ALLIANCE ISLAMIC BANK

PILLAR 3 REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2022

ALLIANCE ISLAMIC BANK

Alliance Islamic Bank Berhad 200701018870 (776882-V)

BASEL II PILLAR 3 REPORT

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2022

ALLIANCE ISLAMIC BANK BERHAD
200701018870 (776882-V)

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1.0 Overview

Bank Negara Malaysia's ("BNM") Capital Adequacy Framework 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 Adequancy Framework cover three main aspects:

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

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

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

The Pillar 3 Disclosure for the financial year ended 31 March 2022 for the Bank is in accordance with BNM's Capital Adequacy Framework for Islamic Banks ("CAFIB") - Disclosures Requirements (Pillar 3).

Bank has adopted the Standardised Approach for credit risk and market risk; and the Basic Indicator Approach for operational risk in determining the capital requirements of Pillar 1.

1.1 Medium and Location of Disclosure

The Pillar 3 Disclosure will be made available under the Investor Relations section of the Group's website at www.alliancebank.com.my/islamic and as a separate report in the annual and half-yearly financial reports.

1.2 Basis of Disclosure

The Bank's Pillar 3 Disclosure is governed by the Bank's Pillar 3 Disclosure Policy. This policy outlines the minimum disclosure standards, the approach for determining the appropriateness of information disclosed and the internal controls over the disclosure process. Pillar 3 Disclosure is to be read in conjunction with the Bank's financial statements for the financial year ended 31 March 2022. Whilst this document discloses the Bank's assets both in terms of exposures and capital requirements, the information disclosed herein may not be directly comparable with the information in the financial statements for financial year ended 31 March 2022 published by the Bank.

These disclosures have been reviewed and verified by an independent internal party and approved by the Group Risk Management Committee ("GRMC"), as delegated by the Board of Directors ("Board") of the Group.

1.3 Comparative Information

The corresponding Pillar 3 Disclosure in the preceding reporting period would be as at 31 March 2021.

1.0 Overview (cont'd.)

1.4 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.

The Bank did not experience any significant restrictions or other major impediments on transfer of funds or regulatory capital within the Bank.

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

2.0 Capital

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.

The Bank's Internal Capital Adequacy Assessment Process ("ICAAP") covers the following:

(a) Assesses inherent risks in the business against risk captured under Pillar 1, and risks not sufficiently or not captured under Pillar 1;

(b) Estimates the potential impact of extreme but plausible events on the Group's earnings, balance sheet and capital via stress testing;

(c) Sets internal capital targets which include buffers to cushion potential stress losses and contingency plan(s) where warranted; and

(d) Regularly monitors and reports portfolio risk profiles, required capital and available capital.

ICAAP results are regularly reported to GRMC and the Board to facilitate proactive capital management.

2.0 Capital (cont'd.)

2.1 Capital Adequacy Ratios

BNM's Transitional Arrangements for Regulatory Capital Treatment of Accounting Provisions took effect on 9 December 2020. This allows 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 Group and the Bank have sufficient capital under both conditions with or without the Transitional Arrangement.

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

	2022	2021
(a) With transitional arrangements		
Before deducting proposed dividends		
CET I capital ratio	14.904%	15.035%
Tier I capital ratio	15.966%	16.158%
Total capital ratio	18.510%	18.783%
After deducting proposed dividends		
CET I capital ratio	14.463%	15.035%
Tier I capital ratio	15.525%	16.158%
Total capital ratio	18.069%	18.783%
(b) Without transitional arrangements		
Before deducting proposed dividends		
CET I capital ratio	12.995%	13.065%
Tier I capital ratio	14.057%	14.188%
Total capital ratio	16.601%	16.813%
After deducting proposed dividends		
CET I capital ratio	12.554%	13.065%
Tier I capital ratio	13.616%	14.188%
Total capital ratio	16.160%	16.813%

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

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2.0 Capital (cont'd.)

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:

	2022 RM'000	2021 RM'000
CET I Capital		
Paid-up share capital	600,000	600,000
Retained profits	668,707	564,889
Financial investments at fair value through other comprehensive income (FVOCI) reserves	(7,509)	34,972
	1,261,198	1,199,861
(Less)/add: Regulatory adjustments		
- Intangible assets	(1,444)	(920)
- Deferred tax assets	(41,558)	(22,861)
- 55% of FVOCI reserves	-	(19,234)
- Transitional arrangements	178,984	174,436
Total CET I Capital	1,397,180	1,331,282
Additional Tier 1 Sukuk Wakalah	99,613	99,436
Total Additional Tier 1 Capital	99,613	99,436
Total Tier I Capital	1,496,793	1,430,718
Tier II Capital		
Subordinated Sukuk Murabahah	129,943	129,834
Expected credit losses and regulatory reserves (Note 1 & Note 2)	108,506	102,543
Total Tier II Capital	238,449	232,377
Total Capital	1,735,242	1,663,095

Note 1: The Bank maintained its prudent stand in relation to maintaining the regulatory reserves to preserve the potential deterioration of credit quality, taking into consideration the impact of the unprecedented pandemic and the economic slowdown.

Note 2: Expected credit losses ("ECL") for S1 and S2 only.

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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:

	2022 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Capital Requirements RM'000
(a)	<u>Credit Risk</u>				
	On-balance sheet exposures:				
	Sovereigns/Central banks	2,165,544	2,165,544	-	-
	Public sector entities	331,994	331,994	22,078	1,766
	Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks	19,993	19,993	3,011	241
	Takaful Companies, Securities Firms and Fund Managers	3,792	3,792	3,792	303
	Corporates	4,730,262	4,604,480	3,575,607	286,049
	Regulatory retail	3,060,310	2,975,857	2,373,705	189,896
	Residential Real Estate ("RRE") financing	4,578,969	4,578,720	1,985,194	158,816
	Higher risk assets	875	875	1,313	105
	Other assets	71,170	71,170	71,170	5,694
	Defaulted exposures	154,969	154,436	137,861	11,029
	Total on-balance sheet exposures	15,117,878	14,906,861	8,173,731	653,899
	Off-balance sheet exposures:				
	Credit-related off-balance sheet exposures	647,049	601,699	506,688	40,535
	Defaulted exposures	55	55	76	6
	Total off-balance sheet exposures	647,104	601,754	506,764	40,541
	Total on and off-balance sheet exposures	15,764,982	15,508,615	8,680,495	694,440

		Long Position	Short Position	Risk-Weighted Assets RM'000	Capital Requirements RM'000
	Market Risk (Note 5.0)				
(b)	Profit rate risk	-	-	-	-
	Foreign exchange risk	-	(58)	58	5
		-	(58)		
	Option risk			-	-
	Total			58	5

		Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Capital Requirements RM'000
(c)	Operational Risk	-	-	694,112	55,529
	Total	15,764,982	15,508,615	9,374,665	749,974

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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.):

2021 Exposure Class		**Gross Exposures RM'000**	**Net Exposures RM'000**	**Risk-Weighted Assets RM'000**	**Capital Requirements RM'000**
(a) 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, 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
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
(b) Market Risk (Note 5.0)	Long Position	Short Position			
Profit rate risk	-	-		-	-
Foreign exchange risk	-	(155)		155	12
	-	(155)			
Option risk				-	-
Total				155	12
(c) Operational Risk		-	-	650,846	52,068
Total		15,453,202	15,225,494	8,854,349	708,348

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 Risk Management

The Board and the Management of the Bank are committed towards ensuring that the Bank's corporate objectives are supported by a sound risk strategy with an effective risk management framework that is appropriate to the nature, scale and complexity of the Bank's activities.

3.1 Risk Management Framework

The Bank's risk management framework recognises the diversity of the organisation's activities by balancing the Board's strong supervision with well-defined independent risk management functions within each business area. The Bank's Risk Management framework is embedded in our respective business activities in order to integrate risk-taking and decision-making with prudent risk management principles. It provides a structured approach for the Bank to form a consolidated and aggregated view of all risks identified at entity, business segment and product levels; and to manage these risks in a holistic manner alongside business objectives and compliance requirements.

3.2 Risk Governance and Organisation

The Bank adopts the Three Lines of Defence model in managing risks collectively. The Three Lines of Defence comprises the following:

(a) 1st Line of Defence, whereby the risk taking role is played by Business Units and aided by Business Support functions;

(b) 2nd Line of Defence, whereby the independent risk control role is played by Group Risk Management and Group Compliance (inclusive of the Shariah Review Team); and

(c) 3rd Line of Defence, whereby the independent risk assurance role is played by Group Internal Audit.

The governance structure adopted within the Group provides a transparent and effective system that promotes active involvement from the Board and senior management in the risk management process to ensure a uniform view of risk across the Group.

The Board established the GRMC to assist the Board to oversee risk-related and compliance-related frameworks, strategies, policies and methodologies.

The Management, via the Executive Risk Management Committee ("ERMC") and other Management Committees, oversees and advises the Management on risk-related matters including risk policies, to support the sustainability of the Bank.

3.3 Risk Strategy

The Bank establishes appropriate risk governance, processes and controls in order to pursue its strategic business objectives with confidence, to protect its balance sheet and stakeholders' interest, and to deliver sustainable profitability. While it may not be possible or feasible to eliminate all inherent risks within the Bank, a set of risk mitigation techniques has been established to reduce the impact of these risks.

3.4 Risk Appetite

Risk Appetite describes the high-level risk parameters and thresholds the Bank is willing to assume in pursuit of its strategic business objectives. These high level thresholds are then cascaded, where appropriate, into more granular limits and targets across the various portfolios and business units.

3.5 Risk Culture

Our Board members, senior management and staff are all ambassadors of the Bank's risk culture. Hence, the Bank employs the key elements of leadership, supervision, guidance, counselling and communication to shape and cultivate a desirable risk culture.

3.6 Risk Management Process

The Bank's risk management process embeds the Bank's culture and practices. It starts with risk identification, followed by risk assessment, risk mitigation and control, risk monitoring, risk reporting, escalation and disclosure. The risk management process of different types of risk are explained in the following sections.

4.0 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 Group.

Credit approval is under the purview of the Executive Committee, Group 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 borrower or group reviews. The Portfolio Review Committee for the respective lines of business, assisted by embedded risk units, helps to manage the portfolio quality, and formulate action plans to manage identified risks. The process also ensures alignment of business strategy with the Bank's risk appetite.

Potential problem financing or issues related to portfolios are identified through our Early Warning Framework and thematic reviews, where applicable. Impaired loans are recovered internally or through authorised agents.

In the aspect of credit risk measurement, quantitative tools such as application and behavioural scorecards (for retail financing) and credit rating model (for corporate financing) play an integral role in supporting risk informed pricing, underwriting and portfolio management strategies. In order to manage model risk and ensure that the models remain fit-for-purpose, periodic model validations of all credit models are carried out by an independent validation team within Group Risk Management. The broad principles and framework governing the validation of credit models are set out in the Independent Model Validation Framework. Validation covers both quantitative and qualitative aspects of the model, such as back-testing to assess model performance and accuracy, as well as qualitative evaluation of rating system operations, model design, governance and data quality.

Entity-level Risk Dashboards are escalated to the ERMC (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.

Group Risk Management also performs periodic post approval credit reviews on sampling basis covering the Consumer, SME, Corporate and Commercial portfolios to independently assess the quality of credit practices across the Group. The review reports are presented to the GRMC and Group Audit Committee for their notation. Status of all outstanding issues are tracked until closure.

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 a variety of market and economic assumptions to assess possible vulnerability and to formulate effective mitigation actions when required. Sensitivity analyses are conducted to assess the potential effect 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 the assurance that the policies, processes and guidelines are adhered to.

Impaired Financing and Provisions

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

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

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

Relief Assistance

The Group has actively supported BNM's efforts in alleviating the financial difficulties of customers adversely affected by the COVID-19 pandemic. The assistance provided includes payment holidays and loan modification to reduce regular instalment payments. The Group also participated in government led initiatives to deliver industry-wide Relief Assistance Programmes. In addition, proactive assistance were also provided to customers affected by natural disasters.

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4.0 Credit Risk (cont'd.)

4.1 Distribution of Credit Exposures

(a) Geographical Distribution

The following tables represent the Group's and 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 any collateral held or other credit enhancements and after allowance for impairment, where appropriate.

	Geographical region					
2022	Northern RM'000	Central RM'000	Southern RM'000	Sabah RM'000	Sarawak RM'000	Total RM'000
Exposure class						
On-balance sheet exposures:						
Sovereigns/Central banks	-	2,165,544	-	-	-	2,165,544
Public Sector Entities	-	241,831	-	90,163	-	331,994
Banks, DFIs and Multilateral Development Banks	-	14,985	-	-	5,008	19,993
Takaful Companies, Securities Firms and Fund Managers	-	3,792	-	-	-	3,792
Corporates	524,901	3,180,794	313,732	451,752	259,083	4,730,262
Regulatory retail	460,765	1,774,466	474,100	257,861	93,118	3,060,310
RRE financing	156,867	3,668,016	449,461	267,853	36,772	4,578,969
Higher Risk Assets	159	555	161	-	-	875
Other Assets	-	71,170	-	-	-	71,170
Defaulted exposures	14,430	106,032	22,186	11,384	937	154,969
Total on-balance sheet exposures	1,157,122	11,227,185	1,259,640	1,079,013	394,918	15,117,878
Off-balance sheet exposures:						
Credit-related off-balance sheet exposures	99,341	357,535	85,304	83,359	21,510	647,049
Defaulted exposures	-	35	20	-	-	55
Total off-balance sheet exposures	99,341	357,570	85,324	83,359	21,510	647,104
Total credit exposures	1,256,463	11,584,755	1,344,964	1,162,372	416,428	15,764,982

Note: The disclosure is updated for reporting dimension from accounting's asset class to exposure class as defined in the Capital Adequacy Framework.

4.0 Credit Risk (cont'd.)

4.1 Distribution of Credit Exposures (cont'd.)

(a) Geographical Distribution (cont'd.)

The following tables represent the Group's and 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 any collateral held or other credit enhancements and after allowance for impairment, where appropriate. (cont'd.)

2021	Geographical region					
	Northern RM'000	Central RM'000	Southern RM'000	Sabah RM'000	Sarawak RM'000	Total RM'000
Exposure class						
On-balance sheet exposures:						
Sovereigns/Central banks	-	2,586,298	-	-	-	2,586,298
Public Sector Entities	-	230,920	-	140,175	-	371,095
Banks, DFIs and Multilateral Development Banks	-	5,077	-	-	9,386	14,463
Takaful Companies, Securities Firms and Fund Managers	-	3,749	-	-	-	3,749
Corporates	392,365	2,883,420	283,558	405,998	229,803	4,195,144
Regulatory retail	390,533	1,465,985	470,625	246,709	68,424	2,642,276
RRE financing	165,132	3,746,847	465,867	270,554	38,126	4,686,526
Higher Risk Assets	155	540	203	-	-	898
Other Assets	-	48,849	-	-	-	48,849
Defaulted exposures	14,476	165,384	24,183	11,176	1,733	216,952
Total on-balance sheet exposures	962,661	11,137,069	1,244,436	1,074,612	347,472	14,766,250
Off-balance sheet exposures:						
Credit-related off-balance sheet exposures	94,053	428,938	82,183	57,876	23,357	686,407
Defaulted exposures	-	526	19	-	-	545
Total off-balance sheet exposures	94,053	429,464	82,202	57,876	23,357	686,952
Total credit exposures	1,056,714	11,566,533	1,326,638	1,132,488	370,829	15,453,202

Note: The disclosure is updated for reporting dimension from accounting's asset class to exposure class as defined in the Capital Adequacy Framework.

4.0 Credit Risk (cont'd.)

4.1 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.

2022	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
Exposure Class								
Sovereigns/Central banks	2,165,544	-	-	-	-	-	-	2,165,544
Public sector entities	-	322,265	9,729	-	-	-	-	331,994
Banks, DFIs and Multilateral Development Banks	-	19,993	-	-	-	-	-	19,993
Insurance companies, securities firms and fund managers	-	3,792	-	-	-	-	-	3,792
Corporates	-	1,464,258	460,513	2,421,144	318,864	5,080	60,403	4,730,262
Regulatory retail	-	242,261	37,040	1,204,441	89,531	1,465,241	21,796	3,060,310
RRE financing	-	-	-	-	-	4,578,969	-	4,578,969
Higher risk assets	-	-	-	-	-	875	-	875
Other assets	-	-	-	-	-	-	71,170	71,170
Defaulted exposures	-	119	243	13,427	1,101	136,955	3,124	154,969
Total on-balance sheet exposure	**2,165,544**	**2,052,688**	**507,525**	**3,639,012**	**409,496**	**6,187,120**	**156,493**	**15,117,878**
Credit-related off-balance sheet exposures	-	61,613	8,494	385,340	51,777	138,092	1,733	647,049
Defaulted exposures	-	-	-	-	22	33	-	55
Total off-balance sheet exposure	**-**	**61,613**	**8,494**	**385,340**	**51,799**	**138,125**	**1,733**	**647,104**
Total credit exposure	**2,165,544**	**2,114,301**	**516,019**	**4,024,352**	**461,295**	**6,325,245**	**158,226**	**15,764,982**

Note: The disclosure is updated for reporting dimension from accounting's asset class to exposure class as defined in the Capital Adequacy Framework.

4.0 Credit Risk (cont'd.)

4.1 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.)

2021	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
Exposure Class								
Sovereigns/Central banks	2,586,298	-	-	-	-	-	-	2,586,298
Public sector entities	-	292,905	68,319	9,871	-	-	-	371,095
Banks, DFIs and Multilateral Development Banks	-	9,389	5,074	-	-	-	-	14,463
Insurance companies, securities firms and fund managers	-	3,749	-	-	-	-	-	3,749
Corporates	21,153	1,284,160	434,522	2,113,687	271,837	4,516	65,269	4,195,144
Regulatory retail	-	252,464	34,598	1,046,805	59,399	1,234,908	14,102	2,642,276
RRE financing	-	-	-	-	-	4,686,526	-	4,686,526
Higher risk assets	-	-	-	-	-	898	-	898
Other assets	-	-	-	-	-	-	48,849	48,849
Defaulted exposures	-	926	136	16,866	723	198,301	-	216,952
Total on-balance sheet exposure	**2,607,451**	**1,843,593**	**542,649**	**3,187,229**	**331,959**	**6,125,149**	**128,220**	**14,766,250**
Credit-related off-balance sheet exposures	-	139,970	12,163	382,699	61,315	88,528	1,732	686,407
Defaulted exposures	-	-	-	-	500	45	-	545
Total off-balance sheet exposure	**-**	**139,970**	**12,163**	**382,699**	**61,815**	**88,573**	**1,732**	**686,952**
Total credit exposure	**2,607,451**	**1,983,563**	**554,812**	**3,569,928**	**393,774**	**6,213,722**	**129,952**	**15,453,202**

Note: The disclosure is updated for reporting dimension from accounting's asset class to exposure class as defined in the Capital Adequacy Framework.

4.0 Credit Risk (cont'd.)

4.1 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:

2022	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1 year RM'000	Total RM'000
Exposure Class						
Sovereigns/Central banks	1,417,800	-	-	-	747,744	2,165,544
Public sector entities	90,163	5,088	-	15,139	221,604	331,994
Banks, DFIs and Multilateral Development Banks	5,011	-	-	-	14,982	19,993
Insurance companies, securities firms and fund managers	-	-	-	-	3,792	3,792
Corporates	1,008,300	533,115	210,917	107,794	2,870,136	4,730,262
Regulatory retail	408,400	72,358	29,935	24,882	2,524,735	3,060,310
RRE financing	567,071	121	147	452	4,011,178	4,578,969
Higher risk assets	-	-	-	-	875	875
Other assets	14,518	539	773	603	54,737	71,170
Defaulted exposures	20,217	12	70	126	134,544	154,969
Total on-balance sheet exposures	**3,531,480**	**611,233**	**241,842**	**148,996**	**10,584,327**	**15,117,878**

2021						
Exposure Class	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Sovereigns/Central banks	1,403,661	-	-	101,810	1,080,827	2,586,298
Public sector entities	165,971	-	-	-	205,124	371,095
Banks, DFIs and Multilateral Development Banks	4,357	-	5,032	-	5,074	14,463
Insurance companies, securities firms and fund managers	-	-	-	-	3,749	3,749
Corporates	940,359	484,255	198,837	61,554	2,510,139	4,195,144
Regulatory retail	378,910	61,045	34,437	16,309	2,151,575	2,642,276
RRE financing	684,995	12	575	303	4,000,641	4,686,526
Higher risk assets	-	-	-	-	898	898
Other assets	2,330	89	425	69	45,936	48,849
Defaulted exposures	34,242	951	189	553	181,017	216,952
Total on-balance sheet exposures	**3,614,825**	**546,352**	**239,495**	**180,598**	**10,184,980**	**14,766,250**

Note: The disclosure is updated for reporting dimension from accounting's asset class to exposure class as defined in the Capital Adequacy Framework.

4.0 Credit Risk (cont'd.)

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

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

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 three months. Under MFRS 9, 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 intervals or longer, a default of payment will trigger an impairment.

Impaired and Past Due Financing and Advances and Allowance for Expected Credit Losses - Industry Analysis

	Impaired Financing, Advances and Financing RM'000	Past Due Financing RM'000	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 RM'000
2022							
Financial, insurance & business services and real estate	556	10,990	2,748	5,869	435	180	-
Transport, storage & communication	553	2,317	394	299	311	(76)	-
Agriculture, manufacturing, wholesale & retail trade	32,998	27,985	10,201	10,667	19,572	13,046	(1,088)
Construction	51,691	15,245	987	2,863	51,376	38,400	-
Household	188,652	294,692	81,604	166,314	51,653	16,342	(23,130)
Others	3,884	-	141	2,663	759	825	-
Total	278,334	351,229	96,075	188,675	124,106	68,717	(24,218)
2021							
Financial, insurance & business services and real estate	1,185	11,232	2,675	5,158	259	(49)	-
Transport, storage & communication	504	2,493	265	420	386	57	(1,709)
Agriculture, manufacturing, wholesale & retail trade	25,318	70,616	9,785	18,464	8,463	1,238	(3,804)
Construction	12,711	59,161	602	23,746	12,008	2,665	(3,120)
Household	256,967	348,639	63,074	133,984	58,599	43,804	(30,777)
Others	1	6	161	1,876	1	-	-
Total	296,686	492,147	76,562	183,648	79,716	47,715	(39,410)

4.0 Credit Risk (cont'd.)

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

Impaired and Past Due Financing and Advances and Allowance for Expected Credit Losses - Geographical

	Impaired Financing, Advances and Financing RM'000	Past Due Financing RM'000	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 RM'000
2022							
Northern region	26,958	17,963	7,338	9,867	12,527	3,618	(1,789)
Central region	189,154	250,046	73,676	151,645	83,880	47,500	(19,672)
Southern region	45,620	37,726	9,244	15,811	23,419	15,355	(2,414)
Sabah region	15,249	38,862	4,687	10,286	3,864	2,141	(258)
Sarawak region	1,353	6,632	1,130	1,066	416	103	(85)
Total	278,334	351,229	96,075	188,675	124,106	68,717	(24,218)
2021							
Northern region	25,489	39,122	6,034	9,752	11,015	4,170	(4,286)
Central region	220,773	356,833	56,887	147,888	55,379	36,038	(29,414)
Southern region	34,899	43,764	8,243	16,685	10,727	6,140	(4,863)
Sabah region	13,356	49,829	4,472	8,347	2,181	1,328	(683)
Sarawak region	2,169	2,599	926	976	414	39	(164)
Total	296,686	492,147	76,562	183,648	79,716	47,715	(39,410)

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4.0 Credit Risk (cont'd.)

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

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 2021	76,562	183,648	79,716	339,926
Transfer to Stage 1	52,439	(185,682)	(18)	(133,261)
Transfer to Stage 2	(33,096)	287,650	(81,477)	173,077
Transfer to Stage 3	(181)	(150,739)	132,225	(18,695)
New financial assets originated or purchased	31,490	62,388	5,659	99,537
Financial assets derecognised other than write-off	(22,993)	(60,265)	(10,007)	(93,265)
Changes due to change in credit risk	(8,146)	52,609	22,335	66,798
	19,513	5,961	68,717	94,191
Unwinding of discount	-	-	(109)	(109)
Total charge to income statement	19,513	5,961	68,608	94,082
Write-off	-	(934)	(24,218)	(25,152)
At 31 March 2022	**96,075**	**188,675**	**124,106**	**408,856**

	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**

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

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4.0 Credit Risk (cont'd.)

4.3 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:

2022 Risk-Weights	Sovereigns /Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and Multilateral Development Banks RM'000	Takaful Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	RRE Financing RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Total Exposures after Netting and Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
	<---------- Exposures after netting and credit risk mitigation								---------->		
0%	2,165,544	221,604	4,938	-	489,683	31,919	-	-	-	2,913,688	-
20%	-	126,390	15,055	-	679,177	143,944	517	-	-	965,083	193,016
35%	-	-	-	-	-	-	3,334,143	-	-	3,334,143	1,166,950
50%	-	-	1,000	-	1,618	4,932	978,223	-	-	985,773	492,887
75%	-	-	-	-	-	1,937,216	3,203	-	-	1,940,419	1,455,314
100%	-	-	-	7,812	3,831,588	1,005,127	448,176	-	71,170	5,363,873	5,363,874
150%	-	-	-	-	125	4,560	-	951	-	5,636	8,454
Total exposures	2,165,544	347,994	20,993	7,812	5,002,191	3,127,698	4,764,262	951	71,170	15,508,615	8,680,495
Risk-weighted assets by exposures	-	25,278	3,511	7,812	3,968,420	2,496,134	2,106,743	1,427	71,170	8,680,495	
Average risk weight	0%	7%	17%	100%	79%	80%	44%	150%	100%	56%	
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	

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4.0 Credit Risk (cont'd.)

4.3 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.):

2021 Risk-Weights	Sovereigns /Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and Multilateral Development Banks RM'000	Takaful Companies, Securities Firms and Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	RRE Financing RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Total Exposures after Netting and Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
	<------ Exposures after netting and credit risk mitigation ------>										
0%	2,586,298	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	-	-	-	-	-	-	-	-	-	-	

4.0 Credit Risk (cont'd.)

4.3 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 Berhad ("MARC"), Standard and Poor's ("S&P"), Moody's, Fitch Ratings, and Rating and Investment Information, Inc ("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 External Credit Assessment Institutions ("ECAIs"), or as prescribed under the CAFIB:

Long-Term Rating

Rating Category	S&P	Moody's	Fitch	RAM	MARC	R&I*
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA3	AAA to AA-	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-	A+ to A3	A+ to A-	A+ to A-
3	BBB+ to BB-	Baa1 to Ba3	BBB+ to BB-	BBB1+ to BB3	BBB+ to BB-	BBB+ to BB-
4	B+ to D	B1 to C	B+ to D	B to D	B+ to D	B+ to D
5	Unrated					

Short-Term Rating

Rating Category	S&P	Moody's	Fitch	RAM	MARC	R&I*
1	A-1	P-1	F1+, F1	P-1	MARC-1	a-1+, a-1
2	A-2	P-2	F2	P-2	MARC-2	a-2
3	A-3	P-3	F3	P-3	MARC-3	a-3
4	Others	Others	B+ to D	NP	MARC-4	b, c
5	Unrated					

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

2022

Exposure Class	Rating Categories 1	2	3	4	5	Total
	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)	-	2,165,544	-	-	-	2,165,544
Public Sector Entities	-	221,604	-	-	-	221,604
Corporates	-	455,592	-	-	-	455,592
Banks, DFIs and Multilateral Development Banks	-	4,938	-	-	-	4,938
Total	-	2,847,678	-	-	-	2,847,678
(ii) Exposures risk-weighted using Banking Institutions long-term rating						
Banks, DFIs and Multilateral Development Banks	10,043	3	-	-	6,008	16,054
Exposures risk-weighted using Banking Institutions short-term rating						
Banks, DFIs and Multilateral Development Banks	-	-	-	-	-	-
Total	10,043	3	-	-	6,008	16,054
(iii) Exposures risk-weighted using Corporate long-term rating						
Public Sector Entities	20,227	-	-	-	106,163	126,390
Corporates	649,167	-	-	-	4,060,167	4,709,334
Takaful Companies, Securities Firms & Fund Managers	-	-	-	-	7,812	7,812
Exposures risk-weighted using Corporate short-term rating						
Public Sector Entities	-	-	-	-	-	-
Corporates	-	-	-	-	-	-
Takaful Companies, Securities Firms & Fund Managers	-	-	-	-	-	-
Total	669,394	-	-	-	4,174,142	4,843,536

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

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

4.0 Credit Risk (cont'd.)

4.3 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.):

2021

Exposure Class	Rating Categories					Total
	1	2	3	4	5	
	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 2: The Federal Government and Central Bank of Malaysia are accorded 0% risk weight as provided under the Capital Adequancy Framework.

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

4.0 Credit Risk (cont'd.)

4.4 Credit Risk Mitigation ("CRM")

As a practical approach towards mitigating credit risk, the Bank accepts a wide range of collaterals. The 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's Capital Adequancy Framework 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.

2022 **Exposure Class**	**Exposures before CRM** RM'000	**Exposures covered by guarantees/ credit derivatives (Note 1)** RM'000	**Exposures covered by eligible financial collateral** RM'000	**Exposures covered by other eligible collateral** RM'000
Credit Risk				
On-balance sheet exposures:				
Sovereigns/Central banks	2,165,544	-	-	-
Public sector entities	331,994	-	-	-
Banks, DFIs and Multilateral Development Banks	19,993	-	-	-
Takaful Companies, Securities Firms and Fund Managers	3,792	-	-	-
Corporates	4,730,262	59,948	125,782	-
Regulatory retail	3,060,310	175,044	84,453	-
RRE financing	4,578,969	517	249	-
Higher risk assets	875	-	-	-
Other assets	71,170	-	-	-
Defaulted exposures	154,969	-	533	-
Total on-balance sheet exposures	15,117,878	235,509	211,017	-
Off-balance sheet exposures:				
Off-balance sheet exposures other than over the counter ("OTC") derivatives or credit derivatives	647,049	4,971	45,350	-
Defaulted exposures	55	-	-	-
Total off-balance sheet exposures	647,104	4,971	45,350	-
Total on and off-balance sheet exposures	15,764,982	240,480	256,367	-

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

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4.0 Credit Risk (cont'd.)

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

2021 **Exposure Class**	**Exposures before CRM** RM'000	**Exposures covered by guarantees/ credit derivatives (Note 1)** RM'000	**Exposures covered by eligible financial collateral** RM'000	**Exposures covered by other eligible collateral** RM'000
Credit Risk				
On-balance sheet exposures:				
Sovereigns/Central banks	2,586,298	-	-	-
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 refer to the exposures guaranteed by eligible guarantors.

4.0 Credit Risk (cont'd.)

4.5 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:

2022	**Principal Amount** RM'000	**Credit Equivalent Amount** RM'000	**Risk-Weighted Assets** RM'000
Credit-related exposures			
Direct credit substitutes	70,235	70,235	61,022
Transaction-related contingent items	61,208	30,604	20,085
Short-term self-liquidating trade-related contingencies	19,250	3,850	2,463
Irrevocable commitments to extend credit:			
- maturity exceeding one year	283,555	141,774	102,418
- maturity not exceeding one year	2,003,204	400,641	320,776
	2,437,452	647,104	506,764

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

5.0 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.

5.1 Market Risk Management

The Board, via the 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 Group'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.

5.2 Traded Market Risk

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

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

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

(c) Adoption of various market risk measurement tools and techniques to quantify market risk exposures; and

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

Market risk exists in the Group's activities in fixed income securities, foreign exchange and financial derivatives, 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-à-vis the Group's risk appetite and strategy. Besides that, treasury activities are monitored and reported independently by Group Market Risk on a daily basis. Market risk limits, exposures as well as any limit breaches or exceptions are reported to GALCO, ERMC, and GRMC. The risk measures are outlined below:

(a) Value-at-Risk ("VaR"): The Group has adopted the historical simulation approach where historical scenarios are generated based on actual past market movements. A snapshot of the end-of-day's positions is taken and full revaluation of the treasury positions are performed for each day's historical scenario versus the previous day's position.The VaR estimate is derived from the value of the 99th percentile of the loss distribution curve level and computed on a one-day holding period, i.e. the model is attempting to estimate the potential loss over the next 24 hours, based on historical market volatility. The Group currently adopts the hypothetical profit and loss ("P&L") approach for back testing purposes. Hypothetical P&L for back testing purposes refers to the simulated P&L that is generated by applying the day's price movements to the previous day's end-of-day portfolio.

(b) Price Value of a Basis Point ("PV01") Limit: PV01 measures the sensitivity of the portfolio to adverse movements in profit rates. This limit is expressed in terms of potential losses to the entire portfolio for an adverse one basis point movement in profit rates.

(c) The Total Net Open Position ("NOP"): The NOP limits represent the maximum permissible amount of net open position that the FX Spot & Swap Trading Desk dealers can maintain at any point in time.

5.0 Market Risk (cont'd.)

5.2 Traded Market Risk (cont'd.)

(d) Gamma and Vega Limits for FX and Profit Options: Gamma value parameter of an option is a risk parameter that measures the changes of the portfolio Delta due to changes in the underlying Spot value. Vega risk of an option measures and computes the changes in portfolio value due to parallel shift in volatility surface.

(e) Others: Other limits include Stop Loss Limits, Tenure Limits and Transaction Limits. These limits provide additional control on the trading portfolio. In addition, stress testing is conducted to gauge and identify potential vulnerability risk areas of a bank's portfolio in accordance with a range of stressed scenarios or sensitivity analyses. It provides a forward looking assessment of risk exposures under stressed conditions which enables the Bank to assess potential worst case scenarios and develop appropriate management actions and contingency plans.

Hedging Policies and Strategies

The Bank had established a 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:

2022	**Risk-Weighted Assets** RM'000	**Capital Requirements** RM'000
Profit rate risk		
- General profit rate risk	-	-
- Specific profit rate risk	-	-
	-	-
Foreign exchange risk	58	5
Option risk	-	-
	58	5
2021		
Profit rate risk		
- General profit rate risk	-	-
- Specific profit rate risk	-	-
	-	-
Foreign exchange risk	155	12
Option risk	-	-
	155	12

5.0 Market Risk (cont'd.)

5.3 Non-Traded Market Risk

Non-traded market risk is the inherent risks arising from banking book activities. The primary risk factors include rate of return risk in the banking book.

5.3.1 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 organisation's earnings or economic value. Profit rate changes 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 these 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.

RORBB Management

The guiding principles in managing RORBB include:

(a) 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;

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

(c) Setting proper gapping limits and the limits monitored closely; and

(d) Practising comprehensive RORBB reporting and review process, with aggregated information and supporting details to facilitate the 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:

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

(b) Net profit income simulations to assess the impact of profit rate changes on short term earnings volatility;

(c) Economic value ("EV") simulations that measure the asset-liability impact of adverse profit rate movements on the economic value of the Bank's capital; and

(d) Product behavioural testing is applied regularly to ensure the risk assessment is able to withstand any market profit rate changes within the risk tolerance of the Bank.

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.

5.0 Market Risk (cont'd.)

5.3 Non-Traded Market Risk (cont'd.)

5.3.1 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 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 RM'000	USD RM'000	SGD RM'000	Other Foreign Currencies ("FCY") RM'000	Total RM'000
2022					
Impact on NPI					
Parallel 200 bps up	45,761	-	-	-	45,761
Parallel 200 bps down	(45,761)	-	-	-	(45,761)
Impact on EV					
Parallel 200 bps up	(105,809)	-	-	-	(105,809)
Parallel 200 bps down	105,809	-	-	-	105,809
Steepener	(117,607)	-	-	-	(117,607)
Flattener	95,859	-	-	-	95,859
Short Rate Up	(20,991)	-	-	-	(20,991)
Short Rate Down	20,991	-	-	-	20,991

	MYR RM'000	USD RM'000	SGD RM'000	Other FCY RM'000	Total RM'000
2021					
Impact on NPI					
Parallel 200 bps up	73,702	-	-	-	73,702
Parallel 200 bps down	(73,702)	-	-	-	(73,702)
Impact on 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, 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 NPI and 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.

5.3.2 Liquidity Risk

Liquidity risk can be defined as the risk where an entity is unable to fund increases in assets and meet financial obligations as they come due without incurring unacceptable losses. Liquidity risk measures are usually expressed in the form of various liquidity risk measurement ratios and triggers.

It is essential to adopt a conservative and prudent approach in the measurement of liquidity risk. This is achieved by the establishment of robust liquidity risk management policies, measures and strategies that are complemented by regular monitoring and reporting process.

The liquidity risk management references BNM's LCR to gauge its liquidity exposure, complemented with BNM's Net Stable Funding Ratio ("NSFR") which requires the Group to maintain sufficient liquidity, including a cushion of unencumbered, High Quality Liquid Assets ("HQLA") to withstand a range of stress events.

The Group is in compliance with the minimum regulatory requirements ratio to LCR and NSFR within the period from April 2021 to March 2022.

6.0 Operational Risk

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

Operational Risk Management

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

The Board, via 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:

(a) Providing strategic guidance on operational issues and monitoring the implementation of the Operational Risk Management ("ORM") Framework;

(b) Reviewing and monitoring operational risk issues, reports and action plans;

(c) Evaluating and agreeing on initiatives to strengthen operational processes or infrastructure; and

(d) Promoting risk awareness and operational risk management culture.

The Bank practises 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 Group's operational risk management process is depicted in the table below:

Identification	Identify the various risks inherent to each product, process and activity, as well as adverse trends of risk parameters
Assessment	- Risk Control Self-Assessment ("RCSA") - Controls Self-Assessment ("CSA") - Key Risk Indicators ("KRI") - Loss Event Data ("LED") - Stesss Testing and Scenario Analysis ("SA")
Mitigation & Control	- Setting risk mitigation measures and controls - Insurance/takaful - Outsourcing - Business Continuity Management
Reporting	- Escalate and highlight regular operational risk reports to Senior Management and the Board - Highlight new/emerging risk areas and the controls in place
Disclosure	Provide regular risk disclosure to regulators through the Pillar 3 disclosure report and regulatory reports, e.g. ORION report

6.0 Operational Risk (cont'd.)

Operational Risk Management (cont'd.)

The customary tools employed by the Group for the management of operational risk are:

(a) **RCSA** - An operational risk tool that is used to identify and assess risks inherent in the Group's operations and to evaluate the overall effectiveness of the internal controls in mitigating the identified risks;

(b) **CSA** - Complements the RCSA process by validating the effectiveness of the controls measures identified and highlight control lapses;

(c) **KRI** - A quantitative and statistical parameter, often financial in nature and focus on business processes and activities to identify emerging risks and potential changes in operational risk profiles;

(d) **LED** - The process of collecting, evaluating, monitoring and reporting operational risk events, loss amount and irregularities; and

(e) **Stress Testing and SA** - Assessment made to identify potential operational risk events and potential outcomes including identifying potential significant operational risks and the need for additional risk management. controls or mitigation solutions.

The Bank adopts Basic Indicator Approach for computation of operational RWA.

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 the Shariah Advisory Council of BNM and the Bank's Shariah Committee. To manage the risks, the Bank has adopted the following guiding principles:

(a) 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;

(b) 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, includes:

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

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

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

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

(f) Periodic engagement between the Board and the Shariah Committee to discuss Shariah research, Shariah compliance and the views of scholars on Islamic banking activities.

Shariah Non-Compliant Income and Events

During the financial period, there were three Shariah non-compliance events detected from the ongoing reviews of the Bank's operational processes. Immediate actions have 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 RM898.46 has been refunded to the affected customers in accordance with Shariah Committee's decision.