Registration No. 199401009897 (295576–U)

AmBank Islamic Berhad
Pillar 3 Disclosure

31 March 2021

CAFIB - Pillar 3 Disclosure
For 31 March 2021

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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 policy document is 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 9 December 2020 and Capital Adequacy Framework for Islamic Banks (Risk Weighted Assets) issued on 3 May 2019.

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%;
(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; and
(c) a Higher Loss Absorbency ("HLA") requirement for a financial institution that is designated as a domestic systemically important bank ("DSIB").

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).

1.0 Scope of Application (Cont'd.)

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 approach is focused on maintaining a strong capital position that supports the Bank's strategic objectives and risk appetite. In line with the Bank'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 Bank's strategic objectives and stakeholders' expectations.

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 the 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.

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.

2.0 Capital Management (Cont'd.)

A strong governance and process framework is embedded in the capital planning and assessment methodology. Overall responsibility for the effective management of risk rests with the Board. The Risk Management Committee (“RMC”) is specifically delegated the task of reviewing all risk management issues including oversight of the Bank’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 document, Capital Adequacy Framework for Islamic Banks (Capital Components). The key addition to the revised policy document is the transitional arrangements for financial institutions on provisions for expected credit loss ("ECL"). Under this revised policy document, 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

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

	Bank	
	2021 (under transitional arrangement (Note(i))	**2020**
Before deducting proposed dividends:		
Common Equity Tier 1 Capital ratio	12.146%	11.165%
Tier 1 capital ratio	12.146%	11.165%
Total capital ratio	16.661%	15.950%
After deducting proposed dividends:		
Common Equity Tier 1 Capital ratio	12.038%	11.165%
Tier 1 Capital ratio	12.038%	11.165%
Total Capital ratio	16.553%	15.950%

Notes:

(i) The capital adequacy ratios of the Bank as at 31 March 2020 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).

2.0 Capital Management (Cont'd.)

Pursuant to the revised BNM policy document, Capital Adequacy Framework for Islamic Banks (Capital Components) issued on 9 December 2020, the capital ratios as at 31 March 2021 had been computed applying transitional arrangement on provision for ECL. Under this 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 provision) to CET1 Capital. Had this transitional arrangement not been applied, the capital ratios of the Bank are as follows:

	2021
Before deducting proposed dividends:	
Common Equity Tier 1 ("CET 1") Capital Ratio	10.687%
Tier 1 Capital ratio	10.687%
Total Capital ratio	15.631%
After deducting proposed dividends:	
Common Equity Tier 1 ("CET 1") Capital Ratio	10.580%
Tier 1 Capital ratio	10.580%
Total Capital ratio	15.523%

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 2021, the gross exposure and collective allowance relating to the RA financing were RM719.5 million and RM1.9 million respectively (31 March 2020: RM719.9 million and RM2.3 million respectively). There was no individual allowance provided for the RA financing.

2.2 Mudarabah Term Investment Account ("MTIA-i")

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 2021, the outstanding MTIA-i stood at RM76.5 million (31 March 2020: RM192.6 million).

The underlying assets tagged to both RA and MTIA-i excluded from the risk weighted capital adequacy computation of the Bank for 31 March 2021 amounted to RM796.0million (31 March 2020: RM912.6 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:

2021

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		10,727,009	10,727,009	-	-	-	-
Public Sector Entities		2,932	2,932	586	-	586	47
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDBs")		1,041,965	1,041,965	167,927	-	167,927	13,434
Corporates		19,820,167	19,414,095	16,271,704	719,512	15,552,192	1,244,175
Regulatory Retail		18,786,494	15,729,072	13,997,595	76,493	13,921,102	1,113,688
Residential Mortgages		302,721	302,716	115,960	-	115,960	9,277
Higher Risk Assets		1,003	1,003	1,505	-	1,505	120
Other Assets		191,445	191,445	94,945	-	94,945	7,596
Defaulted Exposures		512,219	511,272	592,794	-	592,794	47,424
Total for On-Balance Sheet Exposures		**51,385,955**	**47,921,509**	**31,243,016**	**796,005**	**30,447,011**	**2,435,761**
Off-Balance Sheet Exposures							
Over the counter ("OTC") Derivatives		215,384	215,384	148,946	-	148,946	11,916
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		3,768,985	2,250,183	1,745,435	-	1,745,435	139,635
Defaulted Exposures		2,178	1,410	2,114	-	2,114	169
Total for Off-Balance Sheet Exposures		**3,986,547**	**2,466,977**	**1,896,495**	**-**	**1,896,495**	**151,720**
Total On and Off-Balance Sheet Exposures		**55,372,502**	**50,388,486**	**33,139,511**	**796,005**	**32,343,506**	**2,587,481**
2. **Large Exposure Risk Requirement**				-	-	-	-
3. **Market Risk**	**Long Position**	**Short Position**					
Rate of Return Risk							
- General profit rate risk	7,070,373	4,567,331		399,467	-	399,467	31,957
- Specific profit rate risk	2,500,835	-		17,708	-	17,708	1,417
Foreign Currency Risk	91,386	37,095		91,386	-	91,386	7,311
Total	**9,662,594**	**4,604,426**		**508,561**	**-**	**508,561**	**40,685**
4. **Operational Risk**				1,622,712	**-**	1,622,712	129,817
5. **Total RWA and Capital Requirements**				**35,270,784**	**796,005**	**34,474,779**	**2,757,983**

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.)

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**

3.0 Capital Structure

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

- CET 1 Capital;
- Tier 2 Capital.

3.1 CET1 Capital

CET1 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/or 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 CET1 Capital by virtue of the regulatory reserve being attributable to financing and advances.

Bank Negara Malaysia (“BNM”) had in March 2020 implemented additional measures in response to COVID-19 pandemic. These measures, amongst others, aim to ensure that the financial intermediation function of the financial sector remains intact and banking institutions remain focused on supporting the economy during these exceptional circumstances. As at 31 March 2021, no regulatory reserve was held against expected losses, one of the drawdown of prudential buffers as allowed by BNM.

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 2021 are as follows:

Issue Date	First Call Date	Tenor	Profit Rate	Nominal value (RM million)
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
8 December 2020	8 December 2025	10 years Non-Callable 5 years	3.13% per annum	400
Total				1,300

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 2021 RM'000	31 March 2020 RM'000
CET 1 Capital		
Ordinary shares	1,387,107	1,387,107
Retained earnings	2,341,323	2,148,410
Fair value reserve	43,972	56,249
Regulatory reserve	-	71,612
Less : Regulatory adjustments applied on CET1 Capital		
- Intangible assets	(718)	(1,034)
- Deferred tax assets	(62,877)	-
- 55% of cumulative gains of FVOCI financial instruments	(24,185)	(30,937)
- Regulatory reserve	-	(71,612)
- Unrealised fair value gains on financial liabilities due to changes in own credit risk	(183)	(148)
- Other CET 1 regulatory adjustment specified by BNM	502,728	-
CET1 Capital/ Tier 1 Capital	4,187,167	3,559,647
Tier 2 Capital		
Tier 2 Capital instruments meeting all relevant criteria for inclusion	1,300,000	1,150,000
General provision*	256,523	375,600
Tier 2 Capital	1,556,523	1,525,600
Total Capital	5,743,690	5,085,247

* 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 2021 RM'000	31 March 2020 RM'000
Credit RWA	33,139,511	30,960,556
Less : Credit RWA absorbed by PSIA	(796,005)	(912,582)
Total Credit RWA	32,343,506	30,047,974
Market RWA	508,561	294,650
Operational RWA	1,622,712	1,539,751
Total RWA	34,474,779	31,882,375

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 reviewed and 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/enhancements taking into consideration the prevailing or in anticipation of challenges 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, 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 Operational Risk Management ("ORM") tools.

The AMMB Group Risk Direction

AMMB Group's FY2021 to FY2024 Strategy blueprint is to focus on 8 key areas, namely, (1) Attaining a Return on Equity ("ROE") of ≥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.

- The AMMB Group aspires to maintain the financial institution external 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) at 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 accountable 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 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 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.

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. The AMMB Group is continuously proactively engaging customers to manage the portfolio with close monitoring of the portfolio health carried out.

The Bank has been continuously engaging our SME customers through multiple channels and have been encouraging them reach out to the Bank if assistance is needed. We have also carried out reviews on our customers, especially those in vulnerable sectors and segments, to ascertain if immediate assistance is required. On-going monitoring of the performance of the larger SMEs is also in place.

Various packages have been set out to mitigate credit risk performance arising from the COVID-19 global pandemic post the completion of the government’s auto-moratorium period. These will be offered to performing customers with a minimum banking vintage relationship with the Bank and includes:

1) Reduction of repayment commitments:
   a. Step-up repayment whilst maintaining the tenure; and
   b. Extension of tenure.

2) Extension of moratorium period for customers that are in need.

A review of vulnerable segments (e.g. tourism, restaurants, aviation) has also been undertaken.

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 and enhancing policies and controls.

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.
- The Board and Management's targeted financial performance; and
- The AMMB 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 AMMB 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 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 shall 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;
- be consistent with the AMMB Group’s overall risk profile and financial positions, taking into account its strategic focus and business plan; and
- achieve or maintain the AMMB Group's desired long term credit rating.

4.1.5 Capital allocation:

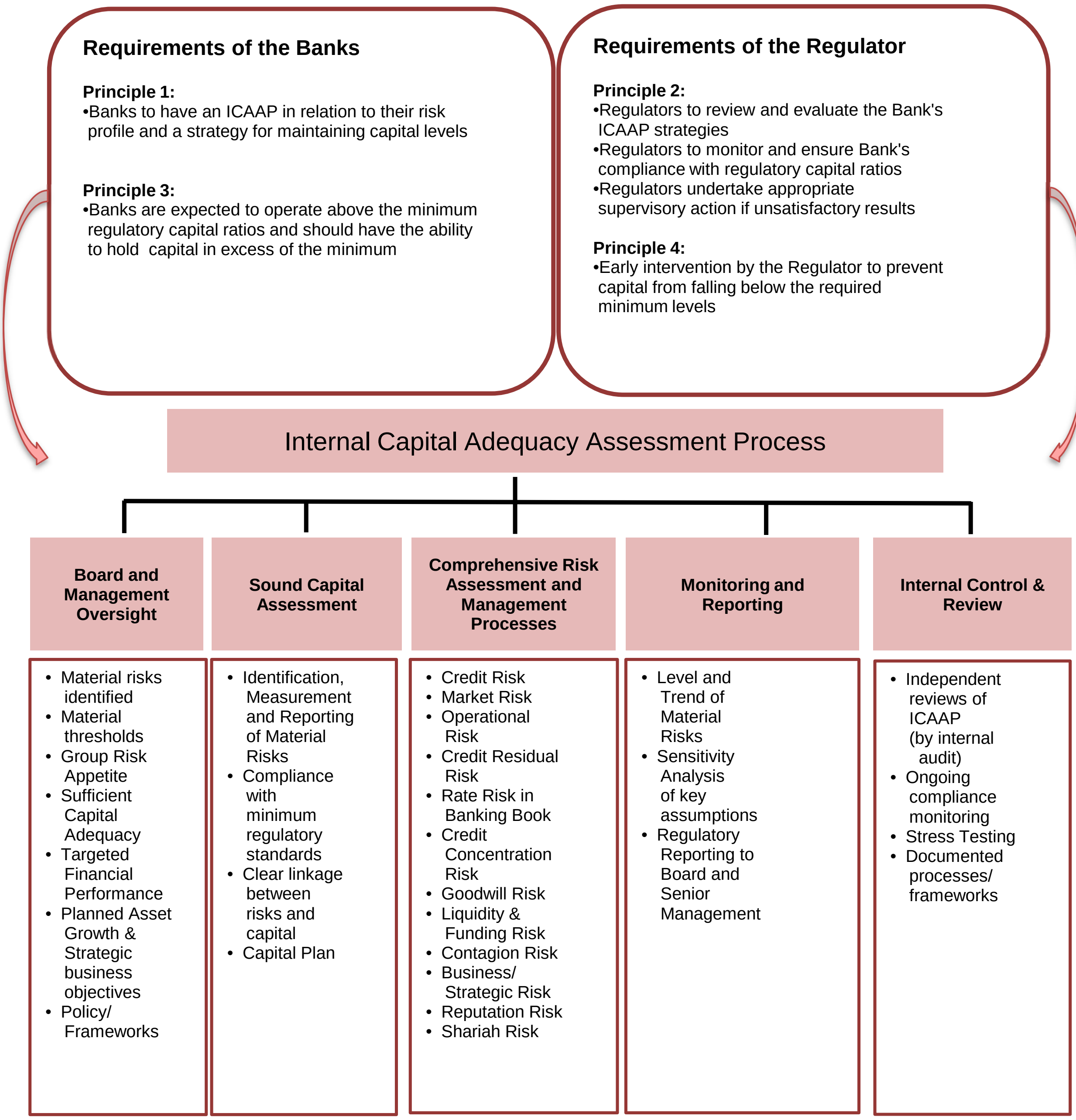
- Capital allocation should be consistent with the AMMB Group’s regulatory capital measurement framework and risk adjusted performance requirements.

4.1.6 Material Risks:

- The AMMB Group shall 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 elements; and
- Methodologies to identify and determine the materiality of current risk types, changes to existing risk types and new risk types must be established.

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 (discretionary lending) • Pre-set assessment criteria and acceptance criteria (program lending)
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 (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 Risk Appetite Framework ("GRAF") and related credit policies.

For non-retail credit, 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 credit, 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 internal limits designed to deliver the Bank’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 risk exposure
- Setting Financing to Value limits for asset backed financing;
- Non-Retail Credit Policy ("NRCP") which sets out the credit principles and requirements 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;
- Rescheduled and Restructured (“R&R”) Account Management (embedded within the NRCP for WB and BB) sets out the controls in managing R&R financing; and
- Setting Retail risk controls capping for exceptional credit approval, to ensure credit approval practice is aligned with the credit policies and GRAF.

5.0 Credit Risk Management (Cont'd.)

Exposure outside the approval discretions of individual Credit Approval Delegation ("CAD") holders are escalated to the Credit and Commitments Committee (“CACC”) for approval. In the event such exposure exceeds a stipulated customer group threshold within the AMMB 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 committees.

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 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 financing delinquency buckets and exposures by industry sectors are reported monthly to executive management and to all meetings of the Board.

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 standards/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.

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.

Where exposures are being restructured, such restructuring is guided by the definition and requirements of R&R provided by BNM Credit Risk Policy.

5.1 Impairment (Cont'd.)

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 ECL.

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

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

i. Stage 1: For performing financial instruments which credit risk had not been significantly increased in credit risk since initial recognition.

ii. Stage 2: For underperforming financial instruments which credit risk had significantly increased since initial recognition.

iii. Stage 3: For financial instruments which are credit impaired.

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:

2021	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	-	-	-	-	-	-	-	-	10,727,009	-	-	-	-	-	10,727,009
Public Sector Entities	-	-	-	-	-	-	-	-	2,932	-	-	-	-	-	2,932
Banks, DFIs and MDBs	-	-	-	-	-	-	-	1,041,965	-	-	-	-	-	-	1,041,965
Corporates	1,183,068	741,311	4,327,977	572,053	2,425,884	2,375,077	2,864,513	1,800,462	-	2,457,996	686,414	335,121	50,282	9	19,820,167
Regulatory Retail	6,994	2,760	102,273	7,000	41,258	164,202	49,572	454	-	5,941	72,613	11,838	18,321,588	1	18,786,494
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	-	-	302,721	-	302,721
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	-	1,003	-	1,003
Other Assets	-	-	-	-	-	-	-	-	96,500	-	-	-	-	94,945	191,445
Defaulted Exposures	44,005	1,699	18,647	89	3,407	44,775	38,826	-	-	238,487	5,040	1,024	116,220	-	512,219
Total for On Balance Sheet Exposures	1,234,067	745,770	4,448,897	579,142	2,470,549	2,584,054	2,952,911	2,842,881	10,826,441	2,702,424	764,067	347,983	18,791,814	94,955	51,385,955
Off-Balance Sheet Exposures															
OTC Derivatives	-	-	63,448	-	-	287	-	151,649	-	-	-	-	-	-	215,384
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	194,309	55,432	782,989	63,648	888,647	483,388	180,331	181,615	-	243,219	68,270	52,617	574,519	1	3,768,985
Defaulted Exposures	-	68	17	-	5	151	68	-	-	501	-	-	1,368	-	2,178
Total for Off-Balance Sheet Exposures	194,309	55,500	846,454	63,648	888,652	483,826	180,399	333,264	-	243,720	68,270	52,617	575,887	1	3,986,547
Total On and Off-Balance Sheet Exposures	**1,428,376**	**801,270**	**5,295,351**	**642,790**	**3,359,201**	**3,067,880**	**3,133,310**	**3,176,145**	**10,826,441**	**2,946,144**	**832,337**	**400,600**	**19,367,701**	**94,956**	**55,372,502**

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.)

2020 (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	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[Note 1]	1,344,411	1,094,724	3,833,901	480,364	2,493,980	1,629,166	2,498,657	2,255,060	-	2,675,642	1,446,828	939,865	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[Note 1]	48,154	1,773	20,389	-	21,500	34,124	46,034	-	-	238,756	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	1,779,328	2,581,377	3,385,651	7,150,817	2,918,196	1,479,217	949,597	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[Note 1]	123,377	31,377	736,844	41,442	1,392,971	327,771	289,378	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	328,538	289,378	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**	**2,107,866**	**2,870,755**	**3,632,580**	**7,150,817**	**3,053,938**	**1,578,832**	**1,010,467**	**15,778,572**	**89,695**	**49,158,129**

Note 1:
The Bank continuously strengthen its regulatory reporting framework. The Bank 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 entities. In the previous financial year, the Bank 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 Bank makes disclosures pertaining to financing and advances and related allowances for expected credit losses by sector. The comparatives in certain tables 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 exposure.

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:

2021	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	Total RM'000
Impaired financing	44,911	2,284	30,899	100	4,295	71,058	40,280	-	243,134	5,167	1,022	169,924	**613,074**
Past due financing	108,467	-	8,713	715	13,085	85,373	109,577	-	22,052	4,356	329	1,025,648	**1,378,315**
Allowances for expected credit loss	5,353	1,198	97,849	1,200	11,302	38,287	25,452	28,379	15,130	3,357	749	607,419	**835,675**
Charges/(writeback) for individual allowance	(40)	67	5,346	-	44	25,072	(1,561)	-	18,239	95	-	-	**47,262**
Write-offs against individual allowances	-	79	2,047	-	283	2,869	-	-	35,078	5,779	-	-	**46,135**

2020 (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	Total RM'000
Impaired financing	47,758	2,371	29,403	-	3,259	55,245	49,179	-	243,083	11,198	1,453	172,401	**615,350**
Past due financing	2,799	271	144,794	1,254	81,403	163,015	80,550	156	327,893	36,450	4,205	3,188,424	**4,031,214**
Allowances for expected credit loss	8,066	7,468	26,592	3,572	9,293	14,156	7,999	1,943	29,922	11,854	1,245	244,368	**366,478**
Charges/(Writeback) 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**

* Refer Note in Table 5.1

Table 5.3: Geographical distribution of credit exposures

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

2021	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	10,727,009	-	10,727,009
Public Sector Entities	2,932	-	2,932
Banks, DFIs and MDBs	917,388	124,577	1,041,965
Corporates	19,820,167	-	19,820,167
Regulatory Retail	18,786,494	-	18,786,494
Residential Mortgages	302,721	-	302,721
Higher Risk Assets	1,003	-	1,003
Other Assets	191,445	-	191,445
Defaulted Exposures	512,219	-	512,219
Total for On Balance Sheet Exposures	51,261,378	124,577	51,385,955
Off-Balance Sheet Exposures			
OTC Derivatives	215,384	-	215,384
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	3,768,985	-	3,768,985
Defaulted Exposures	2,178	-	2,178
Total for Off-Balance Sheet Exposures	3,986,547	-	3,986,547
Total On and Off-Balance Sheet Exposures	**55,247,925**	**124,577**	**55,372,502**

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

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

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 5.4: 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:

2021	Total RM'000
Impaired financing	613,074
Past due financing	1,378,315
Allowances for expected credit loss	835,675

2020	Total RM'000
Impaired financing	615,350
Past due financing	4,031,214
Allowances for expected credit loss	366,478

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:

2021	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	9,016,338	-	-	81,456	284,399	544,432	800,384	-	10,727,009
Public Sector Entities	-	-	-	-	-	2,281	651	-	2,932
Banks, DFI and MDB	584,503	199,656	10,135	40,116	160,435	41,897	5,223	-	1,041,965
Corporates	5,548,433	1,723,914	1,007,116	1,675,606	1,025,593	2,288,742	6,550,763	-	19,820,167
Regulatory Retail	17,268	34,097	42,411	210,029	1,012,298	1,350,789	16,119,602	-	18,786,494
Residential Mortgages	116	330	82	728	6,724	13,255	281,486	-	302,721
Higher Risk Assets	-	-	-	-	-	-	1,003	-	1,003
Other Assets	96,500	-	-	-	-	-	-	94,945	191,445
Defaulted Exposures	289,659	861	2,230	27,237	17,396	11,382	163,454	-	512,219
Total for On-Balance Sheet Exposures	15,552,817	1,958,858	1,061,974	2,035,172	2,506,845	4,252,778	23,922,566	94,945	51,385,955
Off-Balance Sheet Exposures									
OTC Derivatives	1,389	1,192	20,049	9,135	29,069	154,550	-	-	215,384
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	378,526	109,200	305,868	2,671,989	34	3,797	299,571	-	3,768,985
Defaulted Exposures	209	68	-	726	203	-	972	-	2,178
Total for Off-Balance Sheet Exposures	380,124	110,460	325,917	2,681,850	29,306	158,347	300,543	-	3,986,547
Total On and Off-Balance Sheet Exposures	**15,932,941**	**2,069,318**	**1,387,891**	**4,717,022**	**2,536,151**	**4,411,125**	**24,223,109**	**94,945**	**55,372,502**

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.)

2020 (Restated)*	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No Maturity specified RM'000	Total RM'000
On-Balance Sheet Exposures									
Sovereigns/Central Banks	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
Insurance Companies, Securities Firms and Fund Managers	-	-	-	-	-	-	-	-	-
Corporates	6,116,792	1,657,399	725,232	2,646,009	1,801,299	2,375,016	5,435,418	-	20,757,165
Regulatory Retail	7,492	10,925	28,601	659,418	1,024,947	1,490,736	11,885,078	-	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	34,411	17,002	19,376	157,657	-	537,981
Total for On-Balance Sheet Exposures	12,876,087	1,770,617	758,623	3,344,450	3,068,957	4,351,501	18,817,886	89,273	45,077,394
Off-Balance Sheet Exposures									
OTC Derivatives	1,427	3,724	32,694	110,132	-	135,837	-	-	283,814
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	365,739	134,424	437,699	2,328,200	91	746	527,771	-	3,794,670
Defaulted Exposures	222	1	-	648	38	203	1,139	-	2,251
Total for Off-Balance Sheet Exposures	367,388	138,149	470,393	2,438,980	129	136,786	528,910	-	4,080,735
Total On and Off-Balance Sheet Exposures	**13,243,475**	**1,908,766**	**1,229,016**	**5,783,430**	**3,069,086**	**4,488,287**	**19,346,796**	**89,273**	**49,158,129**

*Refer Note in Table 5.1

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 2021 ("FY 2021")	(Charge off)/recoveries RM'000
Bad debts written off during the financial year	(18,032)
Bad debt recoveries during the financial year	117,674

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

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 rating from the following external credit assesment institutions (ECAIs) are used:

- 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:

2021

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%	10,727,009	-	202,333	2,659,553	61	-	-	96,500	13,685,456	-
20%	-	2,932	860,480	1,066,873	115,062	-	-	-	2,045,347	409,069
35%	-	-	-	-	-	241,706	-	-	241,706	84,597
50%	-	-	133,777	27,663	6,006	72,535	-	-	239,981	119,991
75%	-	-	-	-	7,057,968	-	-	-	7,057,968	5,293,476
100%	-	-	-	17,603,472	9,186,083	4,829	-	94,945	26,889,329	26,889,329
150%	-	-	-	195,530	31,549	-	1,620	-	228,699	343,049
Total	10,727,009	2,932	1,196,590	21,553,091	16,396,729	319,070	1,620	191,445	50,388,486	33,139,511

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.)

2020

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%	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 6.2: Rated Exposures according to Ratings by ECAIs

2021

		Ratings of Corporate by Approved ECAIs		
	Moody's	Aaa to Aa3	A1 to A3	Unrated
	Fitch	AAA to AA-	A+ to A-	Unrated
	RAM	AAA to AA3	A1 to A3	Unrated
	MARC	AAA to AA-	A+ to A-	Unrated
	Total			
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)	2,932	-	-	2,932
Corporates	23,379,566	707,161	-	22,672,405
Total	**23,382,498**	**707,161**	**-**	**22,675,337**

2020

		Ratings of Corporate by Approved ECAIs		
	Moody's	Aaa to Aa3	A1 to A3	Unrated
	Fitch	AAA to AA-	A+ to A-	Unrated
	RAM	AAA to AA3	A1 to A3	Unrated
	MARC	AAA to AA-	A+ to A-	Unrated
	Total			
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**

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

2021

		Ratings of Sovereigns and Central Banks by Approved ECAIs				
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Total					
Exposure Class	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Sovereigns and Central Banks	10,727,009	-	-	10,727,009	-	-
Total	**10,727,009**	**-**	**-**	10,727,009	-	-

2020

		Ratings of Sovereigns and Central Banks by Approved ECAIs				
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Total					
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**	-	-	-

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

2021

		Ratings of Banking Institutions by Approved ECAIs			
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	Total				
Exposure Class	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off-Balance Sheet Exposures					
Banks, DFIs and MDBs	1,196,590	256,451	133	-	940,006
Total	1,196,590	256,451	133	-	940,006

2020

		Ratings of Banking Institutions by Approved ECAIs			
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	Total				
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

7.0 Credit Risk Mitigation

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.

The Group 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 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. Where a counterparty's corporate guarantor is rated better than the counterparty, the credit risk rating of the counterparty shall be substituted with that of the corporate guarantor subject to fulfilling certain stipulated conditions.

Guarantee by a counterparty with lower rating than the customer is not recognised for credit risk mitigation purposes.

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 tenure the financing, amortisation schedules and financing covenants. These assist in managing credit risk and providing early warning signals, to enable pre-emptive actions to protect the quality or recoverability of financing assets.

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 2021	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	10,727,009	-	-
Public Sector Entities	2,932	-	-
Banks, DFIs and MDBs	1,041,965	-	-
Corporates	19,820,167	475,285	1,313,450
Regulatory Retail	18,786,494	111,190	3,885,464
Residential Mortgages	302,721	-	5
Higher Risk Assets	1,003	-	-
Other Assets	191,445	-	-
Defaulted Exposures	512,219	6,927	88,076
Total On-Balance Sheet Exposures	51,385,955	593,402	5,286,995
Off-Balance Sheet Exposures			
OTC Derivatives	215,384	-	-
Credit Derivatives	-	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	3,768,985	340,352	1,697,017
Defaulted Exposures	2,178	-	869
Total Off-Balance Sheet Exposures	3,986,547	340,352	1,697,886
Total On and Off-Balance Sheet Exposures	**55,372,502**	**933,754**	**6,984,881**

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 for 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 for 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**

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 3 main categories as follows:

- 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) profit rate related contracts (profit 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:

2021	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	573,954		573,940	397,636
Transaction related contingent items	862,352		431,176	328,390
Short term self liquidating trade related contingencies	43,131		8,626	7,931
Forward asset purchases	237,329		16,748	3,620
Foreign exchange related contracts	1,639,859	4,586	64,506	64,196
One year or less	888,669	4,464	13,146	12,836
Over one year to five years	751,190	122	51,360	51,360
Other commodity contracts	70,332	4,811	9,031	4,516
Over one year to five years	70,332	4,811	9,031	4,516
OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	3,377,802	40,270	141,847	80,234
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	595,233		297,405	234,461
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	5,952,699		2,165,386	567,685
Unutilised credit card lines	1,389,410		277,882	207,826
Total	14,742,101	49,667	3,986,547	1,896,495

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
Profit rate related 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

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 2021 and 31 March 2020.

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 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 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, ORM training and reporting of operational risk triggers, breaches, Key Control Testing ("KCT") exceptions, operational loss incidents to GMRC, RMC and the Board.

- Group Internal Audit Deparment ("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 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.

10.1 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 ("BIA") • Risk Assessment
Control/ Mitigation	• Policies governing the BCM implementation • BCM methodologies controlling the process flow • Implementing the Business Continuity ("BC") Plan
Monitoring/ Review	• BC Plan testing and exercise • Review of BC Plan • BC site readiness and 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 identification of critical functions through BIA exercise for the development of recovery strategy. BCM builds the resilience and recovery capability to safeguard the interest of the AMMB Group's stakeholders by protecting our brand and reputation.

The BCM process complements the effort of the recovery team 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 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 risks 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 AMMB Group's IT infrastructure and cyber security capabilities are of paramount importance, especially with regards to safeguarding customers' information.

The AMMB Group continues to enhance its cyber security controls framework, execute internal assessment reviews, build defense mechanisms and uplift governance processes alongside the AMMB 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 AMMB 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 AMMB 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 AMMB 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 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/Group Management Committee ("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 AMMB 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 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 the AMMB Group's processes and increasing awareness on the role of every employee to be compliant and safeguard the 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.

10.4 Regulatory Compliance Risk (Cont'd.)

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. The 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. The AMMB Group has zero tolerance for any form of bribery or corruption.

The AMMB Group continues to exercise and enhance its due diligence governance process and remains vigilant towards emerging risks 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 ("TMR")

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 explanation for any non-adherence event to 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 RORBB 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 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 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 various 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 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.

31 March 2021 **MYR**	**Rate of Return** **+ 100 bps** **RM'000**	**Rate of Return** **- 100 bps** **RM'000**
Impact on profit before zakat and taxation	30,888	(30,888)
Impact on equity	(240,219)	265,466

31 March 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

12.0 Equities (Banking Book Positions)

The Bank did not have any equity investment as at 31 March 2021 and 31 March 2020.

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") • Net Stable Funding Ratio ("NSFR") • Depositor Concentration Ratios • Other Detailed Controls
Control/ Mitigation	• LCR Limits • NSFR Limits/Triggers • Depositor 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 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, 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.

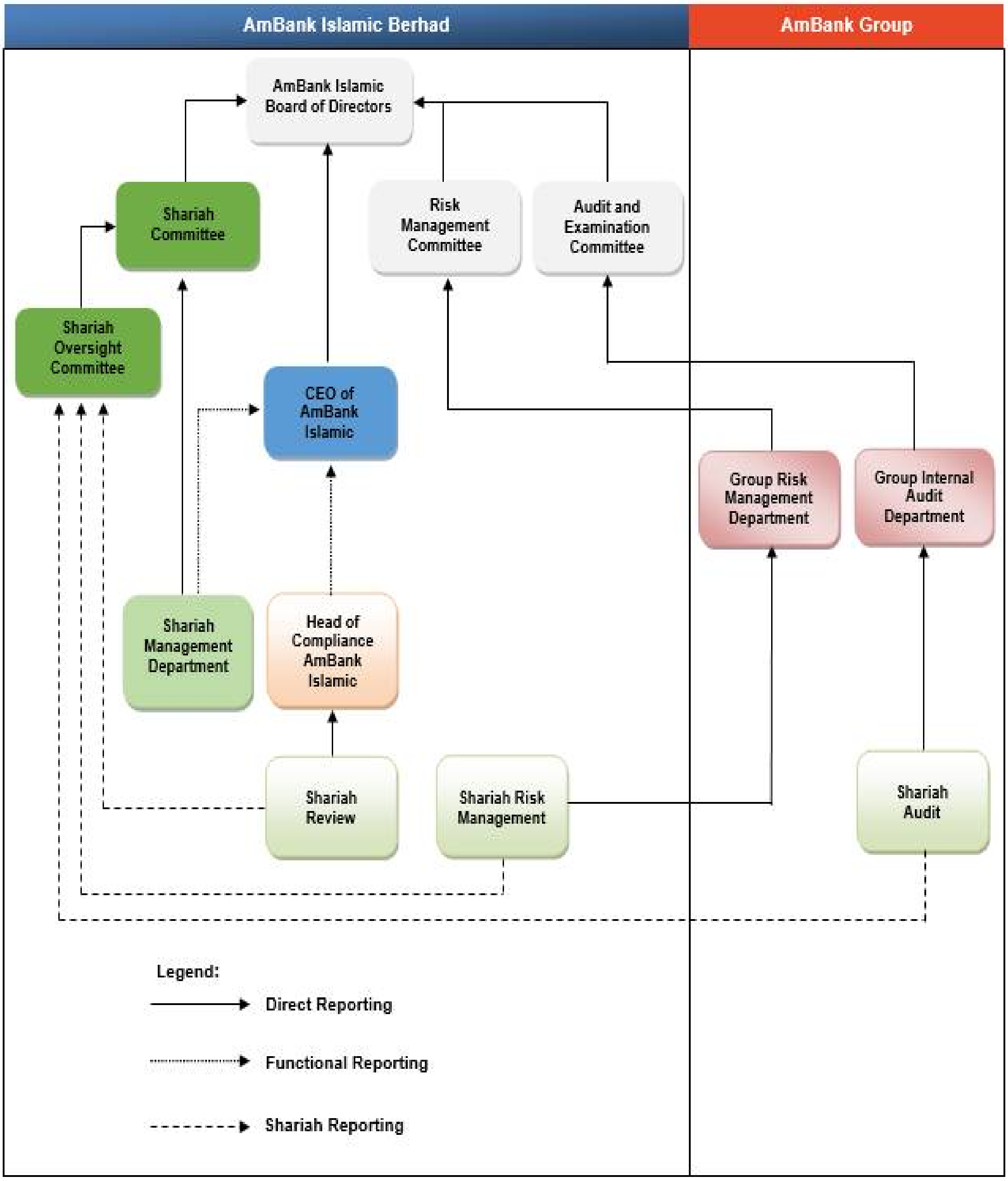
13.0 Liquidity Risk and Funding Management (Cont'd.)

Various liquidity measurements have been put in place to support the broader strategic objectives of the Bank and amongst others include the BNM LCR, BNM NSFR, 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.

14.0 Shariah Governance Structure



The Bank has established its Shariah governance structure in accordance with the requirements of the Islamic Financial Services Act 2013 ("IFSA") and BNM's Policy Document on Shariah Governance. This is to ensure that the operations and business activities of the Bank comply with Shariah principles and its requirements.

Apart from Shariah Management, Shariah Risk Management and Shariah Review functions which reside in the Bank, the Bank's Shariah governance structure leverages on 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 performance 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 the Bank's operations are Shariah compliant through the independent assurance from the Shariah Audit function performed by Group Internal Audit Department. The reports from the Shariah Review are also presented to the AEC for information.

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 Senior Management on Shariah matters as well as endorsing and validating products and services, Shariah policies and the relevant documentation in relation to the Bank's business and operations. The Shariah Committee also provides advice and guidance on management of zakat fund, charity and other social programmes or activities.

Shariah Oversight Committee

The Shariah Oversight Committee, which is a sub-committee to the Shariah Committee, performs an oversight function via the Shariah Control Functions (i.e. Shariah Review, Shariah Risk Management, and Shariah Audit). The Shariah Oversight Committee 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 senior officers of the Bank and AMMB Group are responsible to make reference to the Shariah Committee and/or Shariah Oversight Committee on Shariah matters and to take necessary measures for implementation. The Senior Management 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 Management

Shariah Management Department is accountable to the Shariah Committee and is responsible for providing operational support for effective functioning of the Shariah Committee including day-to-day Shariah advisory, conducting Shariah research, formulating Shariah policies and acting as Secretariat to the Shariah Committee and the Shariah Oversight Committee.

Shariah Risk Management

Shariah Risk Management ("SRM") section is accountable to the Group Risk Management Department and CEO with Shariah reporting to the Shariah Oversight Committee. SRM is a function that systematically identifies, measures, monitors and reports Shariah non-compliance risks in the business, operations, affairs and activities of the Bank.

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 and Shariah Review; 3rd - Shariah Audit.

Shariah Review

Shariah Review Section is accountable to the Bank's Head of Compliance with Shariah reporting to the Shariah Oversight Committee. Shariah review refers to a function that conducts regular assessment on the compliance of the operations, business, affairs and activities of the Bank with Shariah requirements.

Shariah Audit

Shariah Audit Section is accountable to the AEC with Shariah reporting to Shariah Oversight Committee. A designated team within the Group Internal Audit Department, which is responsible to conduct independent assessment on the quality and effectiveness of the Bank's internal control, risk management systems, governance processes as well as the overall compliance of the Bank's operations, business, affairs and activities with Shariah. Shariah audit's scope will include but not limited to activities undertaken by departments and functions that relate to Islamic products and services.

14.1 Shariah Non-Compliant Income

For the financial year ended 31 March 2021, there were two (2) Shariah non-compliant ("SNC") incidents relating to the extension of Cash Line-i facilities without aqad and the use of insurance coverage for Industrial Hire Purchase-i facilities. SNC income estimated at approximately RM353,000 will be purified, the method of which will be in accordance with the method approved by the Shariah Oversight Committee.

Prompted by the similar SNC incident which was discovered in the financial year ended 31 March 2020, the SNC incident relating to the extension of Cash Line-i facilities without aqad was part of the Bank's conscious effort to proactively identify any other potential SNC incidents involving Cash Line-i facilities. Given that this SNC incident is of similar nature to the one (1) incident which occurred in the financial year ended 31 March 2020, both SNC incidents are grouped as a single SNC incident which were deemed to occur in the financial year ended 31 March 2020.

In relation to the use of insurance coverage for Industrial Hire Purchase-i facilities, the Industrial Hire Purchase-i contracts remain valid and the income can be fully recognised by the Bank.

The Bank has implemented measures such as improving controls and process, as well as conducting training on the improved processes to heighten staff awareness in order to mitigate similar incidents from recurring in the future. For the financial year ended 31 March 2020, there were four (4) Shariah non-compliant ("SNC") incidents involving SNC income of approximately RM50,000.

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.

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.

As part of the measures to further enhance financing capacity of the bank, the bank is allowed to recognise the placement of Investment accounts for the purpose of:

- Computation of Single Customer Exposure ("SCEL"); where the RA placement maintained by the bank shall be captured via look-through approach whereby the exposure to the counterparty in relation to the underlying asset invested by the bank. The exposure shall be aggregated with all other exposure to such counterparty which in this case AmBank.

- Credit and market risk weighted assets funded by RA and UA are allowed to be excluded from the bank's calculation of Risk Weighted Capital Ratio ("RWCR"). Hence, allowing the bank to enhance its financing capacity.

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

The IA are structured based on application of Shariah contracts on terms which do not create an obligation on the bank to repay in full the money accepted from the IAH. The structure and term of the IA provide sufficient legal enforceability to affect the loss bearing or loss transfer arrangement to IAH in accordance with Shariah.

Although the risk will be borne by the investor, the bank will ensure the assets portfolio tagged to the investment accounts are being monitored diligently by specific team set up by the bank. For RA, the selection of financing assets among others will take into considerations the Risk Grade (“RG”), arrears position, tenor of the facility and also collateral value. The return will also be determined based on the Investment account holders risk appetite. For UA, the bank will invest in low risk investment portfolio comprised of pool of good quality mortgages accounts which are limited to only performing accounts.

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", 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.

The RA placement will be limited to a cap agreed and approved by the management and Board of Directors for both the bank and AmBank. In addition, the identified assets funded by RA shall be based on the criteria that has been agreed and approved by the relevant committees of the bank and AmBank.

The bank conducts regular review of the disclosure policies to ensure reliable, relevant and timely information to the bank to facilitate the evaluation of RA performance and the risks associated with the assets portfolio.

The contract or Aqad encompassed terms and conditions including but not limited to the followings:

i. The description of the shariah concept used the RA arrangement
ii. Placement amount
iii. Tenor in months or days (whichever applicable)
iv. Profit Sharing Ratio (“PSR”) for Mudarabah
v. Description of Assets/ Investments matched with the funding

In managing the liquidity risk for RA, the redemption conditions imposed on AmBank would significantly mitigate the liquidity risk exposure of the bank.

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 the bank 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 fund is invested in investment asset with competitive pricing and good asset quality. The investment asset subscribes to the bank's internal credit controls as regulated by Bank Negara Malaysia. Investment asset allocated is Shariah compliant retail mortgage portfolio of the bank. The bank managed the investment return in a manner consistent with IAH investment objective and the related governing rules and regulations.

Valuation methodology employed is in accordance with sound industry practice and consistent with the Malaysian Financial reporting standards. The bank monitored the performance of the Investment asset on monthly basis. The net return / loss on the MTIA are displayed at our branches and published on the bank website.

MTIA Performance

As at 31 March 2021, balance of MTIA stood at RM76.5 million (31 March 2020: RM192.6 million). The performance of MTIA is as described in the table below :

As at 31 March 2021	%
Return on Assets ("ROA")	4.08
Average Net Distributable Income Attributable to the IAH	4.71
Average Profit Sharing Ratio to the IAH	57.98

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