



ALLIANCE BANK ISLAMIC BANK

# PILLAR 3 REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020



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**ALLIANCE ISLAMIC BANK BERHAD**  
**200701018870 (776882-V)**

**BASEL II PILLAR 3 REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020**

**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 3 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 process; 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 ("GRMC") for approval.

**2.0 Capital (cont'd.)**

**2.1 Capital Adequacy Ratios**

The capital adequacy ratios of the Bank are as follows:

	<b>2020</b>	2019
<u>Before deducting proposed dividends</u>		
CET I Capital ratio	10.507%	11.690%
Tier I capital ratio	11.617%	12.950%
Total capital ratio	<u>14.233%</u>	<u>15.762%</u>
<u>After deducting proposed dividends</u>		
CET I Capital ratio	10.507%	11.339%
Tier I capital ratio	11.617%	12.599%
Total capital ratio	<u>14.233%</u>	<u>15.411%</u>

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:

	<b>2020</b>	2019
	<b>RM'000</b>	RM'000
<b><u>CET I Capital</u></b>		
Paid-up share capital	400,000	400,000
Retained profits	523,425	522,931
Regulatory reserve	34,748	9,060
Financial investments at fair value through other comprehensive income (FVOCI) reserves	38,888	18,795
	<u>997,061</u>	<u>950,786</u>
Less: Regulatory adjustments		
- Intangibles assets	(825)	(897)
- Deferred tax assets	-	(11,156)
- 55% of FVOCI reserves	(21,388)	(10,337)
- Regulatory reserves	(34,748)	(9,060)
Total CET I Capital	<u>940,100</u>	<u>919,336</u>
Additional Tier 1 Sukuk Wakalah	99,271	99,113
Total Additional Tier 1 Capital	<u>99,271</u>	<u>99,113</u>
Total Tier I Capital	<u>1,039,371</u>	<u>1,018,449</u>
<b><u>Tier II Capital</u></b>		
Subordinated Sukuk Murabahah	129,733	129,634
Expected credit losses * and regulatory reserves	104,399	91,478
Total Tier II Capital	<u>234,132</u>	<u>221,112</u>
<b>Total Capital</b>	<u>1,273,503</u>	<u>1,239,561</u>

\* Expected credit losses for stage 1 and stage 2 only.

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 requirements of the Bank:

2020 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
<b>(i) Credit Risk</b>				
On-balance sheet exposures:				
Sovereigns/Central banks	1,950,709	1,950,709	-	-
Public sector entities	301,634	301,634	60,326	4,826
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks	3	3	1	-
Takaful Companies, Securities Firms and Fund Managers	6,862	6,862	6,862	549
Corporates	4,525,419	4,414,757	3,510,776	280,862
Regulatory retail	2,505,734	2,431,416	2,031,524	162,522
Residential Real Estate ("RRE") financing	4,607,974	4,607,670	1,960,583	156,847
Higher risk assets	221	221	331	26
Other assets	57,597	57,597	57,597	4,608
Defaulted exposures	157,942	156,960	141,354	11,308
Total on-balance sheet exposures	<u>14,114,095</u>	<u>13,927,829</u>	<u>7,769,354</u>	<u>621,548</u>
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	769,323	712,884	582,278	46,582
Defaulted exposures	202	202	298	24
Total off-balance sheet exposures	<u>769,525</u>	<u>713,086</u>	<u>582,576</u>	<u>46,606</u>
Total on and off-balance sheet exposures	<u>14,883,620</u>	<u>14,640,915</u>	<u>8,351,930</u>	<u>668,154</u>
<b>(ii) Market Risk (Note 4.0)</b>				
	Long Position	Short Position		
Profit rate risk	-	-	-	-
Foreign currency risk	-	-	-	-
	-	-	-	-
Option risk			-	-
Total			<u>-</u>	<u>-</u>
<b>(iii) Operational Risk</b>				
	-	-	595,399	47,632
Total	<u>14,883,620</u>	<u>14,640,915</u>	<u>8,947,329</u>	<u>715,786</u>

**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 requirements of the Bank (cont'd.):

2019 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
<b>(i) Credit Risk</b>				
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, DFIs and Multilateral Development Banks	-	-	-	-
Takaful Companies, Securities Firms 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
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
<b>Total on-balance sheet exposures</b>	<b>12,162,670</b>	<b>11,969,503</b>	<b>6,761,300</b>	<b>540,904</b>
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	731,349	686,974	556,393	44,511
Defaulted exposures	358	358	530	42
<b>Total off-balance sheet exposures</b>	<b>731,707</b>	<b>687,332</b>	<b>556,923</b>	<b>44,554</b>
<b>Total on and off-balance sheet exposures</b>	<b>12,894,377</b>	<b>12,656,835</b>	<b>7,318,223</b>	<b>585,458</b>
<b>(ii) Market Risk (Note 4.0)</b>				
	Long Position	Short Position		
Profit rate risk	-	-	-	-
Foreign currency risk	-	-	-	-
Option risk			-	-
<b>Total</b>			<b>-</b>	<b>-</b>
<b>(iii) Operational Risk</b>	<b>-</b>	<b>-</b>	<b>546,146</b>	<b>43,692</b>
<b>Total</b>	<b>12,894,377</b>	<b>12,656,835</b>	<b>7,864,369</b>	<b>629,150</b>

**Note:**

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 specified 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 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). GRMC (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 MFRS9 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 MFRS9. 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.

	<b>Geographical region</b>					
	<b>Northern</b>	<b>Central</b>	<b>Southern</b>	<b>Sabah</b>	<b>Sarawak</b>	<b>Total</b>
<b>2020</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Cash and short-term funds (exclude cash in hand)	-	714,632	-	-	-	714,632
Financial investments at fair value through other comprehensive income	-	2,301,866	-	-	-	2,301,866
Financial investments at amortised cost	-	80,853	-	-	-	80,853
Financing and advances (exclude sales commission and handling fees)	957,325	7,311,649	1,270,233	886,285	319,749	10,745,241
Statutory deposits with Bank Negara Malaysia	-	219,488	-	-	-	219,488
<b>Total on-balance sheet</b>	<b>957,325</b>	<b>10,628,488</b>	<b>1,270,233</b>	<b>886,285</b>	<b>319,749</b>	<b>14,062,080</b>
Financial guarantees	11,335	180,454	15,029	4,039	1,005	211,862
Credit related commitments and contingencies	385,769	1,223,401	335,017	163,910	118,586	2,226,683
<b>Total off-balance sheet</b>	<b>397,104</b>	<b>1,403,855</b>	<b>350,046</b>	<b>167,949</b>	<b>119,591</b>	<b>2,438,545</b>
<b>Total credit exposure</b>	<b>1,354,429</b>	<b>12,032,343</b>	<b>1,620,279</b>	<b>1,054,234</b>	<b>439,340</b>	<b>16,500,625</b>

	<b>Geographical region</b>					
	<b>Northern</b>	<b>Central</b>	<b>Southern</b>	<b>Sabah</b>	<b>Sarawak</b>	<b>Total</b>
<b>2019</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Cash and short-term funds (exclude cash in hand)	-	348,407	-	-	-	348,407
Financial investments at fair value through other comprehensive income	-	2,100,887	-	-	-	2,100,887
Financial investments at amortised cost	-	-	-	-	-	-
Financing and advances (exclude sales commission and handling fees)	817,828	6,354,558	1,243,879	692,481	242,484	9,351,230
Statutory deposits with Bank Negara Malaysia	-	335,388	-	-	-	335,388
<b>Total on-balance sheet</b>	<b>817,828</b>	<b>9,139,240</b>	<b>1,243,879</b>	<b>692,481</b>	<b>242,484</b>	<b>12,135,912</b>
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
<b>Total off-balance sheet</b>	<b>291,935</b>	<b>1,345,580</b>	<b>320,761</b>	<b>178,032</b>	<b>154,130</b>	<b>2,290,438</b>
<b>Total credit exposure</b>	<b>1,109,763</b>	<b>10,484,820</b>	<b>1,564,640</b>	<b>870,513</b>	<b>396,614</b>	<b>14,426,350</b>

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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
<b>2020</b>								
Cash and short-term funds (exclude cash in hand)	714,632	-	-	-	-	-	-	714,632
Financial investments at fair value through other comprehensive income	1,016,589	817,819	364,252	34,632	68,574	-	-	2,301,866
Financial investments at amortised cost	-	80,853	-	-	-	-	-	80,853
Financing and advances (exclude sales commission and handling fees)	-	990,389	173,954	3,084,662	265,455	6,153,479	77,302	10,745,241
Statutory deposits with Bank Negara Malaysia	219,488	-	-	-	-	-	-	219,488
<b>Total on-balance sheet</b>	<b>1,950,709</b>	<b>1,889,061</b>	<b>538,206</b>	<b>3,119,294</b>	<b>334,029</b>	<b>6,153,479</b>	<b>77,302</b>	<b>14,062,080</b>
Financial guarantees	-	105,719	5,142	74,364	26,415	22	200	211,862
Credit related commitments and contingencies	-	177,953	12,305	1,299,000	132,390	597,812	7,223	2,226,683
<b>Total off-balance sheet</b>	<b>-</b>	<b>283,672</b>	<b>17,447</b>	<b>1,373,364</b>	<b>158,805</b>	<b>597,834</b>	<b>7,423</b>	<b>2,438,545</b>
<b>Total credit exposure</b>	<b>1,950,709</b>	<b>2,172,733</b>	<b>555,653</b>	<b>4,492,658</b>	<b>492,834</b>	<b>6,751,313</b>	<b>84,725</b>	<b>16,500,625</b>

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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 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
<b>2019</b>								
Cash and short-term funds (exclude cash in hand)	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
Financial investments at amortised cost	-	-	-	-	-	-	-	-
Financing and advances (exclude sales commission and handling fees)	-	826,440	178,268	2,837,256	196,136	5,212,996	100,134	9,351,230
Statutory deposits with Bank Negara Malaysia	335,388	-	-	-	-	-	-	335,388
<b>Total on-balance sheet</b>	<b>1,758,693</b>	<b>1,554,519</b>	<b>398,893</b>	<b>2,842,471</b>	<b>268,206</b>	<b>5,212,996</b>	<b>100,134</b>	<b>12,135,912</b>
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
<b>Total off-balance sheet</b>	<b>-</b>	<b>161,359</b>	<b>9,875</b>	<b>1,283,710</b>	<b>180,734</b>	<b>620,259</b>	<b>34,501</b>	<b>2,290,438</b>
<b>Total credit exposure</b>	<b>1,758,693</b>	<b>1,715,878</b>	<b>408,768</b>	<b>4,126,180</b>	<b>448,940</b>	<b>5,833,255</b>	<b>134,635</b>	<b>14,426,350</b>

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**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:

	<u>Up to 1 month</u>	<u>&gt;1-3 months</u>	<u>&gt;3-6 months</u>	<u>&gt;6-12 months</u>	<u>&gt;1 year</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2020</b>						
Cash and short-term funds (exclude cash in hand)	714,632	-	-	-	-	714,632
Financial investments at fair value through other comprehensive income	5,100	55,966	50,510	182,755	2,007,535	2,301,866
Financial investments at amortised cost	-	-	-	-	80,853	80,853
Financing and advances (exclude sales commission and handling fees)	2,467,923	637,546	160,202	52,368	7,427,202	10,745,241
Statutory deposits with Bank Negara Malaysia	-	-	-	-	219,488	219,488
<b>Total on-balance sheet exposure</b>	<b>3,187,655</b>	<b>693,512</b>	<b>210,712</b>	<b>235,123</b>	<b>9,735,078</b>	<b>14,062,080</b>
<b>2019</b>						
Cash and short-term funds (exclude cash in hand)	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
Financial investments at amortised cost	-	-	-	-	-	-
Financing and advances (exclude sales commission and handling fees)	2,130,227	423,355	205,584	30,429	6,561,635	9,351,230
Statutory deposits with Bank Negara Malaysia	-	-	-	-	335,388	335,388
<b>Total on-balance sheet exposure</b>	<b>2,596,157</b>	<b>450,564</b>	<b>219,471</b>	<b>40,458</b>	<b>8,829,262</b>	<b>12,135,912</b>

**3.0 Credit Risk (cont'd.)**

**3.2 Past Due but Not Impaired Financing and Advances Analysis**

Past due but not impaired financing and advances are exposures where the customers have failed to make a principal and/or profit payment when contractually due, and include exposures which are due one or more days after the contractual due date but not more than 3 months. Under MFRS9, exposures more than 30 days past due are transferred to Stage 2. For exposures that are structured to pay principal and/or profit at quarterly interval or longer, a default of payment will trigger an impairment.

The following tables represent the past due but not impaired financing and advances analysed by sector:

	<b>2020</b>	2019
	<b>RM'000</b>	RM'000
Financial, takaful and business services	28,768	10,968
Transport, storage and communication	4,209	6,997
Agriculture, manufacturing, wholesale & retail trade	269,436	142,434
Construction	90,007	9,133
Household	589,741	403,108
Others	24,385	25,392
	<u>1,006,546</u>	<u>598,032</u>

Past due but not impaired financing and advances analysed by significant geographical areas:

	<b>2020</b>	2019
	<b>RM'000</b>	RM'000
Northern region	79,891	52,315
Central region	733,420	426,329
Southern region	126,237	79,716
Sabah region	59,191	35,488
Sarawak region	7,807	4,183
	<u>1,006,546</u>	<u>598,032</u>

3.0 Credit Risk (cont'd.)

3.3 Impaired Financing and Advances Analysis and Allowance for Expected Credit Losses

Impaired financing and advances are exposures where the customers have failed to make a principal and/or profit payment for more than 3 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:

	2020 RM'000	2019 RM'000
Financial, takaful & business services	1,200	1,238
Transport, storage and communication	2,048	367
Agriculture, manufacturing, wholesale & retail trade	40,719	41,028
Construction	14,169	5,606
Household	174,432	58,684
Others	1	2
	232,569	106,925

Allowance for expected credit losses on financing and advances analysed by sectors:

	12 months ECL (Stage 1) RM'000	Lifetime ECL Not-credit impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	ECL charged/ write-back for the year (net) RM'000	Stage 3 write-off for the year (net) RM'000
<b>2020</b>					
Financial, takaful & business services	1,415	4,020	333	82	(5)
Transport, storage & communication	163	578	2,038	1,756	(20)
Agriculture, manufacturing, wholesale & retail trade	6,680	17,610	11,170	1,940	(2,394)
Construction	523	2,644	12,532	6,048	-
Household	23,310	66,260	48,641	60,873	(36,348)
Others	86	980	1	-	-
	32,177	92,092	74,715	70,699	(38,767)

	12 months ECL (Stage 1) RM'000	Lifetime ECL Not-credit impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	ECL charged/ write-back for the year (net) RM'000	Stage 3 write-off for the year (net) RM'000
<b>2019</b>					
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)

3.0 Credit Risk (cont'd.)

3.3 Impaired Financing and Advances Analysis and Allowance for Expected Credit Losses (cont'd.)

Impaired financing and advances and allowance for expected credit losses analysed by significant geographical areas:

	<b>Impaired financing and advances</b>	<b>12 months ECL (Stage 1)</b>	<b>Lifetime ECL Not-credit Impaired (Stage 2)</b>	<b>Lifetime ECL Credit Impaired (Stage 3)</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2020</b>				
Northern region	24,885	3,798	7,149	11,072
Central region	173,305	23,364	65,581	51,670
Southern region	24,060	3,148	14,611	9,714
Sabah region	8,175	1,383	4,199	1,682
Sarawak region	2,144	484	552	577
	<u>232,569</u>	<u>32,177</u>	<u>92,092</u>	<u>74,715</u>
<b>2019</b>				
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
	<u>106,925</u>	<u>23,032</u>	<u>69,895</u>	<u>45,583</u>

3.0 Credit Risk (cont'd.)

3.3 Impaired Financing and Advances Analysis and Allowance for Expected Credit Losses (cont'd.)

Movements in allowance for expected credit losses on financing and advances are as follows:

	12 months ECL (Stage 1) RM'000	Lifetime ECL Not-credit impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	Total RM'000
At 1 April 2019	23,032	69,895	45,583	138,510
Transfer to Stage 1	9,779	(49,268)	(550)	(40,039)
Transfer to Stage 2	(15,292)	88,314	(29,801)	43,221
Transfer to Stage 3	(17)	(53,130)	103,693	50,546
New financial assets originated or purchased	22,190	26,224	6,939	55,353
Financial assets derecognised other than write-off	(9,007)	(24,059)	(9,259)	(42,325)
Changes due to change in credit risk	1,495	34,637	(324)	35,808
	9,148	22,718	70,698	102,564
Unwinding of discount	-	-	(2,799)	(2,799)
Total charge to income statement	9,148	22,718	67,899	99,765
Write-off	(3)	(521)	(38,767)	(39,291)
At 31 March 2020	<b>32,177</b>	<b>92,092</b>	<b>74,715</b>	<b>198,984</b>

	12 months ECL (Stage 1) RM'000	Lifetime ECL Not-credit impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	Total RM'000
At 1 April 2018	22,429	66,027	34,959	123,415
Transfer to Stage 1	9,004	(41,354)	(1,341)	(33,691)
Transfer to Stage 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
	603	3,994	45,374	49,970
Unwinding of discount	-	-	(1,533)	(1,533)
Total charge to income statement	603	3,994	43,841	48,437
Write-off	-	(126)	(33,217)	(33,343)
At 31 March 2019	<b>23,032</b>	<b>69,895</b>	<b>45,583</b>	<b>138,510</b>



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:

2020 Risk- Weights	Exposures after netting and credit risk mitigation										Total Exposures after Netting and Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
	Sovereigns	Public	Banks,	Takaful	Companies,	Regulatory	RRE	Higher	Other			
	/Central	Sector	DFIs and	Firms and	Risk							
	<u>Banks</u>	<u>Entities</u>	Multilateral	Securities	<u>Assets</u>							
RM'000	RM'000	Development	Fund	Managers	<u>Retail</u>	<u>Financing</u>	RM'000	<u>Assets</u>	RM'000			
0%	1,950,709	-	-	-	297,653	-	-	-	-	2,248,362	-	
20%	-	305,634	3	-	757,912	-	81	-	-	1,063,630	212,726	
35%	-	-	-	-	-	-	3,463,531	-	-	3,463,531	1,212,236	
50%	-	-	-	-	1,825	10,251	1,001,749	-	-	1,013,825	506,913	
75%	-	-	-	-	-	1,773,041	122	-	-	1,773,163	1,329,872	
100%	-	-	-	6,882	3,766,397	843,373	380,597	-	57,597	5,054,846	5,054,846	
150%	-	-	-	-	11,467	11,795	-	296	-	23,558	35,337	
<b>Total exposures</b>	<b>1,950,709</b>	<b>305,634</b>	<b>3</b>	<b>6,882</b>	<b>4,835,254</b>	<b>2,638,460</b>	<b>4,846,080</b>	<b>296</b>	<b>57,597</b>	<b>14,640,915</b>	<b>8,351,930</b>	
Risk-weighted assets by exposures	-	61,127	1	6,882	3,936,092	2,195,972	2,093,815	444	57,597	8,351,930		
Average risk weight	0%	20%	20%	100%	81%	83%	43%	150%	100%	57%		
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	-	

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.):

2019 Risk- Weights	Exposures after netting and credit risk mitigation									Total Exposures after Netting and Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
	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		
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
<b>Total exposures</b>	<b>1,896,250</b>	<b>94,416</b>	<b>-</b>	<b>7,112</b>	<b>4,118,382</b>	<b>2,606,526</b>	<b>3,882,057</b>	<b>1,689</b>	<b>50,403</b>	<b>12,656,835</b>	<b>7,318,223</b>
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	-	-	-	-	-	-	-	-	-	-	-

**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:

**2020**

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	
<b>On and Off Balance-Sheet Exposures</b>							
<b>(i) Exposures risk-weighted using Sovereigns and Central Banks rating</b>							
Sovereigns and Central Banks (See Note 2)		-	1,950,709	-	-	-	1,950,709
Public Sector Entities		-	188,874	-	-	-	188,874
Corporates		-	297,653	-	-	-	297,653
		-	2,437,236	-	-	-	2,437,236
<b>(ii) Exposures risk-weighted using Banking Institutions long-term rating</b>							
Banks, DFIs and Multilateral Development Banks		-	3	-	-	-	3
<b>Exposures risk-weighted using Banking Institutions short-term rating</b>							
Banks, DFIs and Multilateral Development Banks		-	-	-	-	-	-
		-	3	-	-	-	3
<b>(iii) Exposures risk-weighted using Corporate long-term rating</b>							
Public Sector Entities		40,839	-	-	-	75,920	116,759
Corporates		757,911	-	-	-	3,928,711	4,686,622
Takaful Companies, Securities Firms & Fund Managers		-	-	-	-	6,882	6,882
<b>Exposures risk-weighted using Corporate short-term rating</b>							
Public Sector Entities		-	-	-	-	-	-
Corporates		-	-	-	-	-	-
Takaful Companies, Securities Firms & Fund Managers		-	-	-	-	-	-
		798,750	-	-	-	4,011,513	4,810,263

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 Banks.

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

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.):

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	
<b>On and Off Balance-Sheet Exposures</b>							
<b>(i) Exposures risk-weighted using Sovereigns and Central Banks rating</b>							
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
<b>(ii) Exposures risk-weighted using Banking Institutions long-term rating</b>							
Banks, DFIs and Multilateral Development Banks	-	-	-	-	-	-	-
<b>Exposures risk-weighted using Banking Institutions short-term rating</b>							
Banks, DFIs and Multilateral Development Banks	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
<b>(iii) Exposures risk-weighted using Corporate long-term rating</b>							
Public Sector Entities	35,719	-	-	-	58,698	-	94,417
Corporates	578,800	-	-	-	3,413,689	-	3,992,489
Takaful Companies, Securities Firms & Fund Managers	-	-	-	-	7,112	-	7,112
<b>Exposures risk-weighted using Corporate short-term rating</b>							
Public Sector Entities	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-
Takaful Companies, 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 Banks.

\*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.

<b>2020</b> <b>Exposure Class</b>	<b>Exposures before CRM</b> RM'000	<b>Exposures covered by guarantees/ credit derivatives</b> RM'000	<b>Exposures covered by eligible financial collateral</b> RM'000	<b>Exposures covered by other eligible collateral</b> RM'000
<b><u>Credit Risk</u></b>				
On-balance sheet exposures:				
Sovereigns/Central banks	1,950,709	-	-	-
Public sector entities	301,634	-	-	-
Banks, DFIs and Multilateral Development Banks	3	-	-	-
Takaful Companies, Securities Firms and Fund Managers	6,862	-	-	-
Corporates	4,525,419	-	110,662	-
Regulatory retail	2,505,734	-	74,318	-
RRE financing	4,607,974	-	304	-
Higher risk assets	221	-	-	-
Other assets	57,597	-	-	-
Defaulted exposures	157,942	-	982	-
Total on-balance sheet exposures	<u>14,114,095</u>	<u>-</u>	<u>186,266</u>	<u>-</u>
Off-balance sheet exposures:				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	769,323	-	56,439	-
Defaulted exposures	202	-	-	-
Total off-balance sheet exposures	<u>769,525</u>	<u>-</u>	<u>56,439</u>	<u>-</u>
Total on and off-balance sheet exposures	<u>14,883,620</u>	<u>-</u>	<u>242,705</u>	<u>-</u>

3.0 Credit Risk (cont'd.)

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

2019 Exposure Class	<u>Exposures before CRM</u> RM'000	<u>Exposures covered by guarantees/ credit derivatives</u> RM'000	<u>Exposures covered by eligible financial collateral</u> RM'000	<u>Exposures covered by other eligible collateral</u> RM'000
<b><i>Credit Risk</i></b>				
On-balance sheet exposures:				
Sovereigns/Central banks	1,896,250	-	-	-
Public sector entities	90,416	-	-	-
Banks, DFIs and Multilateral Development Banks	-	-	-	-
Takaful Companies, Securities Firms 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	<u>12,162,670</u>	<u>-</u>	<u>193,167</u>	<u>-</u>
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	<u>731,707</u>	<u>-</u>	<u>44,375</u>	<u>-</u>
Total on and off-balance sheet exposures	<u>12,894,377</u>	<u>-</u>	<u>237,542</u>	<u>-</u>

**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:

	<b>Principal Amount RM'000</b>	<b>Positive Fair Value of Derivative Contracts RM'000</b>	<b>Credit Equivalent Amount RM'000</b>	<b>Risk- Weighted Assets RM'000</b>
<b>2020</b>				
<u>Credit-related exposures</u>				
Direct credit substitutes	191,836	-	191,836	175,302
Transaction-related contingent items	60,380	-	30,190	18,213
Short-term self-liquidating trade-related contingencies	20,026	-	4,005	3,490
Irrevocable commitments to extend credit:				
• maturity exceeding one year	367,450	-	183,723	113,374
• maturity not exceeding one year	1,798,853	-	359,771	272,197
	<u>2,438,545</u>	<u>-</u>	<u>769,525</u>	<u>582,576</u>
<b>2019</b>				
<u>Credit-related exposures</u>				
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
	<u>2,290,438</u>	<u>-</u>	<u>731,707</u>	<u>556,923</u>

#### **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.
- (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 2020.

**Regulatory capital requirements**

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

	<b>Risk- Weighted Assets RM'000</b>	<b>Capital Requirements RM'000</b>
<b>2020</b>		
Profit rate risk		
• General profit rate risk	-	-
• Specific profit rate risk	-	-
	<hr/>	<hr/>
	-	-
Foreign exchange risk	-	-
Option risk	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
<b>2019</b>		
Profit rate risk		
• General profit rate risk	-	-
• Specific profit rate risk	-	-
	<hr/>	<hr/>
	-	-
Foreign exchange risk	-	-
Option risk	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>

## **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 and Technology Risk Management Committee (GOTRC), 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, GOTRC manages the day-to-day operational risk exposures. The roles and responsibilities of GOTRC 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.
- (iv) Promoting risk awareness and operational risk management culture.

The Bank practices operational risk management as outlined in the Operational Risk Management (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.

	<b>2020</b>	<b>2019</b>
	<b>+ 100 bps</b>	<b>+ 100 bps</b>
	RM'000	RM'000
<b>Impact on net profit income</b>		
Ringgit Malaysia	<u>29,763</u>	<u>24,598</u>
<b>Impact on Economic value</b>		
Ringgit Malaysia	<u>(39,177)</u>	<u>(39,972)</u>

## **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, provides oversight on Shariah compliance aspects of the 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.
  - 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 period, there were 3 Shariah non-compliance events detected from the ongoing reviews of the Bank's operational processes. Necessary efforts had been taken to rectify the Shariah non-compliance events, which were tracked and escalated to the Shariah Committee and the Board. The Shariah non-compliant income of RM2,044 had been disposed off in accordance with Shariah Committee's decision.