Registration No. 199401009897 (295576–U)

AmBank Islamic Berhad

(Incorporated in Malaysia)

CAFIB - Pillar 3 Disclosure

31 March 2020

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1.0 Scope of Application

The Capital Adequacy Framework for Islamic Banks (“CAFIB”) – Disclosure Requirements (Pillar 3) policy document 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 two policy documents are applicable to AmBank Islamic Berhad ("the Bank") and other banking institutions licensed under the Islamic Financial Services Act 2013 ("IFSA").

The information provided in this Pillar 3 Disclosure has been verified by the Group internal auditors and certified by the Chief Executive Officer.

Capital Adequacy

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

The capital adequacy ratios of the Bank are computed in accordance with BNM's policy document on Capital Adequacy Framework for Islamic Banks (Capital Components) issued on 5 February 2020 and Capital Adequacy Framework for Islamic Banks (Risk Weighted Assets) issued on 3 May 2019. The Bank has 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 for Islamic Banks (Risk Weighted Assets).

Pursuant to BNM's Capital Adequacy Framework for Islamic Banks (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. The Bank is also required to maintain the following capital buffers:

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

1.0 Scope of Application (Cont'd.)

Adoption of MFRS 16 Leases

The Bank has adopted MFRS 16 for the first time since 1 April 2019. In its transition to MFRS 16, the Bank 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 Bank are as disclosed in Note 55 (a). The financial effects disclosed included impact to the capital adequacy ratios arising from impact to capital base and risk weighted assets for changes arising from recognition of Right-of-use assets.

Frequency of Disclosure

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

Medium and Location of Disclosure

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

2.0 Capital Management

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

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

The capital plan takes the following into account:

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

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

Stress testing and scenario analysis are used to ensure that the Bank'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 Bank and how these events could be mitigated. The Bank's target capital levels are set taking into account its risk appetite and its risk profile under future expected and stressed economic scenarios.

The Bank's assessment of risk appetite is closely integrated with Bank'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 Bank's business activities.

2.0 Capital Management (Cont'd.)

The capital that the Bank is required to hold is determined by its risk exposures after applying collaterals and other risk mitigants. BNM has the right to impose further capital requirements on Malaysian financial institutions.

The Bank 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 Bank's statement of financial position, capital and liquidity positions.

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

Table 2.1: Capital Adequacy Ratios

The capital adequacy ratios of the Bank as at 31 March are as follows:

	Bank	
	2020	**2019**
Before deducting proposed dividends:		
Common Equity Tier 1 Capital ratio	11.165%	11.654%
Tier 1 capital ratio	11.165%	11.654%
Total capital ratio	15.950%	16.836%
After deducting proposed dividends:		
Common Equity Tier 1 Capital ratio	11.165%	11.084%
Tier 1 Capital ratio	11.165%	11.084%
Total Capital ratio	15.950%	16.267%

2.0 Capital Management (Cont'd.)

Investment Account (“IA”)

2.1 Restricted Investment Account ("RA")

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

As at 31 March 2020, the gross exposure and collective allowance relating to the RA financing were RM719.9 million and RM2.3 million respectively (31 March 2019: RM1,470.1 million and RM3.7 million respectively). There was no individual allowance provided for the RA financing.

2.2 Mudarabah Term Investment Account ("MTIA")

MTIA-i is a type of an unrestricted investment account opened and maintained by the Investment Account Holder (“IAH”) with the Bank. Monies placed in MTIA-i (“Investment Amount”) is mandated by IAH to be utilized by the Bank, to fund its stable retail Shariah-compliant financing-i and investment assets of the Bank (“Investment Asset”). Distribution of returns of the investment is based on the pre-agreed Profit Sharing Ratio (“PSR”); the amount of which is dependent on the performance of the Investment Asset.

As at 31 March 2020, the outstanding MTIA stood at RM192.6 million (31 March 2019: RM334.8 million).

The underlying assets tagged to both RA and MTIA excluded from the risk weighted capital adequacy computation of the Bank for 31 March 2020 amounted to RM912.6 million (31 March 2019: RM1,804.9 million).

Table 2.2: Risk Weighted Assets and Capital Requirements

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

2020

Exposure Class		Gross Exposures/ Exposure At Default ("EAD") before Credit Risk Mitigation ("CRM")	Net Exposures/ EAD after CRM	Risk Weighted Assets	Risk Weighted Assets Absorbed by PSIA	Total Risk Weighted Assets after effects of PSIA	Minimum Capital Requirement at 8%
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
1. **Credit Risk**							
On-Balance Sheet Exposures							
Sovereigns/Central Banks		7,147,378	7,147,378	-	-	-	-
Public Sector Entities		3,439	3,439	688	-	688	55
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDBs")		1,130,354	1,130,354	208,101	-	208,101	16,649
Corporates		20,757,165	20,276,254	16,263,269	719,943	15,543,326	1,243,466
Regulatory Retail		15,107,197	13,170,184	11,626,832	192,639	11,434,193	914,735
Residential Mortgages		303,602	303,591	116,244	-	116,244	9,300
Higher Risk Assets		1,005	1,005	1,508	-	1,508	121
Other Assets		89,273	89,273	89,273	-	89,273	7,142
Defaulted Exposures		537,981	537,205	633,851	-	633,851	50,707
Total for On-Balance Sheet Exposures		**45,077,394**	**42,658,683**	**28,939,766**	**912,582**	**28,027,184**	**2,242,175**
Off-Balance Sheet Exposures							
Over the counter ("OTC") Derivatives		283,814	283,814	215,896	-	215,896	17,272
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		3,794,670	2,440,693	1,802,406	-	1,802,406	144,192
Defaulted Exposures		2,251	1,659	2,488	-	2,488	199
Total for Off-Balance Sheet Exposures		**4,080,735**	**2,726,166**	**2,020,790**	**-**	**2,020,790**	**161,663**
Total On and Off-Balance Sheet Exposures		**49,158,129**	**45,384,849**	**30,960,556**	**912,582**	**30,047,974**	**2,403,838**
2. **Large Exposure Risk Requirement**				-	-	-	-
3. **Market Risk**	**Long Position**	**Short Position**					
Rate of Return Risk							
- General profit rate risk	6,538,208	4,957,261		171,327	-	171,327	13,706
- Specific profit rate risk	1,911,101	332,574		3,142	-	3,142	251
Foreign Currency Risk	120,181	77,888		120,181	-	120,181	9,614
Total	**8,569,490**	**5,367,723**		**294,650**	**-**	**294,650**	**23,571**
4. **Operational Risk**				1,539,751	**-**	1,539,751	123,180
5. **Total RWA and Capital Requirements**				**32,794,957**	**912,582**	**31,882,375**	**2,550,589**

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

The breakdown of risk weighted assets ("RWA") by exposures in major risk category of the Bank are as follows: (Cont'd.)

2019

Exposure Class		Gross Exposures/ Exposure At Default ("EAD") before Credit Risk Mitigation ("CRM")	Net Exposures/ EAD after CRM	Risk Weighted Assets	Risk Weighted Assets Absorbed by PSIA	Total Risk Weighted Assets after effects of PSIA	Minimum Capital Requirement at 8%
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
1. **Credit Risk**							
On-Balance Sheet Exposures							
Sovereigns/Central Banks		2,804,389	2,804,389	-	-	-	-
Public Sector Entities		3,189	3,189	638	-	638	51
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDBs")		963,149	963,149	246,538	-	246,538	19,724
Insurance Companies, Securities Firms & Fund Managers		30,040	30,040	30,040	-	30,040	2,403
Corporates		18,857,944	18,532,495	14,898,306	1,470,084	13,428,222	1,074,258
Regulatory Retail		13,810,107	12,646,684	10,909,883	334,809	10,575,074	846,006
Residential Mortgages		304,490	304,474	116,322	-	116,322	9,306
Higher Risk Assets		540	540	810	-	810	65
Other Assets		122,320	122,320	122,320	-	122,320	9,786
Defaulted Exposures		458,489	456,683	542,379	-	542,379	43,389
Total for On-Balance Sheet Exposures		**37,354,657**	**35,863,963**	**26,867,236**	**1,804,893**	**25,062,343**	**2,004,988**
Off-Balance Sheet Exposures							
Over the counter ("OTC") Derivatives		179,666	179,666	120,704	-	120,704	9,656
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		3,001,341	1,885,133	1,535,232	-	1,535,232	122,819
Defaulted Exposures		2,528	1,946	2,919	-	2,919	233
Total for Off-Balance Sheet Exposures		**3,183,535**	**2,066,745**	**1,658,855**	**-**	**1,658,855**	**132,708**
Total On and Off-Balance Sheet Exposures		**40,538,192**	**37,930,708**	**28,526,091**	**1,804,893**	**26,721,198**	**2,137,696**
2. **Large Exposure Risk Requirement**				-	-	-	-
3. **Market Risk**	**Long Position**	**Short Position**					
Rate of Return Risk							
- General profit rate risk	8,432,001	3,172,425		360,807	-	360,807	28,865
- Specific profit rate risk	5,319,332	61,145		3,914	-	3,914	313
Foreign Currency Risk	111,205	17,764		111,205	-	111,205	8,896
Total	**13,862,538**	**3,251,334**		**475,926**	**-**	**475,926**	**38,074**
4. **Operational Risk**				1,439,025	**-**	1,439,025	115,122
5. **Total RWA and Capital Requirements**				**30,441,042**	**1,804,893**	**28,636,149**	**2,290,892**

3.0 Capital Structure

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

- Common Equity Tier 1 Capital;
- Tier 2 Capital.

3.1 Common Equity Tier 1 Capital

Common Equity Tier 1 Capital consists of the following:

a) Paid up Capital

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

b) Retained Earnings

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

c) Fair Value Reserve

The fair value reserve comprises fair value gains (net of fair value losses) on financial investments measured at fair value through other comprehensive income ("FVOCI"). In addition, the loss allowance arising from the recognition of expected credit losses on financial investments measured at FVOCI are accumulated in fair value reserve instead of reducing the carrying amount of the assets. To the extent the balance in the fair value reserve is a net credit position, the Bank can recognise 45% of the balance as part of CET1 Capital. Where the balance is a net debit position, the entire balance is deducted from CET1 Capital.

d) Regulatory Reserve

Regulatory reserve is maintained in accordance with paragraph 10.9 of the BNM's Policy Document on Financial Reporting for Islamic Banking Institutions as an additional credit risk absorbent. The amount of the regulatory reserve is deducted from the calculation of CET 1 Capital by virtue of the regulatory reserve being attributable to financing and advances.

3.2 Additional Tier 1 Capital

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

3.3 Tier 2 Capital

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

Basel III Subordinated Sukuk Murabahah

On 28 February 2014, the Bank established a Basel III compliant Subordinated Sukuk Murabahah programme of RM3.0 billion ("Programme") to enable the issuance of Tier 2 Capital from time to time.

The Programme has a tenure of thirty (30) years from the date of the first issuance under the Programme. Each issuance of Tier 2 Subordinated Sukuk under the Programme shall have a tenure of at least five (5) years from the issue date, and is callable on any profit payment date after a minimum period of five (5) years from the date of issuance of each tranche.

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

Issue Date	First Call Date	Tenor	Profit Rate	Nominal value (RM million)
21 December 2015	21 December 2020	10 years Non-Callable 5 years	5.35% per annum	250
30 December 2016	30 December 2021	10 years Non-Callable 5 years	5.50% per annum	10
15 March 2017	15 March 2022	10 years Non-Callable 5 years	5.20% per annum	240
23 February 2018	23 February 2023	10 years Non-Callable 5 years	5.23% per annum	150
18 October 2018	18 October 2023	10 years Non-Callable 5 years	4.88% per annum	500
Total				1,150

3.3 Tier 2 Capital (Cont'd.)

Table 3.1: Capital Structure

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

	31 March 2020	31 March 2019
	RM'000	RM'000
CET 1 Capital		
Ordinary shares	1,387,107	1,387,107
Retained earnings	2,148,410	1,933,885
Fair value reserve	56,249	39,151
Regulatory reserve	71,612	164,928
Less : Regulatory adjustments applied on CET1 Capital		
- Intangible assets	(1,034)	(1,351)
- 55% of cumulative gains of FVOCI financial instruments	(30,937)	(21,533)
- Regulatory reserve	(71,612)	(164,928)
- Unrealised fair value gains on financial liabilities due to changes in own credit risk	(148)	-
CET1 Capital/ Tier 1 Capital	3,559,647	3,337,259
Tier 2 Capital		
Tier 2 Capital instruments meeting all relevant criteria for inclusion	1,150,000	1,150,000
General provision*	375,600	334,015
Tier 2 Capital	1,525,600	1,484,015
Total Capital	5,085,247	4,821,274

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

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

	31 March 2020	31 March 2019
	RM'000	RM'000
Credit RWA	30,960,556	28,526,091
Less : Credit RWA absorbed by Profit Sharing Investment Account	(912,582)	(1,804,893)
Total Credit RWA	30,047,974	26,721,198
Market RWA	294,650	475,926
Operational RWA	1,539,751	1,439,025
Total RWA	31,882,375	28,636,149

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 AMMB Holdings Berhad ("AMMB") to set its risk/reward profile.

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

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

The AMMB Group Risk Direction

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

- The AMMB Group aspires to maintain its current financial institution rating of AA2 based on reference ratings by RAM Rating Services Berhad ("RAM").

- The AMMB Group aims to maintain a minimum ROCE of 12% and an RWA efficiency (CRWA/EAD) in the range of 40% to 50%, both based on Foundation Internal Rating Based ("FIRB").

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

- The AMMB Group recognises the importance of funding its own business. It aims to maintain the following:
  - Liquidity Coverage Ratio ("LCR") (both consolidated and entity level) at least 10 percentage points above prevailing regulatory minimum;
  - Stressed LCR (both consolidated and entity level) above the regulatory requirement; and
  - Net Stable Funding Ratio ("NSFR") (Financial Holding Company ("FHC") level) above the prevailing regulatory minimum (effective from July 2020).

4.0 General Risk Management (Cont'd.)

The AMMB Group Risk Direction (Cont'd.)

- The AMMB Group aims to maintain its Total Capital Ratio at the Group's Internal Capital Trigger under normal conditions.

- The AMMB Group aims to maintain adequate controls for all key operational risks (including but not limited to regulatory, compliance, technology, conduct and reputational risks):
  - Keep operational losses and regulatory penalties below 2% of Profit after Zakat and Taxation ("PAZT").
  - Remain vigilant in risk identification and management to protect its reputation and business franchise.

Risk Management Governance

The AMMB Board is ultimately responsible for the management of risks within the AMMB Group. The RMC is formed to assist the Board in discharging its duties in overseeing the overall management of all risks covering market risk, liquidity risk, credit risk, operational risk, IT and Cyber Risk.

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

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

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

4.0 General Risk Management (Cont'd.)

Impact of COVID-19 pandemic

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

- engaging technology capabilities while keeping cybersecurity risk checked-in, given the allowed higher levels of remote access to data and core systems

- ensuring key services to customers remain available throughout the period while taking precautions to keep in compliance with the MCO requirements

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

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

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

4.1 Internal Capital Adequacy Assessment Process

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

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

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

The following key principles underpin the ICAAP:

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

- The Group Risk Appetite, including AMMB Group's target credit rating category;
- Regulatory capital requirements.

4.1.2 Management Oversight

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

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

4.1.3 Capital Management Policy

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

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

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

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

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

4.1.5 Capital allocation:

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

4.1.6 Material Risks:

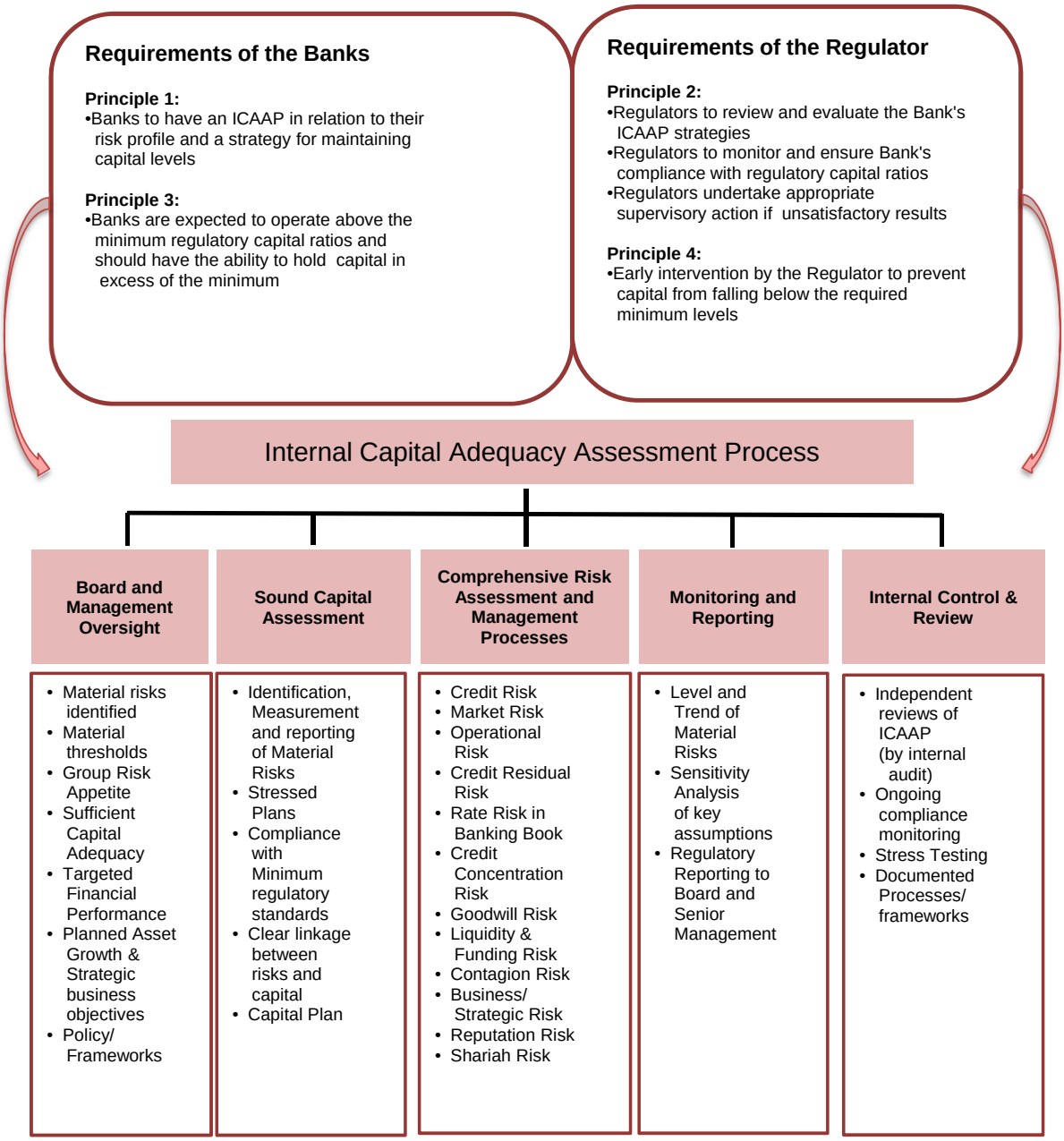
- AMMB Group must have clearly articulate definitions of each material risk type to be included in the ICAAP; and
- processes to identify and determine the materiality of current risk types, changes to existing risk types and new risk types must be established.

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

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

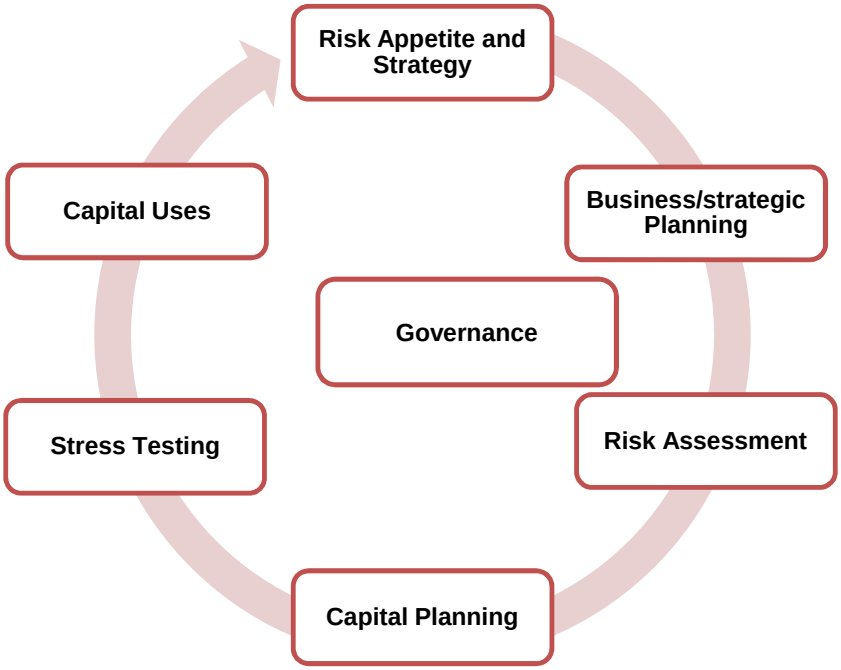
4.1 Internal Capital Adequacy Assessment Process (Cont'd.)

ICAAP Framework



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

Overview of ICAAP process and setting Internal Capital Targets



5.0 Credit Risk Management

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

Identification	• Identify/recognise credit risk on transactions and/or positions • Select asset and portfolio mix
Assessment/ Measurement	• Internal credit rating system • Probability of default (“PD”) • Loss given default (“LGD”) • Exposure at default (“EAD”)
Control/ Mitigation	• Portfolio Limits, Counterparty Limits • Non-Retail Pricing and Risk based pricing for Retail • Collateral and tailored facility structures
Monitoring/ Review	• Monitor and report portfolio mix • Review Classified Accounts • Review Rescheduled and Restructured Account • Undertake post mortem credit review

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its payment obligations. Exposure to credit risk arises from financing, securities and derivative exposures. The identification of credit risk is done by assessing the potential impact of internal and external factors on the Bank’s transactions and/ or positions as well as Shariah compliance risk.

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

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

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

5.0 Credit Risk Management (Cont'd.)

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;
- financing loss provision calculation;
- stress-testing; and
- enhancement to portfolio management.

Financing 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 Bank's optimal portfolio mix. Credit risk portfolio management strategies include, amongst others:

- concentration threshold/review trigger:
  - single counterparty credit;
  - industry sector; and
  - country.
- setting Financing to Value limits for asset backed financing (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 financing pursuant to the BNM's revised policy documents on Financial Reporting for Islamic Banking Institutions.
- Setting Retail risk-based segment pricing, taking into account expected credit loss, operational expenses and credit cost; and
- Setting Retail risk controls capping for exceptional credit approval, to ensure credit approval practice is aligned with the credit policies and Group Risk Appetite Framework.

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

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

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

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

5.1 Impairment

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

(a) the AMMB 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; and

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

5.1.1 AMMB Group Provisioning Methodology

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

MFRS 9 applies to all financial assets classified as amortised cost and FVOCI, lease receivables, trade receivables, and commitments to lend money and financial guarantee contracts.

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

Stage 1:	For performing financial instruments which credit risk had not been significantly increased in credit risk since initial recognition.
Stage 2:	For underperforming financial instruments which credit risk had significantly increased since initial recognition.
Stage 3:	For financial instruments which are credit impaired.

5.1 Impairment (Cont'd.)

5.1.2 AMMB Group Provisioning Methodology

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

Change in credit quality since initial recognition

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

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

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

Table 5.1: Distribution of gross credit exposures by sector

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

2020	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Government and Central Banks RM'000	Real Estate RM'000	Business Activity RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On-Balance Sheet Exposures															
Sovereigns/Central Banks	-	-	-	-	-	-	-	-	7,147,378	-	-	-	-	-	7,147,378
Public Sector Entities	-	-	-	-	-	-	-	-	3,439	-	-	-	-	-	3,439
Banks, DFIs and MDBs	-	-	-	-	-	-	-	1,130,354	-	-	-	-	-	-	1,130,354
Corporates	1,344,411	1,094,724	3,833,901	480,364	2,493,980	1,589,089	2,538,734	2,150,444	-	2,675,642	1,446,828	1,044,481	64,548	19	20,757,165
Regulatory Retail	5,803	541	59,440	3,215	31,493	116,038	36,686	237	-	3,798	27,237	8,282	14,814,296	131	15,107,197
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	-	-	303,602	-	303,602
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	-	1,005	-	1,005
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	89,273	89,273
Defaulted Exposures	48,154	1,773	20,389	-	21,500	21,094	46,034	-	-	251,786	5,152	1,450	120,649	-	537,981
Total for On Balance Sheet Exposures	1,398,368	1,097,038	3,913,730	483,579	2,546,973	1,726,221	2,621,454	3,281,035	7,150,817	2,931,226	1,479,217	1,054,213	15,304,100	89,423	45,077,394
Off-Balance Sheet Exposures															
OTC Derivatives	-	-	118,742	-	35	764	-	164,273	-	-	-	-	-	-	283,814
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	123,377	31,377	736,844	41,442	1,392,971	319,596	297,553	82,656	-	135,241	99,615	60,870	472,856	272	3,794,670
Defaulted Exposures	-	114	17	-	-	3	-	-	-	501	-	-	1,616	-	2,251
Total for Off-Balance Sheet Exposures	123,377	31,491	855,603	41,442	1,393,006	320,363	297,553	246,929	-	135,742	99,615	60,870	474,472	272	4,080,735
Total On and Off-Balance Sheet Exposures	**1,521,745**	**1,128,529**	**4,769,333**	**525,021**	**3,939,979**	**2,046,584**	**2,919,007**	**3,527,964**	**7,150,817**	**3,066,968**	**1,578,832**	**1,115,083**	**15,778,572**	**89,695**	**49,158,129**

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

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

2019	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Government and Central Banks RM'000	Real Estate RM'000	Business Activity RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On-Balance Sheet Exposures															
Sovereigns/Central Banks	-	-	-	-	-	-	-	-	2,804,389	-		-	-	-	2,804,389
Public Sector Entities	-	-	-	-	-	-	-	-	3,189	-	-	-	-	-	3,189
Banks, DFIs and MDBs	-	-	-	-	-	-	-	963,149	-	-	-	-	-	-	963,149
Insurance Companies, Securities Firms and Fund Managers	-	-	-	-	-	-	-	30,040	-	-	-	-	-	-	30,040
Corporates	1,685,441	660,439	3,734,963	352,558	2,146,245	1,379,349	2,340,420	2,067,268	-	2,752,036	732,203	910,931	96,091	-	18,857,944
Regulatory Retail	12,112	310	64,110	3,861	39,433	109,638	30,619	881	-	5,436	42,222	9,637	13,491,834	14	13,810,107
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	-	-	304,490	-	304,490
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	-	540	-	540
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	122,320	122,320
Defaulted Exposures	-	1,991	16,126	-	230	10,958	60,848	-	-	243,050	2,445	1,788	121,053	-	458,489
Total for On-Balance Sheet Exposures	1,697,553	662,740	3,815,199	356,419	2,185,908	1,499,945	2,431,887	3,061,338	2,807,578	3,000,522	776,870	922,356	14,014,008	122,334	37,354,657
Off-Balance Sheet Exposures															
OTC Derivatives	-	43	20,899	-	-	1,185	28,949	128,590	-	-	-	-	-	-	179,666
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	78,065	33,788	617,786	25,521	986,865	274,988	211,063	29,900	-	101,484	72,602	59,743	509,266	270	3,001,341
Defaulted Exposures	-	110	203	-	-	-	-	-	-	496	-	-	1,719	-	2,528
Total for Off-Balance Sheet Exposures	78,065	33,941	638,888	25,521	986,865	276,173	240,012	158,490	-	101,980	72,602	59,743	510,985	270	3,183,535
Total On and Off-Balance Sheet Exposures	**1,775,618**	**696,681**	**4,454,087**	**381,940**	**3,172,773**	**1,776,118**	**2,671,899**	**3,219,828**	**2,807,578**	**3,102,502**	**849,472**	**982,099**	**14,524,993**	**122,604**	**40,538,192**

Table 5.2: Impaired and past due financing and impairment allowances by sector

The amounts of impaired and past due financing, impairment allowances, charges for individual impairment allowances and write offs during the year by sector of the Bank are as follows:

2020	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and Restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Not Allocated RM'000	Total RM'000
Impaired financing	47,758	2,370	29,443	-	3,221	55,256	49,007	-	243,083	10,486	2,325	172,401			**615,350**
Past due financing	2,306	265	17,173	283	73,665	18,133	27,748	156	282,085	15,885	6,736	3,032,135	-	-	**3,476,570**
Allowances for expected credit loss	8,066	7,468	26,592	3,572	9,293	14,156	7,999	-	29,922	13,797	1,245	210,768	33,600	-	**366,478**
Charges for individual allowance	945	52	35,254	-	2,817	9,739	464	-	39,543	5,748	-	-	-	-	**94,562**
Write-offs against individual allowances	-	101	32,491	-	2,630	7,037	3,287	-	65,226	-	-	-	-	-	**110,772**

2019 (Restated)*	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and Restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Not Allocated RM'000	Total RM'000
Impaired financing	2	2,638	21,165	-	3,521	11,353	66,608	-	290,231	904	3,422	171,705	-	-	**571,549**
Past due financing	2,208	6	21,569	15	12,543	20,570	73,758	8,075	291,723	25,422	6,270	2,838,036	-	-	**3,300,195**
Allowances for expected credit loss	4,382	6,862	19,425	750	5,725	5,430	12,751	1,410	51,116	1,806	885	254,012	40,358	2,709	**407,621**
Charges/(Writeback) for individual allowance	-	44	5,958	147	(5,050)	26,170	3,658	-	23,229	7	-	-	-	-	**54,163**
Write-offs against individual allowances	-	832	-	7,177	-	26,141	1,613	-	27,395	742	-	-	-	-	**63,900**

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

Table 5.3: Geographical distribution of credit exposures

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

2020	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	7,147,378	-	7,147,378
Public Sector Entities	3,439	-	3,439
Banks, DFIs and MDBs	982,267	148,087	1,130,354
Corporates	20,757,165	-	20,757,165
Regulatory Retail	15,107,197	-	15,107,197
Residential Mortgages	303,602	-	303,602
Higher Risk Assets	1,005	-	1,005
Other Assets	89,273	-	89,273
Defaulted Exposures	537,981	-	537,981
Total for On Balance Sheet Exposures	44,929,307	148,087	45,077,394
Off-Balance Sheet Exposures			
OTC Derivatives	283,814	-	283,814
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	3,794,670	-	3,794,670
Defaulted Exposures	2,251	-	2,251
Total for Off-Balance Sheet Exposures	4,080,735	-	4,080,735
Total On and Off-Balance Sheet Exposures	**49,010,042**	**148,087**	**49,158,129**

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

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

2019	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	2,804,389	-	2,804,389
Public Sector Entities	3,189	-	3,189
Banks, DFIs and MDBs	945,658	17,491	963,149
Insurance Companies, Securities Firms and Fund Managers	30,040	-	30,040
Corporates	18,857,944	-	18,857,944
Regulatory Retail	13,810,107	-	13,810,107
Residential Mortgages	304,490	-	304,490
Higher Risk Assets	540	-	540
Other Assets	122,320	-	122,320
Defaulted Exposures	458,489	-	458,489
Total for On-Balance Sheet Exposures	37,337,166	17,491	37,354,657
Off-Balance Sheet Exposures			
OTC Derivatives	179,666	-	179,666
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	3,001,341	-	3,001,341
Defaulted Exposures	2,528	-	2,528
Total for Off-Balance Sheet Exposures	3,183,535	-	3,183,535
Total On and Off-Balance Sheet Exposures	**40,520,701**	**17,491**	**40,538,192**

Table 5.4: Geographical distribution of impaired and past due financing and impairment allowances

The amounts of impaired and past due financing all reside in Malaysia and impairment allowances of the Bank are as follows:

2020	**Total**
	RM'000
Impaired financing	615,350
Past due financing	3,476,570
Allowances for expected credit loss	366,478

2019	**Total**
	RM'000
Impaired financing	572,549
Past due financing	3,300,195
Allowances for expected credit loss	407,621

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 Bank is as follows:

2020	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No Maturity specified RM'000	Total RM'000
On-Balance Sheet Exposures									
Sovereigns/Central Banks	5,573,063	101,481	-	4,184	153,680	303,541	1,011,429	-	7,147,378
Public Sector Entities	-	-	-	-	-	-	3,439	-	3,439
Banks, DFI and MDB	874,549	-	-	-	65,350	144,045	46,410	-	1,130,354
Corporates	6,116,792	1,657,399	725,232	1,381,163	2,429,656	2,684,128	5,762,795	-	20,757,165
Regulatory Retail	7,492	10,925	28,601	150,050	1,383,342	1,632,204	11,894,583	-	15,107,197
Residential Mortgages	124	11	123	428	6,679	18,787	277,450	-	303,602
Higher Risk Assets	-	-	-	-	-	-	1,005	-	1,005
Other Assets	-	-	-	-	-	-	-	89,273	89,273
Defaulted Exposures	304,067	801	4,667	4,651	24,554	20,859	178,382	-	537,981
Total for On-Balance Sheet Exposures	12,876,087	1,770,617	758,623	1,540,476	4,063,261	4,803,564	19,175,493	89,273	45,077,394
Off-Balance Sheet Exposures									
OTC Derivatives	1,427	3,724	32,694	5,807	54,053	186,109	-	-	283,814
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	365,739	134,424	437,699	1,231,621	766,552	274,225	584,410	-	3,794,670
Defaulted Exposures	222	1	-	628	55	206	1,139	-	2,251
Total for Off-Balance Sheet Exposures	367,388	138,149	470,393	1,238,056	820,660	460,540	585,549	-	4,080,735
Total On and Off-Balance Sheet Exposures	**13,243,475**	**1,908,766**	**1,229,016**	**2,778,532**	**4,883,921**	**5,264,104**	**19,761,042**	**89,273**	**49,158,129**

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

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

2019	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No Maturity specified RM'000	Total RM'000
On-Balance Sheet Exposures									
Sovereigns/Central Banks	1,218,477	-	-	-	84,724	184,626	1,316,562	-	2,804,389
Public Sector Entities	-	-	25	-	-	-	3,164	-	3,189
Banks, DFI and MDB	666,341	-	5,025	25,121	50,203	155,680	60,779	-	963,149
Insurance Companies, Securities Firms and Fund Managers	-	-	-	-	30,040	-	-	-	30,040
Corporates	6,451,605	1,373,556	367,527	1,131,346	3,058,111	1,889,726	4,586,073	-	18,857,944
Regulatory Retail	9,061	14,907	24,647	61,966	1,620,945	2,289,561	9,789,020	-	13,810,107
Residential Mortgages	65	25	144	247	5,887	14,325	283,797	-	304,490
Higher Risk Assets	-	-	-	-	-	-	540	-	540
Other Assets	183	371	17,796	-	-	-	-	103,970	122,320
Defaulted Exposures	314,006	1,246	2,287	6,762	25,908	22,260	86,020	-	458,489
Total for On-Balance Sheet Exposures	8,659,738	1,390,105	417,451	1,225,442	4,875,818	4,556,178	16,125,955	103,970	37,354,657
Off-Balance Sheet Exposures									
OTC Derivatives	2,150	1,700	11,603	3,299	42,956	1,977	115,981	-	179,666
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	386,968	121,251	341,056	466,291	875,899	200,414	609,462	-	3,001,341
Defaulted Exposures	222	-	-	613	164	-	1,529	-	2,528
Total for Off-Balance Sheet Exposures	389,340	122,951	352,659	470,203	919,019	202,391	726,972	-	3,183,535
Total On and Off-Balance Sheet Exposures	**9,049,078**	**1,513,056**	**770,110**	**1,695,645**	**5,794,837**	**4,758,569**	**16,852,927**	**103,970**	**40,538,192**

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

The disclosure on reconciliation of financing loss allowances can be found in Note 11(j) of the financial statements. Charge offs and recoveries that have been taken up directly to the statement of profit or loss are as follows:

Financial year ended 31 March 2020 ("FY 2020")	(Charge off)/recoveries RM'000
Bad debts written off during the financial year	(17,106)
Bad debt recoveries during the financial year	97,176

Financial year ended 31 March 2019 ("FY 2019")	(Charge off)/recoveries RM'000
Bad debts written off during the financial year	(34,313)
Bad debt recoveries during the financial year	184,816

6.0 Credit Risk Exposure under the Standardised Approach

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

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

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

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

2020

Risk Weights	Exposures after Netting and Credit Risk Mitigation									
	Sovereigns and Central Banks	Public Sector Entities	Banks, DFIs and MDBs	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Total Exposures after Netting and Credit Risk Mitigation	Total Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	7,147,378	-	200,363	3,145,139	63	-	-	-	10,492,943	-
20%	-	3,439	862,816	1,750,420	96,042	-	-	-	2,712,717	542,543
35%	-	-	-	-	-	239,625	-	-	239,625	83,869
50%	-	-	209,512	43,552	8,291	72,723	-	-	334,078	167,039
75%	-	-	-	-	6,279,843	-	-	-	6,279,843	4,709,882
100%	-	-	-	17,653,768	7,315,451	3,993	-	89,273	25,062,485	25,062,485
150%	-	-	-	233,944	27,475	-	1,739	-	263,158	394,738
Total	7,147,378	3,439	1,272,691	22,826,823	13,727,165	316,341	1,739	89,273	45,384,849	30,960,556

Table 6.1: Credit exposures by risk weights under the Standardised Approach (Cont'd.)

The breakdown of credit risk exposures by risk weights of the Bank is as follows: (Cont'd.)

2019

Risk Weights	Exposures after Netting and Credit Risk Mitigation										
	Sovereigns and Central Banks	Public Sector Entities	Banks, DFIs and MDBs	Insurance Companies, Securities Firms and Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Total Exposures after Netting and Credit Risk Mitigation	Total Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	2,804,389	-	50,438	-	2,487,781	-	-	-	-	5,342,608	-
20%	-	3,189	708,991	-	1,639,955	79,857	-	-	-	2,431,992	486,398
35%	-	-	-	-	-	-	243,443	-	-	243,443	85,205
50%	-	-	333,642	-	149,706	8,062	71,300	-	-	562,710	281,355
75%	-	-	-	-	-	7,148,919	-	-	-	7,148,919	5,361,689
100%	-	-	-	30,440	15,869,165	5,957,009	1,287	-	122,320	21,980,221	21,980,221
150%	-	-	-	-	173,283	46,438	-	1,094	-	220,815	331,223
Total	2,804,389	3,189	1,093,071	30,440	20,319,890	13,240,285	316,030	1,094	122,320	37,930,708	28,526,091

Table 6.2: Rated Exposures according to Ratings by ECAIs

2020

		Ratings of Corporate by Approved ECAIs		
Moody's		**Aaa to Aa3**	**A1 to A3**	**Unrated**
S&P		**AAA to AA-**	**A+ to A-**	**Unrated**
Fitch		**AAA to AA-**	**A+ to A-**	**Unrated**
RAM		**AAA to AA3**	**A to A3**	**Unrated**
MARC		**AAA to AA-**	**A+ to A-**	**Unrated**
Exposure Class	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off-Balance Sheet Exposures				
Credit Exposures (using Corporate Risk Weights)				
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)	3,439	-	-	3,439
Corporates	24,588,550	1,338,175	637,640	22,612,735
Total	**24,591,989**	**1,338,175**	**637,640**	**22,616,174**

2019

		Ratings of Corporate by Approved ECAIs		
Moody's		**Aaa to Aa3**	**A1 to A3**	**Unrated**
S&P		**AAA to AA-**	**A+ to A-**	**Unrated**
Fitch		**AAA to AA-**	**A+ to A-**	**Unrated**
RAM		**AAA to AA3**	**A to A3**	**Unrated**
MARC		**AAA to AA-**	**A+ to A-**	**Unrated**
Exposure Class	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off-Balance Sheet Exposures				
Credit Exposures (using Corporate Risk Weights)				
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)	3,189	-	-	3,189
Insurance Companies, Securities Firms and Fund managers	30,440	-	-	30,440
Corporates	21,685,271	1,253,282	454,607	19,977,382
Total	**21,718,900**	**1,253,282**	**454,607**	**20,011,011**

Table 6.2: Rated Exposures according to Ratings by ECAIs (Cont'd)

2020

		Ratings of Sovereigns and Central Banks by Approved ECAIs				
Moodys		**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Unrated**
S&P		**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
Fitch		**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
Exposure Class	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off-Balance Sheet Exposures						
Sovereigns and Central Banks	7,147,378	-	7,147,378	-	-	-
Total	**7,147,378**	**-**	**7,147,378**	-	-	-

2019

		Ratings of Sovereigns and Central Banks by Approved ECAIs				
Moodys		**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Unrated**
S&P		**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
Fitch		**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
Exposure Class	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off-Balance Sheet Exposures						
Sovereigns and Central Banks	2,804,389	-	2,804,389	-	-	-
Total	**2,804,389**	**-**	**2,804,389**	-	-	-

Table 6.2: Rated Exposures according to Ratings by ECAIs (Cont'd)

2020

		Ratings of Banking Institutions by Approved ECAIs			
Moodys		**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Unrated**
S&P		**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Unrated**
Fitch		**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Unrated**
RAM		**AAA to AA3**	**A1 to A3**	**BBB1 to BBB3**	**Unrated**
MARC		**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Unrated**
Exposure Class	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off-Balance Sheet Exposures					
Banks, DFIs and MDBs	1,272,691	412,315	138	283,290	576,948
Total	1,272,691	412,315	138	283,290	576,948

2019

		Ratings of Banking Institutions by Approved ECAIs			
Moodys		**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Unrated**
S&P		**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Unrated**
Fitch		**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Unrated**
RAM		**AAA to AA3**	**A1 to A3**	**BBB1 to BBB3**	**Unrated**
MARC		**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Unrated**
Exposure Class	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off-Balance Sheet Exposures					
Banks, DFIs and MDBs	1,093,071	606,902	137,566	117,922	230,681
Total	1,093,071	606,902	137,566	117,922	230,681

7.0 Credit Risk Mitigation

Main Types of Collateral Taken by The Bank

Collateral is generally taken as security for credit exposures as a secondary source of payment in case the counterparty cannot meet its contractual payment obligations from cash flow generation. The collateral accepted for credit risk mitigation comprises financial collateral, real estate, other physical asset and guarantees.

The Bank can only accept Shariah approved assets as collateral.

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

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

The Bank’s policies regarding obtaining collateral have not significantly changed during the financial year and there has been no significant change in the overall quality of he collateral held by the Bank since the previous financial year.

Processes for Collateral Management

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

Guarantee Support

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

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

7.0 Credit Risk Mitigation (Cont'd.)

Use of Credit Derivatives and Netting for Risk Mitigation

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

Transaction Structuring to Mitigate Credit Risk

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

Concentrations of Credit Risk Mitigation

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

Table 7.1: Credit Risk Mitigation

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

Exposures 2020	Exposures before CRM RM'000	Exposures covered by guarantees/credit derivatives RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit Risk			
On-Balance Sheet Exposures			
Sovereigns/Central Banks	7,147,378	-	-
Public Sector Entities	3,439	-	-
Banks, DFIs and MDBs	1,130,354	-	-
Corporates	20,757,165	714,090	1,247,449
Regulatory Retail	15,107,197	93,326	2,442,168
Residential Mortgages	303,602	-	50
Higher Risk Assets	1,005	-	-
Other Assets	89,273	-	-
Defaulted Exposures	537,981	6,659	88,060
Total On-Balance Sheet Exposures	45,077,394	814,075	3,777,727
Off-Balance Sheet Exposures			
OTC Derivatives	283,814	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	3,794,670	500,150	1,574,889
Defaulted Exposures	2,251	-	694
Total Off-Balance Sheet Exposures	4,080,735	500,150	1,575,583
Total On and Off-Balance Sheet Exposures	**49,158,129**	**1,314,225**	**5,353,310**

Exposures 2019	Exposures before CRM RM'000	Exposures covered by guarantees/credit derivatives RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit Risk			
On-Balance Sheet Exposures			
Sovereigns/Central Banks	2,804,389	-	-
Public Sector Entities	3,189	-	-
Banks, DFIs and MDBs	963,149	-	-
Insurance Companies, Securities Firms and Fund Managers	30,040	-	-
Corporates	18,857,944	697,889	765,420
Regulatory Retail	13,810,107	76,715	1,472,484
Residential Mortgages	304,490	-	70
Higher Risk Assets	540	-	-
Other Assets	122,320	-	-
Defaulted Exposures	458,489	4,062	90,629
Total for On-Balance Sheet Exposures	37,354,657	778,666	2,328,603
Off-Balance Sheet Exposures			
OTC Derivatives	179,666	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	3,001,341	200,194	1,349,055
Defaulted Exposures	2,528	-	682
Total for Off-Balance Sheet Exposures	3,183,535	200,194	1,349,737
Total On and Off-Balance Sheet Exposures	**40,538,192**	**978,860**	**3,678,340**

8.0 Off Balance Sheet Exposures and Counterparty Credit Risk

8.1 Off Balance Sheet exposures

The Bank's off balance sheet exposure consists of the following:

- credit related exposures, e.g. direct credit substitute, certain transaction-related contingent items, short term self liquidating trade-related contingencies, obligations under underwriting agreements, irrevocable commitment to extend credit and unutilised credit card lines.
- derivative financial instruments, e.g. forward exchange contracts (forward exchange contracts and cross currency swaps) interest rate related contracts (interest rate futures and interest rate swaps), equity related contracts (option and futures) and commodity related contract (option).
- Other treasury-related exposures, e.g. forward purchase commitment

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

8.2 Counterparty Credit Risk

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

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

8.2 Counterparty Credit Risk (Cont'd.)

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

- The MTM is essentially the current replacement cost of the contract, and can be positive or negative. Where it is positive, that is in the money, the Bank has credit exposure against the counterparty; if it is negative, that is out of the money, the negative value will be used.

- The PCRE factors recognise that prices change over the remaining period to maturity, and that risk increases with time. The PCRE factors are mandated for regulatory capital purposes.

- Variation to the above generic methodology is allowed for specific product.

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

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

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

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

Table 8.1: Off-Balance Sheet Exposures

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

2020	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Direct credit substitutes	570,619		570,613	391,300
Transaction related contingent items	751,997		375,999	285,638
Short term self liquidating trade related contingencies	80,958		16,192	15,195
Forward asset purchases	159,934		13,400	12,200
Foreign exchange related contracts	1,692,015	25,524	119,603	119,603
One year or less	419,022	8,540	15,278	15,278
Over one year to five years	1,272,993	16,984	104,325	104,325
Other commodity contracts	73,217	7,807	12,204	6,102
Over one year to five years	73,217	7,807	12,204	6,102
OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	3,404,138	26,322	152,007	90,191
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	408,285		1,059,431	500,582
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	4,991,693		1,490,299	397,158
Unutilised credit card lines	1,354,936		270,987	202,821
Total	13,487,792	59,653	4,080,735	2,020,790

2019	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Direct credit substitutes	568,350		568,338	399,714
Transaction related contingent items	831,509		415,755	298,809
Short term self liquidating trade related contingencies	90,954		18,191	18,085
Forward asset purchases	195,620		7,400	2,520
Foreign exchange related contracts	896,611	3,448	51,086	51,086
One year or less	342,113	3,335	8,094	8,094
Over one year to five years	554,498	113	42,992	42,992
Profit rate related contracts	160,000	341	1,982	1,011
One year or less	-	-	41	41
Over one year to five years	160,000	341	1,941	970
OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	2,736,075	39,347	126,598	68,607
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	446,645		223,306	171,894
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	4,333,925		1,504,033	447,431
Unutilised credit card lines	1,334,232		266,846	199,698
Total	11,593,921	43,136	3,183,535	1,658,855

9.0 Securitisation

The Bank did not have any securitisation exposure in its trading book and banking book nor did it undertake any securitisation activities during the financial year ended 31 March 2020 and 31 March 2019.

10.0 Operational Risk

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

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

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

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

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

10.0 Operational Risk (Cont'd.)

The strategy for managing operational risk in the Bank is anchored on the three (3) lines of defence concept which are as follows:

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

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

- The Incident Management and Data Collection (“IMDC”) module provides a common platform for reporting operational risk incident that falls within one of the seven Event Types as stated in Basel II. IMDC also serves as a centralised database of operational risk incidents to model the potential exposure to future operational risks and estimate the amount of economic capital charge.

- The Risk and Control Self Assessment (“RCSA”) is a process of continual identification, assessment of risks and controls effectiveness. By using structured questionnaires to assess and measure key risk and its corresponding controls effectiveness, RCSA provides risk profiling across the AMMB Group.

- The Key Risk Indicators (“KRI”) module provides early warning of increasing risk and/or control failures by monitoring the changes of the underlying risk measurements.

- The Key Control Testing (“KCT”) is the test steps or assessment performed periodically to assure that the key controls are in place and they are operating as intended or effective in managing the operational risks.

- Periodic validation of the RCSA/KRIs/KCTs are conducted by the Operational Risk Relationship Managers, within Group Operational Risk to provide assurance on the integrity and continued relevance of the controls and testing implemented.

- Scenario analysis is a forward looking assessment tool to assess the severity impact on the Bank's profitability and capital adequacy should the plausible and worse case scenarios materialise.

10.0 Operational Risk (Cont'd.)

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

10.1 Business Continuity Management

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

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

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

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

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

10.2 Cyber Risk Management

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

10.3 Legal Risk

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

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

10.4 Regulatory Compliance Risk

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

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

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

11.0 Market Risk

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

11.1 Traded Market Risk

The TMR management process is depicted in the table below.

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

11.1 Traded Market Risk (Cont'd.)

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

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

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

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

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

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

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

11.2 Non-Traded Market Risk

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

Rate of Return Risk in Banking Book ("RORBB")

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

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

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

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

The Board's oversight of RORBB is supported by the GALCO and GMRC. GMRC is responsible for the alignment of Bank-wide risk appetite. GALCO reviews strategies to ensure a comfortable level of RORBB is maintained, taking into consideration the Bank's business strategies and is responsible for overseeing the Bank's gapping positions, asset growth and liability mix against the profit rate outlook. The Bank has successfully engaged long-term borrowings and written profit rate swaps to manage RORBB and maintained an acceptable gapping profile as a result. In accordance with the Bank's policy, RORBB positions are monitored on a daily basis and hedging strategies are employed to ensure risk exposures are maintained within Management-established limits.

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

Rate of Return Risk in Banking Book ("RORBB") (Cont'd.)

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

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

Key assumptions in the gap and sensitivity analysis relate to the behaviour of profit rates and spreads, changes in financing and deposit product balances due to behavioural characteristics under different profit rate environments. Material assumptions include the repricing characteristics and the stability of indeterminate or non-maturity deposits and financing.

The profit rate scenarios may include rapid ramping of profit rates, gradual ramping of profit rates, and narrowing or widening of spreads. Usually each analysis incorporates what management deems the most appropriate assumptions about customer behaviour in a profit rate scenario. However, in certain cases, assumptions are deliberately changed to test the Bank's exposure to a specified event.

The Bank's strategy seeks to optimise exposure to RORBB within Management-approved limits. This is achieved through the ability to reposition the profit rate exposure of the statement of financial position using dynamic product and funding strategies, supported by profit rate hedging activities using profit rate swaps and other derivatives. These approaches are governed by the Bank's policies in the areas of product and liquidity management as well as the Trading Book and Banking Book Policy, hedging policies and Non-Traded Profit Rate Risk Framework.

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

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

Rate of Return Risk ("RORBB") in Banking Book (Cont'd.)

The following table demonstrates the sensitivity of the Bank's profit before zakat and taxation and equity to a reasonable possible change in rate of return with all other variables remaining constant.

2020 MYR	Rate of Return + 100 bps RM'000	Rate of Return - 100 bps RM'000
Impact on profit before zakat and taxation	25,413	(25,413)
Impact on equity	(235,503)	260,861

2019 MYR	Rate of Return + 100 bps RM'000	Rate of Return - 100 bps RM'000
Impact on profit before zakat and taxation	(6,388)	6,388
Impact on equity	(183,906)	201,959

12.0 Equities (Banking Book Positions)

The Bank did not have any equity investment as at 31 March 2020 and 31 March 2019.

13.0 Liquidity Risk and Funding Management

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

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

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

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

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

The Board provides the liquidity risk management oversight including setting and reviewing the liquidity risk appetite and approves the Bank's liquidity management strategy while GALCO is the core management committee established by the Board to oversee the overall liquidity management of the Bank.

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

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

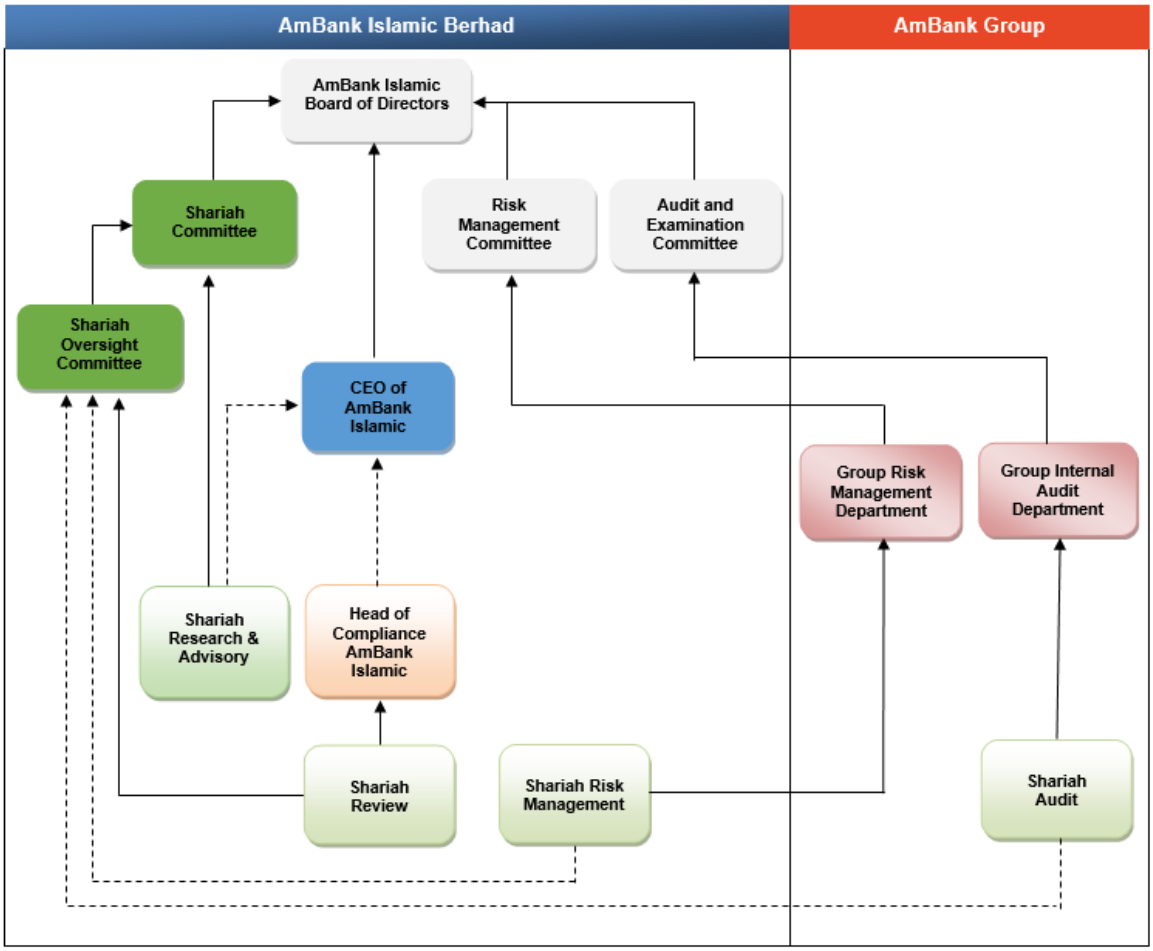
Various liquidity measurements have been put in place to support the broader strategic objectives of the Bank and amongst others include the BNM LCR, Depositors Concentration Ratio and other Liquidity Ratios. IBMR is responsible for developing and monitoring the controls and limits while the Group Treasury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

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

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

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

14.0 Shariah Governance Structure



The Bank has established its Shariah governance structure in accordance with the requirements of the Islamic Financial Services Act ("IFSA") and BNM's Shariah Governance Framework for Islamic Financial Institutions. This is to ensure that the operations and business activities of the Bank comply with Shariah principles and its requirements.

Apart from Shariah Research & Advisory, Shariah Risk Management and Shariah Review functions which reside in the Bank, the Bank's Shariah governance structure leverages on the AMMB Group platform of Group Internal Audit Department for Shariah Audit function.

14.0 Shariah Governance Structure (Cont'd.)

Board of Directors

The Board is accountable and responsible for the overall oversight on the Shariah governance and Shariah compliance, including the assessment, appointment and remuneration of the Shariah Committee members. The Board performs its oversight through various committees such as the Audit and Examination Committee, Risk Management Committee and the Shariah Committee.

Audit and Examination Committee ("AEC")

AEC is a Board committee responsible for assisting the Board in ensuring Islamic Banking operations of the AMMB Group are Shariah compliant through oversight of the Shariah Audit function performed by Group Internal Audit Department. The updates on Shariah Review are also presented to the AEC.

Risk Management Committee ("RMC")

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

Shariah Committee

The Shariah Committee is responsible and accountable on matters related to Shariah. This includes advising the Board and Management on Shariah matters and endorsing and validating products and services, Shariah policies and the relevant documentation in relation to Islamic Banking operations. The Shariah Committee also provides advice and guidance on management of zakat fund, charity and other social programmes or activities as well as on Value-based Intermediation ("VBI") initiatives.

Shariah Oversight Committee

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

Management/Chief Executive Officer

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

14.0 Shariah Governance Structure (Cont'd.)

Shariah Research and Advisory

The Shariah Research and Advisory Department is accountable to the Shariah Committee and is responsible for providing day-to-day Shariah advisory, including Shariah legal aspects, conducting Shariah research, formulating Shariah policies and acting as Secretariat to the Shariah Committee and the Shariah Oversight Committee.

Shariah Risk Management

The Shariah Risk Management ("SRM") section, under Group Risk Management Department, is accountable to the RMC. The SRM is a function to systematically identify, measure, monitor and control Shariah non-compliance risks to mitigate any possible non-compliance events.

The management of Shariah risk is executed through the three lines of defence in managing Shariah risk. The three lines of defence are: 1st-The Business Units and Functional Lines; 2nd-Shariah Risk Management, Shariah Review, Shariah Research and Advisory; 3rd - Shariah Audit.

Shariah Review

The Shariah Review Section is accountable to the Shariah Oversight Committee. The objective of the Shariah review function is to provide reasonable self-assurance for the Bank in its daily activities and operations, thus to add value and improve the degree of Shariah awareness and compliance.

Shariah Audit

The Shariah Audit Section is accountable to the AEC. A designated team within the Group Internal Audit Department is responsible to conduct independent assessment on the level of Shariah compliance of Islamic banking business and operations. The Shariah audit covers all activities particularly the operational components of the Bank (including functions outsourced to AmBank or AmInvestment Bank Berhad) that are subjected to the risk of Shariah non-compliance including but not limited to products, operational processes, the technology supporting the operations, the people involved in key areas of risk, documentation and contracts, policies and procedures and other activities that require the adherence to Shariah principles.

14.1 Shariah Non-Compliant Income

For the financial year ended 31 March 2020, there were four (4) Shariah non-compliant ("SNC") incidents involving SNC income of approximately RM50,000.00 relating to the compounding of late payment charges ("LPC") on excess amount of cash line facility-i, extending Islamic financing facility to a customer that falls under red area for Islamic financing, extension of cash line facility-i accounts without aqad and charging excess LPC in auction sale transaction. Purification of the SNC income is made in accordance with the method approved by the Shariah Oversight Committee. The Bank has implemented measures such as system enhancement, improving controls, process and manual, and will conduct training to heighten staff awareness in order to mitigate similar incidents from recurring in the future. For the financial year ended 31 March 2019, there were no SNC incidents.

15.0 Investment Account ("IA")

The Bank offers two types of Investment Account ("IA") namely, Restricted Investment Account ("RA") which refers to an IA where the Investment Account Holder ("IAH") provides a specific investment to the Bank and Unrestricted Investment Account ("UA") which refers to an IA where the customer provides the Bank with mandate to make the ultimate investment decision without specifying any particular restriction or condition. Both RA and UA are based on the Shariah concept of Mudarabah Muqayyadah ("Mudarabah").

Mudarabah means a profit sharing contract between the IAH as the fund provider and the Bank as the fund manager in which the IAH provides capital to be managed by the Bank. Any profit generated from the capital is shared between the IAH and the Bank in accordance with a mutually agreed Profit-Sharing Ratio ("PSR"), whilst financial losses (if any) are solely borne by the IAH provided that such losses are not due to the Bank's misconduct, negligence or breach of specified terms. The IA is not covered by PIDM.

15.1 Restricted Investment Account ("RA")

The RA is an arrangement between the Bank and AmBank to finance a specific business venture whereby AmBank solely provides capital and the business ventures are managed solely by the Bank as the fund manager. AmBank records its exposure in the arrangement as "Investment account placement", whereas the Bank records its exposure as "financing and advances".

The RA exposes AmBank to the risks and rewards of the financing, and accordingly, AmBank accounts for all impairment allowances and risk weighted assets arising from the RA arrangement.

15.0 Investment Account (“IA”) (Cont'd.)

15.2 Mudarabah Term Investment Account ("MTIA")

The Bank has widened the scope of business beyond credit intermediation by acting as an investment intermediation role via the introduction of UA product.

The investment mandate, strategy and parameters for UA are in accordance with the governance set up by AmBank Islamic to ensure effective and efficient oversight on business activities and operations of UA in safeguarding the IAH’s interest.

The Bank had established proper governance to facilitate effective monitoring and control of the overall management and conduct of the investment account. A dedicated unit was established in ensuring management, development and implementation of operational policies that govern the conduct of IA are observed. On a periodical basis, a Fund Performance Report shall be made available in the Bank’s website disclosing the performance of the underlying asset which in turn facilitates the IAH in making their investment decision.

MTIA Performance

As at 31 March 2020, balance of MTIA stood at RM192.6 million (31 March 2019: RM334.8 million). The performance of MTIA is as described in the table below :

As at 31 March 2020	%
Return on Assets (“ROA”)	4.59
Average Net Distributable Income Attributable to the IAH	3.55
Average Profit Sharing Ratio to the IAH	77.22

As at 31 March 2019	%
Return on Assets (“ROA”)	4.61
Average Net Distributable Income Attributable to the IAH	3.85
Average Profit Sharing Ratio to the IAH	83.58