ALLIANCE BANK ISLAMIC BANK

# PILLAR 3 REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2021

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

**BASEL II PILLAR 3 REPORT**
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2021**

**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

Effective from 25 March 2020, the Group and the Bank are allowed to drawdown the Capital Conservation Buffer ("CCB") of 2.5% to manage the impact of the Covid-19 outbreak. However, BNM expects the Bank to rebuild this buffer after 31 December 2020 and to meet the minimum regulatory requirements by 30 September 2021. As at reporting date, the Bank continued to maintain CCB of 2.5%.

The Bank has adopted the transitional arrangements on provisions for expected credit losses in accordance with Bank Negara Malaysia's Transitional Arrangements for Regulatory Capital Treatment of Accounting Provisions effective on 9 December 2020. This allow the Bank to add back a portion of Stage 1 ("S1") and Stage 2 ("S2") provisions with an "add-back factor", to the Common Equity Tier I ("CET I") capital from Financial Year 2021 to Financial Year 2024.

The capital adequacy ratios with and without transitional arrangements of the Bank are as follows:

| | 2021 | 2020 |
|---|---|---|
| (i) With transitional arrangements | | |
| CET I capital ratio | 15.035% | - |
| Tier I capital ratio | 16.158% | - |
| Total capital ratio | 18.783% | - |
| (ii) Without transitional arrangements | | |
| CET I capital ratio | 13.065% | 10.507% |
| Tier I capital ratio | 14.188% | 11.617% |
| Total capital ratio | 16.813% | 14.233% |

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 CET I, Tier I and Tier II capital under the Capital Adequacy Framework with transitional arrangements:

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| **CET I Capital** | | |
| Paid-up share capital | 600,000 | 400,000 |
| Retained profits | 564,889 | 523,425 |
| Regulatory reserves (Note 2) | - | 34,748 |
| Financial investments at fair value through other comprehensive income (FVOCI) reserves | 34,972 | 38,888 |
| | 1,199,861 | 997,061 |
| (Less)/add: Regulatory adjustments | | |
| - Intangibles assets | (920) | (825) |
| - Deferred tax assets | (22,861) | - |
| - 55% of FVOCI reserves | (19,234) | (21,388) |
| - Regulatory reserves (Note 2) | - | (34,748) |
| - Transitional arrangements | 174,436 | - |
| Total CET I Capital | 1,331,282 | 940,100 |
| Additional Tier 1 Sukuk Wakalah | 99,436 | 99,271 |
| Total Additional Tier 1 Capital | 99,436 | 99,271 |
| Total Tier I Capital | 1,430,718 | 1,039,371 |
| **Tier II Capital** | | |
| Subordinated Sukuk Murabahah | 129,834 | 129,733 |
| Expected credit losses and regulatory reserves (Note 1 & Note 2) | 102,543 | 104,399 |
| Total Tier II Capital | 232,377 | 234,132 |
| **Total Capital** | 1,663,095 | 1,273,503 |

Note 1: Expected credit losses for S1 and S2 only.

Note 2: The Bank maintained its prudent stand in relation of maintaining the regulatory reserves to preserve the potential deterioration of credit quality, taking into consideration of this unprecedented pandemic impact and the economic slowdown.

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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 requirements of the Bank:

| | **2021**<br>**Exposure Class** | **Gross Exposures**<br>**RM'000** | **Net Exposures**<br>**RM'000** | **Risk-Weighted Assets**<br>**RM'000** | **Capital Requirements**<br>**RM'000** |
|---|---|---|---|---|---|
| (i) | Credit Risk | | | | |
| | On-balance sheet exposures: | | | | |
| | Sovereigns/Central banks | 2,586,298 | 2,586,298 | - | - |
| | Public sector entities | 371,095 | 371,095 | 34,221 | 2,738 |
| | Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks | 14,463 | 14,463 | 3,184 | 255 |
| | Takaful Companies, Securities Firms and Fund Managers | 3,749 | 3,749 | 3,749 | 300 |
| | Corporates | 4,195,144 | 4,099,307 | 3,214,150 | 257,132 |
| | Regulatory retail | 2,642,276 | 2,559,939 | 2,076,467 | 166,117 |
| | Residential Real Estate ("RRE") financing | 4,686,526 | 4,686,258 | 2,055,673 | 164,454 |
| | Higher risk assets | 898 | 898 | 1,347 | 108 |
| | Other assets | 48,849 | 48,849 | 48,849 | 3,908 |
| | Defaulted exposures | 216,952 | 216,419 | 195,461 | 15,637 |
| | Total on-balance sheet exposures | 14,766,250 | 14,587,275 | 7,633,101 | 610,649 |
| | Off-balance sheet exposures: | | | | |
| | Credit-related off-balance sheet exposures | 686,407 | 637,674 | 569,442 | 45,555 |
| | Defaulted exposures | 545 | 545 | 805 | 64 |
| | Total off-balance sheet exposures | 686,952 | 638,219 | 570,247 | 45,619 |
| | Total on and off-balance sheet exposures | 15,453,202 | 15,225,494 | 8,203,348 | 656,268 |
| (ii) | Market Risk (Note 4.0) | Long Position | Short Position | | |
| | Profit rate risk | - | - | - | - |
| | Foreign exchange risk | - | (155) | 155 | 12 |
| | | - | (155) | | |
| | Option risk | | | - | - |
| | Total | | | 155 | 12 |
| (iii) | Operational Risk | - | - | 650,846 | 52,068 |
| | Total | 15,453,202 | 15,225,494 | 8,854,349 | 708,348 |

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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 requirements of the Bank (cont'd.):

| | 2020 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 | 1,950,709 | 1,950,709 | - | - |
| | Public sector entities | 301,634 | 301,634 | 60,326 | 4,826 |
| | Banks, 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 |
| | 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 | 14,114,095 | 13,927,829 | 7,769,354 | 621,548 |
| | 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 | 769,525 | 713,086 | 582,576 | 46,606 |
| | Total on and off-balance sheet exposures | 14,883,620 | 14,640,915 | 8,351,930 | 668,154 |
| (ii) | Market Risk (Note 4.0) | Long Position | Short Position | | |
| | Profit rate risk | - | - | - | - |
| | Foreign exchange risk | - | - | - | - |
| | | - | - | | |
| | Option risk | | | - | - |
| | Total | | | - | - |
| (iii) | Operational Risk | - | - | 595,399 | 47,632 |
| | Total | 14,883,620 | 14,640,915 | 8,947,329 | 715,786 |

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 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 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 stage 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.

## 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 |
| **2021** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Cash and short-term funds | | | | | | |
| (exclude cash in hand) | - | 1,373,080 | - | - | - | 1,373,080 |
| Financial investments at fair value through | | | | | | |
| other comprehensive income | - | 2,199,728 | - | | - | 2,199,728 |
| Financial investments at amortised cost | - | 293,242 | - | - | - | 293,242 |
| Financing and advances | | | | | | |
| (exclude sales commission and handling fees) | 964,750 | 7,215,338 | 1,248,726 | 1,075,519 | 347,126 | 10,851,459 |
| Statutory deposits with Bank Negara Malaysia | - | 18,338 | - | - | - | 18,338 |
| **Total on-balance sheet** | 964,750 | 11,099,726 | 1,248,726 | 1,075,519 | 347,126 | 14,735,847 |
| Contingent liabilities | 17,570 | 218,813 | 19,127 | 5,610 | 3,089 | 264,209 |
| Commitments | 395,559 | 1,125,824 | 310,733 | 200,831 | 106,455 | 2,139,402 |
| **Total off-balance sheet** | 413,129 | 1,344,637 | 329,860 | 206,441 | 109,544 | 2,403,611 |
| **Total credit exposure** | 1,377,879 | 12,444,363 | 1,578,586 | 1,281,960 | 456,670 | 17,139,458 |

| | Geographical region | | | | | |
|---|---|---|---|---|---|---|
| | Northern | Central | Southern | Sabah | Sarawak | Total |
| **2020** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| 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 |
| **Total on-balance sheet** | 957,325 | 10,628,488 | 1,270,233 | 886,285 | 319,749 | 14,062,080 |
| Contingent liabilities | 13,999 | 227,655 | 22,553 | 5,848 | 2,187 | 272,242 |
| Commitments | 383,106 | 1,176,199 | 327,493 | 162,101 | 117,404 | 2,166,303 |
| **Total off-balance sheet** | 397,105 | 1,403,854 | 350,046 | 167,949 | 119,591 | 2,438,545 |
| **Total credit exposure** | 1,354,430 | 12,032,342 | 1,620,279 | 1,054,234 | 439,340 | 16,500,625 |

**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 | 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 |
| **2021** | | | | | | | | |
| Cash and short-term funds (exclude cash in hand) | 1,373,080 | - | - | - | - | - | - | 1,373,080 |
| Financial investments at fair value through other comprehensive income | 364,769 | 656,544 | 683,019 | 54,838 | 440,558 | - | - | 2,199,728 |
| Financial investments at amortised cost | 20,831 | 80,773 | 160,852 | - | 30,786 | - | - | 293,242 |
| Financing and advances (exclude sales commission and handling fees) | - | 1,081,532 | 142,968 | 3,129,800 | 247,426 | 6,170,565 | 79,168 | 10,851,459 |
| Statutory deposits with Bank Negara Malaysia | 18,338 | - | - | - | - | - | - | 18,338 |
| **Total on-balance sheet** | 1,777,018 | 1,818,849 | 986,839 | 3,184,638 | 718,770 | 6,170,565 | 79,168 | 14,735,847 |
| Contingent liabilities | - | 110,003 | 5,572 | 98,563 | 49,888 | 22 | 161 | 264,209 |
| Commitments | - | 186,858 | 33,414 | 1,458,993 | 127,446 | 324,728 | 7,963 | 2,139,402 |
| **Total off-balance sheet** | - | 296,861 | 38,986 | 1,557,556 | 177,334 | 324,750 | 8,124 | 2,403,611 |
| **Total credit exposure** | 1,777,018 | 2,115,710 | 1,025,825 | 4,742,194 | 896,104 | 6,495,315 | 87,292 | 17,139,458 |

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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 |
|---|---|---|---|---|---|---|---|---|
| **2020** | | | | | | | | |
| 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 |
| **Total on-balance sheet** | 1,950,709 | 1,889,061 | 538,206 | 3,119,294 | 334,029 | 6,153,479 | 77,302 | 14,062,080 |
| Contingent liabilities | - | 121,976 | 5,252 | 86,267 | 58,451 | 22 | 274 | 272,242 |
| Commitments | - | 161,696 | 12,195 | 1,287,097 | 100,354 | 597,812 | 7,149 | 2,166,303 |
| **Total off-balance sheet** | - | 283,672 | 17,447 | 1,373,364 | 158,805 | 597,834 | 7,423 | 2,438,545 |
| **Total credit exposure** | 1,950,709 | 2,172,733 | 555,653 | 4,492,658 | 492,834 | 6,751,313 | 84,725 | 16,500,625 |

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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:

| | 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 |
| **2021** | | | | | | |
| Cash and short-term funds (exclude cash in hand) | 1,373,080 | - | - | - | - | 1,373,080 |
| Financial investments at fair value through other comprehensive income | 35,686 | 5,100 | - | 158,315 | 2,000,627 | 2,199,728 |
| Financial investments at amortised cost | - | - | - | - | 293,242 | 293,242 |
| Financing and advances (exclude sales commission and handling fees) | 2,177,768 | 541,322 | 239,545 | 24,423 | 7,868,401 | 10,851,459 |
| Statutory deposits with Bank Negara Malaysia | - | - | - | - | 18,338 | 18,338 |
| **Total on-balance sheet exposure** | 3,586,534 | 546,422 | 239,545 | 182,738 | 10,180,608 | 14,735,847 |
| **2020** | | | | | | |
| 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 |
| **Total on-balance sheet exposure** | 3,187,655 | 693,512 | 210,712 | 235,123 | 9,735,078 | 14,062,080 |

**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.

Past due but not impaired financing and advances analysed by sector:

| | 2021<br>RM'000 | 2020<br>RM'000 |
|---|---|---|
| Financial, takaful and business services | 11,232 | 28,768 |
| Transport, storage and communication | 2,493 | 4,209 |
| Agriculture, manufacturing, wholesale & retail trade | 70,616 | 269,436 |
| Construction | 59,161 | 90,007 |
| Household | 348,639 | 589,741 |
| Others | 6 | 24,385 |
| | 492,147 | 1,006,546 |

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

| | 2021<br>RM'000 | 2020<br>RM'000 |
|---|---|---|
| Northern region | 39,122 | 79,891 |
| Central region | 356,833 | 733,420 |
| Southern region | 43,764 | 126,237 |
| Sabah region | 49,829 | 59,191 |
| Sarawak region | 2,599 | 7,807 |
| | 492,147 | 1,006,546 |

**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:

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Financial, takaful & business services | 1,185 | 1,200 |
| Transport, storage and communication | 504 | 2,048 |
| Agriculture, manufacturing, wholesale & retail trade | 25,318 | 40,719 |
| Construction | 12,711 | 14,169 |
| Household | 256,967 | 174,432 |
| Others | 1 | 1 |
| | 296,686 | 232,569 |

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

| 2021 | 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 |
|---|---|---|---|---|---|
| Financial, takaful & business services | 2,675 | 5,158 | 259 | (49) | - |
| Transport, storage & communication | 265 | 420 | 386 | 57 | (1,709) |
| Agriculture, manufacturing, wholesale & retail trade | 9,785 | 18,464 | 8,463 | 1,238 | (3,804) |
| Construction | 602 | 23,746 | 12,008 | 2,665 | (3,120) |
| Household | 63,074 | 133,984 | 58,599 | 43,804 | (30,777) |
| Others | 161 | 1,876 | 1 | - | - |
| | 76,562 | 183,648 | 79,716 | 47,715 | (39,410) |

| 2020 | 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 |
|---|---|---|---|---|---|
| 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) |

**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 analysed by significant geographical areas:

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Northern region | 25,489 | 24,885 |
| Central region | 220,773 | 173,305 |
| Southern region | 34,899 | 24,060 |
| Sabah region | 13,356 | 8,175 |
| Sarawak region | 2,169 | 2,144 |
| | 296,686 | 232,569 |

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

| **2021** | **12 months ECL (Stage 1) RM'000** | **Lifetime ECL Not-credit Impaired (Stage 2) RM'000** | **Lifetime ECL Credit Impaired (Stage 3) RM'000** |
|---|---|---|---|
| Northern region | 6,034 | 9,752 | 11,015 |
| Central region | 56,887 | 147,888 | 55,379 |
| Southern region | 8,243 | 16,685 | 10,727 |
| Sabah region | 4,472 | 8,347 | 2,181 |
| Sarawak region | 926 | 976 | 414 |
| | 76,562 | 183,648 | 79,716 |

| **2020** | **12 months ECL (Stage 1) RM'000** | **Lifetime ECL Not-credit Impaired (Stage 2) RM'000** | **Lifetime ECL Credit Impaired (Stage 3) RM'000** |
|---|---|---|---|
| Northern region | 3,798 | 7,149 | 11,072 |
| Central region | 23,364 | 65,581 | 51,670 |
| Southern region | 3,148 | 14,611 | 9,714 |
| Sabah region | 1,383 | 4,199 | 1,682 |
| Sarawak region | 484 | 552 | 577 |
| | 32,177 | 92,092 | 74,715 |

**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 2020 | 32,177 | 92,092 | 74,715 | 198,984 |
| Transfer to Stage 1 | 58,333 | (104,503) | (1,985) | (48,155) |
| Transfer to Stage 2 | (37,986) | 181,563 | (26,188) | 117,389 |
| Transfer to Stage 3 | (132) | (67,161) | 90,610 | 23,317 |
| New financial assets originated or purchased | 23,992 | 38,450 | 4,030 | 66,472 |
| Financial assets derecognised other than write-off | (21,759) | (48,005) | (11,264) | (81,028) |
| Changes due to change in credit risk | 21,937 | 91,330 | (7,488) | 105,779 |
| | 44,385 | 91,674 | 47,715 | 183,774 |
| Unwinding of discount | - | - | (3,304) | (3,304) |
| Total charge to income statement | 44,385 | 91,674 | 44,411 | 180,470 |
| Write-off | - | (118) | (39,410) | (39,528) |
| At 31 March 2021 | **76,562** | **183,648** | **79,716** | **339,926** |
| | | | | |
| 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 | **32,177** | **92,092** | **74,715** | **198,984** |

Note:
The transfer between stages are inclusive of net remeasurement of allowances.

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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:

| **2021** Risk-Weights | <----- Exposures after netting and credit risk mitigation -----> 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 0% | 2,586,298 | 199,988 | 5,074 | - | 346,808 | - | - | - | - | 3,138,168 | - |
| 20% | - | 177,104 | 5,035 | - | 672,936 | 67,483 | 59 | - | - | 922,617 | 184,523 |
| 35% | - | - | - | - | - | - | 3,378,438 | - | - | 3,378,438 | 1,182,453 |
| 50% | - | - | 4,483 | - | 1,028 | 11,093 | 1,012,935 | - | - | 1,029,539 | 514,770 |
| 75% | - | - | - | - | - | 1,771,302 | 3,288 | - | - | 1,774,590 | 1,330,943 |
| 100% | - | - | - | 7,769 | 3,578,098 | 792,644 | 537,750 | - | 48,848 | 4,965,109 | 4,965,109 |
| 150% | - | - | - | - | 8,549 | 7,436 | 75 | 973 | - | 17,033 | 25,550 |
| Total exposures | 2,586,298 | 377,092 | 14,592 | 7,769 | 4,607,419 | 2,649,958 | 4,932,545 | 973 | 48,848 | 15,225,494 | 8,203,348 |
| Risk-weighted assets by exposures | - | 35,420 | 3,249 | 7,769 | 3,726,023 | 2,151,318 | 2,229,261 | 1,460 | 48,848 | 8,203,348 | |
| Average risk weight | 0% | 9% | 22% | 100% | 81% | 81% | 45% | 150% | 100% | 54% | |
| 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.):

| **2020** Risk-Weights | Exposures after netting and credit risk mitigation: 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 |
| Total exposures | 1,950,709 | 305,634 | 3 | 6,882 | 4,835,254 | 2,638,460 | 4,846,080 | 296 | 57,597 | 14,640,915 | 8,351,930 |
| 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 | - | - | - | - | - | - | - | - | - | - | |

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## 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:

**2021**

| 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) | | - | 2,586,298 | - | - | - | 2,586,298 |
| Public Sector Entities | | - | 199,988 | - | - | - | 199,988 |
| Corporates | | - | 346,808 | - | - | - | 346,808 |
| Banks, DFIs and Multilateral Development Banks | | - | 5,074 | - | - | - | 5,074 |
| **Total** | | - | 3,138,168 | - | - | - | 3,138,168 |
| **(ii) Exposures risk-weighted using Banking Institutions long-term rating** | | | | | | | |
| Banks, DFIs and Multilateral Development Banks | | - | 3 | - | - | 9,515 | 9,518 |
| **Exposures risk-weighted using Banking Institutions short-term rating** | | | | | | | |
| Banks, DFIs and Multilateral Development Banks | | - | - | - | - | - | - |
| **Total** | | - | 3 | - | - | 9,515 | 9,518 |
| **(iii) Exposures risk-weighted using Corporate long-term rating** | | | | | | | |
| Public Sector Entities | | 5,137 | - | - | - | 171,968 | 177,105 |
| Corporates | | 660,310 | - | - | - | 3,735,391 | 4,395,701 |
| Takaful Companies, Securities Firms & Fund Managers | | - | - | - | - | 7,769 | 7,769 |
| **Exposures risk-weighted using Corporate short-term rating** | | | | | | | |
| Public Sector Entities | | - | - | - | - | - | - |
| Corporates | | - | - | - | - | - | - |
| Takaful Companies, Securities Firms & Fund Managers | | - | - | - | - | - | - |
| **Total** | | 665,447 | - | - | - | 3,915,128 | 4,580,575 |

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

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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.):

**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 | 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) | | - | 1,950,709 | - | - | - | 1,950,709 |
| Public Sector Entities | | - | 188,874 | - | - | - | 188,874 |
| Corporates | | - | 297,653 | - | - | - | 297,653 |
| **Total** | | - | 2,437,236 | - | - | - | 2,437,236 |
| **(ii) Exposures risk-weighted using Banking Institutions long-term rating** | | | | | | | |
| Banks, DFIs and Multilateral Development Banks | | - | 3 | - | - | - | 3 |
| **Exposures risk-weighted using Banking Institutions short-term rating** | | | | | | | |
| Banks, DFIs and Multilateral Development Banks | | - | - | - | - | - | - |
| **Total** | | - | 3 | - | - | - | 3 |
| **(iii) Exposures risk-weighted using Corporate long-term rating** | | | | | | | |
| 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 |
| **Exposures risk-weighted using Corporate short-term rating** | | | | | | | |
| Public Sector Entities | | - | - | - | - | - | - |
| Corporates | | - | - | - | - | - | - |
| Takaful Companies, Securities Firms & Fund Managers | | - | - | - | - | - | - |
| **Total** | | 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

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.

| **2021**<br>**Exposure Class** | **Exposures before CRM**<br>RM'000 | **Exposures covered by guarantees/ credit derivatives (Note 1)**<br>RM'000 | **Exposures covered by eligible financial collateral**<br>RM'000 | **Exposures covered by other eligible collateral**<br>RM'000 |
|---|---|---|---|---|
| ***Credit Risk*** | | | | |
| On-balance sheet exposures: | | | | |
| Sovereigns/Central banks | 2,586,298 | - | - | - |
| Public sector entities | 371,095 | - | - | - |
| Banks, DFIs and Multilateral Development Banks | 14,463 | - | - | - |
| Takaful Companies, Securities Firms and Fund Managers | 3,749 | - | - | - |
| Corporates | 4,195,144 | 12,626 | 95,837 | - |
| Regulatory retail | 2,642,276 | 67,483 | 82,337 | - |
| RRE financing | 4,686,526 | 58 | 268 | - |
| Higher risk assets | 898 | - | - | - |
| Other assets | 48,849 | - | - | - |
| Defaulted exposures | 216,952 | - | 533 | - |
| Total on-balance sheet exposures | 14,766,250 | 80,167 | 178,975 | - |
| Off-balance sheet exposures: | | | | |
| Off-balance sheet exposures other than OTC derivatives or credit derivatives | 686,407 | - | 48,733 | - |
| Defaulted exposures | 545 | - | - | - |
| Total off-balance sheet exposures | 686,952 | - | 48,733 | - |
| Total on and off-balance sheet exposures | 15,453,202 | 80,167 | 227,708 | - |

Note 1: The exposures covered by guarantees/credit derivative refers to the exposures guaranteed by eligible guarantor.

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

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

| **2020** <br> **Exposure Class** | **Exposures before CRM** <br> RM'000 | **Exposures covered by guarantees/ credit derivatives** <br> RM'000 | **Exposures covered by eligible financial collateral** <br> RM'000 | **Exposures covered by other eligible collateral** <br> RM'000 |
|---|---|---|---|---|
| ***Credit Risk*** | | | | |
| 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 | 14,114,095 | - | 186,266 | - |
| 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 | 769,525 | - | 56,439 | - |
| Total on and off-balance sheet exposures | 14,883,620 | - | 242,705 | - |

**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:

| **2021** | **Principal Amount** RM'000 | **Credit Equivalent Amount** RM'000 | **Risk-Weighted Assets** RM'000 |
|---|---|---|---|
| Credit-related exposures | | | |
| Direct credit substitutes | 176,751 | 176,751 | 168,242 |
| Transaction-related contingent items | 61,668 | 30,834 | 20,702 |
| Short-term self-liquidating trade-related contingencies | 25,790 | 5,158 | 4,886 |
| Irrevocable commitments to extend credit: | | | |
| - maturity exceeding one year | 154,433 | 77,215 | 54,073 |
| - maturity not exceeding one year | 1,984,969 | 396,994 | 322,344 |
| | 2,403,611 | 686,952 | 570,247 |

| **2020** | **Principal Amount** RM'000 | **Credit Equivalent Amount** RM'000 | **Risk-Weighted Assets** RM'000 |
|---|---|---|---|
| Credit-related exposures | | | |
| 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 |
| | 2,438,545 | 769,525 | 582,576 |

## 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, Executive Risk Management Commiittee ("ERMC") 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.

**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 |
|---|---|---|
| **2021** | RM'000 | RM'000 |
| Profit rate risk | | |
| - General profit rate risk | - | - |
| - Specific profit rate risk | - | - |
| | - | - |
| Foreign exchange risk | 155 | 12 |
| Option risk | - | - |
| | 155 | 12 |
| **2020** | | |
| Profit rate risk | | |
| - General profit rate risk | - | - |
| - Specific profit rate risk | - | - |
| | - | - |
| Foreign exchange risk | - | - |
| Option 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 and Technology Risk Management Committee ("GOTRC"), Executive Risk Management Committee ("ERMC"), 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 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 ("NPI"). 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 strategies as approved by GALCO to manage the assets/liabilities as well as the funding and liquidity needs of the Bank/Group where the Group and its entities have operated above the minimum regulatory requirement for Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR"). 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 ("EV") 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.

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

The following tables present the Bank's projected sensitivity shock based on standard scenario as outlined in BNM's Reporting Requirements for Interest Rate/ Rate of Return Risk in the Banking Book Policy Document issued on 30 June 2020 across all maturities applied on the Bank's rate of return sensitivity gap as at reporting date.

| | MYR<br>RM'000 | USD<br>RM'000 | SGD<br>RM'000 | Others FCY<br>RM'000 | Total<br>RM'000 |
|---|---|---|---|---|---|
| **2021** | | | | | |
| **Impact on Net Profit Income ("NPI")** | | | | | |
| Parallel 200 bps up | 73,702 | - | - | - | 73,702 |
| Parallel 200 bps down | (73,702) | - | - | - | (73,702) |
| | | | | | |
| **Impact on Economic Value ("EV")** | | | | | |
| Parallel 200 bps up | (56,833) | - | - | - | (56,833) |
| Parallel 200 bps down | 56,833 | - | - | - | 56,833 |
| Steepener | (140,679) | - | - | - | (140,679) |
| Flattener | 117,140 | - | - | - | 117,140 |
| Short Rate Up | 21,122 | - | - | - | 21,122 |
| Short Rate Down | (21,122) | - | - | - | (21,122) |

The reported amounts do not capture the impact of business growth or of management actions as the impact is based on the balance sheet as at reporting date. In reality, Group Asset and Liability Committee ("GALCO") seeks to proactively change the profit attributable to rate of return risk to minimise losses and maximise revenue.

Actual dates may differ from contractual dates for both financing and deposit owing to prepayments / premature withdrawals. When possible and material, financing prepayments and deposit premature withdrawals are generally estimated based on past statistics and trends. The impact on Net Profit Income ("NPI") and Economic Value ("EV") are measured on a monthly basis for the Bank and quarterly for the Group, both of which are reported to GALCO and the Group Risk Management Committee.

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

| | **2020**<br>**+ 100 bps**<br>RM'000 |
|---|---|
| **Impact on Net Profit Income** | |
| Ringgit Malaysia | 29,763 |
| | |
| **Impact on Economic value** | |
| Ringgit Malaysia | (39,177) |

## 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 policy document 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 no Shariah non-compliance events detected from the ongoing reviews of the Bank's operational processes.