ALLIANCE ISLAMIC BANK

PILLAR 3 REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019

ALLIANCE ISLAMIC BANK BERHAD
(776882-V)

PILLAR 3 REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019

Overview

Bank Negara Malaysia's ("BNM") guidelines on capital adequacy require Alliance Islamic Bank Berhad ("the Bank") to maintain an adequate level of capital to withstand potential losses arising from its operations. BNM's capital adequacy guidelines cover three main aspects:

(a) Pillar 1 - covers the calculation of risk-weighted assets for credit risk, market risk and operational risk.

(b) Pillar 2 - involves assessment of other risks (e.g. rate of return risk in the banking book, liquidity risk and concentration risk) not covered under Pillar 1. This promotes adoption of forward-looking approaches to capital management and stress testing / risk simulation techniques.

(c) Pillar 3 - covers disclosure and external communication of risk and capital information by banks.

The Bank maintains a strong capital base to support its current activities and future growth, to meet regulatory capital requirements at all times and to buffer against potential losses.

To ensure that risks and returns are appropriately balanced, the Bank has implemented a Group-wide Integrated Risk Management Framework, with guidelines for identifying, measuring, and managing risks. This process includes quantifying and aggregating various risks in order to ensure the Bank has sufficient capital to cushion unexpected losses and remain solvent. Within the Alliance Bank Group, Alliance Islamic Bank leverages on centralized services provided by the Group, including risk management functions.

In summary, the capital management process involves the following:

(i) Monitoring of regulatory capital and ensuring that the minimum regulatory requirements and approved internal ratios are adhered to;

(ii) Estimation of capital requirements based on ongoing forecasting and budgeting proces; and

(iii) Regular reporting of regulatory and internal capital ratios to senior management and the Board.

In addition, the Bank's capital adequacy under extreme but plausible stress scenarios are periodically assessed via a Group-wide stress test exercise. The results of the stress tests are reported to senior management, to provide them with an assessment of the financial impact of such events on the Group's earnings and capital.

The Bank's Pillar 3 Disclosure is governed by the Bank's Pillar 3 Disclosure Policy. This policy outlines the minimum disclosure standards, approach for determining the appropriateness of information disclosed and internal controls over the disclosure process.

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1.0 Scope of Application

The Pillar 3 Disclosure provided in this document is in respect of the Bank, which is involved in Islamic banking financial services.

There are no significant restrictions or other major impediments on transfer of funds or regulatory capital between the Bank and its holding company, Alliance Bank Malaysia Berhad.

There were no capital deficiencies in the Bank as at the financial year end.

The capital adequacy information is computed in accordance with Capital Adequacy Framework for Islamic Banks. The Bank has adopted the Standardised Approach for credit risk and market risk; and the Basic Indicator Approach for operational risk.

2.0 Capital

The capital management of the Bank is under the purview of Alliance Bank Group's ("the Group") capital management with the objectives:

(i) To maintain sufficient capital to meet the regulatory capital requirements as set forth by BNM;

(ii) To maintain sufficient capital to support the Bank's risk appetite and facilitate future business growth; and

(iii) To meet the expectations of key stakeholders, including shareholders, investors, regulators and rating agencies.

In line with this, the Bank aims to maintain capital adequacy ratios that are above the regulatory requirement, while balancing shareholders' desire for sustainable returns and prudential standards.

The Bank carries out stress testing to estimate the potential impact of extreme but plausible events on the Bank's earnings, statement of financial position and capital. The results of the stress tests are to facilitate the formulation of contingency plans where warranted. The results of the stress tests are tabled to the Group Risk Management Committee for approval.

2.0 Capital (cont'd)

2.1 Capital Adequacy Ratios

The capital adequacy ratios of the Bank are as follows:

	2019	2018
Before deducting proposed dividends		
CET I Capital Ratio	11.690%	12.569%
Tier I Capital Ratio	12.950%	12.569%
Total Capital Ratio	15.762%	15.421%
After deducting proposed dividends		
CET I Capital Ratio	11.339%	12.198%
Tier I Capital Ratio	12.599%	12.198%
Total Capital Ratio	15.411%	15.050%

The Bank's capital ratios comply with the prescribed capital adequacy ratios under BNM's Capital Adequacy Framework for Islamic Banks.

2.2 Capital Structure

The following tables present the components of Common Equity Tier I ("CET I"), Tier I and Tier II capital:

	2019 RM'000	2018 RM'000
CET I Capital		
Paid-up share capital	400,000	400,000
Retained profits	522,931	498,216
Regulatory reserve	9,060	21,430
Revaluation reserves	18,795	246
	950,786	919,892
Less: Regulatory adjustment		
- Goodwill and other intangibles	(897)	(1,058)
- Deferred tax assets	(11,156)	(1,250)
- 55% of revaluation reserves	(10,337)	(135)
- Regulatory reserves	(9,060)	(21,430)
Total CET I Capital	919,336	896,019
Additional Tier 1 Sukuk Wakalah [1]	99,113	-
Total Tier I Capital	1,018,449	896,019
Tier II Capital		
Subordinated Sukuk Murabahah	129,634	129,543
Expected credit loss*/ collective assessment allowance and regulatory reserves	91,478	73,810
Total Tier II Capital	221,112	203,353
Total Capital	1,239,561	1,099,372

***** Expected credit loss for stage 1 and stage 2 only.

Note:
1. On 29 March 2019, the Bank issued RM100.0 million Islamic Additional Tier 1 Sukuk Wakalah in nominal value under the perpertual sukuk programme of up to RM2.5 billion.

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2.0 Capital (cont'd)

2.3 Risk Weighted Assets ("RWA") and Capital Requirements

Regulatory Capital Requirements

The following table presents the minimum regulatory capital requirement of the Bank:

2019 **Exposure Class**	**Gross Exposures** **RM'000**	**Net Exposures** **RM'000**	**Risk-Weighted Assets** **RM'000**	**Capital Requirements** **RM'000**
(i) Credit Risk				
On-balance sheet exposures:				
Sovereigns/Central banks	1,896,250	1,896,250	-	-
Public sector entities	90,416	90,416	18,084	1,447
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks	-	-	-	-
Takaful Companies, Securities Firm and Fund Managers	7,062	7,062	7,062	565
Corporates	3,844,820	3,728,721	2,991,768	239,341
Regulatory retail	2,473,458	2,398,532	1,968,997	157,520
Residential Real Estate ("RRE") financing	3,737,202	3,736,185	1,660,639	132,851
Higher risk assets	1,614	1,614	2,421	194
Other assets	50,403	50,403	50,403	4,032
Defaulted exposures	61,445	60,320	61,926	4,954
Total on-balance sheet exposures	12,162,670	11,969,503	6,761,300	540,904
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	731,349	686,974	556,393	44,511
Defaulted exposures	358	358	530	42
Total off-balance sheet exposures	731,707	687,332	556,923	44,554
Total on and off-balance sheet exposures	12,894,377	12,656,835	7,318,223	585,458
(ii) Market Risk (Note 4.0)	Long Position	Short Position		
Profit rate risk	-	-	-	-
Foreign currency risk	-	-	-	-
	-	-		
Total			-	-
(iii) Operational Risk	-	-	546,146	43,692
Total	12,894,377	12,656,835	7,864,369	629,150

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2.0 Capital (cont'd)

2.3 RWA and Capital Requirements (cont'd)

Regulatory Capital Requirements (cont'd)

The following table presents the minimum regulatory capital requirement of the Bank (cont'd):

2018 **Exposure Class**			**Gross Exposures RM'000**	**Net Exposures RM'000**	**Risk-Weighted Assets RM'000**	**Capital Requirements RM'000**
(i) <u>Credit Risk</u>						
On-balance sheet exposures:						
Sovereigns/Central banks			2,345,557	2,345,557	-	-
Public sector entities			121,078	121,078	24,216	1,937
Banks, DFIs and Multilateral Development Banks			98,526	98,526	19,705	1,576
Takaful Companies, Securities Firm and Fund Managers			25,195	25,195	25,195	2,016
Corporates			3,706,525	3,604,881	2,870,564	229,645
Regulatory retail			2,552,734	2,494,330	2,014,353	161,148
RRE financing			2,442,946	2,441,718	1,060,928	84,874
Higher risk assets			394	394	591	47
Other assets			35,485	35,485	35,485	2,839
Defaulted exposures			70,487	69,703	86,405	6,912
Total on-balance sheet exposures			11,398,927	11,236,867	6,137,442	490,995
Off-balance sheet exposures:						
Credit-related off-balance sheet exposures			636,136	589,053	493,254	39,460
Defaulted exposures			5,813	4,950	7,426	594
Total off-balance sheet exposures			641,949	594,003	500,680	40,054
Total on and off-balance sheet exposures			12,040,876	11,830,870	6,638,122	531,050
(ii) Market Risk (Note 4.0)	Long Position	Short Position				
Profit rate risk	-	-			-	-
Foreign currency risk	-	-			-	-
	-	-				
Total					-	-
(iii) Operational Risk			-	-	490,929	39,274
Total			12,040,876	11,830,870	7,129,051	570,324

<u>Note:</u>
The Bank does not use Profit-sharing Investment Account ("PSIA") as a risk absorbent mechanism.

The Bank does not have exposure to any Large Exposure Risk for equity holdings specificed in BNM's Guidelines on Investment in Shares, Interest-in-Shares and Collective Investment Schemes.

3.0 Credit Risk

Credit risk is the risk of financial loss resulting from the failure of the Bank's customers or counterparties to fulfil their contractual obligations to pay their financing or to settle financial commitments. Credit risk arises mainly from financing and advances activities and holding of debt securities.

Credit Risk Management

The Board, via the Group Risk Management Committee ("GRMC"), established a Credit Risk Management Framework ("CRMF") which outlines the broad principles for managing credit risk of the Bank.

Credit approval is under the purview of the Board, Management Credit Committee and Credit Underwriters, depending on the size and complexity of the financing.

Retail financing are subject to portfolio reviews and corporate financing are subject to periodic individual customer or group reviews. The Portfolio Review Committee for the respective lines of business, assisted by embedded risk units, helps to manage the portfolio quality. The process also ensures alignment of business strategy with the Bank's risk appetite.

Potential problem financing or issues on portfolio are identified through our Early Warning Framework and thematic reviews, where applicable. Recovery of impaired financing are carried out internally or through authorised agents.

The Portfolio Review Committees for the respective lines of business, assisted by embedded risk units, helps to manage the portfolio quality. Portfolio risk reports are reviewed and action plans are formulated to manage identified risks.

Entity level Risk Dashboards are escalated to the Executive Risk Management Committee (Senior Management Level). Group Risk Management Committee (Board Level) and the Board for deliberation and strategic direction.

Group Risk Management is responsible for assessing the adequacy and effectiveness of the risk management framework, policies and guidelines. Embedded risk units are responsible for monitoring business activities and ensuring that they are carried out within the approved policies and business models.

Stress testing is used to identify potential vulnerable risk areas of the Bank's portfolios to stress events and assess the impact to earnings and capital. Stress tests are performed using different market and economic assumptions to assess possible vulnerability to formulate and effective mitigation actions when required. Sensitivity analysis are conducted to assess potential impact of individual risk factors.

Group Internal Audit reviews the Bank's credit processes regularly and recommends corrective measures or enhancements. These reviews provide senior management with assurance that the policies, processes and guidelines are adhered to.

Impaired Financing and Provisions

Past due accounts are financing accounts with any payment of principal and/or profit due and not paid, but are not classified as impaired. Financing are classified as impaired if the mandatory impairment thresholds are exceeded or judgmentally impaired when there are reasonable grounds to believe that the borrower may not be able to repay the entire financing amount.

Provisions for expected credit losses are carried out based on the MFRS 9 approach, loans with defined risk characteristics are transferred to Stage 2 and provisions are estimated based on potential losses for the remaining lifetime of the exposures. Impaired loans are classified as Stage 3 under MFRS 9. Loans that are not classified as Stage 2 or 3 will remain in Stage 1 where provisions will be estimated based on probability of default over the next 12 months.

Individual assessments are performed on impaired accounts with significant exposures.

Please refer to Note 2(g)(i) of the audited financial statements for accounting policies on impairment of financial assets.

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3.0 Credit Risk (cont'd)

3.1 Distribution of Credit Exposures

(a) Geographical Distribution

The following tables represent the Bank's major types of gross credit exposure by geographical distribution. Exposures are allocated to the region in which the branch is located and are disclosed before taking into account of any collateral held or other credit enhancements and after allowance for impairment where applicable.

	Geographical region					
	Northern	**Central**	**Southern**	**Sabah**	**Sarawak**	**Total**
2019	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cash and short-term funds	-	348,407	-	-	-	348,407
Financial investments at fair value through other comprehensive income	-	2,100,887	-	-	-	2,100,887
Financing and advances	817,828	6,354,558	1,243,879	692,481	242,484	9,351,230
Statutory deposits	-	335,388	-	-	-	335,388
Total on-balance sheet	817,828	9,139,240	1,243,879	692,481	242,484	12,135,912
Financial guarantees	8,708	165,613	14,905	14,023	416	203,665
Credit-related commitments and contingencies	283,227	1,179,967	305,856	164,009	153,714	2,086,773
Total off-balance sheet	291,935	1,345,580	320,761	178,032	154,130	2,290,438
Total credit exposure	1,109,763	10,484,820	1,564,640	870,513	396,614	14,426,350

	Geographical region					
	Northern	**Central**	**Southern**	**Sabah**	**Sarawak**	**Total**
2018	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cash and short-term funds	-	1,290,567	-	-	-	1,290,567
Financial investments available-for-sale	-	1,772,502	-	-	-	1,772,502
Financing and advances	652,976	5,381,178	1,095,714	612,162	307,445	8,049,475
Statutory deposits	-	276,888	-	-	-	276,888
Total on-balance sheet	652,976	8,721,135	1,095,714	612,162	307,445	11,389,432
Financial guarantees	7,932	152,140	12,082	2,121	38	174,313
Credit-related commitments and contingencies	234,333	957,257	219,724	417,517	36,977	1,865,808
Total off-balance sheet	242,265	1,109,397	231,806	419,638	37,015	2,040,121
Total credit exposure	895,241	9,830,532	1,327,520	1,031,800	344,460	13,429,553

Note:
The classification of financial instruments under MFRS 9 was adopted with effect from 1 April 2018. Please refer to Note 42 of the financial statement.

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3.0 Credit Risk (cont'd)

3.1 Distribution of Credit Exposures (cont'd)

(b) Industry Distribution

The following table represents the Bank's major types of gross credit exposure by sector. The analysis is based on the sector in which the customers are engaged.

	Government & Central Bank RM'000	Financial, Takaful & Business Services RM'000	Transport, Storage & Communication RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction RM'000	Household RM'000	Others RM'000	Total RM'000
2019								
Cash and short-term funds	348,407	-	-	-	-	-	-	348,407
Financial investments at fair value through other comprehensive income	1,074,898	728,079	220,625	5,215	72,070	-	-	2,100,887
Financing and advances	-	826,440	178,268	2,837,256	196,136	5,212,996	100,134	9,351,230
Statutory deposits	335,388	-	-	-	-	-	-	335,388
Total on-balance sheet	1,758,693	1,554,519	398,893	2,842,471	268,206	5,212,996	100,134	12,135,912
Financial guarantees	-	2,830	5,147	158,376	37,041	42	229	203,665
Credit-related commitments and contingencies	-	158,529	4,728	1,125,334	143,693	620,217	34,272	2,086,773
Total off-balance sheet	-	161,359	9,875	1,283,710	180,734	620,259	34,501	2,290,438
Total credit exposure	1,758,693	1,715,878	408,768	4,126,180	448,940	5,833,255	134,635	14,426,350

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3.0 Credit Risk (cont'd)

3.1 Distribution of Credit Exposures (cont'd)

(b) Industry Distribution (cont'd)

The following table represents the Bank's major types of gross credit exposure by sector. The analysis is based on the sector in which the customers are engaged (cont'd):

	Government & Central Bank	Financial, Takaful & Business Services	Transport, Storage & Communication	Agriculture, Manufacturing, Wholesale & Retail Trade	Construction	Household	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2018								
Cash and short-term funds	1,290,567	-	-	-	-	-	-	1,290,567
Financial assets held-for-trading	-	-	-	-	-	-	-	-
Financial investments available-for-sale	643,216	789,625	243,192	5,105	91,364	-	-	1,772,502
Financial investments held-to-maturity	-	-	-	-	-	-	-	-
Financing and advances	-	839,499	148,536	2,599,250	287,260	4,111,877	63,053	8,049,475
Statutory deposits	276,888	-	-	-	-	-	-	276,888
Total on-balance sheet	2,210,671	1,629,124	391,728	2,604,355	378,624	4,111,877	63,053	11,389,432
Financial guarantees	-	5,072	5,154	144,289	19,518	42	238	174,313
Credit-related commitments and contingencies	-	116,715	5,894	975,998	117,473	344,066	305,662	1,865,808
Total off-balance sheet	-	121,787	11,048	1,120,287	136,991	344,108	305,900	2,040,121
Total credit exposure	2,210,671	1,750,911	402,776	3,724,642	515,615	4,455,985	368,953	13,429,553

3.0 Credit Risk (cont'd)

3.1 Distribution of Credit Exposures (cont'd)

(c) Residual Contractual Maturity

The following table represents the residual contractual maturity for major types of gross credit exposure for on-balance sheet financial assets of the Bank:

	Up to 1 month	>1-3 months	>3-6 months	>6-12 months	>1 year	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2019						
Cash and short-term funds	348,407	-	-	-	-	348,407
Financial investments at fair value through other comprehensive income	117,523	27,209	13,887	10,029	1,932,239	2,100,887
Financing and advances	2,130,227	423,355	205,584	30,429	6,561,635	9,351,230
Statutory deposits	-	-	-	-	335,388	335,388
Total on-balance sheet exposure	2,596,157	450,564	219,471	40,458	8,829,262	12,135,912
2018						
Cash and short-term funds	1,290,567	-	-	-	-	1,290,567
Financial investments available-for-sale	7,410	36,696	127,126	240,326	1,360,944	1,772,502
Financing and advances	1,424,360	479,662	293,175	59,839	5,792,439	8,049,475
Statutory deposits	-	-	-	-	276,888	276,888
Total on-balance sheet exposure	2,722,338	516,358	420,301	300,165	7,430,271	11,389,432

3.0 Credit Risk (cont'd)

3.2 Past Due Financing and Advances Analysis

Past due but not impaired loans, advances and financing are loans where the customers have failed to make a principal and/or profit payment when contractually due, and include loans which are due one or more days after the contractual due date but not more than three months. For loans that are structured to pay principal and / or profit at quarterly interval or longer, a default of payment will trigger an impairment immediately. Under MFRS 9, exposures more than 30 days past due are transferred to Stage 2.

The following tables represent the past due loans, advances and financing analysed by sector:

Past due financing and advances analysed by sector:

	2019 RM'000	2018 RM'000
Financial, takaful and business services	10,968	5,075
Transport, storage and communication	6,997	552
Agriculture, manufacturing, wholesale & retail trade	142,434	19,548
Construction	9,133	4,148
Household	403,108	315,700
Others	25,392	271
	598,032	345,294

Past due financing and advances analysed by significant geographical areas:

	2019 RM'000	2018 RM'000
Northern region	52,315	31,834
Central region	426,329	225,673
Southern region	79,716	59,931
Sabah region	35,488	24,555
Sarawak region	4,183	3,301
	598,032	345,294

3.0 Credit Risk (cont'd)

3.2 Past Due Financing and Advances Analysis (cont'd)

The following tables represent the financing and advances by sector and geographical region, where past due exposures are included under Stage 2 and Stage 3:

	31 March 2019				31 March 2018	
	Non-credit impaired		Credit impaired	Total	Non-credit impaired	Credit impaired
	12 months ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)		Collectively Assessed	Individually Assessed
Sector	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
BANK						
Financial, takaful and business services	686,023	139,488	1,238	826,749	-	-
Transport, storage and communication	148,414	29,788	367	178,569	-	-
Agriculture, manufacturing, wholesale & retail trade	2,102,710	707,546	41,028	2,851,284	-	-
Construction	164,712	30,649	5,606	200,967	-	-
Household	4,666,601	513,824	58,684	5,239,109	-	-
Others	93,692	6,441	2	100,135	-	-
	7,862,151	1,427,736	106,925	9,396,812	-	-
Geographic Distribution						
Northern region	647,471	163,934	9,793	821,198	-	-
Central region	5,345,777	960,769	79,488	6,386,035	-	-
Southern region	1,090,837	148,198	14,188	1,253,223	-	-
Sabah region	603,658	87,153	2,762	693,573	-	-
Sarawak region	174,408	67,682	694	242,783	-	-
	7,862,151	1,427,736	106,925	9,396,812	-	-

3.0 Credit Risk (cont'd)

3.3 Impaired Financing and Advances Analysis

Impaired financing and advances are exposures where the customers have failed to make a principal and/or profit payment for more than three months. In addition, where customers are deemed incapable of continuing repayment obligations, the exposures will be judgmentally impaired. Where exposures are restructured or rescheduled due to increase in credit risk, the exposures are also classified as impaired.

Impaired financing and advances analysed by sectors:

	2019 RM'000	2018 RM'000
Financial, takaful & business services	1,238	3,200
Transport, storage and communication	367	963
Agriculture, manufacturing, wholesale & retail trade	41,028	42,570
Construction	5,606	1,652
Household	58,684	55,847
Others	2	-
	106,925	104,232

Credit provisions on financing and advances analysed by sectors:

	Non-credit Impaired		**Credit Impaired**		
	12 months ECL (Stage 1)	**Lifetime ECL (Stage 2)**	**Lifetime ECL (Stage 3)**	**ECL charged/ write-back for the year (net)**	**Stage 3 write-off for the year (net)**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2019					
Financial, takaful & business services	819	2,513	309	(688)	(28)
Transport, storage & communication	173	1,755	301	(638)	-
Agriculture, manufacturing, wholesale & retail trade	3,763	14,440	14,028	5,507	(507)
Construction	335	1,366	4,831	4,113	(26)
Household	17,742	49,449	26,113	37,079	(32,656)
Others	200	372	1	-	-
	23,032	69,895	45,583	45,374	(33,217)

	Individual assessment allowance	**Collective assessment allowance**	**Individual assessment made / write-back for the year (net)**	**Individual assessment write-off for the year (net)**
2018	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial, takaful & business services	912	4,457	913	-
Transport, storage & communication	-	1,633	-	-
Agriculture, manufacturing, wholesale & retail trade	7,851	18,652	6,025	-
Construction	600	2,276	80	(45)
Household	1,403	48,027	772	(567)
Others	-	395	-	-
	10,766	75,440	7,790	(612)

3.0 Credit Risk (cont'd)

3.3 Impaired Financing and Advances Analysis (cont'd)

Impaired financing and advances and credit provisions analysed by significant geographical areas:

		Non-credit Impaired		Credit Impaired
	Impaired financing and advances RM'000	12 months ECL (Stage 1) RM'000	Lifetime ECL (Stage 2) RM'000	Lifetime ECL (Stage 3) RM'000
2019				
Northern region	9,793	2,301	7,199	3,370
Central region	79,488	16,408	52,175	31,478
Southern region	14,188	3,157	7,536	9,344
Sabah region	2,762	930	2,077	1,093
Sarawak region	694	236	908	298
	106,925	23,032	69,895	45,583

	Impaired financing and advances RM'000	Individual assessment allowance RM'000	Collective assessment allowance RM'000
2018			
Northern region	7,882	564	6,685
Central region	78,565	6,024	52,263
Southern region	12,857	3,436	10,358
Sabah region	3,882	742	4,189
Sarawak region	1,046	-	1,945
	104,232	10,766	75,440

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3.0 Credit Risk (cont'd)

3.3 Impaired Financing and Advances Analysis (cont'd)

Movements in the credit provisions for credit losses on financing and advances are as follows:

	31 March 2019				31 March 2018	
	Non-credit Impaired		Credit Impaired	Total		
	12 months ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)		Collectively Assessed	Individually Assessed
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 April 2018						
As previously stated				86,206	77,336	2,480
Effect of adoption of MFRS 9				37,209	-	-
As restated	22,429	66,027	34,959	123,415	77,336	2,480
Transfer to Stage 1	9,004	(41,354)	(1,341)	(33,691)	-	-
Transfer to Satge 2	(15,260)	78,803	(31,276)	32,267	-	-
Transfer to Stage 3	(33)	(48,822)	75,489	26,633	-	-
New financial assets originated or purchased	23,766	33,937	8,018	65,721	-	-
Financial assets derecognised other than write-off	(12,600)	(33,939)	(2,918)	(49,457)	-	-
Changes due to change in credit risk	(4,274)	15,369	(2,598)	8,497	43,596	7,790
Total charged to income statement on allowance	603	3,994	45,374	49,970	43,596	7,790
Unwind of discount	-	-	(1,533)	(1,533)	-	-
Write-off	-	(126)	(33,217)	(33,343)	(44,384)	(612)
Transfer (to)/from collective assessment allowance to individual assessment allowance	-	-	-	-	(1,108)	1,108
At end of financial year	**23,032**	**69,895**	**45,583**	**138,510**	75,440	10,766

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3.0 Credit Risk (cont'd)

3.4 Assignment of Risk-Weights for Portfolios Under the Standardised Approach

The following tables represent the credit exposures by risk-weights and after credit risk mitigation:

2019 Risk-Weights	Sovereigns /Central Banks	Public Sector Entities	Banks, DFIs and Multilateral Development Banks	Takaful Companies, Securities Firms and Fund Managers	Corporates	Regulatory Retail	RRE Financing	Higher Risk Assets	Other Assets	Total Exposures after Netting and Credit Risk Mitigation	Total Risk-Weighted Assets
	<------ Exposures after netting and credit risk mitigation								------>		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	1,896,250	-	-	-	273,914	-	-	-	-	2,170,164	-
20%	-	94,416	-	-	578,800	-	100	-	-	673,316	134,663
35%	-	-	-	-	-	-	2,335,281	-	-	2,335,281	817,349
50%	-	-	-	-	1,872	7,569	1,287,725	-	-	1,297,166	648,583
75%	-	-	-	-	-	1,901,835	694	-	-	1,902,529	1,426,897
100%	-	-	-	7,112	3,250,019	687,887	258,258	-	50,403	4,253,679	4,253,680
150%	-	-	-	-	13,777	9,235	-	1,689	-	24,701	37,051
Total exposures	1,896,250	94,416	-	7,112	4,118,382	2,606,526	3,882,057	1,689	50,403	12,656,835	7,318,223
Risk-weighted assets by exposures	-	18,883	-	7,112	3,387,382	2,131,900	1,720,008	2,534	50,403	7,318,223	
Average risk weight	0%	20%	0%	100%	82%	82%	44%	150%	100%	58%	
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	

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3.0 Credit Risk (cont'd)

3.4 Assignment of Risk-Weights for Portfolios Under the Standardised Approach (cont'd)

The following tables represent the credit exposures by risk-weights and after credit risk mitigation (cont'd):

2018 Risk-Weights	Sovereigns /Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and Multilateral Development Banks RM'000	Takaful Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	RRE Financing RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Total Exposures after Netting and Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
	<------ Exposures after netting and credit risk mitigation								------>		
0%	2,405,557	-	-	-	292,150	-	-	-	-	2,697,707	-
20%	-	125,077	98,526	-	552,707	-	154	-	-	776,464	155,293
35%	-	-	-	-	-	-	1,459,371	-	-	1,459,371	510,780
50%	-	-	-	-	827	2,610	875,417	-	-	878,854	439,427
75%	-	-	-	-	-	2,029,000	1,374	-	-	2,030,374	1,522,780
100%	-	-	-	25,195	3,168,174	580,922	134,841	-	35,485	3,944,617	3,944,617
150%	-	-	-	-	29,566	13,523	-	394	-	43,483	65,225
Total exposures	2,405,557	125,077	98,526	25,195	4,043,424	2,626,055	2,471,157	394	35,485	11,830,870	6,638,122
Risk-weighted assets by exposures	-	25,015	19,705	25,195	3,323,478	2,124,262	1,084,391	591	35,485	6,638,122	
Average risk weight	0%	20%	20%	100%	82%	81%	44%	150%	100%	56%	
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	

3.0 Credit Risk (cont'd)

3.4 Assignment of Risk-Weights for Portfolios Under the Standardised Approach (cont'd)

For the purpose of determining counterparty risk-weights, the Bank uses external credit assessments from Rating Agency Malaysia ("RAM"), Malaysian Rating Corporation ("MARC"), Standard and Poor's ("S&P"), Moody's, Fitch and Rating and Investment ("R&I" [See Note 1]). In the context of the Bank's portfolio, external credit assessments are mainly applicable to banks/financial institutions and rated corporations. The Bank follows the process prescribed under BNM Capital Adequacy Framework for Islamic Banks (CAFIB)-Basel II to map the ratings to the relevant risk weights. The ratings are monitored and updated regularly to ensure that the latest and most appropriate risk-weights are applied in the capital computation.

The following tables show the rated credit exposures according to ratings by approved Eligible Credit Assessment Institutions ("ECAIs"), or as prescribed under the CAFIB:

2019

Exposure Class		Ratings by Approved ECAIs*					Total
	Moody's	Aaa to Aa3 / P-1	A1 to A3 / P-2	Baa1 to Ba3 / P-3	B1 to C / Others	Unrated	
	S&P	AAA to AA- / A-1	A+ to A- / A-2	BBB+ to BB- / A-3	B+ to D / Others	Unrated	
	Fitch	AAA to AA- / F1+, F1	A+ to A- / A-2	BBB+ to BB- / F3	B+ to D	Unrated	
	RAM	AAA to AA3 / P-1	A+ to A3 / P-2	BBB1+ to BB3 / P-3	B to D / NP	Unrated	
	MARC	AAA to AA- / MARC-1	A+ to A- / MARC-2	BBB+ to BB- / MARC-3	B+ to D / MARC-4	Unrated	
	R&I	AAA to AA- / a-1+, a-1	A+ to A- / a-2	BBB+ to BB- / a-3	B+ to D / b, c	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance-Sheet Exposures							
(i) Exposures risk weighted using Sovereigns and Central Banks rating							
Sovereigns and Central Banks (See Note 2)		-	1,896,249	-	-	-	1,896,249
Public Sector Entities		-	-	-	-	-	-
Corporates		-	273,914	-	-	-	273,914
		-	2,170,163	-	-	-	2,170,163
(ii) Exposures risk weighted using Banking Institutions long term rating							
Banks, DFIs and Multilateral Development Banks		-	-	-	-	-	-
Exposures risk weighted using Banking Institutions short term rating							
Banks, DFIs and Multilateral Development Banks		-	-	-	-	-	-
		-	-	-	-	-	-
(iii) Exposures risk weighted using Corporate long term rating							
Public Sector Entities		35,719	-	-	-	58,698	94,417
Corporates		578,800	-	-	-	3,413,689	3,992,489
Takaful Cos, Securities Firms & Fund Managers		-	-	-	-	7,112	7,112
Exposures risk weighted using Corporate short term rating							
Public Sector Entities		-	-	-	-	-	-
Corporates		-	-	-	-	-	-
Takaful Cos, Securities Firms & Fund Managers		-	-	-	-	-	-
		614,519	-	-	-	3,479,499	4,094,018

Note 1: "R&I" rating is not recognised for Islamic debt securities.

Note 2: The Federal Government and Central Bank of Malaysia are accorded 0% risk weight as provided under the Capital Adequacy Framework for Islamic

*Upper Range = Long Term Rating, Lower Range = Short Term Rating

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3.0 Credit Risk (cont'd)

3.4 Assignment of Risk-Weights for Portfolios Under the Standardised Approach (cont'd)

The following tables show the rated credit exposures according to ratings by approved ECAIs (contd):

2018

Exposure Class		Ratings by Approved ECAIs*					Total
	Moody's	Aaa to Aa3 / P-1	A1 to A3 / P-2	Baa1 to Ba3 / P-3	B1 to C / Others	Unrated	
	S&P	AAA to AA- / A-1	A+ to A- / A-2	BBB+ to BB- / A-3	B+ to D / Others	Unrated	
	Fitch	AAA to AA- / F1+, F1	A+ to A- / A-2	BBB+ to BB- / F3	B+ to D	Unrated	
	RAM	AAA to AA3 / P-1	A+ to A3 / P-2	BBB1+ to BB3 /	B to D / NP	Unrated	
	MARC	AAA to AA- / MARC-1	A+ to A- / MARC-2	BBB+ to BB- / MARC-3	B+ to D / MARC-4	Unrated	
	R&I	AAA to AA- / a-1+, a-1	A+ to A- / a-2	BBB+ to BB- / a-3	B+ to D / b, c	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance-Sheet Exposures							
(i) Exposures risk weighted using Sovereigns and Central Banks rating							
Sovereigns and Central Banks (See Note 2)		-	2,405,557	-	-	-	2,405,557
Public Sector Entities		-	-	-	-	-	-
Corporates		-	292,150	-	-	-	292,150
		-	2,697,707	-	-	-	2,697,707
(ii) Exposures risk weighted using Banking Institutions long term rating							
Banks, DFIs and Multilateral Development Banks		98,526	-	-	-	-	98,526
Exposures risk weighted using Banking Institutions short term rating							
Banks, DFIs and Multilateral Development Banks		-	-	-	-	-	-
		98,526	-	-	-	-	98,526
(iii) Exposures risk weighted using Corporate long term rating							
Public Sector Entities		51,016	-	-	-	74,061	125,077
Corporates		552,707	-	-	-	3,335,240	3,887,947
Takaful Cos, Securities Firms & Fund Managers		-	-	-	-	25,195	25,195
Exposures risk weighted using Corporate short term rating							
Public Sector Entities		-	-	-	-	-	-
Corporates		-	-	-	-	-	-
Takaful Cos, Securities Firms & Fund Managers		-	-	-	-	-	-
		603,723	-	-	-	3,434,496	4,038,219

Note 1: "R&I" rating is not recognised for Islamic debt securities.

Note 2: The Federal Government and Central Bank of Malaysia are accorded 0% risk weight as provided under the Capital Adequacy Framework for Islamic

*Upper Range = Long Term Rating, Lower Range = Short Term Rating

Note:
There is no outstanding securitisation contract in the Bank that requires disclosure of ratings and short term rating of securitisation by approved ECAIs.

3.0 Credit Risk (cont'd)

3.5 Credit Risk Mitigation ("CRM")

As a practical approach towards mitigating credit risk, the Bank accepts a wide range of collaterals. Main types of collateral acceptable to the Bank include cash, guarantees, commercial and residential real estates, and physical collateral/ financial collateral, e.g. motor vehicles or shares. Guarantees are accepted only when the financial standing of the guarantors have been ascertained.

However, for capital computation purposes, the BNM guidelines apply more restrictive rules on collaterals that qualify as credit risk mitigants. As a result, not all of the collaterals accepted by the Bank can be used to reduce the Bank's capital adequacy requirement.

The following tables represent the Bank's credit exposure including off-balance sheet items under the standardised approach, the total exposure (after, where applicable, eligible netting benefits) that is covered by eligible guarantees and credit derivatives; and eligible collateral after haircuts, allowed under the Capital Adequacy Framework for Islamic Banks.

2019 **Exposure Class**	**Exposures before CRM** RM'000	**Exposures covered by guarantees/ credit derivatives** RM'000	**Exposures covered by eligible financial collateral** RM'000	**Exposures covered by other eligible collateral** RM'000
Credit Risk				
On-balance sheet exposures:				
Sovereigns/Central banks	1,896,250	-	-	-
Public sector entities	90,416	-	-	-
Banks, DFIs and Multilateral Development Banks	-	-	-	-
Takaful Companies, Securities Firm and Fund Managers	7,062	-	-	-
Corporates	3,844,820	-	116,099	-
Regulatory retail	2,473,458	-	74,926	-
RRE financing	3,737,202	-	1,017	-
Higher risk assets	1,614	-	-	-
Other assets	50,403	-	-	-
Defaulted exposures	61,445	-	1,125	-
Total on-balance sheet exposures	12,162,670	-	193,167	-
Off-balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	731,349		44,375	
Defaulted exposures	358		-	
Total off-balance sheet exposures	731,707	-	44,375	-
Total on and off-balance sheet exposures	12,894,377	-	237,542	-

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3.0 Credit Risk (cont'd)

3.5 Credit Risk Mitigation ("CRM") (cont'd)

2018 **Exposure Class**	**Exposures before CRM** RM'000	**Exposures covered by guarantees/ credit derivatives** RM'000	**Exposures covered by eligible financial collateral** RM'000	**Exposures covered by other eligible collateral** RM'000
Credit Risk				
On-balance sheet exposures:				
Sovereigns/Central banks	2,345,557	-	-	-
Public sector entities	121,078	-	-	-
Banks, DFIs and Multilateral Development Banks	98,526	-	-	-
Takaful Companies, Securities Firm and Fund Managers	25,195	-	-	-
Corporates	3,706,525	-	101,644	-
Regulatory retail	2,552,734	-	58,403	-
RRE financing	2,442,946	-	1,228	-
Higher risk assets	394	-	-	-
Other assets	35,485	-	-	-
Defaulted exposures	70,487	-	784	-
Total on-balance sheet exposures	11,398,927	-	162,059	-
Off-balance sheet exposures:				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	636,136		47,085	-
Defaulted exposures	5,813		863	-
Total off-balance sheet exposures	641,949	-	47,948	-
Total on and off-balance sheet exposures	12,040,876	-	210,007	-

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3.0 Credit Risk (cont'd)

3.6 Off-Balance Sheet Exposures and Counterparty Credit Risk

Off-balance sheet exposures of the Bank are mainly from the commitments to extend credit including the unutilised or undrawn portions of credit facilities.

The off-balance sheet exposures and their related counterparty credit risk of the Bank are as follows:

2019	**Principal Amount** RM'000	**Positive Fair Value of Derivative Contracts** RM'000	**Credit Equivalent Amount** RM'000	**Risk-Weighted Assets** RM'000
Credit-related exposures				
Direct credit substitutes	160,578	-	160,578	147,043
Transaction-related contingent items	68,909	-	34,455	22,075
Short-term self-liquidating trade-related contingencies	46,589	-	9,317	8,764
Irrevocable commitments to extend credit:				
● maturity exceeding one year	415,302	-	207,545	130,914
● maturity not exceeding one year	1,599,060	-	319,812	248,127
	2,290,438	-	731,707	556,923

2018	**Principal Amount** RM'000	**Positive Fair Value of Derivative Contracts** RM'000	**Credit Equivalent Amount** RM'000	**Risk-Weighted Assets** RM'000
Credit-related exposures				
Direct credit substitutes	154,702	-	154,702	141,789
Transaction-related contingent items	77,381	-	38,690	24,488
Short-term self-liquidating trade-related contingencies	19,611	-	3,922	3,518
Irrevocable commitments to extend credit:				
● maturity exceeding one year	289,834	-	144,918	131,683
● maturity not exceeding one year	1,498,593	-	299,718	199,202
	2,040,121	-	641,949	500,680

4.0 Market Risk

For Islamic banking, market risk refers to fluctuations in values of tradable, marketable or leaseable assets (including sukuk) and in off-balance sheet individual portfolios such as restricted investment accounts. This risk relates to the current and future volatility of market values of specific assets, e.g. the market value of a Sukuk or Murabahah assets purchased to be delivered over a specific period; and of foreign exchange rates.

Market Risk Management

The Board, via the Group Risk Management Committee (GRMC) provides oversight on market risk management activities. Its responsibilities include reviewing and approving risk management policies, risk exposures and limits whilst ensuring the necessary infrastructure and resources are in place.

At senior management level, the Group Assets and Liabilities Management Committee ("GALCO") manages the Bank’s market risk by reviewing and recommending market risk frameworks and policies; ensuring that market risk limits and parameters are within the approved thresholds; and aligning market risk management with business strategy and planning.

Organisationally, market risks are managed collectively via the Three Lines of Defence concept. Group Financial Markets, as the risk taking unit assumes ownership of the risk and manages the risk within the approved policies, risk limits and parameters as set by the GRMC or GALCO. The risk control function is undertaken by Group Risk Management which provides independent monitoring, valuation and reporting of the market exposures. This is supplemented by periodic review by Group Internal Audit.

For the Bank, market risk is managed on an integrated approach which involves the following processes:

(i) Identification of market risk in new products and changes in risk profiles of existing exposures;

(ii) Assessment of the type and magnitude of market risks which takes into account the activity and market role undertaken;

(iii) Adoption of various market risk measurement tools and techniques to quantify market risk exposures, and

(iv) Scheduled and exception reporting on market risk exposures.

Market risk exists in the Bank's activities in sukuk and money market instruments which are transacted primarily by Group Financial Markets (treasury) department. Trading positions are held intentionally for short-term resale and with the intent of benefiting from actual or expected short-term price movements while banking book positions are held until maturity or as available-for-sale. Hence, these positions are susceptible to market movements.

These exposures are governed by approved policies, risk limits and parameters which are set vis-a-vis the Bank's risk appetite and strategy. Besides that, treasury activities are monitored and reported independently by Group Market Risk on a daily basis. Any limit breaches or exceptions are reported to GALCO and GRMC.

4.0 Market Risk (cont'd)

Hedging Policies and Strategies

The Bank had established a hedging policy which outlines the broad principles and policies governing hedging activities by the Bank. Generally, the Bank enters into hedges to manage or reduce risk exposures. All hedging strategies are approved by the GALCO and monitored independently by Group Market Risk Management. Further, all hedging strategies are designated upfront and recorded separately under the hedging portfolios. Hedging positions and effectiveness, if any, are monitored and reported monthly to senior management.

Market risk capital charge

For the Bank, the market risk charge is computed on the standardised approach and the capital charges are mainly on the Islamic bonds/ sukuk, if any. There was no market risk charge for current financial year ended 31 March 2019.

Regulatory capital requirements

The risk-weighted assets and capital requirements for the various categories of risk under market risk are as follows:

	Risk-Weighted Assets	**Capital Requirements**
2019	RM'000	RM'000
Profit rate risk		
● General profit rate risk	-	-
● Specific profit rate risk	-	-
	-	-
Equity risk		
● General profit rate risk	-	-
● Specific profit rate risk	-	-
	-	-
Foreign exchange risk	-	-
2018		
Profit rate risk		
● General profit rate risk	-	-
● Specific profit rate risk	-	-
	-	-
Equity risk		
● General profit rate risk	-	-
● Specific profit rate risk	-	-
	-	-
Foreign exchange risk	-	-

5.0 Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk but excludes strategic and reputation risks.

Operational Risk Management

Management, escalation and reporting of operational risks are instituted through the Group Operational Risk Management Committee (GORMC), Group Risk Management Committee (GRMC) as well as the Board.

The Board, via the GRMC provides oversight on operational risk management activities.

At senior management level, GORMC manages the day-to-day operational risk exposures. The roles and responsibilities of GORMC include:

(i) Providing strategic guidance on operational issues and monitor implementation of Operational Risk Management (ORM) framework;
(ii) Reviewing and monitoring operational risk issues, reports and action plans;
(iii) Evaluating and agree on initiatives to strengthen operational processes or infrastructure; and
(iv) Promoting risk awareness and operational risk management culture.

The Bank practices operational risk management as outlined in the ORM Framework, in accordance with Basel and regulatory guidelines. The Bank applies operational risk tools and methodologies in the identification, assessment, measurement, control and monitoring of operational risks. Other efforts by the Bank include the ORM awareness training which is given to all staff, and regular business continuity and disaster recovery plans.

The Bank adopts Basic Indicator Approach for computation of operational Risk-Weighted Asset (RWA).

6.0 Rate of Return Risk in the Banking Book

Rate of return risk in the banking book ("RORBB") is the risk that occurs when movements in profit rates affect a banking organization's earnings or economic value. Changes in profit rate affect the Bank's earnings by altering profit rate-sensitive income and expenses, affecting its net profit income (NII). It also affects the underlying value of banking assets, liabilities and off-balance sheet instruments as the present value of future cash flows change when profit rate change.

Risk Governance

RORBB is managed collectively by GALCO, Group Financial Markets, Group Finance and Group Risk Management. Each of the above parties has defined roles and responsibilities to provide oversight and manage RORBB within the defined framework and structure as approved by the GRMC/Board. GALCO assumes the overall responsibility in managing RORBB by setting the directions, strategy and risk limits/parameters for the Bank. Group Financial Markets is tasked to execute the approved strategy by managing the assets/liabilities as well as the funding and liquidity needs of the Bank. Group Finance and Group Risk Management provide support in respect of risk monitoring and reporting of the banking book exposures; and ensuring regulatory as well as accounting requirements are met.

6.0 Rate of Return Risk in the Banking Book (cont'd)

RORBB Management

The guiding principles in managing RORBB include:

(i) Adopting a prudent approach to manage RORBB in ways that commensurate with the Group's size and business activities. This is achieved via establishing robust RORBB policies, measures and strategies which is complemented by regular monitoring and reporting.

(ii) Checking to ensure that RORBB are accurately measured and any mismatches identified, reviewed and reported monthly to GALCO.

(iii) Setting proper gapping limits and the limits monitored closely.

(iv) Practicing comprehensive RORBB reporting and review process, with aggregated information and supporting details to facilitate assessment of the Group's sensitivity to changes in market conditions.

The Bank uses a range of tools, including the following primary measures to quantify and monitor RORBB:

(i) Repricing gap analysis to measure profit rate from the earnings perspective i.e. impact of profit rate changes to earnings in the short term.

(ii) Net profit income simulation to assess the impact of profit rate changes on short term earnings volatility.

(iii) Economic value ("EVE") simulations which measures the asset-liability impact of adverse profit rate movements on the economic value of the Bank's capital.

Group Risk Management performs independent monitoring of the profit rate benchmarks to ensure compliance. Any exceptions are reported and appropriate remedial actions are taken, where necessary. Schedule reporting via risk dashboards are provided to senior management, GRMC and the Board. The risk dashboards provide a visual gauge ("dashboard view") on the RORBB of the Bank.

The Bank is guided by BNM's guidelines and Basel standards on management of RORBB.

The following tables present the Bank's projected sensitivity to a 100 basis point parallel shock to profit rates across all maturities applied on the Bank's profit sensitivity gap as at reporting date.

	2019 **+ 100 bps** RM'000	**2018** **+ 100 bps** RM'000
Impact on net profit income		
Ringgit Malaysia	24,598	31,080
Impact on Economic value		
Ringgit Malaysia	(39,972)	(16,339)

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7.0 Shariah Governance Disclosures

Shariah Non-Compliance Risk arises from the risk of failure to comply with Shariah rules and principles as determined by Shariah Advisory Council of Bank Negara Malaysia and the Bank's Shariah Committee. To manage the risks, the Bank has adopted the following guiding principles:

(i) A sound Shariah Compliance Framework which governs the operations of the Bank and outlines the roles of key functionalities within the Bank, including but not limited to the Shariah risk management process. This is in line with the Shariah Governance Framework issued by BNM.

(ii) The Board of Directors, assisted by the Shariah Committee and Senior Management, provide oversight on Shariah compliance aspects of the Islamic Bank's overall operations. This amongst others include:

- Oversight and implementation of the Shariah Compliance Framework;
- Regular review of Shariah non-compliant income and issues;
- Addressing Shariah non-compliance findings; and
- Ensuring compliance with regulatory and internal requirements including disclosures.

(iii) Appointment of a qualified Shariah Committee member who also serves as Board member; serving as a 'bridge' between the Board and the Shariah Committee.

(iv) Ongoing Shariah reviews and training to raise risk awareness and ensure compliance to Shariah rules and principles. This includes:

- Regular assessment on Shariah compliance in the activities and operations of the Bank. The findings of the review are reported to the Shariah Committee for deliberation and decision.

- Performing research and studies on Shariah issues, including providing day-to-day Shariah advice and consultancy to relevant parties.

- Conducting Shariah-related training and ongoing engagement with relevant parties to raise awareness on Shariah non-compliance risk.

(v) Escalation and reporting processes of Shariah non-compliant income and issues governed through designated escalation channels, which include the Board and Shariah Committee.

(vi) Periodic engagement between the Board and the Shariah Committee to discuss on Shariah research, Shariah compliance and scholar's view on Islamic banking activities.

Shariah Non-Compliant Income And Events

During the financial year end, there was one (1) Shariah non-compliance event detected from the ongoing reviews of the Bank's operational processes. Necessary efforts had been taken to rectify the Shariah non-compliance event, which was tracked and escalated to the Shariah Committee and Board. Theres was no Shariah non-compliant income to be disposed off in accordance with Shariah Committee's decision.