AmInvestment Bank Berhad
Pillar 3 Disclosure

31 March 2024

Registration No.197501002220 (23742-V)

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Contents

1.0 Scope of Application

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

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

Capital Adequacy

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

The capital adequacy ratios of the Group and the Bank are computed in accordance with BNM's policy document on Capital Adequacy Framework (Capital Components) issued on 15 December 2023 and Capital Adequacy Framework (Basel II – Risk Weighted Assets) issued on 18 December 2023.

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

(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 financial institution has credit exposures. BNM will communicate any decision on the CCyB rate by up to 12 months before the date from which the rate applies; and
(c) a Higher Loss Absorbency ("HLA") requirement for a financial institution that is designated as a domestic systemically important bank ("DSIB").

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

Frequency of Disclosure

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

Medium and Location of Disclosure

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

1.1 Basis of Consolidation

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

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

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

1.1 Basis of Consolidation (Cont'd.)

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

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

2.0 Capital Management

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

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

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

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

The capital that the Group is required to hold is determined by its risk exposures after applying collaterals and other risk mitigants.

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

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

BNM's Transitional Arrangements for Regulatory Capital Treatment of Accounting Provisions took effect on 9 December 2020 in which the Group 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 Group and the Bank are as follows:

Under transitional arrangement (Note(i))

	31.03.2024*	
	Group	Bank
CET 1 Capital Ratio	28.271%	27.952%
Tier 1 Capital Ratio	28.271%	27.952%
Total Capital Ratio	29.010%	28.846%

	31.03.2023	
	Group	Bank
Before deducting proposed dividends:		
CET 1 Capital Ratio	40.806%	43.205%
Tier 1 Capital Ratio	40.806%	43.205%
Total Capital Ratio	41.427%	43.993%
After deducting proposed dividends:		
CET 1 Capital Ratio	34.646%	35.067%
Tier 1 Capital Ratio	34.646%	35.067%
Total Capital Ratio	35.267%	35.856%

* No dividend is proposed for the financial year ended 31 March 2024.

Note:

(i) Pursuant to the revised BNM policy document, Capital Adequacy Framework (Capital Component) issued on 15 December 2023, the capital ratios had been computed by applying transitional arrangement on provision for ECL. Had the transitional arrangement not been applied, the capital ratios of the Group and of the Bank as at 31 March 2024 and 31 March 2023 are as follows:

	Group	Bank
As at 31 March 2024		
CET1 Capital Ratio	28.270%	27.951%
Tier 1 Capital Ratio	28.270%	27.951%
Total Capital Ratio	29.010%	28.846%
As at 31 March 2023		
Before deducting proposed dividend:		
CET1 Capital Ratio	40.806%	43.205%
Tier 1 Capital Ratio	40.806%	43.205%
Total Capital Ratio	41.427%	43.993%
After deducting proposed dividend:		
CET1 Capital Ratio	34.646%	35.067%
Tier 1 Capital Ratio	34.646%	35.067%
Total Capital Ratio	35.267%	35.856%

Table 2.2 Risk-Weighted Assets and Capital Requirements

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

	31.03.2024				
Exposure class	**RM'000**	**Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM") RM'000**	**Net exposures/ EAD after CRM RM'000**	**Risk weighted assets RM'000**	**Minimum capital requirement at 8% RM'000**
1. **Credit risk**					
On balance sheet exposures					
Sovereigns/Central banks		195,924	195,924	-	-
Public Sector Entities ("PSEs")		5,369	5,369	1,074	86
Banks, development financial institutions ("DFIs") and multilateral development banks ("MDBs")		1,261,847	1,261,847	375,707	30,056
Corporates		791,153	235,433	159,981	12,798
Regulatory retail		148,418	9,251	7,194	576
Other assets		872,994	872,994	625,066	50,005
Equity exposures		2,794	2,794	2,794	224
Defaulted exposures		13,632	13,632	13,412	1,073
Total for on balance sheet exposures		3,292,131	2,597,244	1,185,228	94,818
Off balance sheet exposures:					
Over the counter ("OTC") derivatives		5,400	5,400	5,400	432
Off balance sheet exposures other than over the counter ("OTC") derivatives or credit derivatives		42,342	6,249	5,812	465
Total for off balance sheet exposures		47,742	11,649	11,212	897
Total on and off balance sheet exposures		3,339,873	2,608,893	1,196,440	95,715
2. **Market risk**	**Long Position**	**Short Position**			
Interest rate risk					
- General interest rate risk	341	341		-	-
Foreign currency risk	11,345	-		11,345	908
Option risk	10,373	-		14,263	1,141
Total	22,059	341		25,608	2,049
3. **Operational risk**				631,315	50,505
4. **Total RWA and capital requirements**				1,853,363	148,269

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

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

	31.03.2023				
Exposure class	**RM'000**	**Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM") RM'000**	**Net exposures/ EAD after CRM RM'000**	**Risk weighted assets RM'000**	**Minimum capital requirement at 8% RM'000**
1. **Credit risk**					
On balance sheet exposures					
Sovereigns/Central banks		45,944	45,944	-	-
Banks, DFIs and MDBs		342,827	342,827	68,565	5,485
Corporates		781,556	262,258	186,813	14,945
Regulatory retail		109,817	7,090	5,492	439
Other assets		410,619	410,619	334,297	26,744
Equity exposures		2,986	2,986	2,986	239
Total for on balance sheet exposures		1,693,749	1,071,724	598,153	47,852
Off balance sheet exposures:					
Off balance sheet exposures other than OTC derivatives or credit derivatives		46,480	7,604	6,984	559
Total for off balance sheet exposures		46,480	7,604	6,984	559
Total on and off balance sheet exposures		1,740,229	1,079,328	605,137	48,411
2. **Market risk**	**Long Position**	**Short Position**			
Interest rate risk					
- General interest rate risk	1,248	1,252		-	-
Foreign currency risk	13,661	139		13,661	1,093
Total	14,909	1,391		13,661	1,093
3. **Operational risk**				599,570	47,965
4. **Total RWA and capital requirements**				1,218,368	97,469

3.0 Capital Structure

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

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

3.1 CET1 Capital

CET1 Capital consists of the following:

(a) Ordinary Shares
Issued and paid-up capital that represents the most subordinated claim in liquidation of the financial institution.

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

(c) Other Disclosed Reserves
Other disclosed reserves comprise the following:

(i) Capital Reserve
Capital reserve is in respect of dilution and accretion in net attributable assets of the Group arising from capitalisation of subsidiaries' bonus issues in prior years.

(ii) Merger Reserve
Merger reserve represents reserve arising from the acquisition of certain subsidiaries which was accounted for using the merger accounting method in prior years.

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

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

3.2 Additional Tier 1 Capital

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

3.3 Tier 2 Capital

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

Table 3.1: Capital Structure

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

	Group		Bank	
	31.03.2024	**31.03.2023**	**31.03.2024**	**31.03.2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
CET1 Capital				
Ordinary shares	330,000	330,000	330,000	330,000
Retained earnings	193,432	130,688	191,226	126,419
Fair value reserve	1,912	2,259	1,912	2,259
Regulatory reserve	13,682	10,478	13,682	10,478
Capital reserve	2,815	2,815	-	-
Merger reserve	82,115	82,115	-	-
Less:				
Regulatory adjustments applied on CET1 capital				
Goodwill	(36,442)	(36,442)	-	-
Other intangibles	(4,039)	(4,764)	(3,068)	(3,462)
Deferred tax assets	(44,792)	(8,257)	(40,964)	(5,664)
55% of cumulative gains of FVOCI financial instruments	(1,052)	(1,243)	(1,052)	(1,243)
Regulatory reserve	(13,682)	(10,478)	(13,682)	(10,478)
Investments in capital instruments of unconsolidated financial and insurance/takaful entities	-	-	(49,809)	(49,809)
Other CET1 regulatory adjustments specified by BNM	9	1	9	1
CET1 Capital/ Tier 1 Capital	**523,958**	**497,172**	**428,254**	**398,501**
Tier 2 Capital				
General provisions*	13,694	7,564	13,694	7,276
Tier 2 Capital	**13,694**	**7,564**	**13,694**	**7,276**
Total Capital	**537,652**	**504,736**	**441,948**	**405,777**

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

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

	Group		Bank	
	31.03.2024	**31.03.2023**	**31.03.2024**	**31.03.2023**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Credit risk	1,196,440	605,137	1,164,364	582,070
Market risk	25,608	13,661	15,539	6,231
Operational risk	631,315	599,570	352,208	334,056
Total risk weighted assets	1,853,363	1,218,368	1,532,111	922,357

4.0 General Risk Management

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

The Risk Appetite Framework is reviewed and approved annually by the Board taking into account the Group's desired external rating and targeted profitability/return on 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 challenge to the environment that the Group operates in.

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

AmInvestment Bank Risk Direction

AMMB Group's FY2021 to 2024 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.

1 The Bank aspires to have a minimum financial institution external rating of AA2 based on reference ratings by RAM Rating Services Berhad ("RAM").
  The Bank will maintain the professional conduct of the Bank and ensure fair dealing with our clients in all business undertakings.
  The Bank will remain vigilant in the following areas to protect its reputation and business franchise;
  - keeping up and complying with regulatory changes; and
  - risk identification and management of risks arising from new client and/or mandate (including for advisory businesses).

2 The Bank aims to maintain its Total Capital Ratio at the Group's Internal Capital Target under normal conditions.

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

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

5 The Bank aims to maintain adequate controls for all key businesses to manage operational risks (including but not limited to regulatory, compliance, technology, conduct and reputational risks) losses excluding regulatory penalties below 0.8% of Profit After Tax.
  Key operational risks covered include but not limited to:
  - People risk; and
  - Technology/Cyber risk

6 The Bank aims to maintain its Interest Rate Risk in the Banking Book ("IRRBB") Internal Capital Adequacy Assessment Programme ("ICAAP") Pillar 2 over total capital ratio for the Bank at below 5%.

Risk Management Governance

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

The Board has also established Management Committees to assist in managing the risks and businesses of the Group. 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, compliance risk, reputational risk, product and business risk, IT project risk, climate related risk and ESG risk.

AMMB Group has an independent risk management function, headed by 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, climate related risk and ESG risks;
- essentially champions and embeds a positive risk culture across AMMB Group to ensure that risk taking activities across AMMB Group are aligned to AMMB Group'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.

4.1 Internal Capital Adequacy Assessment Process

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

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

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

The following key principles underpin the ICAAP:

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

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

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

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

4.1.3 Capital Management Framework
The ICAAP shall include an approved Capital Management Framework which contains:

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

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

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

4.1.5 Capital allocation:

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

4.1.6 Material Risks:

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

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

Principal 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

Principal 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

Principal 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 and Strategic business objectives
- Policy/Frameworks

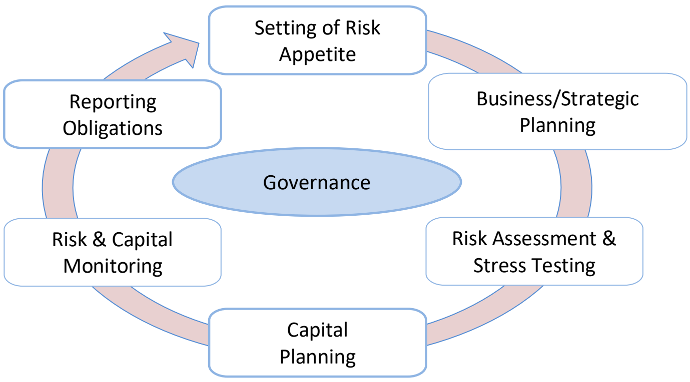
Sound Capital Assessment
- Identification, Measurement and Reporting of Material Risks
- Compliance with minimum regulatory standards
- Clear linkage between risks and capital
- Capital Plan

Comprehensive Risk Assessment and Management Processes
- Credit Risk
- Market Risk
- Operational Risk
- Rate Risk in the Banking Book
- Credit Concentration Risk
- Large exposure risk requirements

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

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

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 Loans ("GIL")
Control/ Mitigation	• Portfolio Limits, Counterparty Limits • Non Retail Pricing • Collateral & tailored facility structures
Monitoring/ Review	• Monitor and report portfolio mix • Review Classified Accounts • Review Rescheduled and Restructured Accounts • Undertake post mortem 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 lending, securities and derivative exposures. The identification of credit risk is done by assessing the potential impact of internal and external factors on the Group transactions and/or positions.

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 AMMB Group's Risk Appetite Framework ("GRAF") and related credit policies.

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

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

To support credit risk management, our rating models for major portfolios have been upgraded to facilitate:
- improvement in the accuracy of individual obligor risk ratings;
- enhancement to pricing models;
- loan loss provision calculation;
- stress-testing; and
- enhancement to portfolio management.

Lending 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 Group's optimal portfolio mix. Credit Risk portfolio management strategies include, amongst others:

- Concentration threshold/review triggers:
  - single counterparty credit exposure;
  - industry sector exposure; and
  - country exposure.
- Setting Loan to Value limits for asset backed loans;
- Non-Retail Credit Policy ("NRCP") which sets out the credit principles and requirements for managing credit risk in the Wholesale Banking ("WB") and Business Banking ("BB") portfolios;
- Classified Account Management requirements are in place for the non-retail portfolio, this sets out the identification and management (including monitoring requirements) of customers that exhibit significant increase in credit risk or show symptoms of potential credit issues.
- Rescheduled and Restructured ("R&R") Account Management (embedded within the NRCP for WB and BB) sets out the controls in managing R&R loan and advances.

5.0 Credit Risk Management (Cont'd.)

Exposure outside the approval discretions of individual Credit Approval Delegations ("CAD") holders are escalated to the Credit and Commitments Committee (“CACC”) for approval. In the event such counterparty exposure exceeds a stipulated customer group threshold within 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 Group’s loans portfolio and review the portfolio risk profile against the GRAF and recommend or approve new and amended credit risk policies or guidelines.

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

5.1 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 obligor has breached its contractual payment obligations and past due for more than 90 days; or

(b) As soon as default occurs where the principal and/or interest repayments are scheduled on intervals of 3 months or longer; or

(c) Other impairment indicators stipulated in the relevant guidelines.

Impaired accounts which undergo restructuring/ rescheduling will continue to be impaired for at least 6 months.

5.1.1 Group Provisioning Methodology

The 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 calculate 12-month ECL for Stage 1 and lifetime ECL for Stage 2 and Stage 3 exposures.

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

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

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

5.1 Impairment (Cont'd.)

5.1.1 Group Provisioning Methodology (Cont'd.)

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 Group are as follows:

	31.03.2024										
	Mining and Quarrying RM'000	Construction RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Government and Central Banks RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On balance sheet exposures											
Sovereigns/Central banks	-	-	-	-	195,924	-	-	-	-	-	195,924
PSEs	-	-	-	5,369	-	-	-	-	-	-	5,369
Banks, DFIs and MDBs	-	-	-	1,261,847	-	-	-	-	-	-	1,261,847
Corporates	-	75,454	6,220	-	-	-	1,876	34,538	672,852	213	791,153
Regulatory retail	-	-	-	-	-	-	-	-	148,418	-	148,418
Other assets	-	-	-	230,461	-	8	25,967	-	83,610	532,948	872,994
Equity exposures	-	-	-	-	-	-	-	-	-	2,794	2,794
Defaulted exposures	-	-	-	-	-	-	-	-	13,632	-	13,632
Total for on balance sheet exposures	-	75,454	6,220	1,497,677	195,924	8	27,843	34,538	918,512	535,955	3,292,131
Off balance sheet exposures											
OTC derivatives	-	5,400	-	-	-	-	-	-	-	-	5,400
Off balance sheet exposures other than over the counter derivatives or credit derivatives	-	-	-	664	-	-	25	2,534	39,119	-	42,342
Total for off balance sheet exposures	-	5,400	-	664	-	-	25	2,534	39,119	-	47,742
Total on and off balance sheet exposures	-	**80,854**	**6,220**	**1,498,341**	**195,924**	**8**	**27,868**	**37,072**	**957,631**	**535,955**	**3,339,873**

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

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

31.03.2023	Mining and Quarrying RM'000	Construction RM'000	Finance and Insurance RM'000	Government and Central Banks RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On balance sheet exposures										
Sovereigns/Central banks	-	-	-	45,944	-	-	-	-	-	45,944
Banks, DFIs and MDBs	-	-	342,827	-	-	-	-	-	-	342,827
Corporates	-	75,446	-	-	-	1,958	45,500	658,631	21	781,556
Regulatory retail	-	-	-	-	-	-	-	109,817	-	109,817
Other assets	11	-	51,942	-	671	20,007	-	71,060	266,928	410,619
Equity exposures	-	-	-	-	-	-	-	-	2,986	2,986
Total for on balance sheet exposures	11	75,446	394,769	45,944	671	21,965	45,500	839,508	269,935	1,693,749
Off balance sheet exposures										
Off balance sheet exposures other than over the counter derivatives or credit derivatives	-	-	-	-	-	-	4,380	42,100	-	46,480
Total for off balance sheet exposures	-	-	-	-	-	-	4,380	42,100	-	46,480
Total on and off balance sheet exposures	**11**	**75,446**	**394,769**	**45,944**	**671**	**21,965**	**49,880**	**881,608**	**269,935**	**1,740,229**

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

The amounts of impaired loans and advances and impairment allowances during the financial year by sector of the Group are as follows:

	31.03.2024	
	Household RM'000	**Total RM'000**
Impaired loans and advances	25,348	25,348
Allowance for expected credit losses	11,718	11,718

	31.03.2023	
	Household RM'000	**Total RM'000**
Allowance for expected credit losses	1	**1**

Table 5.3: Geographical distribution of credit exposures
The geographic distribution of credit exposures of the Group is as follows:

	31.03.2024		
	In Malaysia RM'000	**Outside Malaysia RM'000**	**Total RM'000**
On balance sheet exposures			
Sovereigns/Central banks	195,924	-	195,924
PSEs	5,369	-	5,369
Banks, DFIs and MDBs	1,260,942	905	1,261,847
Corporates	791,153	-	791,153
Regulatory retail	148,418	-	148,418
Other assets	872,994	-	872,994
Equity exposures	2,766	28	2,794
Defaulted exposures	13,632	-	13,632
Total for on balance sheet exposures	3,291,198	933	3,292,131
Off balance sheet exposures			
OTC derivatives	5,400	-	5,400
Off balance sheet exposures other than OTC derivatives or credit derivatives	42,342	-	42,342
Total for off balance sheet exposures	47,742	-	47,742
Total on and off balance sheet exposures	**3,338,940**	**933**	**3,339,873**

	31.03.2023		
	In Malaysia RM'000	**Outside Malaysia RM'000**	**Total RM'000**
On balance sheet exposures			
Sovereigns/Central banks	45,944	-	45,944
Banks, DFIs and MDBs	341,341	1,486	342,827
Corporates	781,556	-	781,556
Regulatory retail	109,817	-	109,817
Other assets	410,619	-	410,619
Equity exposures	2,960	26	2,986
Total for on balance sheet exposures	1,692,237	1,512	1,693,749
Off balance sheet exposures			
Off balance sheet exposures other than OTC derivatives or credit derivatives	46,480	-	46,480
Total for off balance sheet exposures	46,480	-	46,480
Total on and off balance sheet exposures	**1,738,717**	**1,512**	**1,740,229**

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

The amounts of impaired loans and advances and impairment allowances of the Group which reside in Malaysia are as follows:

	31.03.2024 Total RM'000
Impaired loans and advances	25,348
Allowance for expected credit losses	11,718

	31.03.2023 Total RM'000
Allowance for expected credit losses	1

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

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

	31.03.2024								
	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	150,037	-	-	-	-	30,813	15,074	-	195,924
PSEs	-	-	-	-	-	-	-	5,369	5,369
Banks, DFIs and MDBs	750,429	511,418	-	-	-	-	-	-	1,261,847
Corporates	715,370	-	116	-	-	75,454	213	-	791,153
Regulatory retail	321	25	-	142,006	22	72	5,972	-	148,418
Other assets	837,427	-	-	-	-	-	-	35,567	872,994
Equity exposures	-	-	-	-	-	-	-	2,794	2,794
Defaulted exposures	12,872	-	-	760	-	-	-	-	13,632
Total for on balance sheet exposures	2,466,456	511,443	116	142,766	22	106,339	21,259	43,730	3,292,131
Off balance sheet exposures									
OTC derivatives	5,400	-	-	-	-	-	-	-	5,400
Off balance sheet exposures other than OTC derivatives or credit derivatives	162	153	777	41,250	-	-	-	-	42,342
Total for off balance sheet exposures	5,562	153	777	41,250	-	-	-	-	47,742
Total on and off balance sheet exposures	**2,472,018**	**511,596**	**893**	**184,016**	**22**	**106,339**	**21,259**	**43,730**	**3,339,873**

	31.03.2023								
	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	814	-	-	-	-	30,920	14,210	-	45,944
Banks, DFIs and MDBs	272,821	70,006	-	-	-	-	-	-	342,827
Corporates	705,679	-	410	-	21	75,446	-	-	781,556
Regulatory retail	286	26	-	103,093	14	125	6,273	-	109,817
Other assets	382,601	-	-	-	-	-	-	28,018	410,619
Equity exposures	-	-	-	-	-	-	1,631	1,355	2,986
Total for on balance sheet exposures	1,362,201	70,032	410	103,093	35	106,491	22,114	29,373	1,693,749
Off balance sheet exposures									
Off balance sheet exposures other than OTC derivatives or credit derivatives	126	264	2,198	43,892	-	-	-	-	46,480
Total for off balance sheet exposures	126	264	2,198	43,892	-	-	-	-	46,480
Total on and off balance sheet exposures	**1,362,327**	**70,296**	**2,608**	**146,985**	**35**	**106,491**	**22,114**	**29,373**	**1,740,229**

5.1 Impairment (Cont'd.)

Reconciliation of changes to loan impairment allowances

The disclosure on reconciliation of loan loss allowances can be found in Note 29 of the annual financial statements. Recoveries that have been taken up directly to the statement of profit or loss are as follows:

Table 5.6 : Recoveries for loans and advances:

	31.3.2024	31.3.2023
	RM'000	RM'000
Bad debt recoveries during the financial year	359	-

6.0 Credit Risk Exposure under Standardised Approach

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

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

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

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

	31.03.2024								
	Exposures after netting and credit risk mitigation								
Risk Weights	Sovereigns/ Central banks RM'000	PSEs RM'000	Banks, DFIs and MDBs RM'000	Corporates RM'000	Regulatory retail RM'000	Other assets RM'000	Equity exposures RM'000	Total Exposures after Netting and CRM RM'000	Total Risk Weighted Assets RM'000
0%	195,924	-	-	75,454	-	1	-	271,379	-
20%	-	5,369	850,720	-	-	309,908	-	1,165,997	233,199
50%	-	-	411,127	-	439	-	-	411,566	205,783
75%	-	-	-	-	9,974	-	-	9,974	7,481
100%	-	-	-	182,661	1,437	563,085	2,794	749,977	749,977
Total	195,924	5,369	1,261,847	258,115	11,850	872,994	2,794	2,608,893	1,196,440

	31.03.2023								
	Exposures after netting and credit risk mitigation								
Risk Weights	Sovereigns/ Central banks RM'000	PSEs RM'000	Banks, DFIs and MDBs RM'000	Corporates RM'000	Regulatory retail RM'000	Other assets RM'000	Equity exposures RM'000	Total Exposures after Netting and CRM RM'000	Total Risk Weighted Assets RM'000
0%	45,944	-	-	75,446	-	1	-	121,391	-
20%	-	-	342,827	-	-	95,400	-	438,227	87,645
75%	-	-	-	-	8,872	-	-	8,872	6,654
100%	-	-	-	191,857	777	315,218	2,986	510,838	510,838
Total	45,944	-	342,827	267,303	9,649	410,619	2,986	1,079,328	605,137

Table 6.2: Rated Exposures according to Ratings by ECAIs

	31.03.2024					
	Ratings of Corporate by Approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure class	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
<u>On and off balance exposures</u>						
Credit exposures (using corporate risk weights)						
PSEs (applicable for entities risk weighted based on their external ratings as corporates)	5,369	-	-	-	-	5,369
Corporates	833,692	-	-	-	-	833,692
Total	839,061	-	-	-	-	839,061

	31.03.2023					
	Ratings of Corporate by Approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure class	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
<u>On and off balance exposures</u>						
Credit exposures (using corporate risk weights)						
Corporates	807,968	-	-	-	-	807,968
Total	807,968	-	-	-	-	807,968

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

	31.03.2024				
	Ratings of Sovereigns and Central Banks by Approved ECAIs				
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
Exposure Class	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures					
Sovereigns/Central banks	195,924	-	-	195,924	-
Total	**195,924**	-	-	195,924	-

	31.03.2023				
	Ratings of Sovereigns and Central Banks by Approved ECAIs				
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
Exposure Class	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures					
Sovereigns/Central banks	45,944	-	-	45,944	-
Total	**45,944**	-	-	45,944	-

	31.03.2024				
	Ratings of Banking Institutions by Approved ECAIs				
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
Exposure class	RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures					
Banks, DFIs and MDBs	1,261,847	175,070	1,065,881	5,167	15,729
Total	**1,261,847**	175,070	1,065,881	5,167	**15,729**

	31.03.2023				
	Ratings of Banking Institutions by Approved ECAIs				
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
Exposure class	RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures					
Banks, DFIs and MDBs	342,827	48,584	275,733	1,998	16,512
Total	**342,827**	48,584	275,733	1,998	**16,512**

7.0 Credit Risk Mitigation

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

The Credit Risk Mitigation Policy is the internally recognised collateral framework for the Group. Any collateral that does not conform to the requirements outlined in that policy considered by the relevant approval authority to be accepted and approved as an exception. For capital relief purposes, Basel Foundation IRB requirements set out in BNM's Capital Adequacy Framework are to be met failing which, no capital relief is to be accorded.

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

Guarantee Support
Guarantee support for lending proposals are an integral component in transaction structuring for the Group. Where a counterparty's corporate guarantor guarantees 100% of the credit facility, 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. Otherwise, if the stipulated conditions are met but the guarantee is less than 100%, the weighted-average method is able to be employed.

Use of credit derivatives and netting for risk mitigation
Currently, the Group does not use credit derivatives for risk mitigation.

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

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

Table 7.1: Credit Risk Mitigation

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

Exposures	31.03.2024 Exposures before CRM RM'000	31.03.2024 Exposures covered by Eligible Financial Collateral RM'000
Credit risk		
On balance sheet exposures		
Sovereigns/Central banks	195,924	-
PSEs	5,369	-
Banks, DFIs and MDBs	1,261,847	-
Corporates	791,153	641,216
Regulatory retail	148,418	145,194
Other assets	872,994	-
Equity exposures	2,794	-
Defaulted exposures	13,632	-
Total for on balance sheet exposures	3,292,131	786,410
Off balance sheet exposures		
OTC derivatives	5,400	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	42,342	38,180
Total for off balance sheet exposures	47,742	38,180
Total on and off balance sheet exposures	**3,339,873**	**824,590**

Exposures	31.03.2023 Exposures before CRM RM'000	31.03.2023 Exposures covered by Eligible Financial Collateral RM'000
Credit risk		
On balance sheet exposures		
Sovereigns/Central banks	45,944	-
Banks, DFIs and MDBs	342,827	-
Corporates	781,556	682,530
Regulatory retail	109,817	105,942
Other assets	410,619	-
Equity exposures	2,986	-
Total for on balance sheet exposures	1,693,749	788,472
Off balance sheet exposures		
Off balance sheet exposures other than OTC derivatives or credit derivatives	46,480	42,524
Total for off balance sheet exposures	46,480	42,524
Total on and off balance sheet exposures	**1,740,229**	**830,996**

8.0 Off Balance Sheet exposures and Counterparty Credit Risk

8.1 Off Balance Sheet Exposures

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

(1) Credit related exposures, e.g. guarantees given on behalf of customers, obligation under underwriting agreement and irrevocable commitment to extend credit.

(2) Derivative Financial Instruments, e.g. forward exchange contracts (forward exchange contracts and cross currency swaps), equity related contracts (option and futures).

(3) Other treasury-related exposures, e.g. forward purchase commitment

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

8.2 Counterparty Credit Risk

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

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

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

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

- The PCRE factors 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 i.e. not confined to a standardised underlying instruments. Where the maximum payout is known, it is taken as the pre-settlement risk amount. However, in situations where the maximum payout is not observable, a Monte Carlo simulation method is used.

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

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

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

Table 8.1: Off Balance Sheet Exposures

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

	31.03.2024			
	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Foreign exchange related contracts				
One year or less	38	1	-	-
Equity and commodity related contracts				
One year or less	66,620	1,402	5,400	5,400
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	211,710		42,342	5,812
Total	**278,368**	**1,403**	**47,742**	**11,212**

	31.03.2023			
	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Foreign exchange related contracts				
One year or less	1,249	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	232,402		46,480	6,984
Total	**233,651**	**-**	**46,480**	**6,984**

Table 8.2 : Credit Derivatives Counterparty Credit Risk (“CCR”)

As at 31 March 2024 and 31 March 2023, the Group does not have any credit derivatives.

9.0 Securitisation

The Group did not have any securitisation exposure in its trading and banking books nor did it undertake any securitisation activities during the financial years ended 31 March 2024 and 31 March 2023.

10.0 Operational Risk

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

Identification	• Identify and analyse risks 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 risks 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 board and management triggers risk profile status, KRI breaches and KCT 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. It excludes strategic, systemic and reputational risk.

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

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

- The first line of defence ("FLOD") is responsible for the management of operational risk in order that accountability and ownership is as close as possible to the activity that creates the risk and ensuring that effective action is taken to manage them. Enhanced First Line of Defence provides a business specific focus on the implementation of operational risk management activities and supports more effective day-to-day monitoring of operational risks.

- In the second line, Group Operational Risk is responsible for exercising governance over operational risk through the management of the operational risk framework, policy development and communication, quality assurance of internal controls, operational risk measurement, validation of FLOD effectiveness, 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.

10.0 Operational Risk (Cont'd.)

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

- The IMDC module provides a common platform for reporting operational risk incidents that fall within the seven Event Types as stated in Basel II. IMDC also serves as a centralised database of operational risk incidents to model the potential exposure to operational risks in future and estimate the amount of economic capital charge.

- The RCSA is a process of continual identification, assessment of risks and controls effectiveness. By using structured questionnaires to assess and measure key risk and its corresponding controls effectiveness, RCSA provides risk profiling across the Group.

- The 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 are 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, Risk Management Committee Director ("RMCD") and Board are the main reporting and escalation committees for operational risk matters including outsourcing risk, information technology (including cyber) 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	• Incident Business Impact Analysis ("BIA") • Risk Assessment • Climate-related Operational Risk Assessment
Control/ Mitigation	• Policies governing the BCM implementation • BCM methodologies controlling the process flow • Implementing the Business Continuity ("BC") plan
Monitoring/ Review	• BC plan testing and exercise • Review of BC Plan • BC site readiness and maintenance

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

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

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

10.1 Business Continuity Management (Cont'd.)

The Group integrates climate-related operational risk into its BCM programs and activities to ensure the continuity of its Critical Business Function ("CBF") and Third Party Service Providers ("TPSP") in the face of climate related events. The integration shall include an objective risk assessment from credible external parties that evaluates the climate-related risk vulnerabilities of CBFs and TPSPs.

10.2 Cyber risk management

Cybersecurity risk 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 Group’s IT infrastructure and cyber security capabilities are of paramount importance, especially with regards to safeguarding customers’ information.

The Group continues to enhance its cyber security controls framework, execute internal assessment reviews, build defense mechanisms and uplift governance processes alongside the Group’s cyber risk management strategy - to identify threats in a timely manner, and build or enhance the right defenses to mitigate risks. Creating a security mindset for employees and customers via its Cyber Security awareness programs also remains a priority.

The Group 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.

Group Technology Risk works closely with all Business and Functional Lines to identify cyber risks inherent in the respective business activities, impact assessment and ensuring remedial actions are in place to mitigate risks accordingly. Various tools and methods are employed (similar to Operation Risk tools) to support the execution of these assessments. Progressive tracking and advisory are performed in parallel to execute an effective security program to combine maturity-based and risk-based programs towards proactive cyber security.

10.3 Legal Risk

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

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

10.4 Regulatory Compliance Risk

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

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

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

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

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

11.0 Market Risk Management

Market risk is the risk of losses due to adverse changes in the level or volatility of market rates or prices, such as interest 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 1 Basis Point ("PV01")
Control/ Mitigation	• VaR Limits • Loss Limits/Triggers (Annual/Monthly/Daily) • HSL Limits • PV01 Limits • Position Size Limits • Maximum Tenor Limits • Maximum Holding Period • Minimum Holding Period • Approved Porfolio Products • Approved Countries/ Currencies • Other Detailed Limits/ Triggers
Monitoring/ Review	• Monitor controls • Periodical review and reporting

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

The 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")

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

IRRBB

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

Identification	• Identify IRRBB within existing and new products. • Review market-related information such as market trends and economic data
Assessment/ Measurement	• Present value of 1 basis point ("PV01") • Earnings-at-Risk ("EaR") • ICAAP IRRBB Economic Value of Equity ("EVE") • ICAAP IRRBB EaR
Control/ Mitigation	• PV01 Triggers • EaR Triggers • ICAAP IRRBB EVE / Total Capital Trigger • ICAAP IRRBB EaR / Total Net Interest Income ("NII") Trigger
Monitoring/ Review	• Monitor controls • Periodical review and reporting

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

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

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

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

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

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

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

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

IRRBB (Cont'd.)

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

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

Table 11.1 : Market Risk Sensitivity-Interest Rate Risk in the Banking Book (IRRBB)

The aggregated IRRBB sensitivity for the Group is as follows:

Impact on Profit Before Tax

	31.03.2024		31.03.2023	
Currency	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**
MYR	**8,158**	**(8,158)**	**7,035**	**(7,035)**

Impact on Equity

	31.03.2024		31.03.2023	
Currency	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**
MYR	**3,525**	**(3,476)**	**1,397**	**(1,328)**

12.0 Equities (Banking Book Positions)

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

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

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

Table 12.1: Equity investments and capital requirement

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

	31.03.2024 RM'000	31.03.2023 RM'000
Non traded equity investments		
Value of unquoted (privately held) equities	2,794	2,986
Net realised and unrealised (losses)/gains		
Total unrealised losses	(192)	(166)
Risk Weighted Assets		
Equity investments subject to a 100% risk weight	2,794	2,986
Total	2,794	2,986
Total minimum capital requirement (8%)	224	239

13.0 Liquidity Risk and Funding Management

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

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

Identification	• Identify liquidity risk within existing and new business activities • Review market-related information such as market trends and economic data • Keep abreast with regulatory requirements
Assessment/ Measurement	• Liquidity Coverage Ratio ("LCR") • Net Stable Funding Ratio ("NSFR") • Other Detailed Controls
Control/ Mitigation	• LCR Limits/Triggers • NSFR Targets • Other Detailed Triggers/ Targets
Monitoring/ Review	• Monitor controls • Periodical review and reporting

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

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

The 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.

Various liquidity measurements such as BNM LCR and BNM NSFR have been put in place to support the broader strategic objectives of the Bank. IBMR is responsible for developing and monitoring the controls and limits while Group Treasury & Markets ("GTM") and CBSM are responsible to ensure the controls and limits are within the thresholds.

Stress testing is undertaken to assess and plan for the impact for various scenarios which may put the Bank's liquidity at risk.