

OVERVIEW

Risk Management is focused on ensuring that risk taking activities across the Group are aligned to the Group's risk appetite and strategies. The overall strategy for Risk is driven mainly by the initiatives formulated earlier under our Advanced Risk Recognition Programme ("ARRP"):

- Enhancing risk governance
- Upgrading risk infrastructure
- Developing more comprehensive risk appetite strategy, execution and monitoring framework
- Improving funding and liquidity risk management
- Improving underlying asset quality and enhancing portfolio diversification
- Materially lowering loan loss provisions
- Developing robust risk/reward pricing models
- Ensuring International Financial Reporting Standard (IFRS) readiness; and
- Positioning AmBank for IRB status under Basel II.

A strong risk culture across the Group is being driven through the "Three Lines of Defense" framework, in which "risk is everyone's responsibility" to manage. Supporting this framework are policies and procedures to enforce core standards.

Key highlights of progress made under the programme this year are as follows:

1. Better diversification of income across the Group (Retail, Wholesale & Insurance) without over dependence on a single business.
2. Sound asset quality with stable Impaired Loans Ratio, lower Loan Loss Charge and above industry Loan Loss Coverage Ratio. The Group has one of the highest Collective Provisioning rates amongst industry peers.
3. Group Risk Appetite Framework (GRAF) was expanded to include sales activities.
4. Model execution infrastructure was enhanced to position the Group towards attaining Basel Internal Rating Based (IRB) status and Malaysian Financial Reporting Standards. For example, Retail Behavioural Scoring models were implemented and several retail and non-retail credit risk models were rebuilt and recalibrated.
5. Risk management processes were further streamlined by simplifying risk policies and practices, for example, the Credit Memos. Turnaround time for risk assessment (credit, new product, market etc) has improved and potential problem credits (accounts) are proactively identified and monitored in advance.
6. Various risk system projects were implemented. These include systems such as the roll-out of Single Counterparty Exposure Limit (SCEL) System and the transfer of Bonds and Customer deposits onto the Murex platform.
7. An enhanced First Line of Defense was implemented across the business units to increase the accountability and ownership of business units in managing operational risks.

