Company No: 200501027372 (709506-V)

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

BASEL II
PILLAR 3 DISCLOSURES
As at 31st December 2021

Company No: 200501027372 (709506-V)
AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

BASEL II Pillar 3 Disclosures

TABLE OF CONTENTS

Company No: 200501027372 (709506-V)
AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

BASEL II Pillar 3 Disclosures

TABLE OF CONTENTS

Company No: 200501027372 (709506-V)
AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

BASEL II Pillar 3 Disclosures

1. Introduction

1.1 Background

The Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets) issued by Bank Negara Malaysia ('BNM'), which is the equivalent of the Basel II framework issued by the Basel Committee of Banking Supervision and the Islamic Financial Services Board is structured around three fundamental pillars:

- Pillar 1 defines the minimum capital requirement to ensure that financial institutions hold sufficient capital to cover their exposure to credit, market and operational risks.
- Pillar 2 requires financial institutions to have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels.
- Pillar 3 requires financial institutions to establish and implement an appropriate disclosure policy that promotes transparency regarding their risk management practices and capital adequacy positions.
- Pillar 3 disclosure is required under the BNM Capital Adequacy Framework for Islamic Banks (CAFIB) - Disclosure Requirements (Pillar 3).
- Affin Islamic Bank Berhad ('the Bank') adopts the following approaches under Pillar 1 requirements:
  - Standardised Approach for Credit Risk
  - Standardised Approach for Market Risk
  - Basic Indicator Approach for Operational Risk

1.2 Scope of Application

This document contains the disclosure requirements under Pillar 3 for the Bank for the year ended 31 December 2021. The disclosures are made in line with the Pillar 3 disclosure requirements under the Basel II framework as laid out by BNM.

The disclosures should be read in conjunction with the Bank’s 2021 Annual Report for the year ended 31 December 2021.

The capital requirements of the Bank are generally based on the principles of consolidation adopted in the preparation of its financial statements.

There are no significant restrictions or impediments on the transfer of funds or regulatory capital within the Bank.

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

2. Risk Governance Structure

2.1 Overview

The Board of Directors of the Bank are ultimately responsible for the overall performance of the Bank. The Board's responsibilities are congruent with the framework of BNM Guidelines. The Board also exercises great care to ensure that high ethical standards are upheld, and that the interests of stakeholders are not compromised. These include responsibility for determining the Bank's general policies and strategies for the short, medium and long term, approving business plans, including targets and budgets, and approving major strategic decisions.

The Board has overall responsibility for maintaining the proper management and protection of the Bank's interests by ensuring effective implementation of the risk management policy and process, as well as adherence to a sound system of internal controls. The Board also recognises that risks cannot be eliminated completely. As such, the inherent system of internal controls is designed to provide a reasonable though not absolute assurance against the risk of material errors, fraud or losses occurring. The system of internal controls encompasses controls relating to financial, operational, risk management and compliance with applicable laws, regulations, policies and guidelines.

The terms of reference of the Board Committees as disclosed in the Annual Report provide an outline of their respective roles and functions. In carrying out its functions, the Board has delegated specific responsibilities to other Board Committees, which operate under approved terms of reference, to assist the Board in discharging their duties. The Chairmen of the various Committees report on the outcome of their Committee meetings to the Board and any further deliberation is made at Board level, if required. These reports and deliberations are incorporated into the Minutes of the Board meetings. The Board meets on a monthly basis.

2.2 Board Committee

<u>Group Board Nomination and Remuneration Committee ('GBNRC')</u>

The GBNRC is responsible for providing a formal and transparent procedure for the appointment of Directors, Chief Executive Officer and Senior Management. The GBNRC develops the remuneration policy for Directors, Chief Executive Officer, Senior Management and other material risk takers, whereby, it assesses the effectiveness of individual Director, the Board as a whole and the performance of the Chief Executive Officer as well as Senior Management.

The Committee obtains advice from experts in compensation and benefits, both internally and externally.

2. Risk Governance Structure (continued)

2.2 Board Committee (continued)

<u>Group Board Compliance Committee ('GBCC')</u>

The GBCC is responsible for overseeing, assessing and examining the adequacy of bank compliance management frameworks including the policies, procedures and processes of the Bank. The Committee assists the Board in overseeing the management of the Bank's compliance risk by ensuring compliance process is in place and functioning in line with the expectations of the regulators namely BNM, Securities Commission and Bursa Malaysia. It reviews and recommends compliance risk management philosophy and strategy for Board's approval, also ensuring clear and independent reporting lines and responsibilities for the overall business activities and compliance functions and recommending organizational alignments, where necessary, to the Board.

<u>Group Board Risk Management Committee ('GBRMC')</u>

The GBRMC is responsible for overseeing management activities in managing credit, market, liquidity, operational, legal, reputational and other material risks as well as ensuring that the risk management process is in place and functioning effectively.

It is responsible for setting the overall tone of the Bank's risk strategy and ensuring effective communication and integration of risk appetite within the business strategy, operations and culture.

The Committee also assists the Board in oversight responsibilities on internal controls, and risk management strategies, policies, processes, frameworks and other risk related matters. It has the responsibility of reviewing and/or approving risk management policies, guidelines and reports.

<u>Group Board Credit Review and Recovery Committee ('GBCRRC')</u>

The GBCRRC is responsible for providing critical review of financing and other credit facilities with high risk implications and vetoing financing applications that have been approved by the Group Management Credit Committee ('GMCC') as appropriate.

2. Risk Governance Structure (continued)

2.2 Board Committee (continued)

<u>Group Board Audit Committee ('GBAC')</u>

The GBAC is responsible for providing oversight and reviewing the adequacy and integrity of the internal control systems as well as oversees the work of the internal and external auditors.

Reliance is placed on the results of independent audits performed primarily by internal auditors, the outcome of statutory audits on financial statements conducted by external auditors and on representations by Management based on their control self-assessment of all areas of their responsibility.

Minutes of GBAC meetings, which provide a summary of the proceedings, are circulated to Board members for notation and discussion. The Bank has an established Group Internal Audit Division ('GIA') which reports functionally to the GBAC and administratively to the President & Group Chief Executive Officer ('PGCEO') of AFFIN Bank Berhad.

<u>Group Board Information Technology Committee ('GBITC')</u>

The GBITC is responsible to oversee overall development, risk management, integration and alignment of Information Technology (IT) strategy, plan with Affin Bank Group business strategy. Leveraging on technology for new business models, changing business practices, driving competitive advantage and empowering next level thinking. GBITC also oversees the AIM 22 (Affinity In Motion 22) strategic program, to ensure alignment with the business strategic objectives and AIM 22 is implemented effectively in a timely manner.

<u>Shariah Committee ('SC')</u>

The SC is formed as legislated under the Islamic Financial Services Act 2013 and as per the Shariah Governance Framework for Islamic Financial Institutions.

The roles and responsibilities of the SC include advising the Board on Shariah matters to ensure that the business operations of the Bank comply with Shariah principles at all times. SC is also responsible for endorsing and validating relevant documentations of the Bank's products to ensure that the products comply with Shariah principles and advising the Bank on matters to be referred to the Shariah Advisory Council.

2. Risk Governance Structure (continued)

2.3 Group Management Committee

Group Management Committee ('GMC')

The GMC comprises the senior management team chaired by PGCEO. GMC is responsible for assisting the Board in managing the day-to-day operations, formulating tactical plans and business strategies while monitoring the banking entities' overall performance, and ensuring all business activities conducted are in accordance with the Bank's corporate objectives, strategies, policies as well as Annual Business Plan and Budget.

The GMC is supported by the following sub-committees:

- Islamic
- Capital Management
- Governance, Risk and Compliance
- Branch Performance
- IT, Operations, Digital and Customer Experience

Group Management Credit Committee ('GMCC')

The GMCC is established within senior management to approve complex and large financings and workout/recovery proposals beyond the delegated authority of the individual approvers.

Group Asset and Liability Management Committee ('GALCO')

The GALCO comprising the senior management team chaired by the PGCEO, manages the Bank's asset and liability position by identifying, managing and controlling balance sheet risks and capital management in the execution of the business strategy, while implementing asset liability strategy and policy for the balance sheet of the respective subsidiary.

2. Risk Governance Structure (continued)

2.3 Group Management Committee (continued)

Group Operational Risk Management Committee ('GORMC')

The GORMC is a senior management committee chaired by the Group Chief Risk Officer ('GCRO'), established to oversee the management of operational risks issues and control lapses while supporting GBRMC in its review and monitoring of operational risk. It is also responsible for reviewing and ensuring that the operational risk programme, process and framework are implemented in accordance with regulatory requirement and manage loss incidents to an acceptable level.

Group Early Alert Committee ('GEAC')

The GEAC is a senior management committee, established to monitor credit quality through monthly reviews of the Early Control (MFRS 9 Stage 1) and Underperforming (MFRS 9 Stage 2) Accounts as well as to review the actions taken to address the emerging risks and issues in these accounts.

2.4 Group Risk Management Function

Group Risk Management ('GRM'), headed by the GCRO is segregated from the lines of business, with direct reporting line to the GBRMC to preserve the independence of the risk management function.

The independence of the risk management function is critical towards controlling and managing the risk-taking activities of the Bank to achieve an optimum return in line with the subsidiaries' risk appetite, taking into the differences in each subsidiary's business model.

Committees namely GBCRRC, SC, GMC, GMCC, GALCO, GMC-GRC and GEAC assist GBRMC in managing credit, market, liquidity, operational and other material risks in the Bank. The responsibilities of these Committees include risk identification, risk assessment and measurement, risk control and mitigation and risk monitoring and reporting.

2. Risk Governance Structure (continued)

2.5 Internal Audit and Internal Control Activities

In accordance with BNM's Guidelines on Corporate Governance, GIA conducts continuous reviews on auditable areas within the Bank. The reviews by GIA are focused on areas of significant risks and effectiveness of internal control in accordance with the audit plan approved by the GBAC.

Based on GIA's review, identification, and assessment of risk, testing, and evaluation of controls, GIA will provide an opinion on the effectiveness of internal controls maintained by each entity. The risks highlighted on the respective auditable areas as well as a recommendation made by the GIA are addressed at GBAC and Management meetings on a bi-monthly basis. The GBAC also conducts annual reviews on the adequacy of the internal audit function, scope of work, resources, and budget of GIA.

3. Capital Management

3.1 Internal Capital Adequacy Assessment Process ('ICAAP')

In line with the BNM guideline on Risk-Weighted Capital Adequacy Framework - Internal Capital Adequacy Assessment Process (Pillar 2), the Bank has put in place the ICAAP Framework to assess the capital adequacy to ensure that the level of capital maintained by the Bank is adequate at all times, taking into consideration the Bank's risk profile and business strategies.

The Bank's capital management approach is focused on maintaining an appropriate level of capital to meet its business needs and regulatory requirements as capital adequacy and risk management are closely aligned. The Bank operates within an agreed risk appetite whilst optimising the use of shareholders' funds to deliver sustainable returns.

3. Capital Management (continued)

3.2 Capital Structure

The total capital and capital adequacy ratios of the Bank is computed in accordance with BNM's CAFIB (Capital Components).

The Bank is currently adopting the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk. In line with the transitional arrangements under the BNM CAFIB (Capital Components), the minimum capital adequacy requirement for Common Equity Tier 1 Capital Ratio ('CET 1') and Tier 1 Capital Ratio are 7.000% (2020: 7.000%) and 8.500% (2020: 8.500%) respectively for year 2021. The minimum regulatory capital adequacy requirement is 10.500% (2020: 10.500%) for total capital ratio.

The following table sets forth further details on the capital resources and capital adequacy ratios for the Bank as at 31 December 2021.

	Economic Entity		**The Bank**	
	2021	2020	**2021**	2020
	RM'000	RM'000	**RM'000**	RM'000
Paid-up share capital	**1,060,000**	1,060,000	**1,060,000**	1,060,000
Retained profits	**981,016**	768,941	**981,016**	768,941
Unrealised losses on FVOCI instruments	**-**	(4,919)	**-**	(4,919)
	2,041,016	1,824,022	**2,041,016**	1,824,022
Less: Regulatory adjustment				
Goodwill and other intangibles	**(345)**	(558)	**(345)**	(558)
Deferred tax assets	**(22,484)**	(12,390)	**(22,484)**	(12,390)
Other CET1 transitional adjustment	**81,108**	31,418	**81,108**	31,418
CET1 capital	**2,099,295**	1,842,492	**2,099,295**	1,842,492
Additional Tier 1 Capital	**300,000**	300,000	**300,000**	300,000
Total Tier 1 Capital	**2,399,295**	2,142,492	**2,399,295**	2,142,492

BASEL II Pillar 3 Disclosures (continued)

3. Capital Management (continued)

3.2 Capital Structure (continued)

	Economic Entity		The Bank	
	2021	2020	**2021**	2020
	RM'000	RM'000	**RM'000**	RM'000
Subordinated term financing and medium term notes (MTNs)	**800,000**	800,000	**800,000**	800,000
Expected loss provision #	**91,378**	110,509	**91,378**	110,509
Tier II capital	**891,378**	910,509	**891,378**	910,509
Total capital	**3,290,673**	3,053,001	**3,290,673**	3,053,001
Risk weighted assets for:				
Credit risk	**16,484,875**	14,342,941	**16,484,875**	14,342,941
Market risk	**31,243**	19,079	**31,243**	19,079
Operational risk	**778,585**	698,564	**778,585**	698,564
Total risk weighted assets	**17,294,703**	**15,060,584**	**17,294,703**	**15,060,584**
With transitional arrangements*				
CET 1 capital ratio	**12.138%**	12.234%	**12.138%**	12.234%
Tier 1 capital ratio	**13.873%**	14.226%	**13.873%**	14.226%
Total capital ratio	**19.027%**	20.271%	**19.027%**	20.271%
Without transitional arrangements				
CET 1 capital ratio	**11.669%**	12.025%	**11.669%**	12.025%
Tier 1 capital ratio	**13.404%**	14.017%	**13.404%**	14.017%
Total capital ratio	**19.027%**	20.271%	**19.027%**	20.271%

Qualifying loss provisions are restricted to allowances on the unimpaired portion of the financing, advances and other financing**.**

* The Bank has elected to apply BNM's transitional arrangement for four financial years beginning on 1 January 2020. Under the transitional arrangements, a financial institution is allowed to add back the amount of loss allowance measured at an amount equal to 12-month and lifetime expected credit losses to the extent they are ascribed to non-credit-impaired exposures (which is Stage 1 and Stage 2 provisions), to CET1 capital.

In accordance with BNM's Guidelines on Investment Account, the credit and market risk weighted on the assets funded by the RIA are included in calculation of capital adequacy for the Bank. As at 31 December 2021, RIA assets included in the Total Capital Ratio calculation amounted to RM1,834.6 million (2020: RM1,754.9 million).

3. Capital Management (continued)

3.2 Capital Structure (continued)

The Bank has issued capital instruments which qualify as components of regulatory capital under the BNM CAFIB (Capital Components), as summarised in the following table:

Capital Instruments		Capital Component	Main Features
Issued by the Bank:			
(a)	Additional Tier-1 Sukuk Wakalah ('AT1S')	Tier 1 Capital	The Bank had on 18 October 2018 issued AT1S of RM300 million out of its approved BASEL III Compliant Islamic medium term notes programme of RM5.0 billion in nominal value for the issuance of Senior Sukuk Murabahah, Tier 2 Sukuk Murabahah and/or AT1S ("**Sukuk Programme**"). The AT1S was issued on a perpetual non-callable 5-year basis, at a profit rate of 5.65% per annum. The AT1S was issued for the purpose of general banking business and working capital requirements of the Bank.
(b)	Tier-2 Sukuk Murabahah	Tier 2 Capital	The Bank had on 23 October 2018 issued Tier-2 Sukuk Murabahah of RM800.0 million out of its approved BASEL III Compliant Sukuk Programme. The Tier-2 Sukuk Murabahah was issued for a tenure of 10 years from the issue date on a 10-year non-callable 5-year basis, at a profit rate of 5.05% per annum. The Tier-2 Sukuk Murabahah was issued for the purpose of general banking business and working capital requirements of the Bank.

3.3 Capital Adequacy

The Bank's has in place an internal limit for its CET1 capital ratio, Tier I capital ratio and Total capital ratio, which is guided by the need to maintain a prudent relationship between available capital and the risks of its underlying businesses. The capital management process is monitored by senior management through periodic reviews.

Refer to Appendix I.

4. Risk Management Objectives and Policies

The Bank is principally engaged in all aspects of Islamic banking and related financial services. There have been no significant changes in these principal activities during the financial year.

The Bank's business activities involve the analysis, measurement, acceptance, management of risks which operates within well-defined risk acceptance criteria covering customer segments, industries and products. The Bank does not enter into transactions where the associated risks cannot be administered, booked, monitored or valued, or deal with persons of questionable integrity.

The Bank's risk management policies are established to identify, assess, measure, control and mitigate all key risks as well as manage and monitor the risk positions. The risk measurement tools employed are commonly used in market practices and commensurate with the size and complexity of the Bank's business operations.

The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best practice in risk management processes. The Bank's aim is to achieve an appropriate balance between risk and return as well as minimise any potential adverse effects.

5. Credit Risk

5.1 Credit Risk Management Objectives and Policies

Credit risk is the risk that a counterparty will fail to meet its contractual obligations which could result in a financial loss to the Bank. The Bank's exposure to credit risks arises primarily from stockbroking trade receivables, share margin financing, corporate/inter-bank financing activities, bonds investment, foreign exchange trading as well as equity and debt underwriting and from participation in securities settlements and payment transactions.

The management of credit risk is governed by a set of approved credit policies, guidelines and procedures to ensure that the overall financing objectives are in compliance with the internal and regulatory requirements. The risk management policies are subject to review by the Group Board Risk Management Committee ('GBRMC'), a sub-committee of the Board that reviews the adequacy of the Bank’s risk policies and framework. The Bank’s credit risk framework is further strengthened through an established process for the approval and review of proposals that comprises the Group Management Credit Committee ('GMCC') and the Group Board Credit Review and Recovery Committee ('GBCRRC').

5. Credit Risk (continued)

5.1 Credit Risk Management Objectives and Policies (continued)

The GMCC represents the approving authority for credit and underwriting proposals, whilst the GBCRRC is the committee that reviews proposals that exceed specified limits and criteria, as well as to consider whether to reject the proposal or modify the terms of the proposal.

The Bank recognises that learning is a continuous journey and is committed to enhancing the knowledge and skills set of its staff. It places strong emphasis on creating and enhancing risk awareness in the organisation.

The Bank is supportive of credit officer in taking the Professional Credit Certification ('PCC') programme offered by the Asian Institute of Chartered Bankers ('AICB'). Upon attaining the PCC certification, credit officers are expected to demonstrate sound understanding of credit process and competence to undertake credit roles and responsibilities.

5.2 Application of Standardised Approach for Credit Risk

The Bank uses the following External Credit Assessment Institutions ('ECAIs') to determine the risk weights for the rated credit exposures: -

- RAM Rating Services Berhad
- Malaysian Rating Corporation Berhad
- Standard & Poor's Rating Services
- Moody's Investors Service
- Fitch Ratings

The external ratings of the ECAIs are used to determine the risk weights of the following types of exposure: sovereigns, banks, public sector entities and corporates.

The mapping of the rating categories of different ECAIs to the risk weights is in accordance with BNM guidelines. In cases where there is no issuer or issue rating, the exposures are treated as unrated and accorded a risk weight appropriate for unrated exposure in the respective category.

Refer to Appendix II and III.

5. Credit Risk (continued)

5.3 Credit Risk Evaluation

Credit evaluation is the process of analysing the creditworthiness of the prospective customer against the Bank's underwriting criteria and the ability of the Bank to make a return commensurate to the level of risk undertaken. A critical element in the evaluation process is the assignment of a credit risk grade to the counterparty. This assists in the risk assessment and decision-making process. The Bank has developed internal rating models to support the assessment and quantification of credit risk.

A number of relevant qualitative and quantitative factors are taken into consideration in the identification and analysis of a counterparty's credit risk. Each counterparty is assigned a credit rating which considers factors such as competitive position, operating performance, financial/cash flow strength and management strength.

All corporate financing, underwriting and corporate sukuk investments are independently evaluated by the Bank's credit management function and approved by the relevant approving authorities based on the Authority Matrix approved by the Board.

For consumer mass market products, statistically developed application scorecards are used to assess the risks associated with the credit application as a decision support tool at financing, advances and other financing origination. For share margin financing, the credit decisions are guided by an internally developed rating scorecard as well as other terms and conditions stipulated in the Bank's Margin Financing Policy. The credit risk of share margin financing is largely mitigated by the holding of collateral in the form of marketable securities.

5.4 Risk Limit Control and Mitigation Policies

The Bank employs various policies and practices to control and mitigate credit risk.

<u>Financing limits</u>

The Bank establishes internal limits and related financing guidelines to manage large exposures and avoid undue concentration of credit risk in its credit portfolio. The limits include single customer groupings based on aggregation requirements, connected parties, geographical and industry segments. These risks are monitored regularly, and the limits reviewed annually or as and when required taking into account changes in market and economic conditions.

BASEL II Pillar 3 Disclosures (continued)

5. Credit Risk (continued)

5.4 Risk Limit Control and Mitigation Policies (continued)

<u>Financing limits (continued)</u>

The credit risk exposure for derivatives due to potential exposures arising from market movements, and financing books are managed on an aggregated basis as part of the overall financing limits with customers.

<u>Collateral</u>

Credits are established against customer's capacity to repay rather than to rely solely on security. Collateral may be taken to mitigate credit risk.

The main collateral types accepted and ascribed value by the Bank are:

- Mortgage over residential real estate;
- Charges over commercial real estate or vehicles financed;
- Charges over business assets such as business premises, inventory and accounts receivable; and
- Charges over financial instruments such as marketable securities.

Where relevant, the Bank undertake a valuation of the collateral obtained as part of the financing origination process. The valuations are reviewed periodically.

Longer-term financings to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than financing, advances and other financing depend on the nature of the instrument. Sukuk, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments. Derivatives are also collateralised.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

5. Credit Risk (continued)

5.4 Risk Limit Control and Mitigation Policies (continued)

Credit related commitments

Commitment to extend credit represents unutilised portion of approved credit in the form of financing, guarantees or letters of credit. Unutilised credits give rise to potential or contingent credit losses to the Bank in an amount equal to the total unutilised commitments. The Bank manages and mitigates the amount of potential and contingent losses arising from unutilised credit lines by imposing minimum specific credit standards on customers.

The Bank monitors the term to maturity of credit commitments as long-term commitments generally have a greater degree of credit risk than short-term commitments.

Refer to Appendix IV (a) to (b).

5.5 Credit Risk Measurement

Credit risk grades

The Bank allocates a credit risk grade to each exposure. Credit risk grades are indicative of the risk of default and are generated using qualitative and quantitative factors which are supplemented by experienced credit judgement. These inputs vary depending on the nature of the exposure and the type of customer.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on quantitative modelling, the remaining lifetime Probability of Default ('PD') is determined to have increased by more than a predetermined percentage/range.

Using expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk ('SICR') based on qualitative indicators that it considers are indicative of such and which effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

5. Credit Risk (continued)

5.5 Credit Risk Measurement (continued)

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due ("DPD"). Due dates are determined without considering any grace period that might be available to the customer.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

<u>Measurement of ECL</u>

The Bank use three categories for financial instruments at amortised cost for recognising ECL.

Category	Definition	Basis for recognising
Performing accounts (Stage 1)	▪ Financial assets that do not have significant increase in credit risk since initial recognition of the asset and therefore, less likely to default; ▪ Performing accounts with credit grade 13 or better; ▪ Accounts past due less than or equal to 30 days or, ▪ For early control accounts where on that has risk or potential weakness which if left unchecked, may result in significant deterioration of payment prospect and transfer to underperforming status (stage 2) or worse.	12 months ECL

5. Credit Risk (continued)

5.5 Credit Risk Measurement (continued)

Measurement of ECL (continued)

Category	Definition	Basis for recognising
Underperforming accounts (Stage 2)	▪ An account with significant increase in credit risk since initial recognition and if left uncorrected, may result in impairment of the account within the next 12 months; ▪ Accounts past due more than 30 days but less than or equals to 90 days; ▪ Account demonstrates critical level of risk and therefore, credit graded to 14 and place under watchlist	Lifetime ECL - not credit impaired
Impaired accounts (Stage 3)	▪ Impaired credit; ▪ Credit grade 15 or worse; ▪ Accounts past due more than 90 days ▪ All restructure and rescheduling (R&R) accounts due to credit deterioration are to be classified as impaired	Lifetime ECL - credit impaired
Write-off	▪ Evidence indicating that there is no reasonable expectation of Asset is written off recovery based on unavailability of customer's sources of income or; ▪ Assets unable to generate sufficient future cash flow to pay the amount.	Asset is written off

The Bank has not used the low credit risk exemption for any financial instrument for the year ended 31 December 2021.

Term structure of ECL variables

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default ('PD');
- loss given default ('LGD'); and
- exposure at default ('EAD').

5. Credit Risk (continued)

5.5 Credit Risk Measurement (continued)

<u>Term structure of ECL variables (continued)</u>

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD is the likelihood of a counterparty defaulting on its contractual obligations over a given time horizon and are estimates at a certain date, which are calculated based on statistical models. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The Bank's holding company collects performance and default information relating to its credit risk exposures which are analysed by type of product and customer as well as by credit risk grading. For some portfolios, information from external credit assessment institutions are also used.

The Bank leverages on its holding company's statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change with time.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the financing. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

LGD is the magnitude of loss in an event of a default. LGD parameters are estimated based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

5. Credit Risk (continued)

5.5 Credit Risk Measurement (continued)

Term structure of ECL variables (continued)

EAD represents the exposure outstanding in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

The 12-month and lifetime Exposures of Default ('EADs') are determined based on the expected payment profile, which varies by product type.

ECL is determined by projecting the PD, LGD and EAD at each future point on a yearly basis on individual exposures, or collective segments, and discounting these monthly expected losses back to the reporting date. The discount rate used in the ECL calculation is the original profit rate or an approximation thereof.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any customer's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a financing commitment or guarantee.

Forward looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- product/instrument type;
- past due status;
- credit risk grading;
- collateral account.

BASEL II Pillar 3 Disclosures (continued)

5. Credit Risk (continued)

5.5 Credit Risk Measurement (continued)

Term structure of ECL variables (continued)

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period that have material impact to ECL.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities.

A 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios are formulated.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 3 years.

BASEL II Pillar 3 Disclosures (continued)

5. Credit Risk (continued)

5.6 Credit Risk Monitoring

Corporate credits and large individual accounts are subject to ongoing monitoring. This is to ensure that the credit grades remain appropriate and to detect any signs of weaknesses or deterioration in credit quality. Appropriate remedial action is taken where evidence of deterioration exists.

The credit monitoring process is also to identify significant increase in credit risk as a means to pro-actively identify, report and manage deteriorating credit quality. Watchlist accounts are closely reviewed and monitored with appropriate corrective measures employed to prevent further credit deterioration into non-performing status. Watchlist accounts are either managed up or managed out within a period of twelve months.

The Bank has established MFRS 9 - Stage Transfer Policy to provide guidance in determining significant increases in credit risk of financial assets. There are 3 stages to differentiate the credit risk of financial assets in conjunction with MFRS 9 standards: Performing Accounts (Stage 1), Underperforming Accounts (Stage 2) and Impaired Accounts (Stage 3).

Active portfolio monitoring as well as exceptions reporting are in place to identify, analyze and manage the overall risk profile to mitigate adverse trends or specific areas of risk concerns.

The Bank conducts post-mortem reviews on newly impaired financing to determine the key reason(s) and/or driver(s) leading to the account being classified as impaired. The findings are lessons learned which are used to assist in formulating appropriate remedial actions or measures to minimize potential or future credit loss from similar or repeat events.

In addition, post-approval independent credit review is undertaken by the Bank to ensure that credit decision-making is consistent with the overall credit risk appetite and strategy.

5.7 Credit Quality of Financial Assets

Total financing, advances and other financing - credit quality

All financing, advances and other financing are categorised into 'neither past due nor impaired', 'past due but not impaired' and 'impaired'.

Past due financing refers to financing, advances and other financing that are overdue by one day or more.

BASEL II Pillar 3 Disclosures (continued)

5. Credit Risk (continued)

5.7 Credit Quality of Financial Assets (continued)

<u>Total financing, advances and other financing - credit quality (continued)</u>

Financing, advances and other financing are classified as impaired when they fulfill any of the following criteria:

i. the principal or profit or both is past due more than 90 days or 3 months from the first day of default;
ii. where the account is in arrears for less than 90 days or 3 months, there is evidence of impairment to indicate that the customer is 'unlikely to repay' its credit obligations;
iii. the financing is classified as rescheduled and restructured in the Central Credit Reference Information System ('CCRIS')

<u>Analysed by economic sectors</u>

<u>Past due financing</u>

Economic Entity and The Bank 2021	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Primary agriculture	**86**	**831**	**-**	**917**
Mining and quarrying	**-**	**145**	**-**	**145**
Manufacturing	**2,210**	**2,834**	**-**	**5,044**
Electricity, gas and water supply	**39**	**319**	**-**	**358**
Construction	**17,367**	**7,412**	**-**	**24,779**
Real estate	**51,760**	**22,750**	**-**	**74,510**
Wholesale & retail trade and restaurants & hotels	**33,949**	**19,943**	**-**	**53,892**
Transport, storage and communication	**9,926**	**21,180**	**-**	**31,106**
Finance, takaful/insurance and business services	**9,163**	**11,515**	**-**	**20,678**
Education, health and others	**2,347**	**1,949**	**-**	**4,296**
Household	**519,788**	**373,583**	**-**	**893,371**
	646,635	**462,461**	**-**	**1,109,096**

BASEL II Pillar 3 Disclosures (continued)

5. Credit Risk (continued)

5.7 Credit Quality of Financial Assets (continued)

Analysed by economic sectors (continued)

Past due financing (continued)

Economic Entity and The Bank 2020	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Primary agriculture	417	961	-	1,378
Mining and quarrying	-	-	-	-
Manufacturing	9,330	3,349	-	12,679
Electricity, gas and water supply	91	134	-	225
Construction	10,584	52,011	-	62,595
Real estate	14,213	38,357	-	52,570
Wholesale & retail trade and restaurants & hotels	10,886	39,712	-	50,598
Transport, storage and communication	26,531	5,407	-	31,938
Finance, takaful/insurance and business services	7,880	10,637	-	18,517
Education, health and others	1,995	2,605	-	4,600
Household	522,844	553,195	-	1,076,039
	604,771	706,368	-	1,311,139

Expected credit losses

Economic Entity and The Bank 2021	**12-month 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**
Primary agriculture	**2,912**	**9**	**180**	**3,101**
Mining and quarrying	**17**	**1**	**-**	**18**
Manufacturing	**6,506**	**336**	**516**	**7,358**
Electricity, gas and water supply	**824**	**3**	**-**	**827**
Construction	**616**	**16,085**	**967**	**17,668**
Real estate	**11,537**	**16,192**	**6,774**	**34,503**
Wholesale & retail trade and restaurants & hotels	**6,996**	**7,996**	**1,999**	**16,991**
Transport, storage and communication	**982**	**2,319**	**316**	**3,617**
Finance, takaful/insurance and business services	**2,371**	**5,206**	**647**	**8,224**
Education, health and others	**846**	**3,180**	**288**	**4,314**
Household	**38,970**	**25,526**	**42,228**	**106,724**
Government	**351**	**6**	**-**	**357**
	72,928	**76,859**	**53,915**	**203,702**

BASEL II Pillar 3 Disclosures (continued)

5. Credit Risk (continued)

5.7 Credit Quality of Financial Assets (continued)

Analysed by economic sectors (continued)

Expected credit losses (continued)

Economic Entity and The Bank 2020	12-month 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
Primary agriculture	3,330	8	77	3,415
Mining and quarrying	190	-	13	203
Manufacturing	2,872	273	514	3,659
Electricity, gas and water supply	477	1	45	523
Construction	987	7,214	1,067	9,268
Real estate	10,521	25,113	4,193	39,827
Wholesale & retail trade and restaurants & hotels	3,024	3,136	561	6,721
Transport, storage and communication	754	1,789	24,005	26,548
Finance, takaful/insurance and business services	1,552	1,907	204	3,663
Education, health and others	1,854	2,963	178	4,995
Household	21,230	12,302	51,573	85,105
Government	470	-	-	470
	47,261	54,706	82,430	184,397

Expected credit losses written-off

Economic Entity and The Bank	**2021 Lifetime ECL credit impaired Stage 3 RM'000**	2020 Lifetime ECL credit impaired Stage 3 RM'000
Manufacturing	**39**	69
Electricity, gas and water supply	**3,666**	-
Construction	**24**	598
Wholesale & retail trade and restaurants & hotels	**337**	329
Transport, storage and communication	**52**	162
Finance, takaful/insurance and business services	**212**	72,140
Education, health and others	**98**	2
Household	**199**	9,188
	19,527	82,488

BASEL II Pillar 3 Disclosures (continued)

5. Credit Risk (continued)

5.7 Credit Quality of Financial Assets (continued)

Analysed by geographical area

Past due financing

Economic Entity and The Bank 2021	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Perlis	**696**	**1,266**	**-**	**1,962**
Kedah	**36,103**	**42,083**	**-**	**78,186**
Pulau Pinang	**28,245**	**21,276**	**-**	**49,521**
Perak	**25,170**	**21,175**	**-**	**46,345**
Selangor	**243,042**	**153,727**	**-**	**396,769**
Wilayah Persekutuan	**132,395**	**48,189**	**-**	**180,584**
Negeri Sembilan	**37,700**	**30,575**	**-**	**68,275**
Melaka	**23,075**	**10,077**	**-**	**33,152**
Johor	**55,474**	**69,680**	**-**	**125,154**
Pahang	**19,920**	**15,393**	**-**	**35,313**
Terengganu	**20,988**	**17,817**	**-**	**38,805**
Kelantan	**13,890**	**8,717**	**-**	**22,607**
Sarawak	**3,472**	**2,450**	**-**	**5,922**
Sabah	**6,465**	**3,413**	**-**	**9,878**
Labuan	**-**	**16,623**	**-**	**16,623**
	646,635	**462,461**	**-**	**1,109,096**

Economic Entity and The Bank 2020	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Perlis	1,329	1,632	-	2,961
Kedah	36,208	104,048	-	140,256
Pulau Pinang	27,622	29,047	-	56,669
Perak	24,755	29,817	-	54,572
Selangor	215,233	208,858	-	424,091
Wilayah Persekutuan	88,733	112,377	-	201,110
Negeri Sembilan	36,774	68,430	-	105,204
Melaka	16,350	16,056	-	32,406
Johor	71,592	77,647	-	149,239
Pahang	22,000	16,103	-	38,103
Terengganu	20,512	23,021	-	43,533
Kelantan	11,090	12,937	-	24,027
Sarawak	5,870	2,236	-	8,106
Sabah	6,221	4,159	-	10,380
Labuan	20,482	-	-	20,482
	604,771	706,368	-	1,311,139

BASEL II Pillar 3 Disclosures (continued)

5. Credit Risk (continued)

5.7 Credit Quality of Financial Assets (continued)

Analysed by geographical area (continued)

Expected credit losses

Economic Entity and The Bank **2021**	**12-month 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**
Perlis	**720**	**44**	**916**	**1,680**
Kedah	**2,444**	**12,948**	**2,827**	**18,219**
Pulau Pinang	**3,589**	**2,225**	**3,118**	**8,932**
Perak	**1,678**	**883**	**2,585**	**5,146**
Selangor	**25,541**	**22,660**	**19,877**	**68,078**
Wilayah Persekutuan	**16,093**	**22,091**	**7,692**	**45,876**
Negeri Sembilan	**3,500**	**4,798**	**5,018**	**13,316**
Melaka	**1,091**	**513**	**1,385**	**2,989**
Johor	**7,881**	**8,196**	**7,483**	**23,560**
Pahang	**2,467**	**570**	**618**	**3,655**
Terengganu	**1,598**	**463**	**1,027**	**3,088**
Kelantan	**1,431**	**367**	**878**	**2,676**
Sarawak	**2,227**	**167**	**15**	**2,409**
Sabah	**2,667**	**353**	**476**	**3,496**
Labuan	**1**	**581**	**-**	**582**
	72,928	**76,859**	**53,915**	**203,702**

BASEL II Pillar 3 Disclosures (continued)

5. Credit Risk (continued)

5.7 Credit Quality of Financial Assets (continued)

Analysed by geographical area (continued)

Expected credit losses (continued)

Economic Entity and The Bank 2020	12-month 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
Perlis	1,336	21	884	2,241
Kedah	1,850	9,008	2,161	13,019
Pulau Pinang	2,223	1,991	1,976	6,190
Perak	1,173	473	26,464	28,110
Selangor	13,608	10,071	23,488	47,167
Wilayah Persekutuan	11,837	23,918	10,245	46,000
Negeri Sembilan	2,174	1,476	5,525	9,175
Melaka	758	284	969	2,011
Johor	4,818	4,207	6,515	15,540
Pahang	1,275	964	435	2,674
Terengganu	936	291	1,677	2,905
Kelantan	761	184	1,538	2,483
Sarawak	2,158	286	96	2,541
Sabah	2,236	1,532	457	4,225
Labuan	118	-	-	118
	47,261	54,706	82,430	184,397

5. Credit Risk (continued)

5.8 Distribution of Credit Exposure

(i) The following table depicts The Bank's Gross Credit Exposure by Geographical Distribution based on credit risk resides.

Economic Entity and The Bank	2021			2020		
Exposure class	**Malaysia**	**Other countries**	**Total**	Malaysia	Other countries	Total
On Balance Sheet Exposures						
Corporates	**7,359,834**	**-**	**7,359,834**	5,520,673	-	5,520,673
Regulatory Retail	**5,333,988**	**4**	**5,333,992**	4,708,677	4	4,708,681
Other Assets	**161,501**	**-**	**161,501**	159,413	-	159,413
Sovereigns/Central Banks	**5,014,312**	**-**	**5,014,312**	5,205,489	-	5,205,489
Banks, Development Financial Institutions & MDBs	**216,298**	**-**	**216,298**	98,099	-	98,099
Insurance Companies, Securities Firms & Fund Managers	**144**	**-**	**144**	209	-	209
Residential Mortgages	**8,383,205**	**-**	**8,383,205**	7,640,669	-	7,640,669
Higher Risk Assets	**762**	**-**	**762**	1,091	-	1,091
Defaulted Exposures	**182,556**	**-**	**182,556**	235,018	-	235,018
Total for On-Balance Sheet Exposures	**26,652,600**	**4**	**26,652,604**	23,569,338	4	23,569,342
Off Balance Sheet Exposures						
Off Balance Sheet Exposures other than OTC derivatives or credit derivatives	**1,138,653**	**-**	**1,138,653**	1,072,422	52	1,072,474
Defaulted Exposures	**6,009**	**-**	**6,009**	751	-	751
Total for Off-Balance Sheet Exposures	**1,144,662**	**-**	**1,144,662**	1,073,173	52	1,073,225
Total for On and Off-Balance Sheet Exposures	**27,797,262**	**4**	**27,797,266**	24,642,511	56	24,642,567

Company No: 200501027372 (709506-V)
AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

5. Credit Risk (continued)

5.8 Distribution of Credit Exposure (continued)

(ii) The following table depicts The Bank's Gross Credit Exposure by Sectorial Analysis or Industry Distribution.

2021	Economy Entity and The Bank												
Exposure class	**Primary agriculture**	**Mining and quarrying**	**Manufa-cturing**	**Electricity, gas and water supply**	**Constru-ction**	**Real estate**	**Wholesale & retail trade and restaurants & hotels**	**Transport, storage and communication**	**Finance, insurance and business services**	**Education, health and others**	**Household**	**Others**	**Total**
<u>On Balance Sheet Exposures</u>													
Corporates	**721,912**	**4,958**	**868,877**	**205,967**	**579,601**	**1,013,810**	**1,245,440**	**255,629**	**210,579**	**501,806**	**1,722,352**	**28,903**	**7,359,834**
Regulatory Retail	**16,459**	**2,486**	**87,092**	**2,790**	**107,239**	**30,733**	**181,121**	**72,030**	**113,003**	**46,790**	**4,674,249**	**-**	**5,333,992**
Other Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**161,501**	**161,501**
Sovereigns/Central Banks	**-**	**-**	**-**	**26,302**	**67,729**	**-**	**-**	**398,059**	**4,103,595**	**418,627**	**-**	**-**	**5,014,312**
Banks, Development Financial Institutions & MDBs	**-**	**-**	**-**	**-**	**-**	**-**	**40**	**-**	**213,787**	**2,471**	**-**	**-**	**216,298**
Insurance Companies, Securities Firms & Fund Managers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**144**	**-**	**-**	**-**	**144**
Residential Mortgages	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,383,205**	**-**	**8,383,205**
Higher Risk Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**762**	**-**	**762**
Defaulted Exposures	**1,438**	**26,660**	**713**	**-**	**2,487**	**34,335**	**1,664**	**50,212**	**706**	**379**	**63,956**	**6**	**182,556**
Total for On-Balance Sheet Exposures	**739,809**	**34,104**	**956,682**	**235,059**	**757,056**	**1,078,878**	**1,428,265**	**775,930**	**4,641,814**	**970,073**	**14,844,524**	**190,410**	**26,652,604**
<u>Off Balance Sheet Exposures</u>													
Off Balance Sheet Exposures other than OTC derivatives or credit derivatives	**35,993**	**74,396**	**126,413**	**1,401**	**245,243**	**21,742**	**120,952**	**40,900**	**52,459**	**91,540**	**327,614**	**-**	**1,138,653**
Defaulted Exposures	**-**	**5,506**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**503**	**-**	**6,009**
Total for Off-Balance Sheet Exposures	**35,993**	**79,902**	**126,413**	**1,401**	**245,243**	**21,742**	**120,952**	**40,900**	**52,459**	**91,540**	**328,117**	**-**	**1,144,662**
Total for On and Off-Balance Sheet Exposures	**775,802**	**114,006**	**1,083,095**	**236,460**	**1,002,299**	**1,100,620**	**1,549,217**	**816,830**	**4,694,273**	**1,061,613**	**15,172,641**	**190,410**	**27,797,266**

5. Credit Risk (continued)

5.8 Distribution of Credit Exposure (continued)

(ii) The following table depicts The Bank's Gross Credit Exposure by Sectorial Analysis or Industry Distribution. (continued)

2020	Economy Entity and The Bank												
Exposure class	Primary agriculture	Mining and quarrying	Manufa-cturing	Electricity, gas and water supply	Constru-ction	Real estate	Wholesale & retail trade and restaurants & hotels	Transport, storage and communication	Finance, insurance and business services	Education, health and others	Household	Others	Total
On Balance Sheet Exposures													
Corporates	764,095	39,866	735,357	191,703	270,676	1,122,895	632,376	194,969	386,823	434,526	747,387	-	5,520,673
Regulatory Retail	14,551	1,763	92,376	7,669	110,955	52,429	214,834	65,447	124,185	40,331	3,984,141	-	4,708,681
Other Assets	-	-	-	-	-	-	-	-	-	-	-	159,413	159,413
Sovereigns/Central Banks	-	-	-	28,005	-	-	-	302,950	4,520,412	354,122	-	-	5,205,489
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	24	-	94,917	3,158	-	-	98,099
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	-	-	-	-	209	-	-	-	209
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	7,640,669	-	7,640,669
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	1,092	-	1,092
Defaulted Exposures	67	18	59,731	-	2,842	7,846	819	51,329	226	14	112,126	-	235,018
Total for On-Balance Sheet Exposures	778,713	41,647	887,464	227,377	384,473	1,183,170	848,053	614,695	5,126,772	832,151	12,485,414	159,413	23,569,343
Off Balance Sheet Exposures													
Off Balance Sheet Exposures other than OTC derivatives or credit derivatives	47,166	72,042	52,648	6,022	250,964	57,488	108,163	25,821	51,860	92,682	307,618	-	1,072,474
Defaulted Exposures	-	-	-	-	94	-	-	-	-	-	657	-	750
Total for Off-Balance Sheet Exposures	47,166	72,042	52,648	6,022	251,058	57,488	108,163	25,821	51,860	92,682	308,275	-	1,073,224
Total for On and Off-Balance Sheet Exposures	825,879	113,689	940,112	233,399	635,531	1,240,658	956,216	640,516	5,178,632	924,833	12,793,689	159,413	24,642,567

5. Credit Risk (continued)

5.8 Distribution of Credit Exposure (continued)

(iii) The following table depicts The Bank's Gross Credit Exposure analysed into relevant maturity tenures by residual contractual maturity.

2021	**Economic Entity and The Bank**				
Exposure class	**< 1 year**	**>1-5 years**	**> 5 years**	**No specific maturity**	**Total**
On Balance Sheet Exposures					
Corporates	**1,995,816**	**1,242,599**	**4,121,419**	**-**	**7,359,834**
Regulatory Retail	**43,906**	**1,427,688**	**3,817,532**	**44,866**	**5,333,992**
Other Assets	**-**	**-**	**-**	**161,501**	**161,501**
Sovereigns/Central Banks	**2,378,470**	**612,098**	**2,023,744**	**-**	**5,014,312**
Public Sector Entities	**-**	**-**	**-**	**-**	**-**
Banks, Development Financial Institutions & MDBs	**143,039**	**32,418**	**40,841**	**-**	**216,298**
Insurance Companies, Securities Firms & Fund Managers	**21**	**123**	**-**	**-**	**144**
Residential Mortgages	**392**	**15,337**	**8,367,476**	**-**	**8,383,205**
Higher Risk Assets	**-**	**-**	**762**	**-**	**762**
Defaulted Exposures	**53,537**	**7,209**	**121,714**	**96**	**182,556**
Total for On-Balance Sheet Exposures	**4,615,181**	**3,337,472**	**18,493,488**	**206,463**	**26,652,604**
Off Balance Sheet Exposures					
Off Balance Sheet Exposures other than OTC derivatives or credit derivatives	**584,371**	**116,670**	**394,722**	**42,890**	**1,138,653**
Defaulted Exposures	**5,151**	**-**	**858**	**-**	**6,009**
Total for Off-Balance Sheet Exposures	**589,522**	**116,670**	**395,580**	**42,890**	**1,144,662**
Total for On and Off-Balance Sheet Exposures	**5,204,703**	**3,454,142**	**18,889,068**	**249,353**	**27,797,266**

5. Credit Risk (continued)

5.8 Distribution of Credit Exposure (continued)

(iii) The following table depicts The Bank's Gross Credit Exposure analysed into relevant maturity tenures by residual contractual maturity. (continued)

2020	Economic Entity and The Bank				
Exposure class	< 1 year	>1-5 years	> 5 years	No specific maturity	Total
<u>On Balance Sheet Exposures</u>					
Corporates	1,527,232	1,131,214	2,862,227	-	5,520,673
Regulatory Retail	47,628	1,412,588	3,210,178	38,287	4,708,681
Other Assets	-	-	-	159,413	159,413
Sovereigns/Central Banks	2,872,871	194,716	2,137,902	-	5,205,489
Banks, Development Financial Institutions & MDBs	50,035	3,747	44,317	-	98,099
Insurance Companies, Securities Firms & Fund Managers	-	209	-	-	209
Residential Mortgages	731	14,816	7,625,122	-	7,640,669
Higher Risk Assets	-	25	1,067	-	1,092
Defaulted Exposures	113,810	3,270	117,891	47	235,018
Total for On-Balance Sheet Exposures	4,612,307	2,760,585	15,998,703	197,747	23,569,343
<u>Off Balance Sheet Exposures</u>					
Off Balance Sheet Exposures other than OTC derivatives or credit derivatives	543,656	102,263	384,604	41,951	1,072,474
Defaulted Exposures	96	-	655	-	750
Total for Off-Balance Sheet Exposures	543,752	102,263	385,259	41,951	1,073,224
Total for On and Off-Balance Sheet Exposures	5,156,059	2,862,848	16,383,962	239,698	24,642,567

6. Market Risk

6.1 Market Risk Management Objectives and Policies

Market risk is defined as changes in the market value of financial instrument position arising from movements in market factors such as profit rate, foreign exchange rates and implied volatility rates. The Bank's exposure to market risk results largely from profit rate and foreign exchange rate risks.

BASEL II Pillar 3 Disclosures (continued)

6. Market Risk (continued)

6.1 Market Risk Management Objectives and Policies (continued)

The Market Risk Management Framework governs the market risk activities of the Bank which is supported by a set of approved market risk management policies, guidelines and procedures.

Risk parameters are established based on risk appetite, market liquidity and business strategies as well as macroeconomic conditions. These parameters are reviewed at least annually.

Profit rate risk is quantified by analysing the mismatches in timing repricing of the rate sensitive assets and rate sensitive liabilities. Earnings-at-Risk ('EaR') or Net Profit Income simulation is conducted to assess the variation in short term earnings under various rates scenarios. The potential long-term effect of the overall exposure is tracked by assessing the impact on Economic Value of Equity ('EVE'), also known as Economic Value-at-Risk ('EVaR'). Thresholds are set for EaR and EVaR as management triggers.

Periodic stress tests are conducted to quantify market risk arising from probability of abnormal market movements.

Risk Management Policies and Procedures

Risk management policies and procedures are reviewed and updated to ensure relevance to current business needs as well as current/applicable regulatory requirements such as BNM's policy documents on:

a) Managing Unauthorised Trading & Market Manipulation,
b) Code of Conduct for Malaysia Wholesale Financial Markets, and
c) Principles for a Fair and Effective Financial Market for Malaysian Financial Market.

6.2 Application of Standardised Approach for Market Risk Capital Charge Computation

The Bank adopts the Standardised Approach for the purpose of calculating the capital requirement for market risk.

Refer Appendix I.

6. Market Risk (continued)

6.3 Market Risk Measurement, Control and Monitoring

The Bank's market risks are measured primarily using mark-to-market revaluation methodology. Market risk parameters are the tolerance level of risk acceptance set by the Bank to confine losses arising from adverse rate or price movements. Market risk parameters are established based on its risk appetite, market liquidity and business strategies as well as macroeconomic conditions. These parameters are reviewed at least on an annual basis.

The Bank quantifies profit rate risk by analysing the mismatches in timing repricing of the rate sensitive assets and rate sensitive liabilities. Earnings-at-Risk ('EaR') or Net Profit Income simulation is conducted to assess the variation in short term earnings under various rates scenarios. The potential long-term effect of the overall exposure is tracked by assessing the impact on Economic Value of Equity ('EVE'), also known as Economic Value-at-Risk ('EVaR'). Thresholds are set for EaR and EVaR as management triggers.

In addition, periodic stress tests are conducted to quantify market risk arising from probability of abnormal market movements.

The GALCO and GBRMC are regularly kept informed of the Bank's risk profile and positions.

Risk measures include the following:

i. Strict hard limit controls to halt trading book losses are employed to minimize the expected loss that may arise from Trading Book activities. Capital loss thresholds are established for managing expected losses on the Banking Book.
ii. Stress tests are conducted to attempt to quantify market risk arising from abnormal market movements. Stress tests measure the changes in values primarily arising from extreme movements in profit rates and foreign exchange rates based on past experiences and simulated stress scenarios.

6.4 Foreign Exchange Risk

The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The risk of fluctuations in foreign currency exchange rates is managed via setting of thresholds on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

7. Liquidity Risk

7.1 Liquidity Risk Management Objectives and Policies

Liquidity risk is the risk of inability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. Liquidity risk includes the inability to manage sudden decreases or changes in funding sources. Liquidity risk also arises from the failure to recognise changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

The Liquidity Risk Management Framework governs the liquidity risk management activities of the Bank. The objective of liquidity risk management is to ensure that there are sufficient funds to meet contractual and regulatory obligations without incurring unacceptable losses as well as to undertake new transactions. The Bank's liquidity management process involves establishing liquidity risk management policies and prudential thresholds, liquidity risk threshold monitoring, stress testing and establishing contingency funding plans. These building blocks of liquidity risk management are subject to regular reviews to ensure relevance in the context of prevailing market conditions and regulatory landscape.

7.2 Liquidity Risk Measurement, Control and Monitoring

The Bank's short-term liquidity risk management is premised on BNM's Liquidity Coverage Ratio ('LCR') final standards. The LCR is a quantitative requirement which seeks to ensure that the Bank holds sufficient high-quality liquid assets ('HQLA') to withstand a significant liquidity stress scenario over a 30-day horizon. Long term liquidity risk profile is assessed via the Net Stable Funding Ratio ('NSFR') which promotes resilience over a longer time horizon for the Bank to fund its activities with more stable sources of funding on an ongoing basis.

The Bank also employs a set of liquidity risk indicators as an early alert of any structural change for liquidity risk management. The liquidity risk indicators include internal and external qualitative as well as quantitative indicators.

Liquidity stress tests are conducted periodically and on ad-hoc basis to gauge the Bank’s resilience in the event of a liquidity disruption.

The Contingency Funding Plan provides a systematic approach in handling liquidity disruption. The document encompasses strategies, decision-making authorities, and courses of action to be taken in the event of liquidity crisis and emergencies, enabling the Bank to respond to an unexpected liquidity disruption in an effective and efficient manner.

7. Liquidity Risk (continued)

7.2 Liquidity Risk Measurement, Control and Monitoring (continued)

The GBRMC is responsible for the Bank's liquidity policy and the strategic management of liquidity has been delegated to the GALCO. The GBRMC is informed regularly on the liquidity position of the Bank.

8. Operational Risk

8.1 Operational Risk Management Objectives and Policies

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or external events. The definition includes legal risk, and exposure to litigation from all aspects of the Bank's activities, but excludes strategic business, reputational and systemic risks.

The Group Operational Risk Management Framework governs the management of operational risk across the Group and the Bank. GBRMC endorses all policies changes relating to operational risk prior to Board's approval. Group Management Committee Meeting - Governance Risk Compliance ('GMC-GRC') supports GBRMC in the review and monitoring of operational risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

The Operational Risk Management ('ORM') function within GRM operates in independent capacity to facilitate business/support units managing the risks in activities associated with the operational function of the Bank.

8.2 Application of Basic Indicator Approach for Operational Risk

The Bank adopts the Basic Indicator Approach for the purpose of calculating the capital requirement for operational risk. The capital requirement is calculated by taking 15% of the average annual gross income over the previous three years.

8. Operational Risk (continued)

8.3 Operational Risk Measurement, Control and Monitoring

The Bank employs the following standard operational risk tools for risk and control identification and assessment:

- Risk Control Self-Assessment ('RCSA')
- Key Control Standards ('KCS')

Note: Process to assist Business / Support Unit to identify and assess the operational risks, identify controls and assess controls effectiveness.

- Key Risk Indicator ('KRI')

Note: Process to monitor and manage key operational risk exposures over time, measured against a set of threshold levels (Red, Amber & Green).

- Loss Event Reporting ('LER')

Note: Process for reporting, evaluating and monitoring operational risk loss incidents including service disruption due to system failure, secrecy breach and Shariah Non-Compliance (SNC)

- Scenario Analysis (ScAn)

Note: Process to process in the creation of plausible operational risk events and has become an essential element in the operational risk management and measurement.

Introduction of new products or services are evaluated to assess suitability, potential risks and operational readiness. Business Risk Compliance Manager ('BRCM') are appointed at business and support units as champions of ORM activities within respective units. The BRCM is responsible for the reporting of ORM activities and to liaise with Group Operational Risk Management on all operational defects and results. The current BRCM structure is the combined functions to replace both Operational Risk Coordinators ("ORC") and Business Unit Compliance Officer ("BUCO").

8.4 Certification

As an internal requirement, all BRCM must satisfy an Internal Operational Risk (including business continuity management) Certification Program. These coordinators will first go through an online self-learning exercise before attempting online assessments to measure their skills and knowledge level. This will enable Group Risk Management to prescribe appropriate training and development activities for the coordinators.

9. Technology Risk

9.1 Technology Risk Objectives and Policies

Technology risk refers to any risks emanating from technology failures and cyber threats that may disrupt the Bank’s business such as failures of information technology (IT) systems, applications, platforms or infrastructures including threats or vulnerabilities exposed from external network or Internet, which could result in financial loss, financial services disruption or the operations of the Bank. Failures or errors in any of the elements above could also lead to adverse reputational impact to the Bank.

The Group Technology Risk Management Framework and Cyber Resilience Framework govern the management of technology risk across the Bank.

The technology risk management function within GRM manages the risks associated with technology risk of the Bank. GMC supports GBRMC in the review and monitoring of technology risks and provides the forum to discuss and manage all aspects of technology risk. GBRMC is responsible to provide oversight of overall technology related matters of the Bank.

9.2 Technology Risk Measurement, Control and Monitoring

The Bank uses risk identification and assessment to determine the extent of the potential threat and the risk associated with an IT system throughout its System Development Life Cycle ('SDLC'). The output of this process helps to identify appropriate controls for reducing or eliminating risk during the risk mitigation process.

Technology risk controls encompass the use of technical and nontechnical methods. Technical controls are safeguards that are incorporated into computer hardware, software, or firmware (e.g., access control mechanisms, identification and authentication mechanisms, encryption methods, intrusion detection software). Nontechnical controls are management and operational controls, such as security policies; operational procedures; and personnel, physical, and environmental security.

10. Shariah Non-Compliance Risk

10.1 Shariah Non-Compliance Risk Objectives and Policies

Shariah non-compliance ('SNC') risk is the risk of legal or regulatory sanctions, financial loss or non-financial implications including reputational damage, which the Bank may suffer arising from the failure to comply with the rulings of the Shariah Advisory Council of Bank Negara Malaysia ('SAC'), standards on Shariah matters issued by BNM pursuant to Section 29(1) of the Islamic Financial Services Act, or decisions or advice of the Shariah Committee.

BNM has on 20 September 2019 reissued the Shariah Governance for Islamic Financial Institutions (BNM/RH/GL_028-100) which supersedes the Shariah Governance Framework issued on 22 October 2010. The Shariah Governance and the bank's Shariah Risk Management Framework are the main reference for the Shariah governance and Shariah risk management process within Affin Islamic Bank Berhad.

The Bank's Shariah Committee ('AISCM') is established to deliberate on Shariah issues presented to them and provide resolution as well as guidance. GBCMC together with GBRMC assist the Board in the overall oversight of Shariah risk management of the Bank.

Shariah Risk Management is part of an integrated risk management control function to systematically identify all possible risks of SNC and where appropriate, to provide mitigating measures that need to be taken to reduce the risk. The scope covers overall business activities and operations, commencing from Islamic product origination until maturity.

10.2 Shariah Non-Compliance Risk Measurement, Control and Monitoring

SNC risk is proactively managed with the following tools:

i. Loss Event Reporting to ensure effective and timely SNC event reporting process.
ii. Shariah Risk and Control Self-Assessment ('RCSA')/Risk Profiling to assist business/functional unit to identify and assess risks and controls. RCSA will be performed annually or as and when there is occurrence of significant events either internal or external;
iii. Key Risk Indicator ('KRI') to predict and highlight any potential high-risk area. These indicators will be reviewed on a periodic basis (monthly or quarterly) to alert Management to changes that may have risk concerns; and
iv. Key Control Standard ('KCS') to validate the effectiveness of control measures.

10. Shariah Non-Compliance Risk (continued)

10.3 Shariah Non-Compliance Income During The Year

	Economic Entity and The Bank	
	2021	2020
	RM'000	RM'000
Shariah Non-Compliant Income	**-**	-

The Bank has completed the Tawarruq trading for the 17 accounts involved. The Tawarruq trading is based on similar Sale Price and maturity. The amount disbursed prior to Tawarruq trading is considered as Qard. All profits earned have been reversed. After the trading has been done, the Bank immediately recognized the profit from new Tawarruq trading which was equivalent to the profit amount that have been reversed.

11. Business Continuity Risk

11.1 Business Continuity Risk Objectives and Policies

Business continuity risk is the risk of losses in assets, revenue, reputation and stakeholder/customer confidence due to the discontinuation of services in both business and technology operations.

The Business Continuity Management Framework governs the management of business continuity issues, in line with BNM Guidelines on Business Continuity Management ('BCM').

GBRMC approves all policies and its changes relating to business continuity management. It also reviews, monitors and discusses business continuity management reports tabled at its meetings. GBCMC supports GBRMC in the review and monitoring of Business Continuity Risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

The BCM function is an independent body overseeing the management of the overall business continuity risk including facilitation of the crisis management.

11. Business Continuity Risk (continued)

11.2 Business Continuity Risk Measurement, Control and Monitoring

Annual Risk Assessment and Business Impact Analysis are made compulsory for each business and support unit in the Bank to undertake. The outcome of this assessment will translate into a risk listing that require business and support units to derive action plans to address the risks.

Risk control is established through adherence with established BCM guidelines and standards throughout the implementation of BCM programs. Rigorous testing on business continuity and disaster recovery plans are diligently performed to ensure effective and smooth execution of the plan for resumption and recovery of disrupted business.

Policies and processes are in place to support the monitoring and reporting of business continuity risks.

BASEL II Pillar 3 Disclosures

The Bank has adopted Basel II - Risk Weighted Assets computation under the BNM's Risk-Weighted Capital Adequacy Framework with effect from 1 January 2008. The Bank has adopted the Standardised Approach for credit risk and market risk, and Basic Indicator Approach for operation risk computation.

The following information concerning the Economic Entity and the Bank's risk exposures are disclosed as accompanying information to the annual report and does not form part of the audited accounts.

Disclosure on Capital Adequacy under the Standardised Approach (RM'000)
Economic Entity and The Bank
2021

	Exposure Class	Gross Exposures /EAD before CRM	Net Exposures /EAD after CRM	Risk Weighted Assets	Total Risk Weighted Assets after Effects of PSIA	Minimum Capital Requirements at 8%
1	**CREDIT RISK**					
	On Balance Sheet Exposures					
	Corporates	**7,359,834**	**7,104,509**	**6,585,865**	**6,585,865**	**526,869**
	Regulatory Retail	**5,333,992**	**4,795,981**	**3,576,317**	**3,576,317**	**286,105**
	Other Assets	**161,501**	**161,501**	**116,308**	**116,308**	**9,305**
	Sovereigns/Central Banks	**5,014,312**	**5,014,312**	**-**	**-**	**-**
	Banks, Development Financial Institutions & MDBs	**216,298**	**213,635**	**54,974**	**54,974**	**4,398**
	Takaful/Insurance Companies, Securities Firms & Fund Managers	**144**	**144**	**144**	**144**	**12**
	Residential Mortgages	**8,383,205**	**8,371,802**	**5,068,454**	**5,068,454**	**405,476**
	Higher Risk Assets	**762**	**762**	**1,143**	**1,143**	**91**
	Defaulted Exposures	**182,556**	**197,672**	**215,573**	**215,573**	**17,246**
	Total for On-Balance Sheet Exposures	**26,652,604**	**25,860,318**	**15,618,778**	**15,618,778**	**1,249,502**

Company No: 200501027372 (709506-V)
AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

Appendix I

BASEL II Pillar 3 Disclosures (continued)

Disclosure on Capital Adequacy under the Standardised Approach (RM'000) (continued)
Economic Entity and The Bank
2021

	Exposure Class		Gross Exposures /EAD before CRM	Net Exposures /EAD after CRM	Risk Weighted Assets	Total Risk Weighted Assets after Effects of PSIA	Minimum Capital Requirements at 8%
1	**CREDIT RISK (continued)**						
	Off Balance Sheet Exposures						
	Off Balance Sheet Exposures other than OTC derivatives or credit derivatives		**1,138,653**	**1,117,833**	**857,523**	**857,523**	**68,602**
	Defaulted Exposures		**6,009**	**6,128**	**8,574**	**8,574**	**686**
	Total for Off-Balance Sheet Exposures		**1,144,662**	**1,123,961**	**866,097**	**866,097**	**69,288**
	Total for On and Off-Balance Sheet Exposures		**27,797,266**	**26,984,278**	**16,484,875**	**16,484,875**	**1,318,790**
2	**MARKET RISK**	**Long Position**	**Short Position**				
	Profit Rate Risk	**463,278**	**468,847**	**(5,568)**	**15,766**	**15,766**	**1,261**
	Foreign Currency Risk	**15,477**	**-**	**15,477**	**15,477**	**15,477**	**1,238**
3	**OPERATIONAL RISK** -						
	Operational Risk				**778,585**		**62,287**
	Total RWA and Capital Requirements				**17,294,703**	**16,516,118**	**1,383,576**

OTC "Over The Counter"
PSIA "Profit Sharing Investment Account"

BASEL II Pillar 3 Disclosures (continued)

Disclosure on Capital Adequacy under the Standardised Approach (RM'000) (continued)
Economic Entity and The Bank
2020

	Exposure Class	Gross Exposures /EAD before CRM	Net Exposures /EAD after CRM	Risk Weighted Assets	Total Risk Weighted Assets after Effects of PSIA	Minimum Capital Requirements at 8%
1	**<u>CREDIT RISK</u>**					
	<u>On Balance Sheet Exposures</u>					
	Corporates	5,520,673	5,369,576	4,987,252	4,987,252	398,980
	Regulatory Retail	4,708,681	4,435,179	3,330,457	3,330,457	266,437
	Other Assets	159,413	159,413	111,582	111,582	8,927
	Sovereigns/Central Banks	5,205,489	5,205,489	-	-	-
	Banks, Development Financial Institutions & MDBs	98,099	95,436	32,718	32,718	2,617
	Takaful/Insurance Companies, Securities Firms & Fund Managers	209	209	209	209	17
	Residential Mortgages	7,640,669	7,628,450	4,818,388	4,818,388	385,471
	Higher Risk Assets	1,092	1,108	1,637	1,637	131
	Defaulted Exposures	235,018	234,994	240,205	240,205	19,216
	Total for On-Balance Sheet Exposures	23,569,343	23,129,854	13,522,448	13,522,448	1,081,796

BASEL II Pillar 3 Disclosures (continued)

Disclosure on Capital Adequacy under the Standardised Approach (RM'000) (continued)

Economic Entity and The Bank
2020

	Exposure Class		Gross Exposures /EAD before CRM	Net Exposures /EAD after CRM	Risk Weighted Assets	Total Risk Weighted Assets after Effects of PSIA	Minimum Capital Requirements at 8%
1	**CREDIT RISK (continued)**						
	Off Balance Sheet Exposures						
	Off Balance Sheet Exposures other than OTC derivatives or credit derivatives		1,072,474	1,072,474	819,919	819,919	65,593
	Defaulted Exposures		750	750	574	574	46
	Total for Off-Balance Sheet Exposures		1,073,224	1,073,224	820,493	820,493	65,639
	Total for On and Off-Balance Sheet Exposures		24,642,567	24,203,078	14,342,941	14,342,941	1,147,435
2	**MARKET RISK**	**Long Position**	**Short Position**				
	Profit Rate Risk	274,354	274,572	(218)	8,958	8,958	717
	Foreign Currency Risk	10,121	-	10,121	10,121	10,121	810
3	**OPERATIONAL RISK**						
	Operational Risk				698,564		55,885
	Total RWA and Capital Requirements				15,060,584	14,362,020	1,204,847

OTC "Over The Counter"
PSIA "Profit Sharing Investment Account

BASEL II Pillar 3 Disclosures (continued)

Disclosure on Capital Adequacy under the Standardised Approach (RM'000) (continued)

Market risk is defined as changes in the market value of financial instrument position arising from movements in market factors such as profit rate, foreign exchange rates and implied volatility rates. The Bank's Capital-at-Risk ('CaR') is defined as the amount of the Bank's capital that is exposed to the risk of unexpected losses arising particularly from movements in profit and foreign exchange rates. A CaR reference threshold is set as a management trigger to ensure that the Bank's capital adequacy is not impinged upon in the event of adverse market movements. The Bank currently adopts BNM's Standardised Approach for the computation of market risk capital charges. The market risk capital charge addresses among others, capital requirement for market risk which includes the profit rate risk in the Bank's Trading Book as well as foreign exchange risk in the Trading and Banking Books.

The computation of market risk capital charge covers the foreign exchange financial instruments.

The Bank’s Trading Book Policy Statement stipulates the policies and procedures for including or excluding exposures from the Trading Book for the purpose of calculating regulatory market risk capital.

BASEL II Pillar 3 Disclosures (continued)

Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000)
Economic Entity and The Bank
2021

Risk Weights	Exposures after Netting and Credit Risk Mitigation												Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	PSEs	Banks, MDBs and FDIs	Takaful/ Insurance Companies, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing /Investment	Securi-tisation	Equity		
0%	5,032,247	-	-	-	-	-	-	-	31,982	-	-	-	5,064,229	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	47,814	-	195,546	-	633,349	37,579	-	-	16,514	-	-	-	930,802	186,160
35%	-	-	-	-	-	-	3,760,044	-	-	-	-	-	3,760,044	1,316,015
50%	-	-	50,058	-	87,239	178	2,066,596	-	-	-	-	-	2,204,071	1,102,036
75%	-	-	-	-	-	4,811,116	6,388	-	-	-	-	-	4,817,504	3,613,128
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	144	7,138,140	7,974	2,828,549	-	113,005	-	-	-	10,087,812	10,087,812
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	89,624	28,972	-	1,220	-	-	-	-	119,816	179,724
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Average Risk Weight											-		-	-
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total	**5,080,061**	**-**	**245,604**	**144**	**7,948,352**	**4,885,819**	**8,661,577**	**1,220**	**161,501**	**-**	**-**	**-**	**26,984,278**	**16,484,875**

PSE "Public Sector Entities"
MDB "Multilateral Development Bank"
FDI "Financial Development Institution"

Company No: 200501027372 (709506-V)
AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

Appendix II

BASEL II Pillar 3 Disclosures (continued)

Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000)

Economic Entity and The Bank

2020

Risk Weights	Exposures after Netting and Credit Risk Mitigation												Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	PSEs	Banks, MDBs and FDIs	Takaful/ Insurance Companies, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing /Investment	Securi-tisation	Equity		
0%	5,216,517	-	-	-	-	-	-	-	32,442	-	-	-	5,248,959	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	57,939	-	67,041	-	441,244	-	-	-	19,325	-	-	-	585,549	117,110
35%	-	-	-	-	-	-	3,154,308	-	-	-	-	-	3,154,308	1,104,008
50%	-	-	53,432	-	123,969	51	1,865,513	-	-	-	-	-	2,042,965	1,021,482
75%	-	-	-	-	-	4,494,291	5,857	-	-	-	-	-	4,500,148	3,375,111
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	209	5,536,350	12,922	2,905,775	-	107,734	-	-	-	8,562,990	8,562,992
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	104,750	1,582	-	1,827	-	-	-	-	108,159	162,238
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Average Risk Weight											-		-	-
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total	5,274,456	-	120,473	209	6,206,313	4,508,846	7,931,453	1,827	159,501	-	-	-	24,203,078	14,342,941

PSE “Public Sector Entities”
MDB “Multilateral Development Bank”
FDI “Financial Development Institution”

BASEL II Pillar 3 Disclosures (continued)

Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000)

Economic Entity and The Bank
2021

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moodys	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Ba3**	**B1 to C**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	RAM	**AAA to AA3**	**A to A3**	**BBB1 to BB3**	**B to D**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
On and Off-Balance-Sheet Exposures						
Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		**-**	**-**	**-**	**-**	**-**
Takaful/Insurance Companies, Securities Firms & Fund Managers		**-**	**-**	**-**	**-**	**144**
Corporates		**178,665**	**-**	**-**	**-**	**8,024,745**
Total		**178,665**	**-**	**-**	**-**	**8,024,889**

Company No: 200501027372 (709506-V)
AFFIN Islamic Bank Berhad
(Incorporated in Malaysia) **Appendix III**

BASEL II Pillar 3 Disclosures (continued)

Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000) (continued)

Economic Entity and The Bank
2020

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance-Sheet Exposures						
Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	-
Takaful/Insurance Companies, Securities Firms & Fund Managers		-	-	-	-	209
Corporates		139,817	-	-	-	6,066,496
Total		139,817	-	-	-	6,066,705

BASEL II Pillar 3 Disclosures (continued)

Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000) (continued)

Economic Entity and The Bank
2021

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Caa1 to C**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**CCC+ to D**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**CCC+ to D**	**Unrated**
	RAM	**AAA to AA3-**	**A1 to A3**	**BBB1+ to BBB3**	**BB1 to B3**	**C1+ to D**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**C+ to D**	**Unrated**
On and Off-Balance-Sheet Exposures							
Sovereigns and Central Banks		**285,388**	**4,045,029**	**-**	**-**	**-**	**749,644**
Total		**285,388**	**4,045,029**	**-**	**-**	**-**	**749,644**

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moodys	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Caa1 to C**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**CCC+ to D**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**CCC+ to D**	**Unrated**
	RAM	**AAA to AA3-**	**A1 to A3**	**BBB1+ to BBB3**	**BB1 to B3**	**C1+ to D**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**C+ to D**	**Unrated**
On and Off-Balance-Sheet Exposures							
Banks, MDBs and FDIs		**18,299**	**90,000**				**139,969**
Total		**18,299**	**90,000**	**-**	**-**	**-**	**139,969**

BASEL II Pillar 3 Disclosures (continued)

Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000) (continued)

Economic Entity and The Bank
2020

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3-	A1 to A3	BBB1+ to BBB3	BB1 to B3	C1+ to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
<u>On and Off-Balance-Sheet Exposures</u>							
Sovereigns and Central Banks		302,950	4,331,581	-	-	-	639,926
Total		302,950	4,331,581	-	-	-	639,926

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3-	A1 to A3	BBB1+ to BBB3	BB1 to B3	C1+ to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
<u>On and Off-Balance-Sheet Exposures</u>							
Banks, MDBs and FDIs		8,918	50,328	-	-	-	61,227
Total		8,918	50,328	-	-	-	61,227

BASEL II Pillar 3 Disclosures (continued)

a) Disclosures on Credit Risk Mitigation (RM'000)

Economic Entity and The Bank
2021

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees /Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	**5,014,312**	**-**	**-**	**-**
Banks, Development Financial Institutions & MDBs	**216,298**	**-**	**2,663**	**-**
Takaful/Insurance Cos, Securities Firms & Fund Managers	**144**	**-**	**-**	**-**
Corporates	**7,359,834**	**218,937**	**255,058**	**-**
Regulatory Retail	**5,333,992**	**-**	**543,361**	**-**
Residential Mortgages	**8,383,205**	**-**	**11,825**	**-**
Higher Risk Assets	**762**	**-**	**-**	**-**
Other Assets	**161,501**	**-**	**-**	**-**
Defaulted Exposures	**182,556**	**-**	**81**	**-**
Total for On-Balance Sheet Exposures	**26,652,604**	**218,937**	**812,988**	**-**
Off-Balance Sheet Exposures				
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	**1,138,653**	-	-	-
Defaulted Exposures	**6,009**	-	-	-
Total for Off-Balance Sheet Exposures	**1,144,662**	**-**	**-**	**-**
Total On and Off-Balance Sheet Exposures	**27,797,266**	**218,937**	**812,988**	**-**

BASEL II Pillar 3 Disclosures (continued)

a) Disclosures on Credit Risk Mitigation (RM'000) (continued)

Economic Entity and The Bank
2020

Exposure Class	**Exposures before CRM**	**Exposures Covered by Guarantees /Credit Derivatives**	**Exposures Covered by Eligible Financial Collateral**	**Exposures Covered by Other Eligible Collateral**
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	5,205,489	-	-	-
Banks, Development Financial Institutions & MDBs	98,099	-	2,663	-
Takaful/Insurance Cos, Securities Firms & Fund Managers	209	-	-	-
Corporates	5,520,673	208,329	151,369	-
Regulatory Retail	4,708,681	-	272,703	-
Residential Mortgages	7,640,669	-	12,731	-
Higher Risk Assets	1,092	-	-	-
Other Assets	159,413	-	-	-
Defaulted Exposures	235,018	-	23	-
Total for On-Balance Sheet Exposures	23,569,343	208,329	439,489	-
Off-Balance Sheet Exposures				
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	1,072,474	-	-	-
Defaulted Exposures	750	-	-	-
Total for Off-Balance Sheet Exposures	1,073,224	-	-	-
Total On and Off-Balance Sheet Exposures	24,642,567	208,329	439,489	-

BASEL II Pillar 3 Disclosures (continued)

b) Disclosure on Off-Balance Sheet and Counterparty Credit Risk (RM'000)

Counterparty Credit Risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cashflows. An economic loss could occur if the transactions with the counterparty has a positive economic value for the Bank at the time of default.

In contrast to the exposure to credit risk through a financing, where the exposure to credit risk is unilateral and only the financing bank faces the risk of loss, Counterparty Credit Risk creates a bilateral risk of loss where the market value for many types of transactions can be positive or negative to either counterparty.

In respect of off-balance sheet items, the credit risk inherent in each off-balance sheet instrument is translated into an on balance sheet exposure equivalent (credit equivalent) by multiplying the nominal principal amount with a credit conversion factor ('CCF') as prescribed by the Standardised Approach under the Risk Weighted Capital Adequacy Framework. The resulting amount is then weighted against the risk weight of the counterparty. In addition, counterparty risk weights for over-the-counter ('OTC') derivative transactions will be determined based on the external rating of the counterparty and will not be subject to any specific ceiling.

Economic Entity and The Bank
2021

Description	Total Principle Amount	Positive Fair Value of Derivative Contracts	Total Credit Equivalent Amount	Total Risk Weighted Amount
Direct Credit Substitutes	**91,921**		**91,921**	**91,921**
Transaction related contingent items	**409,317**		**204,658**	**207,169**
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	**826,881**		**412,776**	**253,510**
Short Term Self Liquidating trade related contingencies	**260,650**		**52,130**	**13,879**
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	**1,522,266**		**304,453**	**251,384**
Unutilised credit card lines	**214,449**		**42,891**	**32,167**
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	**-**		**-**	**-**
Foreign exchange related contracts				
-less than one year	**1,750,186**	**11,436**	**35,833**	**16,067**
Total	**5,075,670**	**11,436**	**1,144,662**	**866,097**

BASEL II Pillar 3 Disclosures (continued)

b) Disclosure on Off-Balance Sheet and Counterparty Credit Risk (RM'000) (continued)

Economic Entity and The Bank
2020

Description	Total Principle Amount	Positive Fair Value of Derivative Contracts	Total Credit Equivalent Amount	Total Risk Weighted Amount
Direct Credit Substitutes	68,709		68,709	68,746
Transaction related contingent items	368,737		184,368	184,326
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	831,745		415,022	277,138
Short Term Self Liquidating trade related contingencies	294,032		58,806	12,455
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	1,372,672		274,534	230,962
Unutilised credit card lines	209,755		41,951	31,463
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	-		-	-
Foreign exchange related contracts				
-less than one year	1,212,161	11,558	29,834	15,403
Total	4,357,811	11,558	1,073,224	820,493

c) Disclosure on Market Risk – Rate of Return in the Banking Book

Profit rate risk is the risk to earnings and capital arising from exposure to adverse movements in profit rates mainly due to mismatches in timing repricing of assets and liabilities. These mismatches are actively managed from an earnings and economic value perspective.

The objective of profit rate risk management is to achieve a stable and sustainable net profit income from the following perspectives:

1) Next 12 months' Earnings - Profit rate risk from the earnings perspective is the impact based on changes to the net profit income ('NPI') over the next 12 months. This risk is measured through sensitivity analysis including the application of an instantaneous 100 basis point parallel shock in profit rates across the yield curve.

BASEL II Pillar 3 Disclosures (continued)

c) Disclosure on Market Risk – Rate of Return in the Banking Book (continued)

2) Economic Value - Measuring the change in the economic value of equity ('EVE') is an assessment of the long-term impact to the Bank's capital. This is assessed through the application of relevant duration factors to capture the net economic value impact over the long term or total life of all balance sheet assets and liabilities to adverse changes in profit rates.

Profit rate risk thresholds are established in line with the Bank’s strategy and risk appetite. These thresholds are reviewed regularly to ensure relevance in the context of prevailing market conditions.

Economic Entity and The Bank	**2021**		2020	
Type of Currency (RM million)	**Impact on Positions (100 basis points) Parallel Shift**		Impact on Positions (100 basis points) Parallel Shift	
	Increase/(Decline) in Earnings	**Increase/(Decline) in Economic Value**	Increase/(Decline) in Earnings	Increase/(Decline) in Economic Value
Ringgit Malaysia	**46.6**	**(211.1)**	35.0	157.8
US Dollar	**(2.9)**	**0.9**	(3.4)	(0.9)
Others (*)	**(0.0)**	**0.0**	(0.0)	(0.0)
Total	**43.7**	**(210.2)**	31.6	156.9

*Others comprise of SGD, JPY, EUR, AUD and GBP currencies where the amount of each currency is relatively small.