,076	276,480	1,561,797	4,476,942	613,007	307,160	66,577	1,781,469	389	14,770,539
Defaulted exposures	-	-	10,255	-	2,128	498	-	-	-	9,424	293	-	10,522	-	33,120
Total for off balance sheet exposures	144,519	607,244	1,922,711	327,196	2,130,461	677,622	635,723	2,962,613	4,476,942	627,986	312,833	78,474	1,799,607	389	16,704,320
Total on and off balance sheet exposures	**1,861,294**	**1,647,018**	**9,761,804**	**1,235,149**	**7,212,771**	**5,652,661**	**3,564,755**	**13,427,286**	**12,838,585**	**7,316,088**	**2,981,850**	**2,715,032**	**43,010,685**	**1,688,322**	**114,913,300**

*Refer to Note 1 in Table 8.1.

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

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

2020	Agriculture RM'000	Mining and quarrying RM'000	Manufacturing RM'000	Electricity, gas and water RM'000	Construction RM'000	Wholesale and retail trade and hotels and restaurants RM'000	Transport, storage and communication RM'000	Finance and insurance RM'000	Real estate RM'000	Business activities RM'000	Education and health RM'000	Household RM'000	Others RM'000	Unallocated RM'000	Total RM'000
Impaired loans and advances	36,743	51,220	218,512	136	81,021	78,793	31,703	2	71,264	21,448	22,935	621,702	-	-	**1,235,479**
Past due loans	17,470	46,105	151,382	737	148,833	152,077	34,539	93,649	69,309	65,892	41,522	7,311,782	-	-	**8,133,297**
Allowances for expected credit losses	8,318	19,071	99,777	2,932	68,882	55,891	29,123	3,531	21,717	16,615	5,397	517,940	47,854	-	**897,048**
Charges/(writeback) for individual allowance	510	20,993	37,033	-	39,022	22,499	18,842	-	(47,165)	1,063	5,243	4,687	-	-	**102,727**
Write-offs against individual allowance and othe movement	-	17,239	34,449	-	4,539	11,923	1,421	-	54	1,457	2,815	2,981	-	-	**76,878**

2019 (Restated)*	Agriculture RM'000	Mining and quarrying RM'000	Manufacturing RM'000	Electricity, gas and water RM'000	Construction RM'000	Wholesale and retail trade and hotels and restaurants RM'000	Transport, storage and communication RM'000	Finance and insurance RM'000	Real estate RM'000	Business activities RM'000	Education and health RM'000	Household RM'000	Others RM'000	Unallocated RM'000	Total RM'000
Impaired loans and advances	552	76,325	142,567	140	19,744	47,623	6,647	1	213,425	12,256	7,996	519,166	-	-	**1,046,442**
Past due loans	6,831	77,244	198,185	557	210,761	100,705	30,301	1,749	289,118	53,760	34,267	6,786,137	9,347	-	**7,798,962**
Allowances for expected credit losses	4,222	15,792	18,023	1,569	21,807	34,871	10,780	14,612	244,233	4,954	451,470	62,583	9,012	(6,411)	**887,517**
Charges/(writeback) for individual allowance	-	12,518	47,076	-	12,505	5,983	1,717	-	(90,932)	2,868	3,000	(3,013)	-	-	**(8,278)**
Write-offs against individual allowance and other movements	-	10,533	6,244	-	12,202	6,464	760	-	2,237	-	5,961	-	-	-	**44,401**

Note 1: During the current financial year, the Group and the Bank had conducted a review of the reporting of its impaired loans and advances portfolio. The review did not result in any changes to impaired loans and advances balances or impairment allowances for loans and advances except for certain amendments in disclosure of impaired loans and advances by sector as at 31 March 2019.

Table 5.3 : Geographical distribution of credit exposures

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

2020	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/Central banks	15,316,684	70,356	15,387,040
Banks, DFIs and MDBs	2,809,817	1,468,150	4,277,967
Insurance companies, Securities firms and Fund managers	7,010	-	7,010
Corporates	41,354,845	423,075	41,777,920
Regulatory retail	20,643,659	-	20,643,659
Residential mortgages	20,443,798	-	20,443,798
Higher risk assets	606,664	487	607,151
Other assets	1,355,733	169,099	1,524,832
Securitisation exposures	10,780	-	10,780
Equity exposures	44	-	44
Defaulted exposures	889,512	31,792	921,304
Total for on balance sheet exposures	**103,438,546**	**2,162,959**	**105,601,505**
Off balance sheet exposures			
OTC derivatives	2,419,647	352,431	2,772,078
Credit derivatives	-	12	12
Off balance sheet exposures other than OTC derivatives or Credit derivative	14,813,301	86,763	14,900,064
Defaulted exposures	33,332	-	33,332
Total for off balance sheet exposures	**17,266,280**	**439,206**	**17,705,486**
Total on and off balance sheet exposures	**120,704,826**	**2,602,165**	**123,306,991**

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

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

2019 (Restated)*	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/Central banks	8,321,044	-	8,321,044
PSEs	40,599	-	40,599
Banks, DFIs and MDBs	3,627,063	2,576,053	6,203,116
Insurance companies, Securities firms and Fund managers	10,137	-	10,137
Corporates	39,530,517	324,746	39,855,263
Regulatory retail	22,308,811	-	22,308,811
Residential mortgages	18,919,738	-	18,919,738
Higher risk assets	538,956	4	538,960
Other assets	1,010,322	152,982	1,163,304
Securitisation exposures	20,757	-	20,757
Equity exposures	76	-	76
Defaulted exposures	777,411	49,764	827,175
Total for on balance sheet exposures	**95,105,431**	**3,103,549**	**98,208,980**
Off balance sheet exposures			
OTC derivatives	1,662,472	238,173	1,900,645
Credit derivatives	-	16	16
Off balance sheet exposures other than OTC derivatives or Credit derivatives	14,695,548	74,991	14,770,539
Defaulted exposures	33,120	-	33,120
Total for off balance sheet exposures	**16,391,140**	**313,180**	**16,704,320**
Total on and off balance sheet exposures	**111,496,571**	**3,416,729**	**114,913,300**

*Refer to Note 1 in Table 8.1.

Table 5.4 : Geographical distribution of impaired and past due loans and advances and impairement allowances

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

2020	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans and advances	1,191,357	44,122	1,235,479
Past due loans	8,089,175	44,122	8,133,297
Allowances for expected credit losses	883,188	13,861	897,048

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

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

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

2020	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	8,069,871	457,171	843,017	7,090	1,257,607	1,474,456	3,277,828	-	15,387,040
Banks, DFIs and MDBs	2,496,690	303,435	123,665	66,669	93,574	679,537	514,397	-	4,277,967
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	7,010	-	7,010
Corporates	10,510,943	4,777,530	2,667,539	2,146,404	5,550,260	3,961,571	12,163,673	-	41,777,920
Regulatory retail	84,582	42,658	69,770	276,611	2,449,565	3,197,437	14,523,036	-	20,643,659
Residential mortgages	752	261	1,210	5,124	54,685	146,795	20,234,971	-	20,443,798
Higher risk assets	11	1	-	3	604	860	17,089	588,583	607,151
Other assets	504,840	-	-	-	-	-	-	1,019,992	1,524,832
Securitisation exposures	-	-	-	-	-	-	10,780	-	10,780
Equity exposures	-	-	-	-	-	-	-	44	44
Defaulted exposures	214,853	2,691	5,740	25,070	52,844	70,411	549,695	-	921,304
Total for on balance sheet exposures	**21,882,542**	**5,583,747**	**3,710,941**	**2,526,971**	**9,459,139**	**9,531,067**	**51,298,479**	**1,608,619**	**105,601,505**
Off balance sheet exposures									
OTC derivatives	63,055	128,196	276,199	389,144	154,300	809,274	951,910	-	2,772,078
Credit derivatives	-	-	-	-	12	-	-	-	12
Off balance sheet exposures other than OTC derivatives or Credit derivatives	7,705,333	854,001	795,981	1,544,022	1,038,358	455,275	2,507,094	-	14,900,064
Defaulted exposures	2,770	3,433	5,672	1,456	8,629	435	10,937	-	33,332
Total for off balance sheet exposures	**7,771,158**	**985,630**	**1,077,852**	**1,934,622**	**1,201,299**	**1,264,984**	**3,469,941**	**-**	**17,705,486**
Total on and off balance sheet exposures	**29,653,700**	**6,569,377**	**4,788,793**	**4,461,593**	**10,660,438**	**10,796,051**	**54,768,420**	**1,608,619**	**123,306,991**

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

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

2019 (Restated)*	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	792,538	-	-	1,661,461	2,135,200	429,504	3,302,341	-	8,321,044
PSEs	-	-	-	40,588	11	-	-	-	40,599
Banks, DFIs and MDBs	4,908,290	575,391	168,318	19,247	76,866	100,472	354,532	-	6,203,116
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	10,137	-	10,137
Corporates	10,050,697	4,149,319	3,120,350	2,870,322	5,488,004	3,202,045	10,974,526	-	39,855,263
Regulatory retail	78,078	53,351	96,056	308,153	2,291,750	3,529,151	15,952,272	-	22,308,811
Residential mortgages	533	451	1,044	4,402	56,981	130,703	18,725,624	-	18,919,738
Higher risk assets	92	22	93	21	604	605	17,551	519,972	538,960
Other assets	523,309	-	-	-	-	-	-	639,995	1,163,304
Securitisation exposures	-	-	-	-	-	-	20,757	-	20,757
Equity exposures	-	-	-	-	-	-	-	76	76
Defaulted exposures	246,239	2,642	3,021	21,972	67,580	40,293	445,428	-	827,175
Total for on balance sheet exposures	**16,599,776**	**4,781,176**	**3,388,882**	**4,926,166**	**10,116,996**	**7,432,773**	**49,803,168**	**1,160,043**	**98,208,980**
Off balance sheet exposures									
OTC derivatives	50,072	51,997	87,959	96,674	141,673	201,888	1,270,382	-	1,900,645
Credit derivatives	-	-	-	-	16	-	-	-	16
Off balance sheet exposures other than OTC derivatives or Credit derivatives	3,842,303	3,486,776	579,515	1,443,736	1,553,760	488,378	3,376,071	-	14,770,539
Defaulted exposures	8,450	1,506	7,891	921	4,634	1,306	8,412	-	33,120
Total for off balance sheet exposures	**3,900,825**	**3,540,279**	**675,365**	**1,541,331**	**1,700,083**	**691,572**	**4,654,865**	**-**	**16,704,320**
Total on and off balance sheet exposures	**20,500,601**	**8,321,455**	**4,064,247**	**6,467,497**	**11,817,079**	**8,124,345**	**54,458,033**	**1,160,043**	**114,913,300**

*Refer to Note 1 in Table 8.1.

5.1 Impairment (Cont'd)

The disclosure on reconciliation of changes to loans impairment allowances of the Group can be found in Note 14 (i) of the financial statements.

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

Financial year ended 31 March ("FY")	(Charge offs)/ recoveries	
	FY 2020 RM'000	FY 2019 RM'000
Bad debts written off during the financial year	(34,185)	(73,678)
Bad debt recoveries during the financial year	297,896	760,574

6.0 Credit Risk Exposure under the Standardised Approach

The Group uses external ratings for credit exposures to assign risk weights under the Standardized Approach where relevant. The ratings from the following external credit assessment institutions (ECAIs) are used:

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

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

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

2020 Risk weights	Exposures after netting and credit risk mitigation												
	Sovereigns and Central banks	PSEs	Banks, DFIs and MDBs	Insurance companies, Securities firms and Fund managers	Corporates	Regulatory retail	Residental mortgages	Higher risk assets	Other assets	Securitisation exposures	Equity exposures	Total exposures after netting and credit risk mitigation	Total risk weighted assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	15,503,353	-	102,890	-	3,000,252	-	-	-	274,622	-	-	18,881,117	-
20%	-	-	4,887,513	-	5,901,190	915,260	-	-	-	10,690	-	11,714,653	2,342,931
35%	-	-	-	-	-	-	15,254,832	-	-	-	-	15,254,832	5,339,191
50%	70,356	-	760,961	-	370,476	19,915	5,338,031	-	-	-	-	6,559,739	3,279,870
75%	-	-	-	-	-	18,573,614	-	-	-	-	-	18,573,614	13,930,210
100%	-	-	605	23,633	37,972,870	2,512,678	63,814	-	1,250,210	-	44	41,823,854	41,823,854
150%	-	-	-	-	433,649	54,544	-	624,440	-	-	-	1,112,633	1,668,950
1250%	-	-	-	-	-	-	-	-	-	90	-	90	1,125
Total	**15,573,709**	**-**	**5,751,969**	**23,633**	**47,678,437**	**22,076,011**	**20,656,677**	**624,440**	**1,524,832**	**10,780**	**44**	**113,920,532**	**68,386,131**

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

Table 6.2: Rated exposures according to ratings by ECAIs

			31 MARCH 2020			
			Ratings of corporate by approved ECAIs			
Moody's		**Aaa to Aa3**	**A1 to A3**	**Baa1 to Ba3**	**B1 to C**	**Unrated**
S&P		**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
Fitch		**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
RAM		**AAA to AA3**	**A to A3**	**BBB1 to BB3**	**B to D**	**Unrated**
MARC		**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
Exposure class	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
Insurance companies, Securities firms and Fund managers	23,633	-	-	-	-	23,633
Corporates	50,444,582	3,939,027	1,161,635	-	-	45,343,920
Total	**50,468,215**	**3,939,027**	**1,161,635**	**-**	**-**	**45,367,553**

			31 MARCH 2019			
			Ratings of corporate by approved ECAIs			
Moody's		**Aaa to Aa3**	**A1 to A3**	**Baa1 to Ba3**	**B1 to C**	**Unrated**
Fitch		**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
RAM		**AAA to AA3**	**A to A3**	**BBB1 to BB3**	**B to D**	**Unrated**
MARC		**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
Exposure class	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
PSEs	40,599	40,588	-	-	-	11
Insurance companies, Securities firms and Fund managers	31,683	-	-	-	-	31,683
Corporates	48,129,563	4,190,993	1,084,271	-	-	42,854,299
Total	**48,201,845**	**4,231,581**	**1,084,271**	**-**	**-**	**42,885,993**

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

		31 MARCH 2020				
		Ratings of sovereigns and central banks by approved ECAIs				
Moody's		**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Unrated**
S&P		**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
Fitch		**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
Exposure class	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Sovereigns and Central banks	20,833,896	-	20,763,540	70,356	-	-
Total	**20,833,896**	**-**	**20,763,540**	70,356	-	**-**

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

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

		31 MARCH 2020				
		Ratings of banking institutions by approved ECAIs				
Moody's		**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Unrated**
S&P		**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
Fitch		**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
RAM		**AAA to AA3**	**A1 to A3**	**BBB1 to BBB3**	**BB1 to B3**	**Unrated**
MARC		**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
Exposure class	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Banks, DFIs and MDBs	6,884,121	3,268,163	606,727	174,631	464	2,834,136
Total	**6,884,121**	**3,268,163**	**606,727**	**174,631**	**464**	**2,834,136**

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

Table 6.3: Securitisation according to ratings by ECAIs

	31 MARCH 2020			
	Ratings of securitisation by approved ECAIs			
Moody's		**Aaa to Aa3**	**A1 to A3**	**Unrated**
S&P		**AAA to AA-**	**A+ to A-**	**Unrated**
Fitch		**AAA to AA-**	**A+ to A-**	**Unrated**
RAM		**AAA to AA3**	**A1 to A3**	**Unrated**
MARC		**AAA to AA-**	**A+ to A-**	**Unrated**
Exposure class	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures				
Securitisation exposures	10,780	10,690	-	90
Total	**10,780**	**10,690**	**-**	**90**

	31 MARCH 2019			
	Ratings of securitisation by approved ECAIs			
Moody's		**Aaa to Aa3**	**A1 to A3**	**Unrated**
Fitch		**AAA to AA-**	**A+ to A-**	**Unrated**
RAM		**AAA to AA3**	**A1 to A3**	**Unrated**
MARC		**AAA to AA-**	**A+ to A-**	**Unrated**
Exposure class	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures				
Securitisation exposures	20,757	20,661	-	96
Total	**20,757**	**20,661**	**-**	**96**

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. The collateral accepted for credit risk mitigation comprises financial collateral, real estate, other physical asset and guarantees.

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

The Group Collateral Policy, is the internally recognised collateral framework for lending purposes as well as for regulatory capital.

Processes for collateral management

To support the development of processes around collateral valuation and management, the concept of legal enforceability and certainty are central to collateral management. In order to achieve legal enforceability and certainty, the Group has standard collateral instruments, and where applicable, security interests are registered.

Guarantee Support

Guarantee support for lending proposals are an integral component in transaction structuring for the Group. The guarantee of a financially strong party can help improve the risk grade of a transaction through its explicit support of the borrower, where borrower’s risk grade will be enhanced with guarantor’s risk grade.

Guarantees that are recognised for risk grading purposes may be provided by parties that include associated entities, banks or sovereigns. Credit policy provides threshold parameters to determine acceptable counterparties in achieving risk grade enhancement of the transaction. Guarantee by a counterparty with lower rating than the borrower is not recognised as part of the risk grade enhancement.

Use of credit derivatives and netting for risk mitigation

Currently, the Group does not use credit derivatives and netting for risk mitigation.

Transaction structuring to mitigate credit risk

Besides tangible security and guarantee support described above, credit risk mitigation techniques are used in structuring transactions. These include duration limits managing the number of years the loan is extended, amortisation schedules and loan covenants. These assist in managing credit risk and in providing early warning signals, whereby should loan covenants be breached, the Group and the customer can work together to address the underlying causes and as appropriate, restructure facilities.

Concentrations of credit risk mitigation

The Group carefully monitors collateral concentrations via portfolio management reporting and amendments as necessary to its Risk Appetite Framework and related policies governing Loan to Value metrics.

Table 7.1 : Credit Risk Mitigation

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

2020 Exposures	Exposures before CRM RM'000	Exposures covered by guarantees RM'000	Exposures covered by eligible financial collateral RM'000
Credit risk			
On balance sheet exposures			
Sovereigns/Central banks	15,387,040	-	-
Banks, DFIs and MDBs	4,277,967	-	-
Insurance companies, Securities firms and Fund managers	7,010	-	-
Corporates	41,777,920	357,413	3,289,872
Regulatory retail	20,643,659	891,152	333,097
Residential mortgages	20,443,798	-	36,082
Higher risk assets	607,151	-	10
Other assets	1,524,832	-	-
Securitisation exposures	10,780	-	-
Equity exposures	44	-	-
Defaulted exposures	921,304	31,164	37,174
Total for on balance sheet exposures	105,601,505	1,279,729	3,696,235
Off balance sheet exposures			
OTC derivatives	2,772,078	-	381,804
Credit derivatives	12	-	-
Off balance sheet exposures other than OTC derivatives or Credit derivatives	14,900,064	3,343	8,080,327
Defaulted exposures	33,332	-	13,346
Total for off balance sheet exposures	17,705,486	3,343	8,475,477
Total on and off balance sheet exposures	**123,306,991**	**1,283,072**	**12,171,712**

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

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

2019 (Restated)* **Exposures**	**Exposures before CRM RM'000**	**Exposures covered by guarantees RM'000**	**Exposures covered by eligible financial collateral RM'000**
Credit risk			
On balance sheet exposures			
Sovereigns/Central banks	8,321,044	-	-
PSEs	40,599	-	-
Banks, DFIs and MDBs	6,203,116	-	-
Insurance companies, Securities firms and Fund managers	10,137	-	-
Corporates	39,855,263	224,042	3,990,805
Regulatory retail	22,308,811	674,486	389,838
Residential mortgages	18,919,738	-	41,937
Higher risk assets	538,960	-	100
Other assets	1,163,304	-	-
Securitisation exposures	20,757	-	-
Equity exposures	76	-	-
Defaulted exposures	827,175	16,775	38,173
Total for on balance sheet exposures	98,208,980	915,303	4,460,853
Off balance sheet exposures			
OTC derivatives	1,900,645	-	310,019
Credit derivatives	16	-	-
Off balance sheet exposures other than OTC derivatives or Credit derivatives	14,770,539	4,867	7,075,158
Defaulted exposures	33,120	-	17,161
Total for off balance sheet exposures	16,704,320	4,867	7,402,338
Total on and off balance sheet exposures	**114,913,300**	**920,170**	**11,863,191**

*Refer to Note 1 in Table 8.1.

8.0 Off Balance Sheet exposures and Counterparty Credit Risk

8.1 Off Balance Sheet exposures

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

1) Credit related exposures, e.g. guarantees given on behalf of customers, certain transaction-related contingent items, obligation under underwriting agreement, short term self liquidating trade-related contingencies, irrevocable commitment to extend credit and unutilised credit card line.
2) Derivative Financial Instruments, e.g. forward exchange contracts (forward exchange contracts and cross currency swaps) interest rate related contracts (interest rate futures and interest rate swaps), equity related contracts (option and futures) and commodity related contract (option).
3) Other treasury-related exposures, e.g. forward purchase commitment.

Off balance sheet exposure is mitigated by setting of credit limit for the respective counterparty and exposure limit for industry sectors which are governed under the GRAF.

8.2 Counterparty Credit Risk

Market related credit risk is present in market instruments (derivatives and forward contracts), and comprises counterparty risk (default at the end of contract) and pre-settlement risk (default at any time during the life of contract). Market related credit risk requires a different method in calculating the pre-settlement risk because actual and potential market movements impact the Group's exposure. The markets covered by this treatment for transactions entered by the Group include interest rates, foreign exchange and equities.

For each individual contract, the pre-settlement risk exposure is normally calculated based on the sum of the marked-to-market ("MTM") value of the exposure, plus the notional principal multiplied by the potential credit risk exposure ("PCRE") factor for the exposure; if the sum of each individual contract is negative, the pre-settlement risk exposure for this contract is deemed to be zero.

Pre-settlement risk exposure = MTM + PCRE factor (or known as add-on factor) x Notional Principal

- The MTM is essentially the current replacement cost of the contract, and can be positive or negative. Where it is positive, i.e. in the money, the Group has credit exposure against the counterparty; if it is negative, i.e. out of the money, the negative value will be used.
- The PCRE factors recognise that prices change over the remaining period to maturity, and that risk increases with time. The PCRE factors are mandated for regulatory capital purposes.
- Variation to the above generic methodology is allowed for specific product.

Maximum pay out method is used for back to back and structured products where the underlying instrument structures are dynamic, i.e. not confined to a standardised underlying instrument. Where the maximum payout is known, it is taken as the pre-settlement risk amount. However, in situations where the maximum payout is not observable, a Monte Carlo simulation method is used.

Exposure to the counterparty is governed by the counterparty credit limit under the GRAF.

Other than credit limit setting and related duration setting of such limits, the Group's primary tool to mitigate counterparty credit risk is by taking collateral.

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

Table 8.1: Off Balance Sheet Exposures

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

2020	Principal/ Notional amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
Direct credit substitutes	1,999,189		1,817,132	1,601,353
Transaction related contingent items	3,538,912		1,860,398	1,463,525
Short term self liquidating trade related contingencies	642,162		128,432	114,718
Forward asset purchases	1,829,169		55,788	55,338
Obligations under an on-going underwriting agreement	20,000		-	-
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions	6,501,681		6,533,889	1,694
Foreign exchange related contracts				
One year or less	15,897,714	178,812	301,920	202,086
Over one year to five years	3,406,678	181,936	480,773	370,863
Over five years	472,438	16,062	59,887	59,887
Interest rate related contracts				
One year or less	752,863	1,517	5,031	2,396
Over one year to five years	2,591,736	35,575	117,209	32,805
Over five years	1,658,110	115,401	300,409	252,293
Equity and commodity related contracts				
One year or less	1,637,791	206,219	312,366	262,589
Over one year to five years	132,040	17,096	32,081	22,216
Credit derivative contracts				
Over one year to five years	356,069	1,954	12	6
OTC Derivatives transaction subject to valid bilateral netting agreements	73,366,685	1,348,409	1,162,402	553,723
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,620,291		1,709,366	1,320,477
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	12,167,747		2,073,861	1,733,805
Unutilised credit card lines	3,772,652		754,530	561,655
Total	**132,363,927**	**2,102,981**	**17,705,486**	**8,611,429**

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

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

2019 (Restated)	Principal/ Notional amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
Direct credit substitutes	2,038,003		2,178,266	1,789,916
Transaction related contingent items	4,564,609		2,211,922	1,729,643
Short term self liquidating trade related contingencies	809,932		161,986	144,305
Forward asset purchases	1,397,583		170,024	81,546
Obligations under an on-going underwriting agreement	100,000		-	-
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions	5,560,000		5,598,299	3,869
Foreign exchange related contracts				
One year or less	15,335,881	64,681	177,943	108,537
Over one year to five years	1,203,514	35,880	120,016	59,256
Over five years	514,076	109,054	186,983	178,787
Interest rate related contracts				
One year or less	385,950	1,304	1,366	1,111
Over one year to five years	1,115,498	8,273	35,878	11,188
Over five years	2,223,428	43,448	259,443	177,189
Equity and commodity related contracts				
One year or less	860,040	12,886	73,096	48,729
Over one year to five years	190,657	2,989	28,960	21,277
Credit derivative contracts				
Over one year to five years	345,108	5,417	16	8
OTC Derivatives transaction subject to valid bilateral netting agreements	74,363,649	493,753	1,016,960	401,238
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	2,463,522		1,207,053	966,909
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	12,490,756		2,508,034	2,089,096
Unutilised credit card lines	3,840,372		768,075	571,832
Total	**129,802,578**	**777,685**	**16,704,320**	**8,384,436**

Note 1:

2019 off balance sheet exposures have been restated to include counterparty credit risk for repo-style transactions, previously classified as on balance sheet exposure. There is no change to total risk weighted ssets of the Group.

Table 8.2 : Credit Derivatives Counterparty Credit Risk

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

		2020		2019	
		Sell Leg	Buy Leg *	Sell Leg	Buy Leg *
Usage	**Product**	**Notional Exposure for Protection Sold RM'000**	**Notional Exposure for Protection Bought RM'000**	**Notional Exposure for Protection Sold RM'000**	**Notional Exposure for Protection Bought RM'000**
Intermediation	Credit default swap	206,069	150,000	195,108	150,000

* Out of the total notional exposure for protection bought as at 31 March 2020, RM150.0 million (2019: RM150.0 million) has no counterparty credit risk exposure because it is on a fully funded basis.

9.0 Securitisation

9.1 Objectives, roles and involvement

The Group has undertaken securitisations of its own originated assets, as well as advised on securitisations of third party assets as part of its structured finance/debt capital markets services for its clients. The Group's objectives in relation to securitisation activity include the following:

- increase the availability of different sources of funding;
- facilitate prudential balance sheet management;
- transfer of credit and market risk;
- obtain regulatory capital relief, if applicable;
- earn management fees on assets under management; and
- earn other fees for products and services provided, e.g., liquidity, funding and credit support, structuring, arranging and underwriting services.

The Group is involved in the following types of securitisation activities:

- securitisation of assets originated by the Group. Such transactions provide diversity in the funding base for the Group entities. Such securitisations may or may not involve the transfer of credit risk and as such, may or may not provide regulatory capital relief;
- securitisation of third party-originated assets;
- facilities and services provided to securitisations - the Group provides various facilities to securitisations which include liquidity, funding and credit support as well as services such as structuring and arranging; and
- investment in securities - the Group may purchase bonds issued from securitisation programmes and also purchases such bonds in the secondary markets.

9.2 Regulatory capital approaches used in the Group's securitisation activities

Securitisation exposures held in the trading books of the Group are subjected to market risk capital charge using the Standardised Approach.

For securitisation exposures held in the banking books, the Group applies the Standardised Approach related to banking book exposures to determine the credit risk capital charge.

9.3 Governance

The Group's Capital Markets team is tasked with the structuring of securitisation transactions whilst the governance of these securitisation activities is overseen by the Board and Executive Committees, and managed in accordance with the credit risk and market risk frameworks.

Securitisation exposures held in banking book and trading book are governed under the limits set for the banking book and trading book respectively.

9.4 Risk measurement and reporting of securitisation exposures

The Group relies on the external ratings assigned by recognised external credit assessment institutions in determining the capital charge requirement for rated securitisation exposures. The Group also assesses the performance information of the underlying pool on an ongoing basis e.g. 30/60/90 days past due, default rates, prepayment rates, etc, to gauge the stability of the model parameters to determine sufficiency of the buffers. The reporting for such exposures is dependent on the Group's ultimate position, whether acting as a third party investor to both on or off-balance sheet exposures.

9.5 Special Purpose Vehicle ("SPV") used in securitisation exercises

Third party exposures that have been securitised via SPVs include civil servant loans/financing, personal loans and government-linked companies' staff housing loans.

9.6 Accounting Policies for Securitisation

The Group has sponsored SPVs involving assets of the Group. Such SPVs are consolidated where the Group has control as determined in accordance with MFRS 10, Consolidated Financial Statements.

Assets that have been transferred wholly or proportionately to an unconsolidated entity remain on the Group's statement of financial position, with a liability recognised for the proceeds received, unless:

a) substantially all risks and rewards associated with the assets have been transferred, in which case, they are derecognised in full; or
b) if a significant portion, but not all, of the risks and rewards have been transferred, the asset is derecognised entirely if the transferee has the ability to sell the financial asset, otherwise the asset continues to be recognised to the extent of the Group's continuing involvement.

9.7 Use of external rating agencies

The Group uses the services of both RAM and MARC and where applicable, international rating agencies for securitisation transactions purposes.

Table 9.1: Securitisation (Trading and Banking Book)

The securitised exposures of the Group are as follows:

2020 Underlying asset	Total exposures securitised RM'000	Past due RM'000	Impaired RM'000	Gains/losses recognised during the financial year RM'000
Traditional securitisation originated by the Group				
Banking book				
Mortgage loans	998,870	-	990,128	-
Total traditional securitisation	**998,870**	**-**	**990,128**	**-**

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

The Group did not have any exposures under synthetic securities as at 31 March 2020 and 31 March 2019.

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

2020 Securitisation exposures by exposure type	Exposure value of positions purchased or retained RM'000	Exposure after CRM RM'000	Exposures subject to deduction RM'000	Distribution of exposures after CRM according to appplicable risk weights				Risk weighted assets RM'000
				Rated securitisation exposures or risk weights of guarantees/credit derivatives			Unrated (look-through)	
				20% RM'000	50% RM'000	1250% RM'000	Exposure amount RM'000	
Traditional securitisation originated by third party								
On Balance Sheet Exposures	10,690	10,690	-	10,690	-	-	-	2,138
Originated by the Group								
On Balance Sheet Exposures	90	90	-	-	-	90	-	1,125
Total traditional securitisation	**10,780**	**10,780**	**-**	**10,690**	**-**	**90**	**-**	**3,263**

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

There is no securities exposure under trading book as at 31 March 2020 and 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 • Validation of Controls Testing
Control/ Mitigation	• Policies addressing control and governance requirements to mitigate specific operational risk • Advisory on the establishment of internal controls • Contingency planning • Insurance programme
Monitoring/ Review	• Monitoring and reporting of loss incidents by Event Type, Portfolio and Line of Business and entity, reporting of operational risk board and management triggers, risk profile status, key risk indicator breaches and key control testing exceptions 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 legal risk, outsourcing risk and technology (including cyber) risk. It excludes strategic, systemic and reputational risk.

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

- Fraud (internal & external);
- Employment Practices and Workplace Safety;
- Client, Products and Business Practices;
- Business Disruption, System Failures and Damage to Physical Assets; and
- Execution, Delivery and Process Management

The strategy for managing operational risk in the Group is anchored on the three lines of defence concept which are as follows:

- the first line of defence ("FLOD") is responsible for the management of operational risk in order that accountability and ownership is as close as possible to the activity that creates the risk and ensuring that effective action is taken to manage them. Enhanced First Line of Defence provides a business specific focus on the implementation of operational risk management activities and supports more effective day-to-day monitoring of operational risks.
- in the second line, Group Operational Risk is responsible for exercising governance over operational risk through the management of the operational risk framework, policy development and communication, quality assurance of internal controls, operational risk measurement and communication, validation of FLOD effectiveness and capital allocation, Operational Risk Management ("ORM") training and reporting of operational risk issues to GMRC, RMC and Board.
- Group Internal Audit acts as the third and final line of defence by providing independent assurance on the internal control effectiveness through periodic audit programme.

10.0 Operational Risk (Cont'd.)

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

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

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

10.1 Business Continuity Management

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

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

10.1 Business Continuity Management (Cont'd.)

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

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

10.2 Cyber risk management

Cyber threat remained as the top risk for the financial industry driven by the constantly evolving nature and sophistication of cyber threats and attack vectors. The Group recognises that cyber security 'is a journey, not a destination' and the resilience of the Group's IT infrastructure and cyber security capabilities are of paramount importance, especially with regards to safeguarding customers' information. To mitigate the Risk, the Group introduced a cyber resilience framework in FY2020 to facilitate the Group´s ability to anticipate, withstand, contain and/or promptly recover from cyber-attacks and events that disrupt usual business operations and/or services. The Group continues to enhance the cyber security controls framework, as well as continues ongoing initiatives to educate the employees and customers about cyber security and what they can do to protect data. In the financial year ended 31 March 2020, the Group broadened its technology risk management capabilities by setting up teams that have oversight over infrastructure security risk, application security risk and third party security risk.

10.3 Legal Risk

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

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

10.4 Regulatory Compliance Risk

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

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

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

11.0 Market Risk

Market risk is the risk of losses due to adverse changes in the level or volatility of market rates or prices, such as interest 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

The TMR management process is depicted in the table below.

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

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

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

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

Apart from VaR, Loss Limits and HSL, additional sensitivity controls (e.g., Greek Limits/PV01) and indicators are used to monitor changes in portfolio value due to changes in risk factors under different market conditions.

IBMR independently monitors risk exposures against limits on a daily basis. Portfolio market risk positions are independently monitored and reported by IBMR 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

NTMR refers to interest rate risk in the banking book including those arising from balance sheet management activities as covered under the risk appetite.

Interest Rate Risk in the Banking Book ("IRRBB")

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

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

IRRBB arises from changes in market interest rates that impact core net interest 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 margins and implied volatilities on interest rate options. The provision of retail and wholesale banking products and services (primarily lending and deposit taking activities) creates interest rate-sensitive positions in the Bank's statement of financial position.

The principal objectives of balance sheet risk management are to manage interest income sensitivity while maintaining acceptable levels of IRRBB and funding risk, and to manage the economic value of the Bank's capital.

The Board's oversight of IRRBB is supported by GALCO and GMRC. GMRC is responsible for the alignment of Bank-wide risk appetite. GALCO reviews strategies to ensure a comfortable level of IRRBB is maintained, taking into consideration the Bank's business strategies and is responsible for overseeing the Bank's gapping positions, asset growth and liability mix against the interest rate outlook. The Bank has successfully engaged long-term borrowings and written interest rate swaps to manage IRRBB and maintained an acceptable gapping profile as a result. In accordance with the Bank's policy, IRRBB 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 IRRBB 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 rates.

The Bank complements PV01 by stress testing IRRBB 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 rates and spreads, changes in loan and deposit product balances due to behavioural characteristics under different interest rate environments. Material assumptions include the repricing characteristics and the stability of indeterminate or non-maturity deposits and loans.

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

Interest Rate Risk in the Banking Book ("IRRBB") (Cont'd.)

The rate scenarios may include rapid ramping of interest rates, gradual ramping of interest rates, and narrowing or widening of spreads. Usually each analysis incorporates what management deems the most appropriate assumptions about customer behaviour in an interest 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 IRRBB within Management-approved limits. This is achieved through the ability to reposition the interest rate exposure of the statement of financial position using dynamic product and funding strategies, supported by interest rate hedging activities using interest rate swaps and other derivatives. These approaches are governed by the Bank's policies in the areas of product and liquidity management as well as the Trading Book and Banking book Policy, hedging policies and Non Traded Interest Rate Risk Framework.

IRRBB exposures are monitored by IBMR and positions reported to the GALCO, GMRC, RMC and Board.

Table 11.1: Market Risk Sensitivity - IRRBB

The IRRBB sensitivity for the Group is as follows:

2020 Currency (MYR)	Interest Rate +100 bps RM'000	Interest Rate -100 bps RM'000
Impact on Profit Before Taxation	29,876	(29,876)
Impact on Equity	575,145	631,075

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

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

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

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

Table 12.1: Equity investments and capital requirement

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

Non traded equity investments	**2020 RM'000**	**2019 RM'000**
Value of quoted (publicly traded) equities	74,313	98,167
Value of unquoted (privately held) equities	464,553	519,064
Total	**538,866**	**617,231**
Net realised and unrealised (losses)/gains		
Cumulative realised gains from sales and liquidations	-	9,089
Total unrealised gains/(losses)	(72,629)	(11,930)
Total	**(72,629)**	**(2,841)**
Risk weighted assets		
Equity investments subject to a 100% risk weight	74,313	98,167
Equity investments subject to a 150% risk weight	696,830	778,596
Total	**771,143**	**876,763**
Total minimum capital requirement (8%)	**61,691**	**70,141**

13.0 Liquidity Risk and Funding Management

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

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

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

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

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 liquidity management strategy while GALCO is the core management committee established by the Board to oversee the overall liquidity management of the Bank.

The Bank has put in place a Contingency Funding Plan which is established by Capital and Balance Sheet Management ("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.

Various liquidity measurements have been put in place to support the broader strategic objectives of the Bank and amongst others include the BNM LCR, Depositor Concentration Ratio and other Liquidity Ratios. IBMR is responsible for developing and monitoring the controls and limits while the Group Treasury and Markets ("GTM") and CBSM are responsible to ensure the controls and limits are within the thresholds.

Stress testing is undertaken to assess and plan for the impact for various scenarios which may put the Bank's liquidity at risk. The Bank further stresses the importance of the stable funding sources to finance placement and loans to customers. They are monitored using the loans to available funds ratio, which compares loans and advances to customers as a percentage of the Bank's total available funds.

To measure the quality of the Bank's funding sources, the composition of core funds indicators is monitored on a regular basis. The core funds is defined as deposits from retail and small business customers, operational deposits, non-financial institution deposits more than 1 year and debt instrument/long term borrowings more than 1 year.

In preparation for the implementation of BNM's Basel III Net Stable Funding Ratio ("NSFR") which will be effective 1 July 2020, the Bank shall pursue strategies to ensure the availability of cost effective stable liquidity to meet the regulatory requirement.