

# **AmlInvestment Bank Berhad**

## **Pillar 3 Disclosure**

**30 September 2019**

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## **1.0 Scope of Application**

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

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

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

### **Capital Adequacy**

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

The capital adequacy ratios of the Group and the Bank are computed in accordance to the guidelines on Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework (Basel II – Risk Weighted Assets) issued by BNM on 2 February 2018. The Group and the Bank have adopted the Standardised Approach for Credit and Market Risks and the Basic Indicator Approach for Operational Risk, based on BNM's Guidelines on Capital Adequacy Framework (Basel II - Risk Weighted Assets).

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

- (a) a Capital Conservation Buffer ("CCB") of 2.5%; and
- (b) a Countercyclical Capital Buffer (CCyB) determined as the weighted-average of the prevailing CCyB rates applied in the jurisdictions in which the Bank has credit exposures. BNM will communicate any decision on the CCyB rate by up to 12 months before the date from which the rate applies.

### **Changes in accounting policies and regulatory requirements**

#### **Adoption of MFRS 16 Leases**

The Group and the Bank 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 and the Bank are as disclosed in Note 34. 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 periods.

#### **Medium and Location of Disclosure**

These Pillar 3 disclosures of the Group are available on Group's corporate website at [www.ambankgroup.com](http://www.ambankgroup.com).

## 1.1 Basis of Consolidation

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

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

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

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

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

## 2.0 Capital Management

The Group's capital management approach is focused on maintaining a healthy 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. The models help to estimate potential future losses arising from credit, market and other risks, and using regulatory formulae to simulate the amount of capital required to support them. In addition, the models enable the Group to gain a deeper understanding of its risk profile, e.g., by identifying potential concentrations, assessing the impact of portfolio management actions and performing what-if analysis.

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

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

The Group periodically assesses the capital demand for material risks, and support its internal capital adequacy assessment. Each material risk is assessed, relevant mitigants considered, and appropriate levels of capital determined.

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

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

## 2.0 Capital Management (Contd.)

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

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

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

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

**Table 2.1: Capital Adequacy Ratios**

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

|   | 30.09.2019 |         | 31.03.2019 |         |
|---|------------|---------|------------|---------|
|   | Group      | Bank    | Group      | Bank    |
| <b>Before deducting proposed dividends:</b> |            |         |            |         |
| CET 1 Capital Ratio                         | 53.766%    | 58.492% | 43.008%    | 43.711% |
| Tier 1 Capital Ratio                        | 53.766%    | 58.492% | 43.008%    | 43.711% |
| Total Capital Ratio                         | 54.253%    | 59.104% | 43.394%    | 44.174% |
| <b>After deducting proposed dividends:</b>  |            |         |            |         |
| CET 1 Capital Ratio                         | 52.277%    | 56.618% | 41.193%    | 41.539% |
| Tier 1 Capital Ratio                        | 52.277%    | 56.618% | 41.193%    | 41.539% |
| Total Capital Ratio                         | 52.764%    | 57.230% | 41.579%    | 42.001% |

(b) The capital adequacy ratios of Islamic Banking of the Group and the Bank are as follows:

|                      | 30.09.2019 | 31.03.2019 |
|----------------------|------------|------------|
| CET 1 Capital Ratio  | 106.721%   | 97.460%    |
| Tier 1 Capital Ratio | 106.721%   | 97.460%    |
| Total Capital Ratio  | 106.721%   | 97.460%    |

Notes:

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

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

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

| <b>30.09.19</b>   |   |           |                                       |                            |  |
|---|---|-----------|---------------------------------------|----------------------------|--|
| Exposure class  | Gross exposures/<br>Exposure<br>at default<br>("EAD") |           | Net<br>exposures/<br>EAD after<br>CRM | Risk<br>weighted<br>assets | Minimum<br>capital<br>requirement<br>at 8% |
|   | before<br>credit risk<br>mitigation<br>("CRM")        | RM'000    |                                       |                            |  |
| <b>1. Credit risk</b>   |   |           |                                       |                            |  |
| <b>On balance sheet exposures</b>   |   |           |                                       |                            |  |
| Sovereigns/ Central banks   | 64,262  |           | 64,262                                | -                          | -  |
| Banks, development financial institutions ("DFIs") and multilateral development banks             | 317,646   |           | 317,646                               | 63,529                     | 5,082                                      |
| Corporates  | 320,359   |           | 172,128                               | 96,665                     | 7,733                                      |
| Regulatory retail   | 29,920  |           | 2,490                                 | 1,867                      | 149  |
| Higher risk assets  | 2,871   |           | 2,871                                 | 4,307                      | 345  |
| Other assets  | 302,855   |           | 302,855                               | 278,371                    | 22,270                                     |
| <b>Total for on balance sheet exposures</b>   | <b>1,037,913</b>                                      |           | <b>862,252</b>                        | <b>444,739</b>             | <b>35,579</b>                              |
| <b>Off balance sheet exposures:</b>   |   |           |                                       |                            |  |
| Off balance sheet exposures other than Over the counter ("OTC") derivatives or Credit derivatives | 36,276  |           | 14,775                                | 14,568                     | 1,165                                      |
| <b>Total for off balance sheet exposures</b>  | <b>36,276</b>   |           | <b>14,775</b>                         | <b>14,568</b>              | <b>1,165</b>                               |
| <b>Total on and off balance sheet exposures</b>   | <b>1,074,189</b>                                      |           | <b>877,027</b>                        | <b>459,307</b>             | <b>36,745</b>                              |
| <b>2. Large exposures risk requirement</b>  | -   |           | -                                     | -                          | -  |
| <b>3. Market risk</b>   |   |           |                                       |                            |  |
| Interest rate risk  |   |           |                                       |                            |  |
| - General interest rate risk  | 92  | 92        |                                       | -                          | -  |
| Foreign currency risk   | 20,760  | -         |                                       | 20,760                     | 1,661                                      |
| Equity risk   |   |           |                                       |                            |  |
| - General risk  | 191   | -         |                                       | 191                        | 15   |
| - Specific risk   | 191   | -         |                                       | 191                        | 15   |
| <b>Total</b>  | <b>21,234</b>   | <b>92</b> |                                       | <b>21,142</b>              | <b>1,691</b>                               |
| <b>4. Operational risk</b>  |   |           |                                       | 460,094                    | 36,808                                     |
| <b>5. Total RWA and capital requirements</b>  |   |           |                                       | <b>940,543</b>             | <b>75,243</b>                              |

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

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

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

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

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

| Exposure class  | 30.09.19 |   |                                 |                      |                                   |
|---|----------|---|---------------------------------|----------------------|-----------------------------------|
|   |          | Gross exposures/<br>Exposure at default<br>("EAD")<br>before credit risk<br>mitigation<br>("CRM") | Net exposures/<br>EAD after CRM | Risk weighted assets | Minimum capital requirement at 8% |
|   | RM'000   | RM'000  | RM'000                          | RM'000               | RM'000                            |
| <b>1. Credit risk</b>   |          |   |                                 |                      |                                   |
| <b>On balance sheet exposures</b>   |          |   |                                 |                      |                                   |
| Sovereigns/ Central banks   |          | 36  | 36                              | -                    | -                                 |
| Banks, DFIs and MDBs  |          | 67,718  | 67,718                          | 13,544               | 1,084                             |
| Other assets  |          | 33,044  | 33,044                          | 33,044               | 2,644                             |
| <b>Total for on balance sheet exposures</b>   |          | <b>100,798</b>  | <b>100,798</b>                  | <b>46,588</b>        | <b>3,727</b>                      |
| <b>Off balance sheet exposures:</b>   |          |   |                                 |                      |                                   |
| Off balance sheet exposures other than<br>Over the counter ("OTC") derivatives<br>or credit derivatives |          | -   | -                               | -                    | -                                 |
| <b>Total for off balance sheet exposures</b>  |          | <b>-</b>  | <b>-</b>                        | <b>-</b>             | <b>-</b>                          |
| <b>Total on and off balance sheet exposures</b>   |          | <b>100,798</b>  | <b>100,798</b>                  | <b>46,588</b>        | <b>3,727</b>                      |
| <b>2. Large exposures risk requirement</b>  |          | -   | -                               | -                    | -                                 |
| <b>3. Market risk</b>   |          |   |                                 |                      |                                   |
| <b>4. Operational risk</b>  |          |   |                                 | 42,211               | 3,377                             |
| <b>5. Total RWA and capital requirements</b>  |          |   |                                 | <b>88,799</b>        | <b>7,104</b>                      |



### 3.0 Capital Structure

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

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

#### 3.1 CET1 Capital

CET1 Capital consists of the following:

**(a) Ordinary Shares**

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

**(b) Retained Earnings**

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

**(c) Other Disclosed Reserves**

Other disclosed reserves comprise the following:

**(i) Capital Reserve and Merger Reserve**

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

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

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

**(iii) Fair value Reserve**

The Fair value reserve comprises fair value gains/ (net of fair value losses) on financial investments measured at 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 banking subsidiaries can recognise 45% of the balance as part of CET1 Capital. Where the balance is a net debit position, the entire balance is deducted from CET1 Capital.

**(iv) Regulatory Reserve**

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

**3.2 Additional Tier 1 Capital**

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

**3.3 Tier 2 Capital**

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

**Table 3.1: Capital Structure**

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

|   | Group              |                    | Bank               |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | 30.09.19<br>RM'000 | 31.03.19<br>RM'000 | 30.09.19<br>RM'000 | 31.03.19<br>RM'000 |
| <b><u>CET1 Capital</u></b>  |                    |                    |                    |                    |
| Ordinary shares   | 200,000            | 200,000            | 200,000            | 200,000            |
| Retained earnings   | 261,484            | 278,205            | 290,350            | 296,696            |
| Unrealised gains on financial investments<br>at FVOCI   | 999                | 1,089              | 999                | 1,089              |
| Foreign exchange translation reserve  | 2,515              | 2,440              | -                  | -                  |
| Regulatory reserve  | 4,570              | 4,674              | 4,570              | 4,674              |
| Capital reserve   | 2,815              | 2,815              |                    |                    |
| Merger reserve  | 82,115             | 82,115             |                    |                    |
| Less : Regulatory adjustments applied on CET1<br>capital  |                    |                    |                    |                    |
| Goodwill  | (36,442)           | (36,442)           | -                  | -                  |
| Other intangibles   | (1,745)            | (2,118)            | (1,388)            | (1,750)            |
| Deferred tax assets   | (5,500)            | (6,276)            | (2,583)            | (3,051)            |
| 55% of cumulative gains of FVOCI<br>financial instruments   | (550)              | (599)              | (550)              | (599)              |
| Regulatory reserve attributable to loans<br>and advances  | (4,570)            | (4,674)            | (4,570)            | (4,674)            |
| Investments in capital instruments of<br>unconsolidated financial and<br>insurance/takaful entities | -                  | -                  | (49,809)           | (49,809)           |
| <b>CET1 Capital/ Tier 1 Capital</b>   | <b>505,691</b>     | <b>521,229</b>     | <b>437,019</b>     | <b>442,576</b>     |
| <b><u>Tier 2 Capital</u></b>  |                    |                    |                    |                    |
| General provisions*   | 4,578              | 4,684              | 4,578              | 4,684              |
| <b>Tier 2 Capital</b>   | <b>4,578</b>       | <b>4,684</b>       | <b>4,578</b>       | <b>4,684</b>       |
| <b>Total Capital</b>  | <b>510,269</b>     | <b>525,913</b>     | <b>441,597</b>     | <b>447,260</b>     |

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

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

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

|                            | Group              |                    | Bank               |                    |
|----------------------------|--------------------|--------------------|--------------------|--------------------|
|                            | 30.09.19<br>RM'000 | 31.03.19<br>RM'000 | 30.09.19<br>RM'000 | 31.03.19<br>RM'000 |
| Credit risk                | 459,307            | 693,311            | 499,593            | 732,342            |
| Market risk                | 21,142             | 48,379             | 2,133              | 28,644             |
| Operational risk           | 460,094            | 470,246            | 245,423            | 251,510            |
| Total risk weighted assets | <u>940,543</u>     | <u>1,211,936</u>   | <u>747,149</u>     | <u>1,012,496</u>   |

- (b) The components of CET1 Capital, Tier 1 Capital and Total Capital of the Islamic Banking of the Group and the Bank is as follows:

|   | 30.09.19<br>RM'000   | 31.03.19<br>RM'000   |
|---|----------------------|----------------------|
| <b><u>CET1 Capital</u></b>                            |                      |                      |
| Capital Funds   | 30,000               | 30,000               |
| Retained earnings                                     | 65,013               | 62,091               |
| Less : Regulatory adjustments applied on CET1 Capital |                      |                      |
| Other intangibles                                     |                      |                      |
| Deferred tax assets                                   | (246)                | (240)                |
| <b>CET1 capital/ Tier 1 capital/ Total capital</b>    | <u><b>94,767</b></u> | <u><b>91,851</b></u> |

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

|                            | 30.09.19<br>RM'000 | 31.03.19<br>RM'000 |
|----------------------------|--------------------|--------------------|
| Credit risk                | 46,588             | 48,600             |
| Operational risk           | 42,211             | 45,645             |
| Total risk weighted assets | <u>88,799</u>      | <u>94,245</u>      |

#### 4.0 General Risk Management

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

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

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

##### AMMB Group Risk Direction

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

- 1 AMMB Group aspires to improve on its current external rating of AA2 based on reference ratings by RAM Rating Services Berhad ("RAM").
- 2 AMMB Group aims to achieve and sustain a Return on Risk Weighted Assets ("RoRWA") in the range of 1.5% to 1.8% and an RWA efficiency (Credit RWA ("CRWA")/ Exposure At Default ("EAD")) in the range of 50% to 60%, both based on Foundation Internal Ratings Based ("FIRB").
- 3 AMMB Group aims to maintain Available Financial Resources in excess of the capital requirements as estimated in the Internal Capital Adequacy Assessment Process ("ICAAP").
- 4 AMMB Group recognizes the importance of funding its own business. It aims to maintain the following:
  - a. Liquidity Coverage Ratio ("LCR") at least 10 percentage points above prevailing regulatory minimum of 100%.
  - b. Stressed LCR above the regulatory requirement of 100%; and
  - c. Net stable funding ratio ("NSFR") above the prevailing regulatory minimum (effective from 2019)
- 5 AMMB Group aims to maintain the following capital adequacy ratios ("CARs") under normal conditions: CET1, Tier 1 and total capital ratio of at least 1 percentage points above their respective regulatory minimum, including prescribed regulatory buffers.
- 6 AMMB Group aims to maintain adequate controls for all key operational risks (including but not limited to regulatory, compliance, technology, conduct and reputational risks).
  - a. Keep operational losses and regulatory penalties below 2% of PATMI\*.
  - b. Remain vigilant in risk identification and management to protect its reputation and business franchise.
- 7 AMMB Group aims to limit the Group's earnings volatility such that mean Adjusted Return volatility over a period of the last 3 years is Below 0.3\*\*.

##### Risk Management Governance

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

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

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

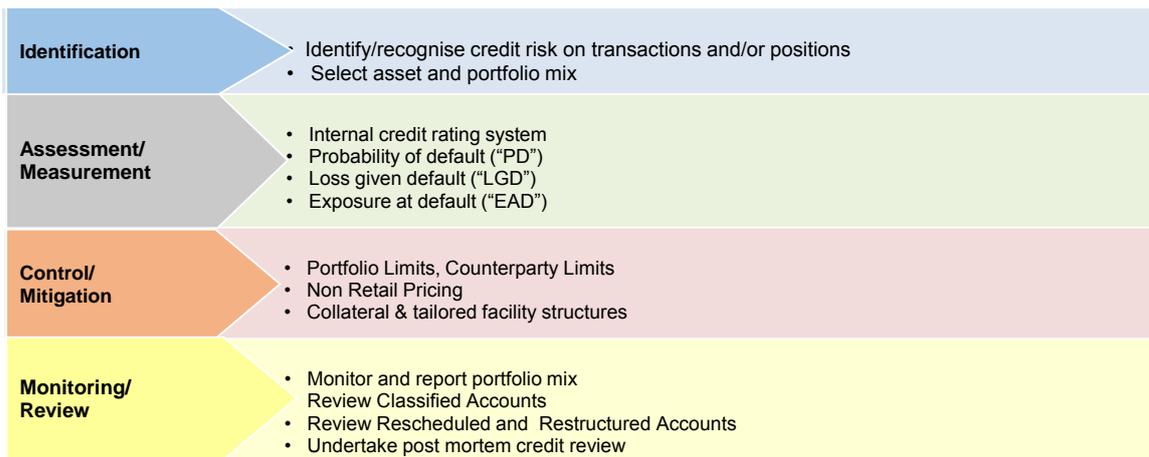
- is responsible for establishing an enterprise wide risk management framework in all areas including financial, credit, market, operational, reputational, security, technology and emerging risks
- essentially champions and embeds a positive risk culture across the Group to ensure that risk taking activities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

\*PATMI - Profit after Tax and Minority Interests

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

## 5.0 Credit Risk Management

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



Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its payment obligations. Exposure to credit risk arises from lending, securities and derivative exposures. The identification of credit risk is done by assessing the potential impact of internal and external factors on the Group transactions and/or positions as well as Shariah compliance risk (please refer to Section 14 for discussion on Shariah Governance Structure).

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

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

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

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

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

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

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

- Concentration threshold/review trigger:
  - single counterparty credit;
  - industry sector; and
  - country.
- Setting Loan to Value limits for asset backed loans (i.e., property exposures and other collateral); Non-Retail Credit Policy ("NRCP") sets out the credit principles and managing credit risk in the Wholesale Banking ("WB") and Business Banking ("BB") portfolios.
- Classified Account processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers;
- Rescheduled and Restructured ("R&R") Account Management (embedded within the NRCP for WB and BB) sets out the controls in managing R&R loan and advances pursuant to the BNM's revised policy on Classification and Impairment Provisions for Loans; and
- Setting Non Retail Pricing guidelines which serve as a guide to the minimum returns the Group requires for the risk undertaken, taking into account operating expenses and cost of capital.

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

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

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

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

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

### **5.1 Impairment**

The Group's Classified Account Management Policy (CAMP) 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 Bank.
- (b) The obligor has breached its contractual payment obligations and past due for more than 90 days.
- (c) Other indicators stipulated in the CAMP indicating the unlikelihood to repay.

#### **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 expected credit losses.

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

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

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

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

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

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

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

|   | 30.09.19              |                                      |                        |                                       |  |                                  |                                   |                     |                  |                 |
|---|-----------------------|--------------------------------------|------------------------|---------------------------------------|--|----------------------------------|-----------------------------------|---------------------|------------------|-----------------|
|   | Agriculture<br>RM'000 | Mining<br>and<br>Quarrying<br>RM'000 | Construction<br>RM'000 | Finance<br>and<br>Insurance<br>RM'000 | Government<br>and<br>Central<br>RM'000 | Business<br>Activities<br>RM'000 | Education<br>and Health<br>RM'000 | Household<br>RM'000 | Others<br>RM'000 | Total<br>RM'000 |
| <b>On balance sheet exposures</b>   |                       |                                      |                        |                                       |  |                                  |                                   |                     |                  |                 |
| Sovereigns/ Central banks   | -                     | -                                    | -                      | -                                     | 64,262                                 | -                                | -                                 | -                   | -                | 64,262          |
| Banks, DFIs and MDBs  | -                     | -                                    | -                      | 317,646                               | -                                      | -                                | -                                 | -                   | -                | 317,646         |
| Corporates  | -                     | -                                    | 803                    | 78,473                                | -                                      | -                                | 53,884                            | 187,189             | 10               | 320,359         |
| Regulatory retail   | -                     | -                                    | -                      | -                                     | -                                      | -                                | -                                 | 29,920              | -                | 29,920          |
| Higher risk assets  | -                     | -                                    | -                      | -                                     | -                                      | -                                | -                                 | -                   | 2,871            | 2,871           |
| Other assets  | -                     | -                                    | -                      | 83,262                                | -                                      | 13,376                           | -                                 | 47,950              | 158,267          | 302,855         |
| <b>Total for on balance sheet exposures</b>   | -                     | -                                    | 803                    | 479,381                               | 64,262                                 | 13,376                           | 53,884                            | 265,059             | 161,148          | 1,037,913       |
| <b>Off balance sheet exposures</b>  |                       |                                      |                        |                                       |  |                                  |                                   |                     |                  |                 |
| Off balance sheet exposures other than Over the counter derivatives or Credit derivatives | -                     | -                                    | -                      | 1,450                                 | -                                      | -                                | 3,931                             | 30,895              | -                | 36,276          |
| <b>Total for off balance sheet exposures</b>  | -                     | -                                    | -                      | 1,450                                 | -                                      | -                                | 3,931                             | 30,895              | -                | 36,276          |
| <b>Total on and off balance sheet exposures</b>   | -                     | -                                    | 803                    | 480,831                               | 64,262                                 | 13,376                           | 57,815                            | 295,954             | 161,148          | 1,074,189       |

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

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

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

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

The impaired and past due loans and advances, allowances for expected credit losses, charges/writeback for expected credit losses and write offs during the period/year by sector of the Group are as follows:

|   | <b>30.09.19</b>                |                  |                      |               |
|---|--------------------------------|------------------|----------------------|---------------|
|   | <b>Business<br/>Activities</b> | <b>Household</b> | <b>Not allocated</b> | <b>Total</b>  |
|   | <b>RM'000</b>                  | <b>RM'000</b>    | <b>RM'000</b>        | <b>RM'000</b> |
| Impaired loans and advances             | 1,740                          | -                | -                    | <b>1,740</b>  |
| Allowance for expected credit losses    | 1,740                          | -                | 2                    | <b>1,742</b>  |
| Allowance for<br>expected credit losses | 69                             | -                | -                    | <b>69</b>     |

|   | <b>31.03.19</b>                |                  |                      |               |
|---|--------------------------------|------------------|----------------------|---------------|
|   | <b>Business<br/>Activities</b> | <b>Household</b> | <b>Not allocated</b> | <b>Total</b>  |
|   | <b>RM'000</b>                  | <b>RM'000</b>    | <b>RM'000</b>        | <b>RM'000</b> |
| Impaired loans and advances                           | 1,671                          | -                | -                    | <b>1,671</b>  |
| Allowance for expected credit losses                  | 1,671                          | -                | 4                    | <b>1,675</b>  |
| Write-back of allowance for<br>expected credit losses | (396)                          | -                | -                    | <b>(396)</b>  |

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

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

|  | 30.09.19              |                               |                  |
|--|-----------------------|-------------------------------|------------------|
|  | In Malaysia<br>RM'000 | Outside<br>Malaysia<br>RM'000 | Total<br>RM'000  |
| <b>On balance sheet exposures</b>                                |                       |                               |                  |
| Sovereigns/ Central banks  | 64,262                | -                             | 64,262           |
| Banks, DFIs and MDBs   | 316,187               | 1,459                         | 317,646          |
| Corporates   | 320,359               | -                             | 320,359          |
| Regulatory retail  | 29,920                | -                             | 29,920           |
| Higher risk assets   | 2,865                 | 6                             | 2,871            |
| Other assets   | 288,596               | 14,259                        | 302,855          |
| <b>Total for on balance sheet exposures</b>                      | <b>1,022,189</b>      | <b>15,724</b>                 | <b>1,037,913</b> |
| <b>Off balance sheet exposures</b>                               |                       |                               |                  |
| Off balance sheet exposures other than OTC derivatives or credit | 36,276                | -                             | 36,276           |
| Defaulted exposures  | -                     | -                             | -                |
| <b>Total for off balance sheet exposures</b>                     | <b>36,276</b>         | <b>-</b>                      | <b>36,276</b>    |
| <b>Total on and off balance sheet exposures</b>                  | <b>1,058,465</b>      | <b>15,724</b>                 | <b>1,074,189</b> |

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

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

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

|                                    | <b>30.09.19</b>               |  |                         |
|------------------------------------|-------------------------------|--|-------------------------|
|                                    | <b>In Malaysia<br/>RM'000</b> | <b>Outside<br/>Malaysia<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
| Impaired loans and advances        | 1,740                         | -                                      | 1,740                   |
| Allowance for expected credit loss | 1,742                         | -                                      | 1,742                   |

|                                    | <b>31.03.19</b>               |  |                         |
|------------------------------------|-------------------------------|--|-------------------------|
|                                    | <b>In Malaysia<br/>RM'000</b> | <b>Outside<br/>Malaysia<br/>RM'000</b> | <b>Total<br/>RM'000</b> |
| Impaired loans and advances        | 1,671                         | -                                      | 1,671                   |
| Allowance for expected credit loss | 1,675                         | -                                      | 1,675                   |

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

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

|  | 30.09.19                |                                   |                                    |                                     |                                 |                                  |                     |                                    | Total<br>RM'000  |
|--|-------------------------|-----------------------------------|------------------------------------|-------------------------------------|---------------------------------|----------------------------------|---------------------|------------------------------------|------------------|
|  | Up to 1 month<br>RM'000 | >1 month<br>to 3 months<br>RM'000 | >3 months<br>to 6 months<br>RM'000 | >6 months<br>to 12 months<br>RM'000 | >1 year<br>to 3 years<br>RM'000 | >3 years<br>to 5 years<br>RM'000 | > 5 years<br>RM'000 | No maturity<br>specified<br>RM'000 |                  |
| <b>On balance sheet exposures</b>  |                         |                                   |                                    |                                     |                                 |                                  |                     |                                    |                  |
| Sovereigns/ central banks  | 92                      | -                                 | -                                  | 30,711                              | 30,124                          | -                                | 3,335               | -                                  | 64,262           |
| Banks, DFIs and MDBs   | 317,646                 | -                                 | -                                  | -                                   | -                               | -                                | -                   | -                                  | 317,646          |
| Corporates   | 219,368                 | 1,343                             | 8,478                              | 2,167                               | 13,540                          | -                                | 75,463              | -                                  | 320,359          |
| Regulatory retail  | 358                     | -                                 | 21                                 | 79                                  | 77                              | 29,385                           | -                   | -                                  | 29,920           |
| Higher risk assets   | -                       | -                                 | -                                  | -                                   | -                               | -                                | -                   | 2,871                              | 2,871            |
| Other assets   | 286,336                 | -                                 | -                                  | -                                   | -                               | -                                | -                   | 16,519                             | 302,855          |
| <b>Total for on balance sheet exposures</b>                                  | <b>823,800</b>          | <b>1,343</b>                      | <b>8,499</b>                       | <b>32,957</b>                       | <b>43,741</b>                   | <b>29,385</b>                    | <b>78,798</b>       | <b>19,390</b>                      | <b>1,037,913</b> |
| <b>Off balance sheet exposures</b>   |                         |                                   |                                    |                                     |                                 |                                  |                     |                                    |                  |
| Off balance sheet exposures other than OTC derivatives or credit derivatives | -                       | 1,198                             | 2,700                              | 8,172                               | -                               | -                                | 24,206              | -                                  | 36,276           |
| <b>Total for off balance sheet exposures</b>                                 | <b>-</b>                | <b>1,198</b>                      | <b>2,700</b>                       | <b>8,172</b>                        | <b>-</b>                        | <b>-</b>                         | <b>24,206</b>       | <b>-</b>                           | <b>36,276</b>    |
| <b>Total on and off balance sheet exposures</b>                              | <b>823,800</b>          | <b>2,541</b>                      | <b>11,199</b>                      | <b>41,129</b>                       | <b>43,741</b>                   | <b>29,385</b>                    | <b>103,004</b>      | <b>19,390</b>                      | <b>1,074,189</b> |

|  | 31.03.19                |                                   |                                    |                                     |                                 |                                  |                     |                                    | Total<br>RM'000  |
|--|-------------------------|-----------------------------------|------------------------------------|-------------------------------------|---------------------------------|----------------------------------|---------------------|------------------------------------|------------------|
|  | Up to 1 month<br>RM'000 | >1 month<br>to 3 months<br>RM'000 | >3 months<br>to 6 months<br>RM'000 | >6 months<br>to 12 months<br>RM'000 | >1 year<br>to 3 years<br>RM'000 | >3 years<br>to 5 years<br>RM'000 | > 5 years<br>RM'000 | No maturity<br>specified<br>RM'000 |                  |
| <b>On balance sheet exposures</b>  |                         |                                   |                                    |                                     |                                 |                                  |                     |                                    |                  |
| Sovereigns/ Central banks  | 84                      | -                                 | -                                  | -                                   | 60,997                          | -                                | 4,984               | -                                  | 66,065           |
| Banks, DFIs and MDBs   | 305,838                 | -                                 | -                                  | -                                   | -                               | -                                | -                   | -                                  | 305,838          |
| Corporates   | 229,261                 | -                                 | -                                  | 6,136                               | 35,215                          | -                                | 75,446              | -                                  | 346,058          |
| Regulatory retail  | -                       | -                                 | 467                                | 10                                  | 188                             | 29,487                           | -                   | -                                  | 30,152           |
| Higher risk assets   | -                       | -                                 | -                                  | -                                   | -                               | -                                | -                   | 2,989                              | 2,989            |
| Other assets   | 532,652                 | -                                 | -                                  | -                                   | -                               | -                                | -                   | 17,138                             | 549,790          |
| Defaulted exposures  | 13                      | -                                 | -                                  | -                                   | -                               | -                                | -                   | -                                  | 13               |
| <b>Total for on balance sheet exposures</b>                                  | <b>1,067,848</b>        | <b>-</b>                          | <b>467</b>                         | <b>6,146</b>                        | <b>96,400</b>                   | <b>29,487</b>                    | <b>80,430</b>       | <b>20,127</b>                      | <b>1,300,905</b> |
| <b>Off balance sheet exposures</b>   |                         |                                   |                                    |                                     |                                 |                                  |                     |                                    |                  |
| Off balance sheet exposures other than OTC derivatives or credit derivatives | 120                     | 1,346                             | 229                                | 1,122                               | 129                             | -                                | 24,728              | -                                  | 27,674           |
| Defaulted exposures  | 9                       | -                                 | -                                  | -                                   | -                               | -                                | -                   | -                                  | 9                |
| <b>Total for off balance sheet exposures</b>                                 | <b>129</b>              | <b>1,346</b>                      | <b>229</b>                         | <b>1,122</b>                        | <b>129</b>                      | <b>-</b>                         | <b>24,728</b>       | <b>-</b>                           | <b>27,683</b>    |
| <b>Total on and off balance sheet exposures</b>                              | <b>1,067,977</b>        | <b>1,346</b>                      | <b>696</b>                         | <b>7,268</b>                        | <b>96,529</b>                   | <b>29,487</b>                    | <b>105,158</b>      | <b>20,127</b>                      | <b>1,328,588</b> |

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

### **5.1 Impairment (Cont'd.)**

#### **Reconciliation of changes to loan impairment allowances**

The disclosure on reconciliation of changes to loans impairment allowances of the Group can be found in Note 12(i) of the interim financial statements. There are no charge offs and recoveries for loans and advances that have been taken up directly to the statement of profit or loss during the current financial period and the previous financial year.

### **6.0 Credit Risk Exposure under Standardised Approach**

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

- Moody's Investors Service ("Moody's")
- Fitch Rating ("Fitch")
- RAM Rating Services Berhad ("RAM")
- Malaysian Rating Corporation Berhad ("MARC")

**6.0 Credit Risk Exposure under the Standardised Approach****Table 6.1: Credit exposures by risk weights under the Standardised Approach**

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

| 30.09.19   |  |                                   |                      |                                |                                 |                        |   |  |
|--|--|-----------------------------------|----------------------|--------------------------------|---------------------------------|------------------------|---|--|
| Exposures after netting and credit risk mitigation |  |                                   |                      |                                |                                 |                        |   |  |
| Risk Weights                                       | Sovereigns<br>and Central<br>banks<br>RM'000 | Banks, DFIs<br>and MDBs<br>RM'000 | Corporates<br>RM'000 | Regulatory<br>retail<br>RM'000 | Higher risk<br>assets<br>RM'000 | Other assets<br>RM'000 | Total Exposures<br>after Netting and<br>CRM<br>RM'000 | Total Risk<br>Weighted<br>Assets<br>RM'000 |
| 0%   | 64,262                                       | -                                 | 75,463               | -                              | -                               | 3                      | 139,728   | -  |
| 20%  | -  | 317,646                           | -                    | -                              | -                               | 30,601                 | 348,247   | 69,649                                     |
| 75%  | -  | -                                 | -                    | 3,319                          | -                               | -                      | 3,319   | 2,489                                      |
| 100%   | -  | -                                 | 110,611              | -                              | -                               | 272,251                | 382,862   | 382,862                                    |
| 150%   | -  | -                                 | -                    | -                              | 2,871                           | -                      | 2,871   | 4,307                                      |
| Total  | 64,262                                       | 317,646                           | 186,074              | 3,319                          | 2,871                           | 302,855                | 877,027   | 459,307                                    |

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

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

| 30.09.19   |  |            |          |             |          |                |
|--|--|------------|----------|-------------|----------|----------------|
| Exposure class   | 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 | B1 to D  | Unrated        |
|  | MARC                                   | AAA to AA- | A+ to A- | BBB+ to BB- | B+ to D  | Unrated        |
|  | RM'000                                 | RM'000     | RM'000   | RM'000      | RM'000   | RM'000         |
| <b><u>On and off balance sheet exposures</u></b>       |  |            |          |             |          |                |
| <b>Credit exposures (using corporate risk weights)</b> |  |            |          |             |          |                |
| Corporates   | 347,674                                | -          | -        | -           | -        | 347,674        |
| <b>Total</b>   | <b>347,674</b>                         | <b>-</b>   | <b>-</b> | <b>-</b>    | <b>-</b> | <b>347,674</b> |

| 31.03.19   |  |            |          |             |          |                |
|--|--|------------|----------|-------------|----------|----------------|
| Exposure class   | 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 | B1 to D  | Unrated        |
|  | MARC                                   | AAA to AA- | A+ to A- | BBB+ to BB- | B+ to D  | Unrated        |
|  | RM'000                                 | RM'000     | RM'000   | RM'000      | RM'000   | RM'000         |
| <b><u>On and off balance sheet exposures</u></b>       |  |            |          |             |          |                |
| <b>Credit exposures (using corporate risk weights)</b> |  |            |          |             |          |                |
| Corporates   | 364,962                                | -          | -        | -           | -        | 364,962        |
| <b>Total</b>   | <b>364,962</b>                         | <b>-</b>   | <b>-</b> | <b>-</b>    | <b>-</b> | <b>364,962</b> |

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

| Exposure Class                            | 30.09.19                   |                                    |   |  |                                  |                                  |                   |
|---|----------------------------|------------------------------------|---|--|----------------------------------|----------------------------------|-------------------|
|   | Moody's<br>Fitch<br>RM'000 | Aaa to Aa3<br>AAA to AA-<br>RM'000 | Ratings of Sovereigns and Central Banks by Approved ECAIs |  |                                  |                                  | Unrated<br>RM'000 |
|   |                            |                                    | A1 to A3<br>A+ to A-<br>RM'000                            | Baa1 to Baa3<br>BBB+ to BBB-<br>RM'000 | Ba1 to B3<br>BB+ to B-<br>RM'000 | Caa1 to C<br>CCC+ to D<br>RM'000 |                   |
| <b>On and Off-Balance Sheet Exposures</b> |                            |                                    |   |  |                                  |                                  |                   |
| Sovereigns and Central banks              | 64,262                     | -                                  | 64,262  | -                                      | -                                | -                                | -                 |
| <b>Total</b>                              | <b>64,262</b>              | <b>-</b>                           | <b>64,262</b>   | <b>-</b>                               | <b>-</b>                         | <b>-</b>                         | <b>-</b>          |

| Exposure Class                            | 31.03.19                   |                                    |   |                        |                     |                                  |                   |
|---|----------------------------|------------------------------------|---|------------------------|---------------------|----------------------------------|-------------------|
|   | Moody's<br>Fitch<br>RM'000 | Aaa to Aa3<br>AAA to AA-<br>RM'000 | Ratings of Sovereigns and Central Banks by Approved ECAIs |                        |                     |                                  | Unrated<br>RM'000 |
|   |                            |                                    | A+ to A-<br>RM'000  | BBB+ to BBB-<br>RM'000 | BB+ to B-<br>RM'000 | Caa1 to C<br>CCC+ to D<br>RM'000 |                   |
| <b>On and Off-Balance Sheet Exposures</b> |                            |                                    |   |                        |                     |                                  |                   |
| Sovereigns and Central banks              | 66,065                     | -                                  | 66,065  | -                      | -                   | -                                | -                 |
| <b>Total</b>                              | <b>66,065</b>              | <b>-</b>                           | <b>66,065</b>   | <b>-</b>               | <b>-</b>            | <b>-</b>                         | <b>-</b>          |

| Exposure class                            | 30.09.19                                  |  |   |                        |                     |           |                   |
|---|---|--|---|------------------------|---------------------|-----------|-------------------|
|   | Moody's<br>Fitch<br>RAM<br>MARC<br>RM'000 | Aaa to Aa3<br>AAA to AA3<br>AAA to AA-<br>RM'000 | Ratings of Banking Institutions by Approved ECAIs |                        |                     |           | Unrated<br>RM'000 |
|   |   |  | A1 to A3  | Baa1 to Baa3           | Ba1 to B3           | Caa1 to C |                   |
|   |   |  | A+ to A-<br>RM'000                                | BBB+ to BBB-<br>RM'000 | BB+ to B-<br>RM'000 | CCC+ to D |                   |
|   |   |  | A1 to A3  | BBB1 to BBB3           | BB1 to B3           | C1 to D   |                   |
| A+ to A-<br>RM'000                        | BBB+ to BBB-<br>RM'000                    | BB+ to B-<br>RM'000                              | C+ to D   |                        |                     |           |                   |
| <b>On and off balance sheet exposures</b> |   |  |   |                        |                     |           |                   |
| Banks, DFIs and MDBs                      | 317,646                                   | 55,004   | 800   | 139,807                | -                   | -         | 122,035           |
| <b>Total</b>                              | <b>317,646</b>                            | <b>55,004</b>                                    | <b>800</b>  | <b>139,807</b>         | <b>-</b>            | <b>-</b>  | <b>122,035</b>    |

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

## 7.0 Credit Risk Mitigation

**Table 7.1: Credit Risk Mitigation**

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

| Exposures  | 30.09.19                       |  |
|--|--------------------------------|--|
|  | Exposures before CRM<br>RM'000 | Exposures covered by Eligible Financial Collateral<br>RM'000 |
| <b>Credit risk</b>   |                                |  |
| <b><u>On balance sheet exposures</u></b>                                     |                                |  |
| Sovereigns/ Central banks  | 64,262                         | -  |
| Banks, DFIs and MDBs   | 317,646                        | -  |
| Corporates   | 320,359                        | 186,434  |
| Regulatory retail  | 29,920                         | 27,783   |
| Higher risk assets   | 2,871                          | -  |
| Other assets   | 302,855                        | -  |
| <b>Total for on balance sheet exposures</b>                                  | <b>1,037,913</b>               | <b>214,217</b>   |
| <b><u>Off balance sheet exposures</u></b>                                    |                                |  |
| Off balance sheet exposures other than OTC derivatives or credit derivatives | 36,276                         | 24,739   |
| <b>Total for off balance sheet exposures</b>                                 | <b>36,276</b>                  | <b>24,739</b>  |
| <b>Total on and off balance sheet exposures</b>                              | <b>1,074,189</b>               | <b>238,956</b>   |

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

## 8.0 Off Balance Sheet exposures and Counterparty Credit Risk

**Table 8.1: Off Balance Sheet Exposures**

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

| Description   | 30.09.19         |   |                          |                      |
|---|------------------|---|--------------------------|----------------------|
|   | Principal Amount | Positive Fair Value of Derivative Contracts | Credit Equivalent Amount | Risk Weighted Assets |
|   | RM'000           | RM'000                                      | RM'000                   | RM'000               |
| <b>Direct Credit Substitutes</b>  | -                | -   | -                        | -                    |
| <b>Obligations under an on going underwriting agreements</b>  | -                | -   | -                        | -                    |
| <b>Foreign exchange related contracts</b>   |                  |   |                          |                      |
| One year or less  | 92               | -   | -                        | -                    |
| <b>Equity and commodity related contracts</b>   |                  |   |                          |                      |
| One year or less  | -                | -   | -                        | -                    |
| <b>Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year</b>  | 14,790           | -   | 7,395                    | 6,975                |
| <b>Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year</b> | 144,407          | -   | 28,881                   | 7,593                |
| <b>Total</b>  | <b>159,289</b>   | <b>-</b>                                    | <b>36,276</b>            | <b>14,568</b>        |

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

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

As at 30 September 2019 and 31 March 2019, the Group does not have any credit derivatives.

**9.0 Securitisation**

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

**10.0 Non-Traded Market Risk**

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

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

| <u>Impact on Profit Before Tax</u> | 30.09.19  |   | 31.03.19  |   |
|------------------------------------|---|---|---|---|
|                                    | Interest Rate/<br>Rate of Return<br>+ 100 bps<br>(RM'000) | Interest Rate/<br>Rate of Return<br>- 100 bps<br>(RM'000) | Interest Rate/<br>Rate of Return<br>+ 100 bps<br>(RM'000) | Interest Rate/<br>Rate of Return<br>- 100 bps<br>(RM'000) |
|                                    | Currency  |   |   |   |
| MYR                                | 2,259   | (2,259)   | 1,991   | (1,991)   |

| <u>Impact on Equity</u> | 30.09.19  |   | 31.03.19  |   |
|-------------------------|---|---|---|---|
|                         | Interest Rate/<br>Rate of Return<br>+ 100 bps<br>(RM'000) | Interest Rate/<br>Rate of Return<br>- 100 bps<br>(RM'000) | Interest Rate/<br>Rate of Return<br>+ 100 bps<br>(RM'000) | Interest Rate/<br>Rate of Return<br>- 100 bps<br>(RM'000) |
|                         | Currency  |   |   |   |
| MYR                     | (5,540)   | 6,071   | (5,854)   | 6,379   |

### 11.0 Equities (Banking Book Positions)

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 11.1: Equity investments and capital requirement**

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

|  | <b>30.09.19</b> | <b>31.03.19</b> |
|--|-----------------|-----------------|
|  | <b>RM'000</b>   | <b>RM'000</b>   |
| <b>Non traded equity investments</b>             |                 |                 |
| Value of quoted (publicly traded) equities       | -               | -               |
| Value of unquoted (privately held) equities      | 2,771           | 2,889           |
| <b>Total</b>                                     | <b>2,771</b>    | <b>2,889</b>    |
| <b>Risk Weighted Assets</b>                      |                 |                 |
| Equity investments subject to a 100% risk weight | -               | -               |
| Equity investments subject to a 150% risk weight | 4,157           | 4,333           |
| <b>Total</b>                                     | <b>4,157</b>    | <b>4,333</b>    |
| <b>Total minimum capital requirement (8%)</b>    | <b>333</b>      | <b>347</b>      |

### 12.0 Shariah Non-Compliant Income

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