Registration No. 199401009897 (295576–U)

AmBank Islamic Berhad
Pillar 3 Disclosure

31 March 2023

CAFIB - Pillar 3 Disclosure
For 31 March 2023

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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 ("D-SIB").

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 an optimal 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 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 Assets and Liabilities Committee ("GALCO") is responsible for overseeing and managing the Bank's 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 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 a portion of the loss allowance for non-credit-impaired exposures (i.e. Stage 1 and Stage 2 provisions) to Common Equity Tier 1 ("CET1") Capital from Financial Year 2021 to Financial Year 2024.

Table 2.1: Capital Adequacy Ratios

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

Under transitional arrangement (Note (i))

	2023	**2022**
CET 1 Capital ratio	12.616%	12.489%
Tier 1 Capital ratio	12.616%	12.489%
Total Capital ratio	17.127%	17.292%

2.0 Capital Management (Cont'd.)

Notes:

(i) Pursuant to the revised BNM policy document, Capital Adequacy Framework for Islamic Banks (Capital Components) issued on 9 December 2020, the capital ratios of the Bank had been computed applying transitional arrangement on provision for ECL. Had the transitional arrangement not been applied, the capital ratios of the Bank as at 31 March 2023 and 31 March 2022 are as follow:

	2023	2022
CET 1 Capital Ratio	12.026%	11.763%
Tier 1 Capital ratio	12.026%	11.763%
Total Capital ratio	16.801%	16.948%

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 its exposure as "Investment account placement" 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 2023, the gross exposure and collective allowance relating to the RA financing were RM1,542.3 million and RM1.3 million respectively (31 March 2022: RM1,713.8 million and RM2.2 million respectively). There was no Stage 3 expected credit losses 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 2023, the outstanding MTIA-i stood at RM2.7 million (31 March 2022: RM361.3 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 2023 amounted to RM1,545.0 million (31 March 2022: RM2,075.1 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:

2023

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 Profit Sharing Investment Account ("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		7,570,740	7,570,740	-	-	-	-
Public Sector Entities		1,814	1,814	363	-	363	29
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDBs")		481,487	481,487	122,029	-	122,029	9,763
Insurance Companies, Securities Firms and Fund Managers		2,588	2,588	2,588	-	2,588	207
Corporates		26,328,156	25,854,084	18,714,218	1,542,297	17,171,921	1,373,754
Regulatory Retail		16,603,955	12,586,915	10,463,089	2,740	10,460,349	836,828
Residential Mortgages		8,071,639	8,071,639	3,322,342	-	3,322,342	265,787
Higher Risk Assets		285	285	427	-	427	34
Other Assets		190,279	190,279	107,970	-	107,970	8,638
Defaulted Exposures		450,982	449,883	386,652	-	386,652	30,931
Total for On-Balance Sheet Exposures		**59,701,925**	**55,209,714**	**33,119,678**	**1,545,037**	**31,574,641**	**2,525,971**
Off-Balance Sheet Exposures							
Over the counter ("OTC") Derivatives		139,241	139,241	99,149	-	99,149	7,932
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		4,007,772	2,518,865	2,109,605	-	2,109,605	168,768
Defaulted Exposures		12,321	10,433	15,614	-	15,614	1,249
Total for Off-Balance Sheet Exposures		**4,159,334**	**2,668,539**	**2,224,368**	**-**	**2,224,368**	**177,949**
Total On and Off-Balance Sheet Exposures		**63,861,259**	**57,878,253**	**35,344,046**	**1,545,037**	**33,799,009**	**2,703,920**
2. **Large Exposure Risk Requirement**				-	-	-	-
3. **Market Risk**	**Long Position**	**Short Position**					
Rate of Return Risk							
- General profit rate risk	6,426,570	3,782,414		183,832	-	183,832	14,707
- Specific profit rate risk	2,569,138	-		8,398	-	8,398	672
Foreign Currency Risk	397	110,127		110,127	-	110,127	8,810
Option Risk	150,000	-		2,320	-	2,320	186
Total	**9,146,105**	**3,892,541**		**304,677**	**-**	**304,677**	**24,375**
4. **Operational Risk**				1,969,050	**-**	1,969,050	157,524
5. **Total RWA and Capital Requirements**				**37,617,773**	**1,545,037**	**36,072,736**	**2,885,819**

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.)

2022

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		5,670,050	5,670,050	-	-	-	-
Public Sector Entities		2,391	2,391	478	-	478	38
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDBs")		1,586,576	1,586,576	277,602	-	277,602	22,208
Corporates		20,179,732	19,653,202	16,721,101	1,713,786	15,007,315	1,200,585
Regulatory Retail		16,439,228	12,381,462	10,475,539	361,288	10,114,251	809,140
Residential Mortgages		6,082,810	6,082,810	2,468,693	-	2,468,693	197,496
Higher Risk Assets		984	984	1,475	-	1,475	118
Other Assets		187,473	187,473	90,973	-	90,973	7,278
Defaulted Exposures		499,947	499,273	450,373	-	450,373	36,030
Total for On-Balance Sheet Exposures		**50,649,191**	**46,064,221**	**30,486,234**	**2,075,074**	**28,411,160**	**2,272,893**
Off-Balance Sheet Exposures							
Over the counter ("OTC") Derivatives		200,236	200,236	134,324	-	134,324	10,746
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		3,910,511	2,466,272	1,885,226	-	1,885,226	150,818
Defaulted Exposures		5,206	1,717	2,552	-	2,552	204
Total for Off-Balance Sheet Exposures		**4,115,953**	**2,668,225**	**2,022,102**	**-**	**2,022,102**	**161,768**
Total On and Off-Balance Sheet Exposures		**54,765,144**	**48,732,446**	**32,508,336**	**2,075,074**	**30,433,262**	**2,434,661**
2. **Large Exposure Risk Requirement**				-	-	-	-
3. **Market Risk**	**Long Position**	**Short Position**					
Rate of Return Risk							
- General profit rate risk	5,176,242	4,157,260		113,360	-	113,360	9,069
- Specific profit rate risk	992,354	40,620		7,230	-	7,230	578
Foreign Currency Risk	1,027	92,512		92,512	-	92,512	7,401
Option Risk	130,000	-		2,011		2,011	161
Total	**6,299,623**	**4,290,392**		**215,113**	**-**	**215,113**	**17,209**
4. **Operational Risk**				1,760,237	**-**	1,760,237	140,819
5. **Total RWA and Capital Requirements**				**34,483,686**	**2,075,074**	**32,408,612**	**2,592,689**

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.

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.

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

The salient features of the Sukuk Murabahah issued under this programme and outstanding as at 31 March 2023 are as follows:

Issue Date	First Call Date	Tenor	Profit Rate	Nominal value (RM million)
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
8 March 2022	8 March 2027	10 years Non-Callable 5 years	4.25% per annum	250
28 March 2023	28 March 2028	10 years Non-Callable 5 years	4.53% per annum	150
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:

	2023 RM'000	2022 RM'000
CET 1 Capital		
Ordinary shares	1,387,107	1,387,107
Retained earnings	3,022,623	2,490,692
Fair value reserve	(9,188)	(3,893)
Less : Regulatory adjustments applied on CET1 Capital		
- Intangible assets	(298)	(495)
- Deferred tax assets	(62,097)	(61,249)
- Unrealised fair value gains on financial liabilities due to changes in own credit risk	(75)	(92)
- Other CET 1 regulatory adjustment specified by BNM	212,690	235,578
CET1 Capital/ Tier 1 Capital	4,550,762	4,047,648
Tier 2 Capital		
Tier 2 Capital instruments meeting all relevant criteria for inclusion	1,300,000	1,300,000
General provision*	327,419	256,523
Tier 2 Capital	1,627,419	1,556,523
Total Capital	6,178,181	5,604,171

* Consists of stage 1 and stage 2 loss allowances.

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

	2023 RM'000	2022 RM'000
Credit RWA	35,344,046	32,508,336
Less : Credit RWA absorbed by PSIA	(1,545,037)	(2,075,074)
Total Credit RWA	33,799,009	30,433,262
Market RWA	304,677	215,113
Operational RWA	1,969,050	1,760,237
Total RWA	36,072,736	32,408,612

4.0 General Risk Management

The Risk Management Framework takes its lead from the Board's Approved Risk Appetite Framework that forms the foundation for 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.

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) Harnessing expertise across AMMB Group to deliver AmBank Holistic Customer Value Proposition, (4) Offers differentiated and profitable products, (5) Building capacity and efficiency through Digital Initiatives, (6) Retaining and Embedding Principled, Proactive, Appreciative, Collaborative and Experimental ("P2ACE") DNA, (7) Integrating Environmental, Social and Governance ("ESG") focusing on Responsible banking and (8) Exploring Digital Bank option.

- AMMB Group aspires to have a minimum financial institution external rating of AA2 based on reference ratings by RAM Rating Services Berhad ("RAM").

- 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").

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

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

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

4.0 General Risk Management (Cont'd.)

AMMB Group Risk Direction (Cont'd.)

- 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"); and
  - Remain vigilant in risk identification and management to protect its reputation and business franchise.

- AMMB Group aims for at least 70% of its financing portfolio to constitute exposures with low Environmental, Social and Governance Risk Grade ("ESG-RG") by FY 2030.

- AMMB Group aims to maintain its Rate of Return Risk in Banking Book ("RORBB") Internal Capital Adequacy Assessment Programme ("ICAAP") Pillar 2 over total capital ratio for the Bank at below 8.5%.

Risk Management Governance

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

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

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, emerging risks and ESG risk;
- essentially champions and embeds a positive risk culture across the Bank to ensure that risk-taking activities across the Bank are aligned to the Bank's risk appetite and strategies; and
- through the RMC, has access to AMMB Board and the Boards of the respective banking entities to facilitate suitable escalation of issues of concern across the organisation.

4.0 General Risk Management (Cont'd.)

Impact of Expired Payment Holiday/ Repayment Assistance

There is potential emerging risk on small Small Medium Enterprises ("SMEs") following the expiry of payment holiday and repayment assistance plans offered to customers during the COVID-19 pandemic. Close monitoring is being carried out on this segment.

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

- The Group Risk Appetite, including 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 Internal Capital Adequacy Assessment Process (Cont'd.)

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 complies with minimum regulatory standards.

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

Requirements of the Banks

Principle 1:
•Banks to have an ICAAP in relation to their risk profile and a strategy for maintaining capital levels

Principle 3:
•Banks are expected to operate above the minimum regulatory capital ratios and should have the ability to hold capital in excess of the minimum

Requirements of the Regulator

Principle 2:
•Regulators to review and evaluate the Bank's ICAAP strategies
•Regulators to monitor and ensure Bank's compliance with regulatory capital ratios
•Regulators undertake appropriate supervisory action if unsatisfactory results

Principle 4:
•Early intervention by the Regulator to prevent capital from falling below the required minimum levels

Internal Capital Adequacy Assessment Process

Board and Management Oversight
- Material risks identified
- Material thresholds
- Group Risk Appetite
- Sufficient Capital Adequacy
- Targeted Financial Performance
- Planned Asset Growth & Strategic business objectives
- Policy/ Frameworks

Sound Capital Assessment
- Identification, Measurement and Reporting of Material Risks
- Compliance with minimum regulatory standards
- Clear linkage between risks and capital
- Capital Plan

Comprehensive Risk Assessment and Management Processes
- Credit Risk
- Market Risk
- Operational Risk
- Rate Risk in Banking Book
- Credit Concentration Risk

Monitoring and Reporting
- Level and Trend of Material Risks
- Sensitivity Analysis of key assumptions
- Regulatory Reporting to Board and Senior Management

Internal Control & Review
- Independent reviews of ICAAP (by internal audit)
- Ongoing compliance monitoring
- Stress Testing
- Documented processes/ frameworks

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”) • Expected loss ("EL") • Gross Impaired Financing ("GIF")
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 postmortem credit review • Annual refresh of customers' credit risk rating

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 GRAF 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") and Retail Credit Policy ("RCP") which sets out the credit principles and requirements managing credit risk in the Wholesale Banking ("WB"), Business Banking ("BB") and Retail Banking ("RB") 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, and RCP for RB) sets out the controls in managing R&R financing; and
- Setting Retail risk controls capping for higher risk segment, 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 relevant governance for the respective Line of Businesses is 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 Bank 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; or

(c) Other indicators stipulated in the relevant guidelines indicating the unlikeliness to repay are hit.

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 the Group recognises Expected Credit Loss ("ECL") at all times 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. The Group calculates 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 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	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(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:

2023	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	-	-	-	-	-	-	-	-	7,570,740	-	-	-	-	-	7,570,740
Public Sector Entities	-	-	-	-	-	-	-	-	1,814	-	-	-	-	-	1,814
Banks, DFIs and MDBs	-	-	-	-	-	-	-	481,487	-	-	-	-	-	-	481,487
Insurance Companies, Securities Firms and Fund Managers	-	-	-	-	-	-	-	2,588	-	-	-	-	-	-	2,588
Corporates	2,172,507	943,167	4,803,398	1,042,437	2,119,422	3,092,454	2,471,664	5,686,608	-	2,859,219	659,238	426,035	47,161	4,846	26,328,156
Regulatory Retail	4,278	2,516	109,220	3,601	42,859	176,120	54,569	3,419	-	7,447	55,689	11,556	16,132,548	133	16,603,955
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	-	-	8,071,639	-	8,071,639
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	-	285	-	285
Other Assets	-	-	-	-	-	-	-	-	82,309	-	-	-	-	107,970	190,279
Defaulted Exposures	548	129,422	28,810	152	5,833	24,915	1,911	-	-	5,885	2,651	919	249,936	-	450,982
Total for On Balance Sheet Exposures	2,177,333	1,075,105	4,941,428	1,046,190	2,168,114	3,293,489	2,528,144	6,174,102	7,654,863	2,872,551	717,578	438,510	24,501,569	112,949	59,701,925
Off-Balance Sheet Exposures															
OTC Derivatives	-	-	43,053	120	-	617	-	95,451	-	-	-	-	-	-	139,241
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	77,644	30,456	952,820	104,752	941,875	527,004	225,517	24,702	-	160,520	62,561	32,962	866,561	398	4,007,772
Defaulted Exposures	-	1,574	5,426	-	81	306	80	-	-	234	-	-	4,620	-	12,321
Total for Off-Balance Sheet Exposures	77,644	32,030	1,001,299	104,872	941,956	527,927	225,597	120,153	-	160,754	62,561	32,962	871,181	398	4,159,334
Total On and Off-Balance Sheet Exposures	**2,254,977**	**1,107,135**	**5,942,727**	**1,151,062**	**3,110,070**	**3,821,416**	**2,753,741**	**6,294,255**	**7,654,863**	**3,033,305**	**780,139**	**471,472**	**25,372,750**	**113,347**	**63,861,259**

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.)

2022	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	-	-	-	-	-	-	-	-	5,670,050	-	-	-	-	-	5,670,050
Public Sector Entities	-	-	-	-	-	-	-	-	2,391	-	-	-	-	-	2,391
Banks, DFIs and MDBs	-	-	-	-	-	-	-	1,586,576	-	-	-	-	-	-	1,586,576
Corporates	1,012,293	191,982	4,643,119	519,087	1,864,106	2,707,218	2,473,175	2,443,356	-	2,537,420	782,750	963,981	41,243	2	20,179,732
Regulatory Retail	5,845	2,932	114,439	5,921	43,510	176,812	52,454	2,177	-	6,715	50,350	11,624	15,966,448	1	16,439,228
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	-	-	6,082,810	-	6,082,810
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	-	984	-	984
Other Assets	-	-	-	-	-	-	-	-	96,500	-	-	-	-	90,973	187,473
Defaulted Exposures	1	39,094	37,183	-	6,050	27,079	104,651	-	-	161,316	360	-	124,213	-	499,947
Total for On-Balance Sheet Exposures	1,018,139	234,008	4,794,741	525,008	1,913,666	2,911,109	2,630,280	4,032,109	5,768,941	2,705,451	833,460	975,605	22,215,698	90,976	50,649,191
Off-Balance Sheet Exposures															
OTC Derivatives	-	-	57,699	-	-	401	-	142,136	-	-	-	-	-	-	200,236
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	176,992	25,699	790,062	119,871	945,979	459,378	154,163	154,918	-	313,862	48,379	47,902	673,306	-	3,910,511
Defaulted Exposures	-	3,012	-	-	36	5	-	-	-	484	-	-	1,669	-	5,206
Total for Off-Balance Sheet Exposures	176,992	28,711	847,761	119,871	946,015	459,784	154,163	297,054	-	314,346	48,379	47,902	674,975	-	4,115,953
Total On and Off-Balance Sheet Exposures	**1,195,131**	**262,719**	**5,642,502**	**644,879**	**2,859,681**	**3,370,893**	**2,784,443**	**4,329,163**	**5,768,941**	**3,019,797**	**881,839**	**1,023,507**	**22,890,673**	**90,976**	**54,765,144**

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:

2023	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	614	38,685	50,598	167	19,933	70,256	3,817	-	498	2,857	1,645	332,085	**521,155**
Past due but not impaired financing	84,016	1,339	45,341	327	69,905	120,020	13,741	132	57,216	10,656	53,086	2,524,745	**2,980,524**
Allowances for expected credit loss	3,481	1,741	85,299	1,243	29,657	53,558	135,312	76,515	14,960	2,962	2,648	271,613	**678,989**
Charges/(Writeback) for individual allowance	-	14,339	21,957	-	3,464	27,917	1,065	-	(4,586)	-	676	-	**64,832**
Write-offs against individual allowances	-	136,650	11,961	-	-	23,584	-	-	-	-	-	-	**172,195**

2022	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	2	162,649	51,867	-	15,724	63,135	3,666	-	165,929	388	-	165,182	**628,542**
Past due but not impaired financing	85,907	576	9,251	39	19,901	52,291	10,687	179	7,531	7,827	1,618	1,580,788	**1,776,595**
Allowances for expected credit loss (restated)	6,119	123,800	108,044	752	20,534	52,848	128,548	56,141	12,335	3,733	1,304	179,426	**693,584**
Charges/(Writeback) for individual allowance	(905)	279,953	2,119	-	8,665	8,351	(708)	-	13,847	(64)	-	-	**311,258**
Write-offs against individual allowances	-	156,983	23	-	9	599	-	-	13,762	-	-	-	**171,376**

Table 5.3: Geographical distribution of credit exposures

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

2023	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	7,570,740	-	7,570,740
Public Sector Entities	1,814	-	1,814
Banks, DFIs and MDBs	413,454	68,033	481,487
Insurance Companies, Securities Firms and Fund Managers	2,588	-	2,588
Corporates	26,328,156	-	26,328,156
Regulatory Retail	16,603,955	-	16,603,955
Residential Mortgages	8,071,639	-	8,071,639
Higher Risk Assets	285	-	285
Other Assets	190,279	-	190,279
Defaulted Exposures	450,982	-	450,982
Total for On Balance Sheet Exposures	59,633,892	68,033	59,701,925
Off-Balance Sheet Exposures			
OTC Derivatives	139,241	-	139,241
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	4,007,772	-	4,007,772
Defaulted Exposures	12,321	-	12,321
Total for Off-Balance Sheet Exposures	4,159,334	-	4,159,334
Total On and Off-Balance Sheet Exposures	**63,793,226**	**68,033**	**63,861,259**

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

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

2022	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	5,670,050	-	5,670,050
Public Sector Entities	2,391	-	2,391
Banks, DFIs and MDBs	1,518,355	68,221	1,586,576
Corporates	20,179,732	-	20,179,732
Regulatory Retail	16,439,228	-	16,439,228
Residential Mortgages	6,082,810	-	6,082,810
Higher Risk Assets	984	-	984
Other Assets	187,473	-	187,473
Defaulted Exposures	499,947	-	499,947
Total for On-Balance Sheet Exposures	50,580,970	68,221	50,649,191
Off-Balance Sheet Exposures			
OTC Derivatives	200,236	-	200,236
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	3,910,511	-	3,910,511
Defaulted Exposures	5,206	-	5,206
Total for Off-Balance Sheet Exposures	4,115,953	-	4,115,953
Total On and Off-Balance Sheet Exposures	**54,696,923**	**68,221**	**54,765,144**

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:

2023	Total RM'000
Impaired financing	521,155
Past due but not impaired financing	2,980,524
Allowances for expected credit loss	678,989

2022	Total RM'000
Impaired financing	628,542
Past due but not impaired financing	1,776,595
Allowances for expected credit loss	693,584

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:

2023	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	2,045,564	299,004	800,910	410,857	823,705	212,009	2,978,691	-	7,570,740
Public Sector Entities	-	-	-	-	1,367	447	-	-	1,814
Banks, DFI and MDB	274,745	-	-	140,895	40,514	-	25,333	-	481,487
Insurance Companies, Securities Firms and Fund Managers	-	-	-	2,588	-	-	-	-	2,588
Corporates	9,465,837	2,670,248	1,172,211	2,160,951	2,867,672	2,306,056	5,685,181	-	26,328,156
Regulatory Retail	43,366	20,894	30,409	583,981	538,574	755,809	14,630,922	-	16,603,955
Residential Mortgages	141	17	66	413	5,424	12,947	8,052,631	-	8,071,639
Higher Risk Assets	-	-	-	-	-	-	285	-	285
Other Assets	82,309	-	-	-	-	-	-	107,970	190,279
Defaulted Exposures	63,694	408	533	12,611	19,681	24,717	329,338	-	450,982
Total for On-Balance Sheet Exposures	11,975,656	2,990,571	2,004,129	3,312,296	4,296,937	3,311,985	31,702,381	107,970	59,701,925
Off-Balance Sheet Exposures									
OTC Derivatives	1,853	2,215	17,693	37,296	10,953	69,231	-	-	139,241
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	689,941	151,269	215,358	2,359,765	2,139	1,711	587,589	-	4,007,772
Defaulted Exposures	142	625	116	6,935	-	23	4,480	-	12,321
Total for Off-Balance Sheet Exposures	691,936	154,109	233,167	2,403,996	13,092	70,965	592,069	-	4,159,334
Total On and Off-Balance Sheet Exposures	**12,667,592**	**3,144,680**	**2,237,296**	**5,716,292**	**4,310,029**	**3,382,950**	**32,294,450**	**107,970**	**63,861,259**

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.)

2022	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	2,801,388	-	40,627	112,439	352,885	516,816	1,845,895	-	5,670,050
Public Sector Entities	-	-	-	-	-	2,391	-	-	2,391
Banks, DFI and MDB	1,377,785	-	15,063	-	142,774	40,727	10,227	-	1,586,576
Corporates	6,656,834	2,086,678	773,981	1,399,667	2,265,708	1,679,616	5,317,248	-	20,179,732
Regulatory Retail	26,126	22,062	35,775	504,387	701,579	911,606	14,237,693	-	16,439,228
Residential Mortgages	129	32	254	400	8,160	12,987	6,060,848	-	6,082,810
Higher Risk Assets	-	-	-	-	-	-	984	-	984
Other Assets	96,500	-	-	-	-	-	-	90,973	187,473
Defaulted Exposures	223,482	2,400	523	16,123	15,036	16,553	225,830	-	499,947
Total for On-Balance Sheet Exposures	11,182,244	2,111,172	866,223	2,033,016	3,486,142	3,180,696	27,698,725	90,973	50,649,191
Off-Balance Sheet Exposures									
OTC Derivatives	1,725	614	11,311	54,764	12,546	119,276	-	-	200,236
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	479,982	321,758	244,926	2,416,841	4,214	52,248	390,542	-	3,910,511
Defaulted Exposures	196	81	1,218	2,238	-	9	1,464	-	5,206
Total for Off-Balance Sheet Exposures	481,903	322,453	257,455	2,473,843	16,760	171,533	392,006	-	4,115,953
Total On and Off-Balance Sheet Exposures	**11,664,147**	**2,433,625**	**1,123,678**	**4,506,859**	**3,502,902**	**3,352,229**	**28,090,731**	**90,973**	**54,765,144**

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 2023 ("FY 2023")	(Charge off)/Recoveries RM'000
Bad debts written off during the financial year	(11,519)
Bad debt recoveries during the financial year	142,234

Financial year ended 31 March 2022 ("FY 2022")	(Charge off)/Recoveries RM'000
Bad debts written off during the financial year	(14,658)
Bad debt recoveries during the financial year	108,598

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 assessment 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:

2023

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%	7,570,740	-	181,409	-	5,397,631	29,082	-	-	82,309	13,261,171	-
20%	-	1,814	98,366	-	2,369,615	81,557	-	-	-	2,551,352	510,270
35%	-	-	-	-	-	-	4,786,265	-	-	4,786,265	1,675,193
50%	-	-	287,072	-	209,549	9,499	3,360,696	-	-	3,866,816	1,933,408
75%	-	-	-	-	-	8,959,025	-	-	-	8,959,025	6,719,269
100%	-	-	-	2,588	19,744,391	4,428,249	65,863	-	107,970	24,349,061	24,349,061
150%	-	-	-	-	39,261	64,542	-	760	-	104,563	156,845
Total	7,570,740	1,814	566,847	2,588	27,760,447	13,571,954	8,212,824	760	190,279	57,878,253	35,344,046

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.)

2022

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%	5,670,050	-	198,565	-	2,093,806	20,900	-	-	96,500	8,079,821	-
20%	-	2,391	1,393,011	-	1,560,835	119,547	-	-	-	3,075,784	615,157
35%	-	-	-	-	-	-	3,854,811	-	-	3,854,811	1,349,184
50%	-	-	131,824	-	124,587	5,021	2,289,384	-	-	2,550,816	1,275,408
75%	-	-	-	-	-	7,770,372	-	-	-	7,770,372	5,827,779
100%	-	-	-	300	18,078,456	5,128,691	22,490	-	90,973	23,320,910	23,320,910
150%	-	-	-	-	45,217	33,111	-	1,604	-	79,932	119,898
Total	5,670,050	2,391	1,723,400	300	21,902,901	13,077,642	6,166,685	1,604	187,473	48,732,446	32,508,336

Table 6.2: Rated Exposures according to Ratings by ECAIs

2023

Exposure Class	Moody's / Fitch / RAM / MARC — Total	Ratings of Corporate by Approved ECAIs: Aaa to Aa3 / AAA to AA- / AAA to AA3 / AAA to AA-	A1 to A3 / A+ to A- / A1 to A3 / A+ to A-	Unrated / Unrated / Unrated / Unrated
	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)	1,814	-	-	1,814
Insurance Companies, Securities Firms and Fund managers	2,588	-	-	2,588
Corporates	29,631,049	1,963,860	76,442	27,590,747
Total	**29,635,451**	**1,963,860**	**76,442**	**27,595,149**

2022

Exposure Class	Moody's / Fitch / RAM / MARC — Total	Ratings of Corporate by Approved ECAIs: Aaa to Aa3 / AAA to AA- / AAA to AA3 / AAA to AA-	A1 to A3 / A+ to A- / A1 to A3 / A+ to A-	Unrated / Unrated / Unrated / Unrated
	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)	2,391	-	-	2,391
Insurance Companies, Securities Firms and Fund managers	300	-	-	300
Corporates	23,796,493	1,194,406	-	22,602,087
Total	**23,799,184**	**1,194,406**	**-**	**22,604,778**

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

2023

Exposure Class	Moody's Fitch RAM MARC Total RM'000	Ratings of Sovereigns and Central Banks by Approved ECAIs Baa1 to Ba3 BBB+ to BB- BBB1 to BB3 BBB+ to BB- RM'000
On and Off-Balance Sheet Exposures		
Sovereigns and Central Banks	7,570,740	7,570,740
Total	**7,570,740**	7,570,740

2022

Exposure Class	Moody's Fitch RAM MARC Total RM'000	Ratings of Sovereigns and Central Banks by Approved ECAIs Baa1 to Ba3 BBB+ to BB- BBB1 to BB3 BBB+ to BB- RM'000
On and Off-Balance Sheet Exposures		
Sovereigns and Central Banks	5,670,050	5,670,050
Total	**5,670,050**	5,670,050

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

2023

		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	566,847	256,009	69,407	10,953	230,478
Total	566,847	256,009	69,407	10,953	230,478

2022

		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	1,723,400	645,408	131,958	-	946,034
Total	1,723,400	645,408	131,958	-	946,034

7.0 Credit Risk Mitigation

COLLATERAL AND OTHER CREDIT ENHANCEMENT

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 Credit Risk Mitigation Policy is the internally recognised collateral framework for AMMB Group. Any collateral that 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 is able to be substituted with that of the corporate guarantor subject to fulfilling certain stipulated conditions for Non-Retail portfolio.

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 2023	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	7,570,740	-	-
Public Sector Entities	1,814	-	-
Banks, DFIs and MDBs	481,487	-	-
Insurance Companies, Securities Firms and Fund Managers	2,588	-	-
Corporates	26,328,156	2,894,933	1,333,773
Regulatory Retail	16,603,955	101,400	5,067,722
Residential Mortgages	8,071,639	-	-
Higher Risk Assets	285	-	-
Other Assets	190,279	-	-
Defaulted Exposures	450,982	12,463	1,479
Total On-Balance Sheet Exposures	59,701,925	3,008,796	6,402,974
Off-Balance Sheet Exposures			
OTC Derivatives	139,241	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	4,007,772	160,000	1,696,925
Defaulted Exposures	12,321	-	1,888
Total Off-Balance Sheet Exposures	4,159,334	160,000	1,698,813
Total On and Off-Balance Sheet Exposures	**63,861,259**	**3,168,796**	**8,101,787**

Exposures 2022	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	5,670,050	-	-
Public Sector Entities	2,391	-	-
Banks, DFIs and MDBs	1,586,576	-	-
Corporates	20,179,732	266,102	1,395,875
Regulatory Retail	16,439,228	136,770	5,136,824
Residential Mortgages	6,082,810	-	-
Higher Risk Assets	984	-	-
Other Assets	187,473	-	-
Defaulted Exposures	499,947	5,566	1,594
Total for On-Balance Sheet Exposures	50,649,191	408,438	6,534,293
Off-Balance Sheet Exposures			
OTC Derivatives	200,236	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	3,910,511	380,000	1,619,020
Defaulted Exposures	5,206	-	3,520
Total for Off-Balance Sheet Exposures	4,115,953	380,000	1,622,540
Total On and Off-Balance Sheet Exposures	**54,765,144**	**788,438**	**8,156,833**

8.0 Off Balance Sheet Exposures and Counterparty Credit Risk

8.1 Off Balance Sheet exposures

The Bank's off balance sheet exposures consist 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:

2023	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	723,168		719,719	530,424
Transaction related contingent items	970,420		480,079	376,178
Short term self liquidating trade related contingencies	87,309		17,462	14,678
Obligations under an on-going underwriting agreement	150,000		-	-
Foreign exchange related contracts	1,284,757	4,587	44,065	44,065
One year or less	775,727	3,540	13,890	13,890
Over one year to five years	509,030	1,047	30,175	30,175
Other commodity contracts	74,952	6,456	10,953	5,476
Over one year to five years	74,952	6,456	10,953	5,476
OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	2,965,778	25,320	84,223	49,608
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,047,668		523,834	386,856
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	5,029,138		1,937,891	562,344
Unutilised credit card lines	1,705,540		341,108	254,739
Total	14,038,730	36,363	4,159,334	2,224,368

2022	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	614,836		612,438	432,835
Transaction related contingent items	905,845		451,228	354,784
Short term self liquidating trade related contingencies	81,317		16,263	13,207
Forward asset purchases	10,114		300	300
Obligations under an on-going underwriting agreement	130,000		-	-
Foreign exchange related contracts	1,430,600	2,069	58,103	58,103
One year or less	639,335	2,033	8,177	8,177
Over one year to five years	791,265	36	49,926	49,926
Other commodity contracts	71,367	8,264	12,546	6,273
Over one year to five years	71,367	8,264	12,546	6,273
OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	3,138,475	41,328	129,587	69,948
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	896,617		448,165	335,015
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	5,992,817		2,101,231	537,782
Unutilised credit card lines	1,430,460		286,092	213,855
Total	14,702,448	51,661	4,115,953	2,022,102

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 2023 and 31 March 2022.

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) • Review of past operational losses and incidences data • Regulator's and Auditor's review and feedback
Assessment/ Measurement	• Risk and Control Self Assessment ("RCSA") • The inherent and residual risks are assessed based on the probability and impact of activity undertaken
Control/ Mitigation	Several Operational Risk Management tools are used to mitigate the risk identified: • Incident Management and Data Collection ("IMDC") • Key Risk Indicators ("KRI") • Key Control Testing ("KCT") • Root cause analysis • Scenario Analysis • Insurance Programme
Monitoring/ Review	• Monitoring and reporting of loss incidents by Event Type, Portfolio and line of Business and entity, reporting of operational risk and management triggers, risk profile status, key risk indicator breaches and key control testing exceptions and operational risk framework adherence • Challenging the periodical review or updating of the RCSA (risk profile)/KRIs/KCTs of all Line of Business and Entity • Trigger by adverse change in circumstances (trigger event review) • Change management process review

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 IMDC, KRI and KCT:

- 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, ORM training and reporting of operational risk triggers, breaches, KCT exceptions, operational loss incidents to GMRC, RMC and the Board.

- Group Internal Audit Department ("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 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 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 KRI module provides early warning of increasing risk and/or control failures by monitoring the changes of the underlying risk measurements.

- The 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.

- Root cause analysis is conducted by the Operational Risk Relationship Managers within Group Operational Risk to prevent recurrence of operational risk incidents.

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

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

10.1 Business Continuity Management

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

Identification	• Identify events that potentially threaten the business operations and areas of criticality.
Assessment/ Measurement	• Business Impact Analysis ("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 ORM. 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

Cyber security risks remain a persistent threat for the financial industry. The constantly evolving nature and sophistication of cyber threats and attack vectors 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 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. The Group's technology risk management capabilities include oversight over infrastructure security risk, data leakage risk, application security risk and third party security risk.

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 Management

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 Limits • 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 Limits • PV01 Limits • Maximum Tenor Limits • Maximum Holding Period • Minimum Holding Period • Approved Portfolio Products • Approved Countries/Currencies • Other Detailed Limits/Triggers
Monitoring/ Review	• Monitor controls • 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 the Bank applies recent historical market conditions to estimate potential losses in market value, at a certain confidence level and over a specified time horizon (i.e. 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") • ICAAP RORBB Economic Value of Equity ("EVE") • ICAAP RORBB EaR
Control/ Mitigation	• PV01 triggers • EaR triggers • ICAAP RORBB EVE / Total Capital trigger • ICAAP RORBB EaR / Total Net Profit Income ("NPI") trigger
Monitoring/ Review	• Monitor controls • 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. The Board and GMRC are 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 monthly 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 2023 MYR	Rate of Return + 100 bps RM'000	Rate of Return - 100 bps RM'000
Impact on profit before zakat and taxation	(14,369)	14,369
Impact on equity	(624,439)	689,871

31 March 2022 MYR	Rate of Return + 100 bps RM'000	Rate of Return - 100 bps RM'000
Impact on profit before zakat and taxation	57,690	(57,690)
Impact on equity	(334,775)	375,314

12.0 Equities (Banking Book Positions)

The Bank did not have any equity investment as at 31 March 2023 and 31 March 2022.

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 financing 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/Targets • Depositor Concentration Ratios • Other Detailed Limits/Triggers/Targets
Monitoring/ Review	• Monitor controls • 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.

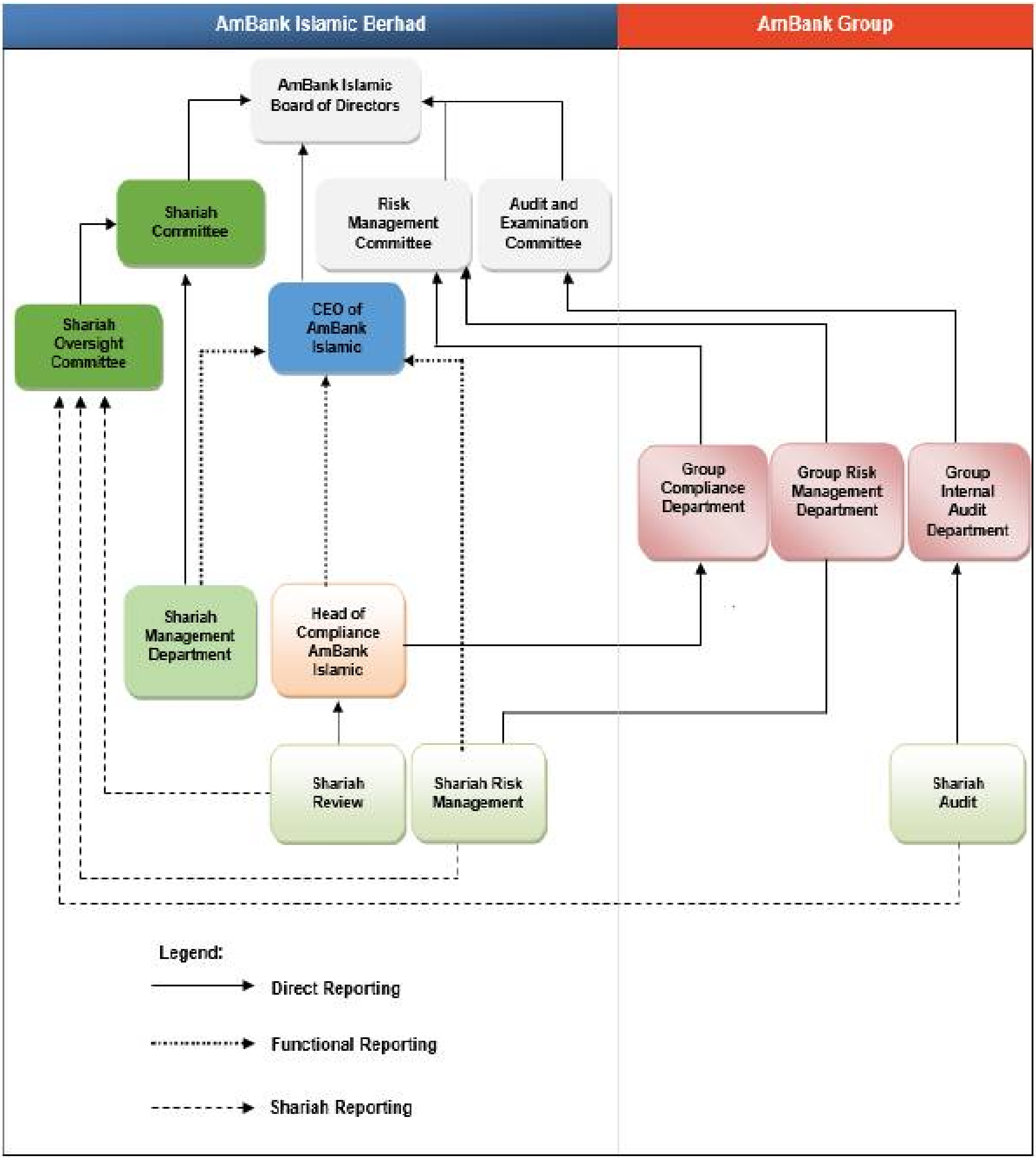
13.0 Liquidity Risk and Funding Management (Cont'd.)

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 are 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 requirements.

Apart from the Shariah Management Department, Shariah Risk Management and Shariah Review functions which reside in the Bank, the Bank's Shariah governance structure leverages the Group Internal Audit Department for the Shariah Audit function.

14.0 Shariah Governance Structure (Cont'd.)

Board of Directors

The Board is 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 role 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 that the Bank's operations are Shariah compliant through the independent assurance from the Shariah Audit function. The reports from the Shariah Review Section are also presented to the AEC for information.

Risk Management Committee ("RMC")

RMC is a Board committee responsible for assisting the Board in ensuring that risk management (including Shariah risk management) controls and processes are in place.

Shariah Committee

The Shariah Committee is responsible on matters related to Shariah. This includes advising the Board and Senior Management on Shariah matters as well as endorsing products and services, Shariah policies and the relevant documentation in relation to the Bank's business and operations. In addition to endorsing the zakat computation mechanism and the proposed recipients for zakat distribution, the Shariah Committee provides advice and guidance on the management of the 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 incidents as well as treatment of any Shariah non-compliant income.

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 the necessary measures for implementation. The Senior Management is also responsible in establishing the infrastructure 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 Department

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

Shariah Risk Management

The Shariah Risk Management ("SRM") is accountable to the Group Risk Management Department and the CEO of AmBank Islamic, and has Shariah reporting to the Shariah Oversight Committee. SRM is a function that systematically identifies, assesses, measures, mitigates, controls, monitors and reports any Shariah non-compliance risks to prevent any SNC incident in the businesses, operations, affairs and activities of the Bank.

The management of Shariah risk is executed through the three lines of defences, which are: 1st-The Business Units/Functional Lines and Shariah Management Department; 2nd- Shariah Risk Management and Shariah Review; 3rd - Shariah Audit.

Shariah Review

The Shariah Review Section is accountable to the Head of Compliance, AmBank Islamic 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 which are predominantly transactional in nature, with Shariah requirements.

Shariah Audit

The Shariah Audit Section is accountable to the Audit and Examination Committee with Shariah reporting to the Shariah Oversight Committee. The Shariah Audit Section is a dedicated team within the Group Internal Audit Department, and 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 requirements. The Shariah Audit's scope includes but not limited to activities undertaken by departments and functions that relate to Islamic products and services.

14.1 Shariah Non-Compliant Income

There were no SNC incidents for the financial years ended 31 March 2023 and 31 March 2022.

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 ("SCE"), 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 is structured based on application of Shariah contracts terms which do not create an obligation for the Bank to repay in full the money accepted from the IAH. The structure and term of the IA provide sufficient legal enforceability to effect 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 portfolios which comprise 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 of 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 encompasses 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 to ensure management, development and implementation of operational policies that govern the conduct of IA are observed. On a periodic basis, a Fund Performance Report shall be made available on 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 manages 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's website.

MTIA Performance

As at 31 March 2023, balance of MTIA stood at RM2.7 million (31 March 2022: RM361.3 million). The performance of the MTIA is as presented in the table below :

As at 31 March 2023	%
Return on Assets ("ROA")	4.05
Average Net Distributable Income Attributable to the IAH	2.23
Average Profit Sharing Ratio to the IAH	55.01

As at 31 March 2022	%
Return on Assets ("ROA")	4.00
Average Net Distributable Income Attributable to the IAH	2.12
Average Profit Sharing Ratio to the IAH	53.23