

AmInvestment Bank Berhad

Pillar 3 Disclosure

31 March 2021

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1.0 Scope of Application

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

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

Capital Adequacy

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

The capital adequacy ratios of the Group and the Bank are computed in accordance to BNM's Policy Document on Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework for Islamic Banks (Capital Components) issued on 9 December 2020 and Capital Adequacy Framework (Basel II – Risk Weighted Assets) issued on 3 May 2019.

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

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

The Group and the Bank have adopted the Standardised Approach for Credit and Market Risks and the Basic Indicator Approach for Operational Risk, based on BNM's Guidelines on Capital Adequacy Framework (Basel II - Risk Weighted

Frequency of Disclosure

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

Medium and Location of Disclosure

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

1.1 Basis of Consolidation

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

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

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

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

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

2.0 Capital Management

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

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

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

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

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

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

2.0 Capital Management (Contd.)

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

On 25 March 2020, BNM announced several regulatory and supervisory measures in support of efforts by banking institutions to manage the impact of the COVID-19 outbreak, which include allowing banking institutions to drawdown on the capital conservation buffer of 2.5% and to reduce the regulatory reserves held against expected losses to zero. Banking institutions will be given reasonable time to rebuild the buffers after 31 December 2020 and are expected to restore to the minimum regulatory requirement by 30 September 2021.

On 9 December 2020, BNM issued revised policy documents, Capital Adequacy Framework (Capital Components) and Capital Adequacy Framework for Islamic Banks (Capital Components). The key addition to the revised policy documents is the transitional arrangements for financial institutions on provisions for expected credit loss ("ECL"). Under these revised policy documents, a financial institution is allowed to add back the loss allowance for non-credit-impaired exposures (i.e. Stage 1 and Stage 2 provisions) to Common Equity Tier 1 ("CET1") Capital.

Table 2.1: Capital Adequacy Ratios

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

	31.03.2021	
	Group	Bank
CET 1 Capital Ratio	29.899%	27.374%
Tier 1 Capital Ratio	29.899%	27.374%
Total Capital Ratio	29.899%	27.374%

	31.03.2020	
	Group	Bank
Before deducting proposed dividends:		
CET 1 Capital Ratio	41.567%	40.638%
Tier 1 Capital Ratio	41.567%	40.638%
Total Capital Ratio	41.942%	41.076%
After deducting proposed dividends:		
CET 1 Capital Ratio	38.595%	37.161%
Tier 1 Capital Ratio	38.595%	37.161%
Total Capital Ratio	38.970%	37.600%

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

	31.03.2021 Islamic Window	31.03.2020 Islamic Window
CET 1 Capital Ratio	84.103%	110.142%
Tier 1 Capital Ratio	84.103%	110.142%
Total Capital Ratio	84.103%	110.142%

Note:

- (i) Pursuant to the revised BNM policy document, Capital Adequacy Framework (Capital Component) issued on 9 December 2020, the capital ratios as at 31 March 2021 had been computed applying transitional arrangement on provision for ECL. Under the transitional arrangement, the Bank is allowed to add back the amount of loss allowance for non credit impaired exposure (ie. Stage 1 and Stage 2 provisions) to CET1 Capital. Had the transitional arrangement not been applied, the impact on the capital ratios of the Group and the Bank is negligible as the amount of provision of ECL in the Group and the Bank is very low.

Table 2.2 Risk-Weighted Assets and Capital Requirements

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

Exposure class	31.03.2021				Minimum capital requirement at 8% RM'000
	Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM") RM'000	Net exposures/ EAD after CRM RM'000	Risk weighted assets RM'000		
1. Credit risk					
On balance sheet exposures					
Sovereigns/ Central banks	61,788	61,788	-	-	
Banks, development financial institutions ("DFIs") and multilateral development banks	210,734	210,734	48,507	3,881	
Corporates	518,645	270,612	195,167	15,613	
Regulatory retail	69,598	3,704	3,193	255	
Higher risk assets	2,995	2,995	4,493	359	
Other assets	639,000	639,000	601,594	48,128	
Total for on balance sheet exposures	1,502,760	1,188,833	852,954	68,236	
Off balance sheet exposures:					
Off balance sheet exposures other than Over the counter ("OTC") derivatives or Credit derivatives	48,379	12,686	12,247	980	
Total for off balance sheet exposures	48,379	12,686	12,247	980	
Total on and off balance sheet exposures	1,551,139	1,201,519	865,201	69,216	
2. Large exposures risk requirement	-	-	-	-	
3. Market risk					
Interest rate risk /Rate of return risk					
- General interest rate risk	1,339	1,347	-	-	
Foreign currency risk	21,544	422	21,544	1,724	
Total	22,883	1,769	21,544	1,724	
4. Operational risk			490,677	39,254	
5. Total RWA and capital requirements			1,377,422	110,194	

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

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

		31.03.2020			
Exposure class	RM'000	Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM") RM'000	Net exposures/ EAD after CRM RM'000	Risk weighted assets RM'000	Minimum capital requirement at 8% RM'000
	1. Credit risk				
On balance sheet exposures					
Sovereigns/ Central banks		63,479	63,479	-	-
Banks, development financial institutions ("DFIs") and multilateral development banks		285,535	285,535	57,107	4,569
Corporates		358,926	219,177	143,740	11,499
Regulatory retail		27,307	2,534	1,900	152
Higher risk assets		2,771	2,771	4,157	333
Other assets		610,111	610,111	578,438	46,275
Total for on balance sheet exposures		1,348,129	1,183,607	785,342	62,827
Off balance sheet exposures:					
Off balance sheet exposures other than Over the counter ("OTC") derivatives or Credit derivatives		38,201	17,136	16,790	1,343
Total for off balance sheet exposures		38,201	17,136	16,790	1,343
Total on and off balance sheet exposures		1,386,330	1,200,743	802,132	64,171
2. Large exposures risk requirement					
		-	-	-	-
3. Market risk					
Interest rate risk /Rate of return risk					
- General interest rate risk/Rate of return risk	487	491		-	-
Foreign currency risk	37,271	20		37,271	2,982
Equity risk					
- General risk	48	67		19	2
- Specific risk	48	67		64	5
Total	37,854	645		37,354	2,988
4. Operational risk					
				472,622	37,810
5. Total RWA and capital requirements					
				1,312,108	104,969

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

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

Exposure class	31.03.2021				
	Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM")		Net exposures/ EAD after CRM	Risk weighted assets	Minimum capital requirement at 8%
	RM'000	RM'000	RM'000	RM'000	RM'000
1. Credit risk					
On balance sheet exposures					
Sovereigns/ Central banks		71	71	-	-
Banks, DFIs and MDBs		39,863	39,863	14,332	1,147
Other assets		91,760	91,760	91,760	7,341
Total for on balance sheet exposures		131,694	131,694	106,092	8,487
Off balance sheet exposures:					
Off balance sheet exposures other than Over the counter ("OTC") derivatives or credit derivatives		-	-	-	-
Total for off balance sheet exposures		-	-	-	-
Total on and off balance sheet exposures		131,694	131,694	106,092	8,487
2. Large exposures risk requirement					
3. Market risk					
		Long Position	Short Position		
		-	-		
4. Operational risk				34,466	2,757
5. Total RWA and capital requirements				140,558	11,245

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

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

31.03.2020					
Exposure class	Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM")		Net exposures/ EAD after CRM	Risk weighted assets	Minimum capital requirement at 8%
	RM'000	RM'000			
1. Credit risk					
On balance sheet exposures					
Sovereigns/ Central banks	51	51	-	-	-
Banks, DFIs and MDBs	91,821	91,821	18,364	18,364	1,469
Other assets	32,622	32,622	32,622	32,622	2,610
Total for on balance sheet exposures	124,494	124,494	50,987	50,987	4,079
Off balance sheet exposures:					
Off balance sheet exposures other than Over the counter ("OTC") derivatives or Credit derivatives	-	-	-	-	-
Total for off balance sheet exposures	-	-	-	-	-
Total on and off balance sheet exposures	124,494	124,494	50,987	50,987	4,079
2. Large exposures risk requirement	-	-	-	-	-
3. Market risk	Long Position	Short Position			
	-	-			
4. Operational risk				49,750	3,980
5. Total RWA and capital requirements				100,737	8,059

The Islamic window of the Group did not have Restricted Investment Account ("RIA") that qualifies as a risk absorbent as at 31 March 2021 and 31 March 2020.

3.0 Capital Structure

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

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

3.1 CET1 Capital

CET1 Capital consists of the following:

(a) Ordinary Shares

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

(b) Retained Earnings

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

(c) Other Disclosed Reserves

Other disclosed reserves comprise the following:

(i) Capital Reserve and Merger Reserve

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

(ii) Foreign Currency Translation Reserve/(Deficit)

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

(iii) Fair value Reserve

The Fair value reserve comprises fair value gains/ (net of fair value losses) on financial investments measured at fair value through other comprehensive income ("FVOCI"). In addition, the loss allowance arising from the recognition of expected credit losses on financial investments measured at FVOCI are accumulated in fair value reserve instead of reducing the carrying amount of the assets. To the extent the balance in the fair value reserve is a net credit position, the 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.

(iv) Regulatory Reserve

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

3.2 Additional Tier 1 Capital

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

3.3 Tier 2 Capital

The main components of Tier 2 capital are Stage 1 and Stage 2 loss allowances and regulatory reserves (subject to a maximum of 1.25% of total credit risk-weighted assets determined under the Standardised Approach). The Bank does not have any Tier 2 capital instruments in issuance.

Table 3.1: Capital Structure

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

	Group		Bank	
	31.03.2021 RM'000	31.03.2020 RM'000	31.03.2021 RM'000	31.03.2020 RM'000
<u>CET1 Capital</u>				
Ordinary shares (Note 1)	330,000	200,000	330,000	200,000
Retained earnings	43,454	305,635	35,695	313,545
Unrealised gains on financial investments at FVOCI	1,539	999	1,539	999
Foreign exchange translation reserve	-	2,497	-	-
Regulatory reserve	-	4,912	-	4,912
Capital reserve	2,815	2,815	-	-
Merger reserve	82,115	82,115	-	-
Less:				
Regulatory adjustments applied on CET1				
Goodwill	(36,442)	(36,442)	-	-
Other intangibles	(2,350)	(1,529)	(1,872)	(1,116)
Deferred tax assets	(8,451)	(10,133)	(5,841)	(7,179)
55% of cumulative gains of FVOCI financial instruments	(846)	(550)	(846)	(550)
Regulatory reserve	-	(4,912)	-	(4,912)
Investments in capital instruments of unconsolidated financial and insurance/takaful entities	-	-	(49,809)	(49,809)
CET1 Capital/ Tier 1 Capital	411,834	545,407	308,866	455,890
<u>Tier 2 Capital</u>				
General provisions*	3	4,916	3	4,916
Tier 2 Capital	3	4,916	3	4,916
Total Capital	411,837	550,323	308,869	460,806

Note 1:

On 30 March 2021, the Bank increased its issued and paid-up ordinary share capital by RM130.0 million through the issuance of 114,035,088 new ordinary shares at an issue price of RM1.14 per ordinary share. The new ordinary shares issued during the current financial year rank pari passu in all respects with the existing ordinary shares of the Bank.

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

Table 3.1: Capital Structure (Contd.)

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

	Group		Bank	
	31.03.2021	31.03.2020	31.03.2021	31.03.2020
	RM'000	RM'000	RM'000	RM'000
Credit risk	865,201	802,132	839,127	841,125
Market risk	21,544	37,354	15,027	17,004
Operational risk	490,677	472,622	274,163	263,707
Total risk weighted assets	1,377,422	1,312,108	1,128,317	1,121,836

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

	31.03.2021	31.03.2020
	RM'000	RM'000
<u>CET1 Capital</u>		
Capital Funds	30,000	30,000
Retained earnings	88,481	81,253
Less : Regulatory adjustments applied on CET1 Capital		
Deferred tax assets	(268)	(299)
CET1 capital/ Tier 1 capital/ Total capital	118,213	110,954

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

	31.03.2021	31.03.2020
	RM'000	RM'000
Credit risk	106,092	50,987
Operational risk	34,466	49,750
Total risk weighted assets	140,558	100,737

4.0 General Risk Management

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

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

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

AmInvestment Bank Risk Direction

AMMB Group's FY2021 – 2024 Strategy blueprint is to focus on 8 key areas, namely, (1) Attaining a Return on Equity (ROE) of $\geq 10\%$, (2) Sharpening Our Segment Play, (3) Delivering Holistic Customer Value Proposition, Leveraging a Collaborative Culture and Partnerships, (4) Pushing Capital-Light Revenue, (5) Ramping Up the Next Wave of Digital Initiatives, (6) Future-Proofing Our Workforce, (7) Integrating Environmental, Social, and Governance (ESG) Considerations into Our Business and (8) Exploring Digital Bank.

- 1 The Bank aspires to maintain the financial institution rating of AA2 based on reference ratings by RAM Rating Services Berhad ("RAM").
- 2 The Bank will maintain the professional conduct of the bank and ensure fair dealing with our clients in all business undertakings.
- 3 The Bank will remain vigilant in the following areas to protect its reputation and business franchise; keeping up and complying with regulatory changes; and risk identification and management of risks arising from new client and/or mandate (including for advisory businesses).
- 4 The Bank aims to maintain Available Financial Resources in excess of the capital requirements as estimated in the Internal Capital Adequacy Assessment Process ("ICAAP").
- 5 The Bank recognizes the importance of funding its own business. It aims to maintain the following:
 - a. Liquidity Coverage Ratio ("LCR") (both at consolidated and entity level) at least 10 percentage point above prevailing regulatory minimum;
 - b. Stressed LCR (both at consolidated and entity level) above the regulatory requirement; and
 - c. Net Stable Funding Ratio ("NSFR") (Financial Holding Company (FHC) level) at the prevailing regulatory minimum (effective from July 2020).
- 6 The Bank aims to maintain its Total Capital Ratio at the Group's Internal Capital Trigger under normal condition.
- 7 The Bank aims to maintain adequate controls for all key businesses to manage operational risks (including but not limited to regulatory, compliance, technology, conduct and reputational risks) losses excluding regulatory penalties below 2% of PATMI*.
Key operational risks covered include but not limited to:
 - People risk; and
 - Technology/ Cyber risk

Risk Management Governance

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

The Board has also established Management Committees to assist in managing the risks and businesses of the Group. The 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 risk.

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

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

*PATMI - Profit after Tax and Non-controlling Interests

4.0 General Risk Management (Cont'd.)

Impact of COVID 19 outbreak

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 month-long Movement Control Order ("MCO") implemented nationwide arising from the COVID-19 pandemic, namely:

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

AMMB Group welcomes the stimulus plans 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.

Although some risks within the portfolio has begin emerging post the auto-moratorium period, especially in Retail Banking, the effects of the efforts put in to reach out to customers during the moratorium is seen. AMMB Group is continuously proactively engaging customers to manage the portfolio with close monitoring of the portfolio health carried out.

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

4.1 Internal Capital Adequacy Assessment Process

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

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

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

The following key principles underpin the ICAAP:

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

- The Group Risk Appetite, including the Group's target credit rating category;
- Regulatory Capital requirements;
- The Board and Management's targeted financial performance; and
- The Group's planned asset growth and strategic business objectives.

4.1.2 Board and Senior Management Oversight

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

- ensure all elements of the ICAAP are established and functioning effectively and subject to independent review on a periodic basis; and
- ensure comprehensive assessment of capital adequacy conducted annually.

4.1.3 Capital Management Framework

The ICAAP shall include an approved Capital Management Framework 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 Group is in compliance with minimum regulatory standards;

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

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

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

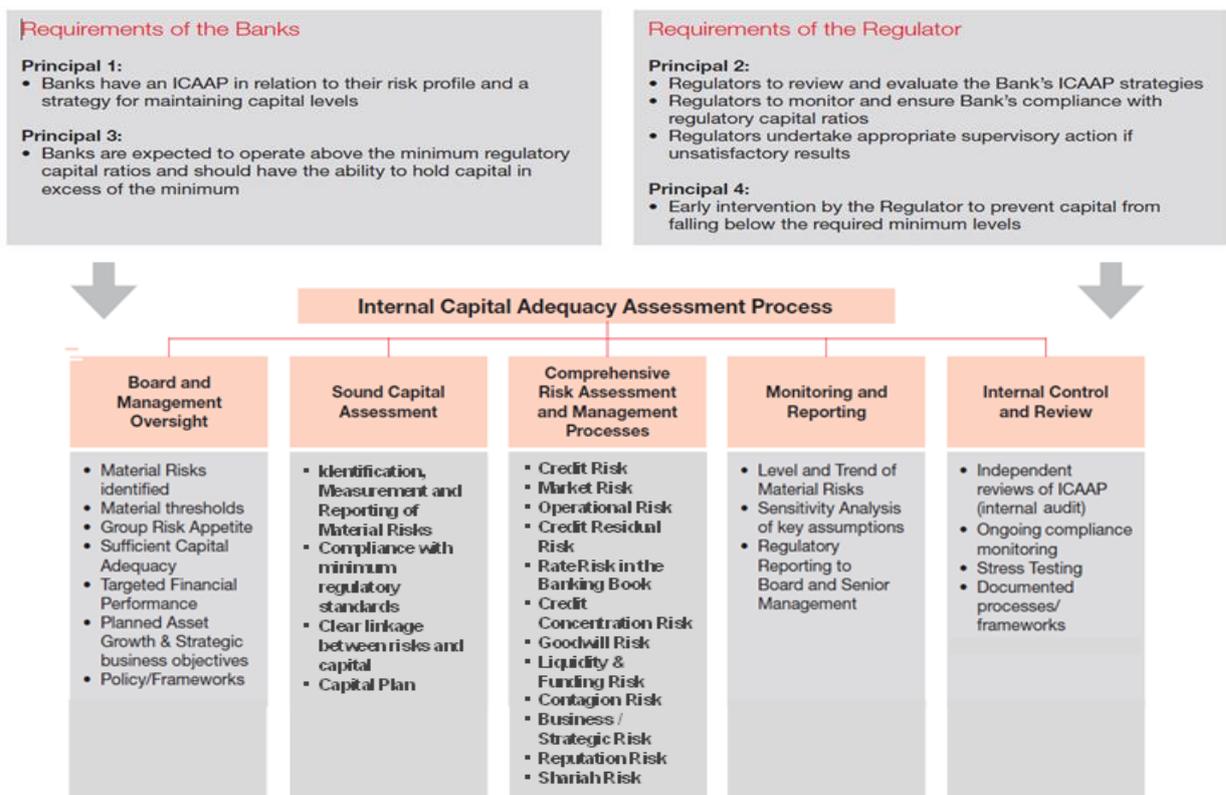
4.1.5 Capital allocation:

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

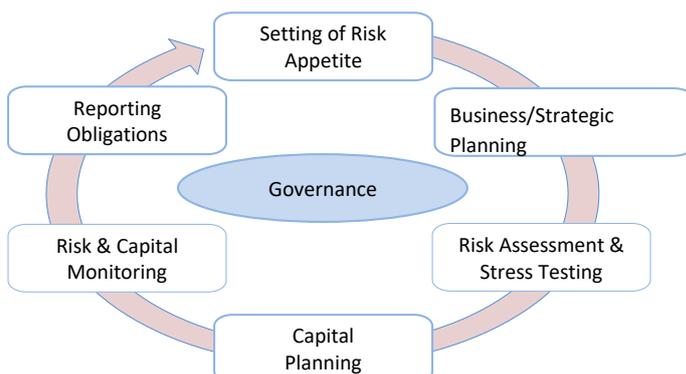
4.1.6 Material Risks

- The Group shall identify and assess the risk materiality on an annual basis;
- Risk assessments shall be conducted at bank-wide level and incorporate both quantitative and qualitative
- Methodologies to identify and determine the materiality of current risk types, change to existing risk types and new risk types must be established.

ICAAP Framework

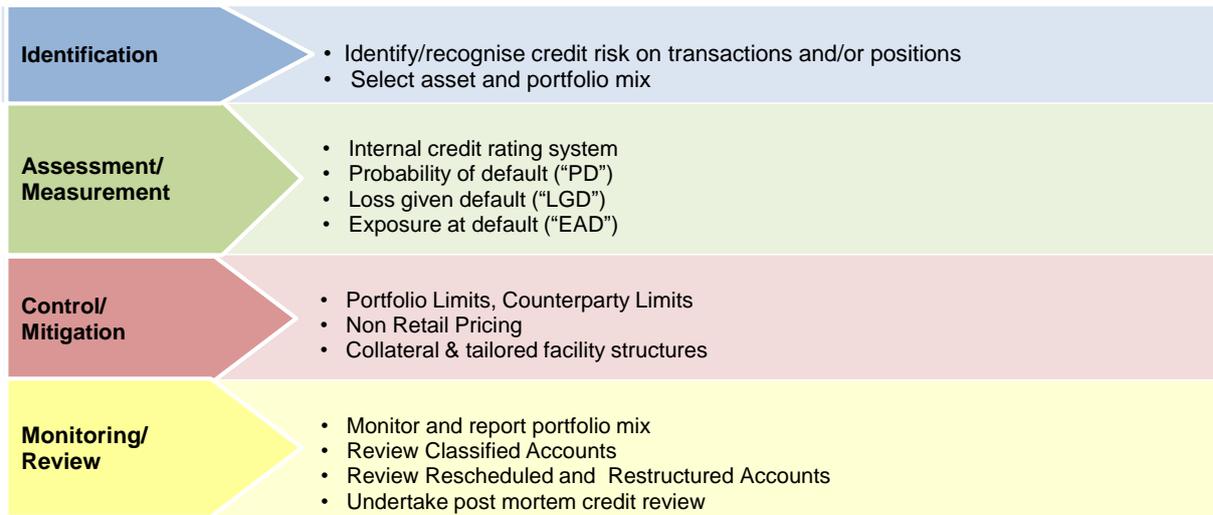


Overview of ICAAP process and setting Internal Capital Targets



5.0 Credit Risk Management

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



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

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

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

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

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

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

5.0 Credit Risk Management (Cont'd.)

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

- Concentration threshold/review triggers:
 - single counterparty credit exposure;
 - industry sector exposure; and
 - country exposure.
- Setting Loan to Value limits for asset backed loans;
- Non-Retail Credit Policy ("NRCP") which sets out the credit principles and requirements for managing credit risk in the Wholesale Banking ("WB") and Business Banking ("BB") portfolios;
- Classified Account Management processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers; and
- Rescheduled and Restructured ("R&R") Account Management (embedded within the NRCP for WB and BB) sets out the controls in managing R&R loan and advances.

Exposure outside the approval discretions of individual Credit Approval Delegations (CAD) holders certain are escalated to the Credit and Commitments Committee ("CACC") for approval. In the event such counterparty exposure exceeds a stipulated customer group threshold within the AmBank Group, the letter of offer shall not be issued until the credit is reviewed by the Board Credit Committee ("BCC"). Portfolio credit risk is reported to the relevant management and board

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

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

5.0 Credit Risk Management (Cont'd.)

5.1 Impairment

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

- (a) The Group considers that an obligor is “unlikely to repay” in full its credit obligations to the 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.

However, in specific and special circumstances, there will be cases where past due exposures (more than 90 days) are not considered to be impaired. These are exposures that are exempted from being classified impaired as sanctioned by the regulator from time to time.

5.1.1 Group Provisioning Methodology

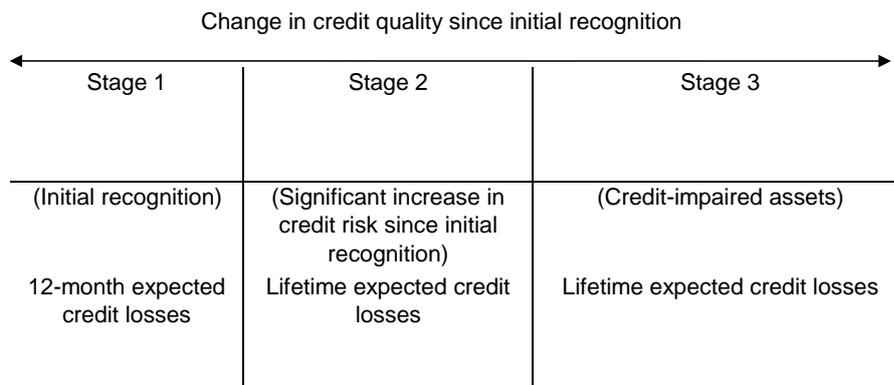
The Group’s provisioning methodology complies with MFRS 9 where we recognize Expected Credit Loss (“ECL”) at all time to reflect changes in the credit risk of a financial instrument. The methodology incorporates historical, current and forecasted information into ECL estimation. Consequently, more timely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

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

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

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

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



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

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

Table 5.1: Distribution of gross credit exposures by sector

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

	31.03.2021									
	Mining and Quarrying RM'000	Construction RM'000	Finance and Insurance RM'000	Government and Central RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On balance sheet exposures										
Sovereigns/ Central banks	-	-	-	61,788	-	-	-	-	-	61,788
Banks, DFIs and MDBs	-	-	210,734	-	-	-	-	-	-	210,734
Corporates	-	801	75,446	-	-	-	53,932	388,299	167	518,645
Regulatory retail	-	-	-	-	-	-	-	69,598	-	69,598
Higher risk assets	-	-	-	-	-	-	-	-	2,995	2,995
Other assets	177	-	28,234	-	36	101,441	-	114,894	394,218	639,000
Defaulted exposures	-	-	-	-	-	-	-	-	-	-
Total for on balance sheet exposures	177	801	314,414	61,788	36	101,441	53,932	572,791	397,380	1,502,760
Off balance sheet exposures										
Off balance sheet exposures other than Over the counter derivatives or Credit derivatives	-	-	-	-	-	-	6,906	41,473	-	48,379
Defaulted exposures	-	-	-	-	-	-	-	-	-	-
Total for off balance sheet exposures	-	-	-	-	-	-	6,906	41,473	-	48,379
Total on and off balance sheet exposures	177	801	314,414	61,788	36	101,441	60,838	614,264	397,380	1,551,139

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

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

	31.03.2020									
	Mining and Quarrying RM'000	Construction RM'000	Finance and Insurance RM'000	Government and Central Banks RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On balance sheet exposures										
Sovereigns/ Central banks	-	-	-	63,479	-	-	-	-	-	63,479
Banks, DFIs and MDBs	-	-	285,535	-	-	-	-	-	-	285,535
Corporates	-	802	78,195	-	-	-	52,301	227,241	387	358,926
Regulatory retail	-	-	-	-	-	-	-	27,307	-	27,307
Higher risk assets	-	-	-	-	-	-	-	-	2,771	2,771
Other assets	5	-	25,611	-	176	21,786	-	59,592	502,941	610,111
Defaulted exposures	-	-	-	-	-	-	-	-	-	-
Total for on balance sheet exposures	5	802	389,341	63,479	176	21,786	52,301	314,140	506,099	1,348,129
Off balance sheet exposures										
Off balance sheet exposures other than Over the counter derivatives or Credit derivatives	-	-	3,625	-	-	-	3,206	31,370	-	38,201
Defaulted exposures	-	-	-	-	-	-	-	-	-	-
Total for off balance sheet exposures	-	-	3,625	-	-	-	3,206	31,370	-	38,201
Total on and off balance sheet exposures	5	802	392,966	63,479	176	21,786	55,507	345,510	506,099	1,386,330

Table 5.2: Impaired and past due loans and advances and impairment allowances by sector

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

	31.03.2021		
	Business Activities RM'000	Household RM'000	Total RM'000
Impaired loans and advances	-	-	-
Allowance for expected credit losses	-	1	1
Expected credit losses written back to profit or loss	-	135	135

	31.03.2020		
	Business Activities RM'000	Household RM'000	Total RM'000
Impaired loans and advances	1,671	132	1,803
Allowance for expected credit losses	1,671	136	1,807
Expected credit losses charged to profit or loss	-	132	132

The disclosure on reconciliation of loan loss allowances can be found in Note 12(i) of the financial statements. There are no charge offs and recoveries that have been taken up directly to the statement of profit or loss for the financial year ended 31 March 2021 and 31 March 2020.

Table 5.3: Geographical distribution of credit exposures

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

	31.03.2021		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ Central banks	61,788	-	61,788
Banks, DFIs and MDBs	208,780	1,954	210,734
Corporates	518,645	-	518,645
Regulatory retail	69,598	-	69,598
Higher risk assets	2,977	18	2,995
Other assets	639,000	-	639,000
Total for on balance sheet exposures	1,500,788	1,972	1,502,760
Off balance sheet exposures			
Off balance sheet exposures other than OTC derivatives or credit	48,379	-	48,379
Total for off balance sheet exposures	48,379	-	48,379
Total on and off balance sheet exposures	1,549,167	1,972	1,551,139

	31.03.2020		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ Central banks	63,479	-	63,479
Banks, DFIs and MDBs	268,571	16,964	285,535
Corporates	358,926	-	358,926
Regulatory retail	27,307	-	27,307
Higher risk assets	2,765	6	2,771
Other assets	595,894	14,217	610,111
Total for on balance sheet exposures	1,316,942	31,187	1,348,129
Off balance sheet exposures			
Off balance sheet exposures other than OTC derivatives or Credit	38,201	-	38,201
Total for off balance sheet exposures	38,201	-	38,201
Total on and off balance sheet exposures	1,355,143	31,187	1,386,330

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

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

	31.03.2021
	RM'000
Impaired loans and advances	-
Allowance for expected credit losses	1

	31.03.2020
	RM'000
Impaired loans and advances	1,803
Allowance for expected credit losses	1,807

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

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

	31.03.2021								Total RM'000
	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	
On balance sheet exposures									
Sovereigns/ central banks	25,172	-	30,112	-	-	-	6,504	-	61,788
Banks, DFIs and MDBs	210,734	-	-	-	-	-	-	-	210,734
Corporates	434,971	-	6,720	541	967	-	75,446	-	518,645
Regulatory retail	55	39	148	1,565	26	67,765	-	-	69,598
Higher risk assets	-	-	-	-	-	-	-	2,995	2,995
Other assets	622,193	-	-	-	-	-	-	16,807	639,000
Total for on balance sheet exposures	1,293,125	39	36,980	2,106	993	67,765	81,950	19,802	1,502,760
Off balance sheet exposures									
Off balance sheet exposures other than OTC derivatives or credit derivatives	-	1,230	1,107	1,971	-	-	44,071	-	48,379
Total for off balance sheet exposures	-	1,230	1,107	1,971	-	-	44,071	-	48,379
Total on and off balance sheet exposures	1,293,125	1,269	38,087	4,077	993	67,765	126,021	19,802	1,551,139

	31.03.2020 (Restated)								Total RM'000
	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	
On balance sheet exposures									
Sovereigns/ Central banks	30,708	-	-	-	30,121	-	2,650	-	63,479
Banks, DFIs and MDBs	285,535	-	-	-	-	-	-	-	285,535
Corporates	262,878	-	7,402	12,823	386	-	75,437	-	358,926
Regulatory retail	-	8	241	26,386	80	592	-	-	27,307
Higher risk assets	-	-	-	-	-	-	-	2,771	2,771
Other assets	592,935	-	-	-	-	-	-	17,176	610,111
Total for on balance sheet exposures	1,172,056	8	7,643	39,209	30,587	592	78,087	19,947	1,348,129
Off balance sheet exposures									
Off balance sheet exposures other than OTC derivatives or credit derivatives	125	5,256	1,075	31,745	-	-	-	-	38,201
Total for off balance sheet exposures	125	5,256	1,075	31,745	-	-	-	-	38,201
Total on and off balance sheet exposures	1,172,181	5,264	8,718	70,954	30,587	592	78,087	19,947	1,386,330

The Group continuously strengthen its regulatory reporting framework. The Group has in place, a Regulatory Reporting Policy that provides key principles and governance to cultivate an effective and efficient regulatory reporting process across all reporting of banking subsidiaries. In the previous financial year, the Group had implemented a Regulatory Reporting Enhancement Programme ("REP") aimed at amongst others, to improve the functional and data coverage of the regulatory reporting submissions as well as to upgrade infrastructure for and capability of reporting systems. REP had resulted in refinement to the approach in which the Group makes disclosures pertaining to loans and advances. The comparatives on residual contractual maturity by major types of credit exposure are now presented on the same basis as current year's presentation. The restatement did not have any effect on reported total on and off balance sheet exposures.

5.0 Credit Risk Management (Cont'd.)

5.1 Impairment (Cont'd.)

Reconciliation of changes to loan impairment allowances

The disclosure on reconciliation of changes to loans impairment allowances of the Group can be found in Note 11(i) of the financial statements.

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

	31.03.21 RM'000	31.03.20 RM'000
Bad debts written off during the financial year	-	-
Bad debt recoveries during the financial year	3,034	-
	3,034	-

6.0 Credit Risk Exposure under Standardised Approach

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

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

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

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

31.03.2021								
Exposures after netting and credit risk mitigation								
Risk Weights	Sovereigns and Central banks RM'000	Banks, DFIs and MDBs RM'000	Corporates RM'000	Regulatory retail RM'000	Higher risk assets RM'000	Other assets RM'000	Total Exposures after Netting and CRM RM'000	Total Risk Weighted Assets RM'000
0%	61,788	-	75,446	-	-	1	137,235	-
20%	-	189,533	-	-	-	46,756	236,289	47,258
35%	-	-	-	-	-	-	-	-
50%	-	21,201	-	-	-	-	21,201	10,601
75%	-	-	-	3,797	-	-	3,797	2,847
100%	-	-	204,157	3,602	-	592,243	800,002	800,002
150%	-	-	-	-	2,995	-	2,995	4,493
Total	61,788	210,734	279,603	7,399	2,995	639,000	1,201,519	865,201

31.03.2020								
Exposures after netting and credit risk mitigation								
Risk Weights	Sovereigns and Central banks RM'000	Banks, DFIs and MDBs RM'000	Corporates RM'000	Regulatory retail RM'000	Higher risk assets RM'000	Other assets RM'000	Total Exposures after Netting and CRM RM'000	Total Risk Weighted Assets RM'000
0%	63,479	-	75,437	-	-	3	138,919	-
20%	-	285,535	-	-	-	39,588	325,123	65,024
75%	-	-	-	3,918	-	-	3,918	2,939
100%	-	-	159,491	-	-	570,521	730,012	730,012
150%	-	-	-	-	2,771	-	2,771	4,157
Total	63,479	285,535	234,928	3,918	2,771	610,112	1,200,743	802,132

Table 6.2: Rated Exposures according to Ratings by ECAIs

		31.03.2021					
		Ratings of Corporate by Approved ECAIs					
Exposure class	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B1 to D	Unrated	
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>On and off balance sheet exposures</u>							
Credit exposures (using corporate risk weights)							
Corporates		547,469	-	-	-	-	547,469
Total		547,469	-	-	-	-	547,469

		31.03.2020					
		Ratings of Corporate by Approved ECAIs					
Exposure class	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B1 to D	Unrated	
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>On and off balance sheet exposures</u>							
Credit exposures (using corporate risk weights)							
Corporates		388,837	-	-	-	-	388,837
Total		388,837	-	-	-	-	388,837

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

31.03.2021							
Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central banks	61,788	-	-	61,788	-	-	-
Total	61,788	-	-	61,788	-	-	-

31.03.2020							
Exposure Class	Moodys Fitch	Ratings of Sovereigns and Central Banks by Approved ECAIs					
		Aaa to Aa3	A+ to A-	BBB+ to BBB-	BB+ to B-	Caa1 to C	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central banks		63,479	-	63,479	-	-	-
Total		63,479	-	63,479	-	-	-

31.03.2021							
Exposure class	Ratings of Banking Institutions by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures							
Banks, DFIs and MDBs	210,734	22,489	-	-	-	-	188,245
Total	210,734	22,489	-	-	-	-	188,245

31.03.2020							
Exposure class	Ratings of Banking Institutions by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures							
Banks, DFIs and MDBs	285,535	76,255	16,308	51,153	-	-	141,819
Total	285,535	76,255	16,308	51,153	-	-	141,819

7.0 Credit Risk Mitigation

Collateral taken by the Group

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

The Credit Risk Mitigation Policy, is the internally recognised collateral framework. Any collateral that is not listed in the said policy or does not conform to the requirements outlined in that policy is not eligible for capital relief for regulatory capital purposes.

Processes for collateral management

The concept of legal enforceability and certainty are central to collateral management. In order to achieve legal enforceability and certainty, the Group has standard collateral instruments, and where applicable, security interests are

Guarantee Support

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

Use of credit derivatives and netting for risk mitigation

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

Transaction structuring to mitigate credit risk

Besides tangible security and guarantee support described above, credit risk mitigation techniques are used in structuring transactions. These include duration limits managing the tenure of the loan, amortisation schedules and loan covenants. These assist in managing credit risk and providing early warning signals, to enable pre-emptive actions to protect the quality or recoverability of loan/ financing assets.

Concentrations of credit risk mitigation

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

7.0 Credit Risk Mitigation

Table 7.1: Credit Risk Mitigation

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

Exposures	31.03.2021	
	Exposures before CRM RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit risk		
<u>On balance sheet exposures</u>		
Sovereigns/ Central banks	61,788	-
Banks, DFIs and MDBs	210,734	-
Corporates	518,645	339,462
Regulatory retail	69,598	67,599
Higher risk assets	2,995	-
Other assets	639,000	-
Total for on balance sheet exposures	1,502,760	407,061
<u>Off balance sheet exposures</u>		
Off balance sheet exposures other than OTC derivatives or credit derivatives	48,379	40,367
Total for off balance sheet exposures	48,379	40,367
Total on and off balance sheet exposures	1,551,139	447,428

Exposures	31.03.2020	
	Exposures before CRM RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit risk		
<u>On balance sheet exposures</u>		
Sovereigns/ Central banks	63,479	-
Banks, DFIs and MDBs	285,535	-
Corporates	358,926	197,619
Regulatory retail	27,307	25,421
Higher risk assets	2,771	-
Other assets	610,111	-
Total for on balance sheet exposures	1,348,129	223,040
<u>Off balance sheet exposures</u>		
Off balance sheet exposures other than OTC derivatives or credit derivatives	38,201	25,655
Total for off balance sheet exposures	38,201	25,655
Total on and off balance sheet exposures	1,386,330	248,695

8.0 Off Balance Sheet exposures and Counterparty Credit Risk

8.1 OFF- BALANCE SHEET EXPOSURE & COUNTER PARTY CREDIT RISK

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

- (1) Credit related exposures, e.g. guarantees given on behalf of customers, obligation under underwriting agreement and irrevocable commitment to extend credit.
- (2) Derivative Financial Instruments, e.g. forward exchange contracts (forward exchange contracts and cross currency swaps), equity related contracts (option and futures).
- (3) Other treasury-related exposures, e.g. forward purchase commitment

Off balance-sheet exposure is mitigated by setting of credit limit for the respective counterparty and exposure limit for industry sectors which are governed under the 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 includes foreign exchange and equities.

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

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

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

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

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

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

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

8.0 Off Balance Sheet exposures and Counterparty Credit Risk**Table 8.1: Off Balance Sheet Exposures**

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

	31.03.2021			
	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000
Foreign exchange related contracts				
One year or less	1,346	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	241,897		48,379	12,247
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	-		-	-
Total	243,243	-	48,379	12,247

	31.03.2020			
	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000
Foreign exchange related contracts				
One year or less	489	-	-	-
Equity and commodity related contracts				
One year or less	64	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	27,834		13,917	10,802
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	121,420		24,284	5,988
Total	149,807	-	38,201	16,790

Table 8.2 : Credit Derivatives Counterparty Credit Risk ("CCR")

As at 31 March 2021 and 31 March 2020, the Group does not have any credit derivatives.

9.0 Securitisation

The Group did not have any securitisation exposure in its trading and banking books nor did it undertake any securitisation activities during the current financial year ended 31 March 2021 and for the year ended 31 March 2020.

10.0 Operational Risk

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

Identification	<ul style="list-style-type: none"> Identify and analyse risks in key processes/activities within Business and Functional Lines (including new products)
Assessment/ Measurement	<ul style="list-style-type: none"> Incident Management and Data Collection Risk and Control Self Assessment Key Risk Indicators Key Control Testing Scenario Analysis Validations of Controls Testing
Control/ Mitigation	<ul style="list-style-type: none"> Policies addressing control & governance requirements to mitigate specific operational risk Advisory on the establishment of internal controls Contingency planning Insurance programme
Monitoring/ Review	<ul style="list-style-type: none"> Monitoring and reporting of loss incidents by Event Type, Portfolio and Line of Business and entity, reporting of operational risk board and management trigger, risk profile status, key risk indicator breaches and key control testing exceptions and framework adherence. Periodical review of risk profile within Line of Business

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

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

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

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

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

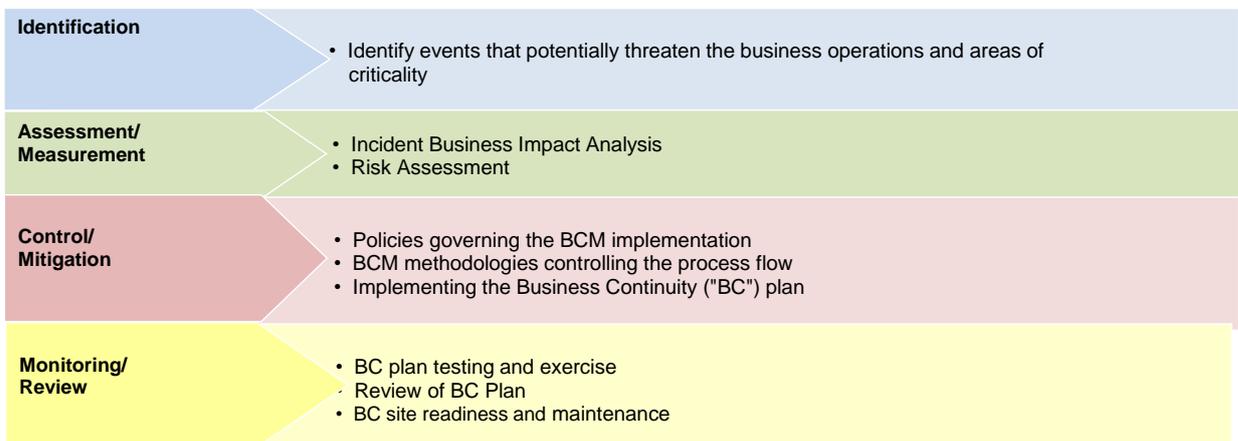
Group Operational Risk maintains close working relationships with all Business and Functional Lines, continually assisting in the identification of operational risks inherent in their respective business activities, assessing the impact and significance of these risks and ensuring that satisfactory risk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

10.0 Operational Risk (Cont'd.)

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

10.1 Business Continuity Management

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



The BCM function is an integral part of Operational Risk Management. It places the importance of maintaining a BCM framework and policies to identify events that could potentially threaten the Group’s operations and the identification of critical business functions through BIA exercise, for the development of recovery strategy. BCM builds the resilience and recovery capability to safeguard the interest of the Group’s stakeholders by protecting the organization’s franchise and reputation.

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

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

10.2 Cyber risk management

Cybersecurity risk remain a persistent threat for the financial industry. Driven by the constantly evolving nature and sophistication of cyber threats and attack vectors, this calls for increased vigilance, readiness and ability to respond to upcoming threats. The resilience of the Group’s IT infrastructure and cyber security capabilities are of paramount importance, especially with regards to safeguarding customers’ information. The Group continues to enhance its cyber security controls framework, execute internal assessment reviews, build defense mechanisms and uplift governance processes alongside the Group’s cyber risk management strategy - to identify threats in a timely manner, and build or enhance the right defenses to mitigate risks. Creating a security mindset for employees and customers via its Cyber Security awareness programs also remains a priority. The Group has also broadened its technology risk management capabilities to have oversight over infrastructure security risk, application security risk and third party security risk. The Group Technology Risk team acts as a second line of defence to monitor alongside the first line of defence to ensure that risks and controls are properly managed.

10.3 Legal Risk

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

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

10.4 Regulatory Compliance Risk

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 Group Chief Compliance Officer has a direct reporting line to the Risk Management Committee (RMC) of the Board. A governance structure is in place for escalation and reporting of compliance risks and issues through monthly compliance reports to the RMC and Board.

The compliance framework details the roles and responsibilities for compliance with regulatory guidelines and requirements. The responsible parties are accountable for the management of compliance risks associated with AMMB Group’s processes and increasing awareness on the role of every employee to be compliant and safeguard AMMB Group’s reputation against any potential legal violations and/or regulatory non-compliance. The Senior Management team is responsible for communicating the compliance framework to all employees, as well as implementing appropriate actions for non-compliances.

The Group Management Governance and Compliance Committee (GMGCC), comprising the Senior Management Team from Group Compliance, Group Risk, Group Internal Audit and the Business, meets regularly to discuss and deliberate on regulatory updates, compliance issues and areas of non-compliance. AMMB Group believes in and embraces a strong compliance culture to reflect a corporate culture of high ethical standards and integrity where the Board of Directors (“BOD”) and Senior Management lead by example. AMMB Group has zero tolerance for any form of bribery or corruption.

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

11.0 Market Risk Management

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

11.1 Traded Market Risk (“TMR”)

The TMR management process is depicted in the table below.



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 traded market risk are required to maintain risk exposures within approved risk limits and to provide an explanation for any non-adherence events to Senior Management.

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

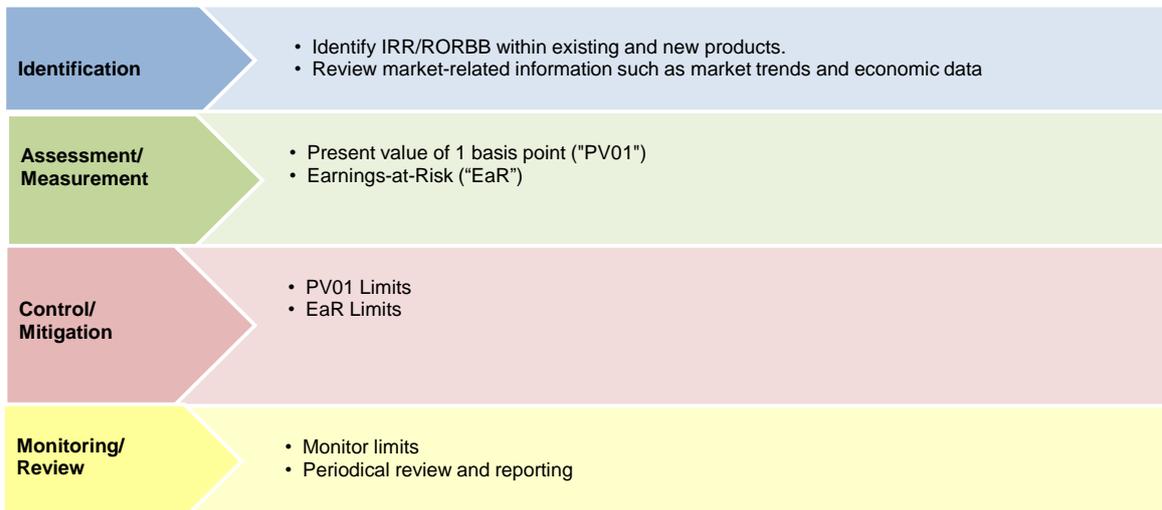
IBMR is committed to on-going improvements in market risk processes and systems, and allocates substantial resources to this endeavour.

11.2 Non-Traded Market Risk

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

Interest Rate Risk/Rate of Return Risk in the Banking Book (“IRR/RORB”)”)

The IRR/RORB risk management process is depicted in the table below:



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

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

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

The Board's oversight of IRR/RORBB is supported by the GALCO and GMRC. GMRC is responsible for the alignment of Bankwide risk appetite. GALCO reviews strategies to ensure a comfortable level of IRR/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 interest/profit rate outlook. The Bank has successfully engaged borrowings to manage IRR/RORBB, and maintained an acceptable gapping profile as a result. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are employed to ensure risk exposures are maintained within Management-established limits.

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

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

Key assumptions in the gap and sensitivity analysis relate to the behaviour of interest/profit rates and spreads, changes in loan/financing and deposit product balances due to behavioural characteristics under different interest/profit rate environments. Material assumptions include the repricing characteristics and the stability of loans.

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

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

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

Table 11.1 : Market Risk Sensitivity-Interest Rate Risk / Rate of Return Risk in the Banking Book (IRR / RORBB)

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

<u>Impact on Profit Before Tax</u>	31.03.2021		31.03.2020	
	Interest Rate/ Rate of Return + 100 bps (RM'000)	Interest Rate/ Rate of Return - 100 bps (RM'000)	Interest Rate/ Rate of Return + 100 bps (RM'000)	Interest Rate/ Rate of Return - 100 bps (RM'000)
	Currency			
MYR	465	(465)	2,462	(2,462)

<u>Impact on Equity</u>	31.03.2021		31.03.2020	
	Interest Rate/ Rate of Return + 100 bps (RM'000)	Interest Rate/ Rate of Return - 100 bps (RM'000)	Interest Rate/ Rate of Return + 100 bps (RM'000)	Interest Rate/ Rate of Return - 100 bps (RM'000)
	Currency			
MYR	(4,426)	4,925	(5,611)	6,164

12.0 Equities (Banking Book Positions)

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

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

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

Table 12.1: Equity investments and capital requirement

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

	31.03.2021	31.03.2020
	RM'000	RM'000
Non traded equity investments		
Value of quoted (publicly traded) equities	-	-
Value of unquoted (privately held) equities	2,995	2,771
Total	2,995	2,771
Net realised and unrealised gains/ (losses)		
Total unrealised gains/ (losses)	540	(90)
Risk Weighted Assets		
Equity investments subject to a 100% risk weight	-	-
Equity investments subject to a 150% risk weight	4,493	4,157
Total	4,493	4,157
Total minimum capital requirement (8%)	359	333

13.0 Liquidity Risk and Funding Management

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

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



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

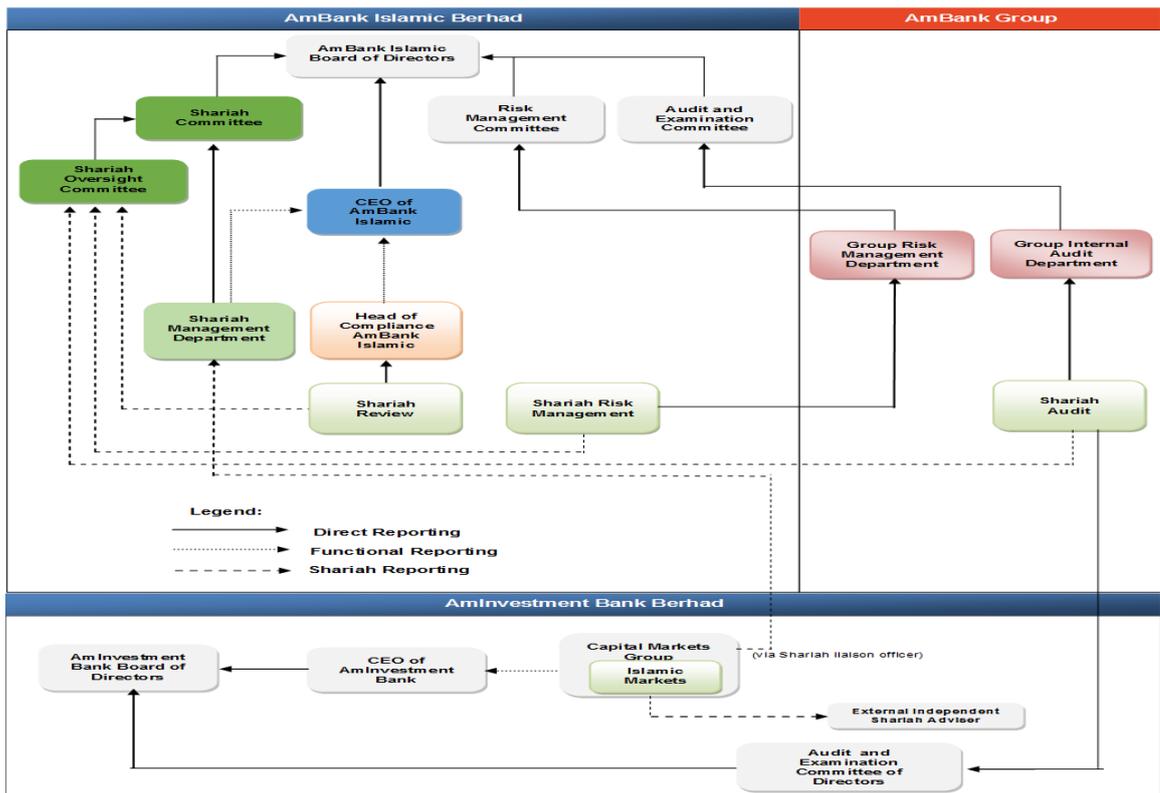
The Board provides the liquidity risk management oversight including setting and reviewing the liquidity risk appetite and approves the Bank's liquidity management strategy while GALCO is the core management committee established by the Board to oversee the overall liquidity management of the Bank.

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

Liquidity measurements such as BNM LCR and BNM NSFR have been put in place to support the broader strategic objectives of the Bank. IBMR is responsible for developing and monitoring the controls and limits while Group Treasury & 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.

14.0 Shariah Governance Structure



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

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

Board of Directors

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

Audit and Examination Committee ("AEC") of Directors

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

Risk Management Committee

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 Senior Management on Shariah matters and endorsing and validating Islamic capital market products and services, Shariah policies and the relevant documentation in relation to the Bank's Islamic finance and capital markets operations and business activities.

14.0 Shariah Governance Structure (Contd.)

Shariah Liaison Officer, IM

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

Shariah Oversight Committee

The Shariah Oversight Committee, which is a sub-committee to the Shariah Committee, performs an oversight function on Islamic capital markets product and services from Shariah perspective. In this 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).

Senior Management

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

Shariah Research

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

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

Shariah Advisory

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

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

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

Shariah Risk Management

The Shariah Risk Management role is accountable to the Group Risk Management Department with Shariah reporting to the Shariah Oversight Committee. A designated team namely the Shariah Risk Management team is responsible for the management of Shariah risk for the Bank. The Shariah Risk Management is a function to systematically identify, measure, monitor and report the occurrence of Shariah non-compliance risks in the business. Endorsement by the appointed Shariah adviser for all Islamic capital markets products shall provide the assurance that the Islamic capital markets products satisfy

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

Shariah Review

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

Shariah Audit

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

14.1 Shariah Non-Compliant Income

There had been no Shariah non-compliant incidents and income for the current financial year ended 31 March 2021 and for the financial year ended 31 March 2020.