RHB Islamic Bank Berhad

Basel II Pillar 3 Disclosures

31 December 2021

RHB ISLAMIC BANK
BASEL II PILLAR 3 DISCLOSURES AS AT 31 DECEMBER 2021

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STATEMENT BY MANAGING DIRECTOR

In accordance with the requirements of Bank Negara Malaysia's Guideline on Capital Adequacy Framework for Islamic Banks (CAFIB) – Disclosure Requirements (Pillar 3), and on behalf of the Board of Directors and Senior Management of RHB Islamic Bank Berhad, I am pleased to provide an attestation that the Basel II Pillar 3 disclosures of RHB Islamic Bank Berhad for the year ended 31 December 2021 are accurate and complete.

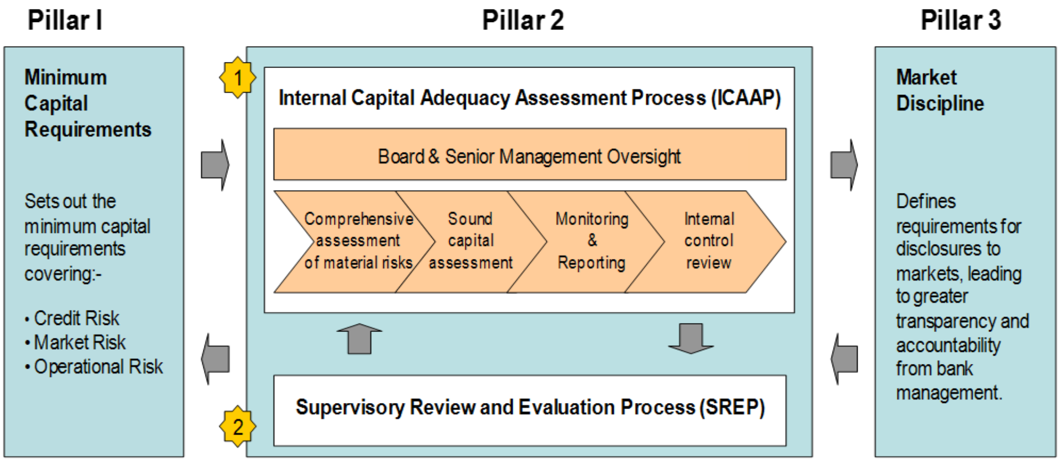
DATO' ADISSADIKIN BIN ALI
Managing Director

1.0 INTRODUCTION

This document describes RHB Islamic Bank Berhad's risk profile, risk management practices and capital adequacy position in accordance with the disclosure requirements as outlined in the Capital Adequacy Framework for Islamic Banks (CAFIB) – Disclosure Requirements (Pillar 3) issued by Bank Negara Malaysia (BNM's Pillar 3 Guidelines).

BNM's guidelines on Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets) provide and specify the approaches for quantifying the risk-weighted assets for credit risk, market risk and operational risk.

Basel II introduces a more risk-based approach to regulatory capital with a distinct charge for operational risk in addition to the existing credit and market risk capital charges. It is designed to be a catalyst for more advanced risk management techniques, enterprise-wide culture of risk management and improved corporate governance and public disclosure. The Basel II approach based on the three pillars can be diagrammatically depicted as below:



Pillar 1 provides guidelines for calculation of risk-weighted assets for credit risk, market risk and operational risk, and the minimum amount of regulatory capital that banks must hold against the risks they assume. For the purpose of complying with regulatory requirements under Basel II Pillar 1, the approaches adopted by the Bank are as follows:

Entity	Credit Risk	Market Risk	Operational Risk
RHB Islamic Bank Berhad	Internal Ratings-Based Approach	Standardised Approach	Basic Indicator Approach

Pillar 2 comprises two components as follows:

- Placing obligations on banks to develop an Internal Capital Adequacy Assessment Process, and setting capital targets that commensurate with the banking institution's risk profile and control environment; and
- Placing obligations on the supervisory authority to evaluate how well banking institutions are assessing their capital needs relative to their risks and to intervene, where appropriate.

Pillar 3 covers external communication of risk and capital information by banks. The purpose of the Pillar 3 disclosures is to complement the minimum capital requirements under Pillar 1 and the supervisory review process under Pillar 2 by encouraging market efficiency through a set of disclosure requirements that will allow market participants to assess information on banking institutions' capital structures, risk exposures, risk management processes, and hence, their overall capital adequacy.

Basis of Disclosure
The annual Pillar 3 disclosure report is published in accordance with BNM's Pillar 3 Guidelines. This disclosure report has been verified and approved internally in line with the RHB Banking Group: Basel II Pillar 3 Disclosure Policy.

Comparative Information
This document covers the qualitative and quantitative information for financial year ended 31 December 2021 with comparative quantitative information of the preceding financial year ended 31 December 2020.

Frequency of Disclosure
The qualitative disclosures contained herein are updated on an annual basis and more frequently, if there are significant changes in the interim reporting period. The disclosures on capital adequacy and structure are made on a quarterly basis and all other quantitative disclosures are made on a semi-annual basis in accordance to the Group's reporting period.

Medium and Location of Disclosure
RHB Islamic Bank Berhad's Pillar 3 disclosure report is made available under the Investor Relations section of the Group's website at www.rhbgroup.com as a separate report in the Bank's Annual Report 2021.

2.0 SCOPE OF APPLICATION

In this Pillar 3 document, RHB Islamic Bank Berhad's information is presented at entity level and is referred to as the "Bank". The Bank is a wholly owned subsidiary of RHB Bank Berhad as at 31 December 2021.

The Bank's capital requirements are as guided by BNM's Guideline on Capital Adequacy Framework for Islamic Banks (Capital Components).

3.0 CAPITAL MANAGEMENT

The overall capital management objective is to manage capital prudently and to maintain a strong capital position to drive sustainable business growth and seek strategic opportunities to enhance shareholders' value, and be in line with its risk appetite. Capital adequacy is the extent to which capital resources on the Bank's balance sheet are sufficient to cover the business capital requirements now and in the foreseeable future. It also indicates the ability of the Bank to provide financing across the business cycles and in meeting any contingency without compromising the interest of the depositors and investors. The Bank aims to maintain a strong capital position to drive sustainable business growth through an optimal capital structure while meeting regulatory requirements.

With a comprehensive capital management, the Bank aims to have a sound capital management practice that is aligned to BNM's ICAAP requirements. The capital management activities involve capital strategy, capital planning and capital allocation/structuring/optimisation.

- **Capital Strategy**
  Capital strategy includes the determination of target capital under both normal and stressed market conditions and considers the business risk and strategic objectives, external credit ratings, and regulatory capital adequacy requirements. A comprehensive capital adequacy assessment is conducted at semi-annually to ensure that the target capital level is appropriate.

- **Capital Planning**
  Based on strategic direction and regulatory requirements, the Bank formulates a comprehensive and forward looking capital plan to:
  (i) support its overall risk profile and forecast the capital demand for material risks for which capital held is deemed appropriate and aligned with the Bank's risk appetite;
  (ii) provide adequate capital for business growth, changes in asset mix or to cover unanticipated losses.

  The capital plan describes the actions required to raise capital in a timely manner in both normal and stressed conditions as assumed in the stress scenarios. For capital planning purposes, capital adequacy is assessed in the multi-year financial projection under both normal and stressed scenarios, the objective of which is to ensure that the Bank maintains adequate capital on a forward-looking basis.

  The Bank also establishes a capital contingency funding plan that forms part of the capital plan. The capital plan, together with the analysis and proposed actions, are reviewed by the Group Chief Financial Officer and deliberated at the respective committees before submission to the Board for approval.

- **Capital Allocation /Structuring /Optimisation**
  The Bank determines the amount of capital allocated to each business line based on capital performance target and available funding. An efficient allocation of capital drives returns for the Bank's shareholders.

  Capital structuring affects the Bank through its impact on cash flow and cost of capital. The Bank adopts capital structuring that maximises value and minimises overall cost of capital. In order to achieve optimum capital structure, the Bank determines the levels, mix and structure of internal and regulatory capital in line with its current and planned levels of business activities, risk appetite and desired level of capital adequacy.

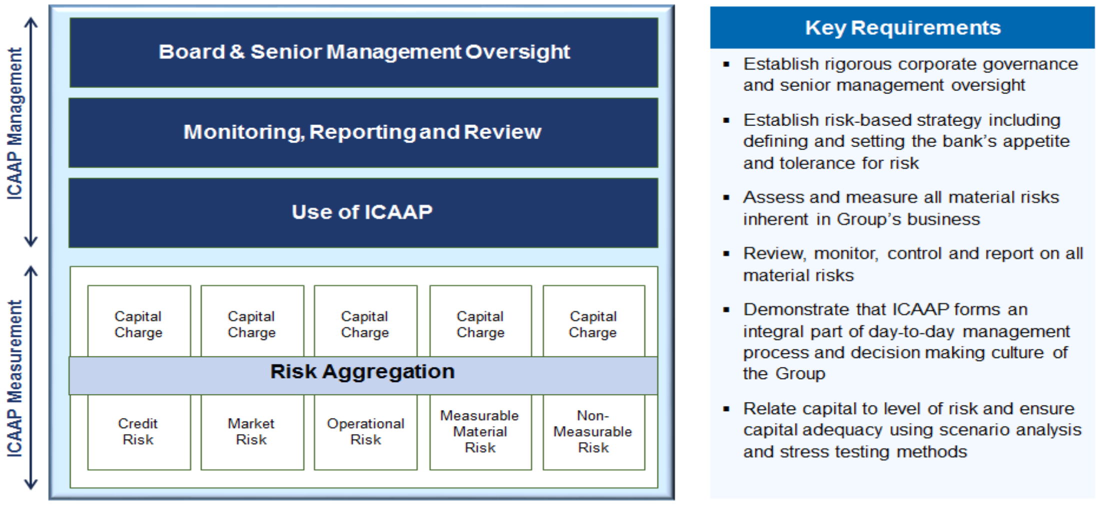
  The Bank optimises its capital by integrating risk-based capital into strategy and aligning this with performance measurement.

  The Bank also aims to achieve a balance between dividend pay-out and the need to retain earnings in order to be consistent with its capital strength and to support business expansion. The Board reviews the dividend pay-out recommendation on an annual basis.

3.1 Internal Capital Adequacy Assessment Process (ICAAP)

In line with BNM's Guideline on ICAAP under the Capital Adequacy Framework for Islamic Banks (CAFIB) – Internal Capital Adequacy Assessment Process (Pillar 2), the Bank has implemented ICAAP with the objective to forge a strong alignment between risk and capital. Capital adequacy is assessed in relation to the Bank's risk profile, and strategies are in place to maintain appropriate capital levels.

The ICAAP Framework developed and adopted across the Bank summarises the key ICAAP requirements into two functional categories, namely; ICAAP Measurement and ICAAP Management as depicted below:



3.2 Basel III Implementation

The Bank maintains the capital ratios and Liquidity Coverage Ratio (LCR) above the regulatory requirements as required under Basel III. For Net Stable Funding Ratio (NSFR), BNM has issued the final NSFR policy document, which will be effective from 1 July 2020 where banking institutions are expected to maintain a minimum NSFR of 100% at the consolidated level i.e. at RHB Banking Group level.

On 24 March 2020, BNM issued a letter on Additional Measures to Assist Borrowers/Customers Affected by the COVID-19 Outbreak which includes the relaxation on LCR and NSFR. Banking institutions are allowed to operate below the minimum LCR of 100% and the NSFR minimum requirement is lowered to 80%, and will be restored to minimum 100% by 30 September 2021. Notwithstanding this, the LCR and NSFR at RHB Banking Group level have been maintained at above 100%.

3.3 Capital Adequacy Ratios

BNM's Guideline on Capital Adequacy Framework for Islamic Banks (Capital Components) sets out the general requirements concerning regulatory capital adequacy and the components of eligible regulatory capital. Banking institutions are required to maintain, at all times, the following minimum capital adequacy ratios:

Common Equity Tier I (CET I) Capital Ratio	4.5%
Tier I Capital Ratio	6.0%
Total Capital Ratio	8.0%

In addition, the Group is required to maintain additional capital buffers in the form of CET I capital above the minimum CET I, Tier I and total capital ratios set out above. The capital buffers shall comprise of capital conservation buffer (CCB) of 2.50% and countercyclical capital buffer (CCyB) ranging from 0% to 2.50%. The CCB is intended to enable the banking system to withstand future periods of stress whilst CCyB is intended to protect the banking sector as a whole from the build-up of systemic risk during an economic upswing when aggregate credit growth tends to be excessive. CCyB is determined based on the weighted average of the prevailing CCyB rates applied in the jurisdictions in which the Group has credit exposures. BNM will communicate any decision on the CCyB rate by up to 12 months before the date from which the rate applies.

On 5 February 2020, BNM issued a policy document on Domestic Systemically Important Bank (D-SIB) Framework which sets out the assessment methodology to identify D-SIBs in Malaysia and relevant reporting requirements. Financial institutions that are designated as D-SIB is required to maintain higher capital buffers to meet regulatory capital requirements that include a Higher Loss Absorbency (HLA) requirement. Pursuant to the D-SIB Framework, the applicable HLA requirements ranges between 0.5% to 1.0% of risk-weighted assets, at the consolidated level. The HLA requirement for designated D-SIBs will come into effect on 31 January 2021. The list of D-SIBs will be updated annually by BNM. RHB Banking Group is not designated as D-SIB in the latest D-SIB listing published by BNM in the Financial Stability Review for First Half 2021. However, the listing will continue to be closely monitored for any changes to the Group's D-SIB status.

The capital ratios of the Bank as at 31 December 2021 and 31 December 2020 are:

Table 1: Capital Adequacy Ratios

RHB Islamic Bank	**2021**	**2020**
Before proposed dividends		
Common Equity Tier I Capital Ratio	**17.635%**	14.877%
Tier I Capital Ratio	**17.635%**	14.877%
Total Capital Ratio	**20.780%**	17.977%
After proposed dividends		
Common Equity Tier I Capital Ratio	**16.849%**	14.714%
Tier I Capital Ratio	**16.849%**	14.714%
Total Capital Ratio	**19.994%**	17.815%

The above capital ratios are above the minimum level required by BNM.

3.4 Minimum Capital Requirements and Risk-Weighted Assets (RWA)

The following table shows the breakdown of RWA by risk types as at 31 December 2021 and 31 December 2020:

Table 2: Risk-Weighted Assets (RWA) by Risk Types

RHB Islamic Bank Risk Types	2021 RM'000	2020 RM'000
Credit RWA	**33,329,415**	35,557,840
Credit RWA Absorbed by Profit Sharing Investment Account (PSIA)	**(6,318,180)**	(7,202,054)
Market RWA	**201,515**	210,344
Operational RWA	**2,585,628**	2,223,938
Additional RWA due to Capital Floor	**-**	43,510
Total	**29,798,378**	30,833,578

The following tables show the breakdown of RWA by risk types and the corresponding capital requirement as at 31 December 2021 and 31 December 2020:

Table 3: Risk-Weighted Assets by Risk Types and Minimum Capital Requirements

RHB Islamic Bank	RWA		Minimum Capital Requirements	
Risk Types	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Credit Risk	**27,011,235**	28,355,786	**2,160,899**	2,268,462
Under Foundation Internal Ratings-Based (F-IRB) Approach	**17,575,302**	19,419,193	**1,406,024**	1,553,535
Under Advanced Internal Ratings-Based (A-IRB) Approach	**9,507,477**	9,585,391	**760,598**	766,831
Under Standardised Approach	**6,246,636**	6,553,256	**499,731**	524,260
Absorbed by PSIA under F-IRB Approach	**(4,628,281)**	(6,170,838)	**(370,262)**	(493,667)
Absorbed by PSIA under A-IRB Approach	**(7,965)**	-	**(637)**	-
Absorbed by PSIA under Standardised Approach	**(1,681,934)**	(1,031,216)	**(134,555)**	(82,497)
Market Risk				
Under Standardised Approach	**201,515**	210,344	**16,121**	16,828
Operational Risk				
Under Basic Indicator Approach	**2,585,628**	2,223,938	**206,850**	177,915
Additional RWA due to Capital Floor	**-**	43,510	**-**	3,481
Total	**29,798,378**	30,833,578	**2,383,870**	2,466,686

Capital requirement for the three risk types is derived by multiplying the risk-weighted assets by 8%.

Credit RWA for RHB Islamic Bank decreased by RM 1.3 billion mainly due to the model recalibration for Home Financing, transfer of risk via PSIA to RHB Bank, recognition of collaterals for Sukuk exposures and rating improvement of corporate customers. This was offset by the growth in exposures from Home Financing, Personal Financing and Retail & Small Medium Enterprises.

Market RWA decreased by RM 9 million mainly due to reduction in Profit Rate Risk RWA as a result of reduction in bonds trading.

4.0 CAPITAL STRUCTURE

The constituents of total eligible capital are set out in BNM's Guideline on Capital Adequacy Framework for Islamic Banks (Capital Components). These include shareholders' funds, after regulatory-related adjustments, and eligible capital instruments issued by the Bank. Tier I capital consists primarily of ordinary share capital, retained profits and other reserves. Tier II capital consists of subordinated obligations, surplus eligible provisions over expected losses and general provisions. Refer to Note 43 in the Financial Statements for the terms of these capital instruments.

The following table represents the capital position of the Bank as at 31 December 2021 and 31 December 2020:

Table 4: Capital Structure

RHB Islamic Bank	**2021**	**2020**
	RM'000	**RM'000**
Common Equity Tier I Capital /Tier I Capital		
Paid up ordinary share capital	**1,673,424**	1,673,424
Retained profits	**3,716,002**	2,896,031
Fair value through other comprehensive income (FVOCI) reserves	**(28,023)**	224,848
Less:		
Other intangibles	**(2,976)**	(2,767)
Deferred tax assets	**(102,565)**	(78,167)
55% of cumulative gains arising from change in value of FVOCI instruments	**-**	(123,666)
Other deductions#	**(918)**	(2,643)
Total Common Equity Tier I Capital /Tier I Capital	**5,254,944**	4,587,060
Tier II Capital		
Subordinated obligations	**750,000**	750,000
Surplus eligible provisions over expected losses	**134,679**	137,002
General provisions^	**52,467**	69,026
Total Tier II Capital	**937,146**	956,028
Total Capital	**6,192,090**	5,543,088

Pursuant to the Basel II Market Risk para 5.18 and 5.19 – Valuation Adjustments, the Capital Adequacy Framework for Islamic Banks (Basel II - Risk Weighted Assets) calculation shall account for the ageing, liquidity and holding back adjustments / reserves on its trading portfolio.

^ Pursuant to BNM's policy document on Financial Reporting for Islamic Banking Institutions, general provision refers to loss allowance measured at an amount equal to 12-month and lifetime expected credit losses as defined under MFRS 9 Financial Instruments; and regulatory reserves, to the extent they are ascribed to non-credit impaired exposures, determined under standardised approach.

Includes the qualifying regulatory reserve of the Bank of RM41,763,000 (31 December 2020: RM54,526,000).

5.0 RISK MANAGEMENT

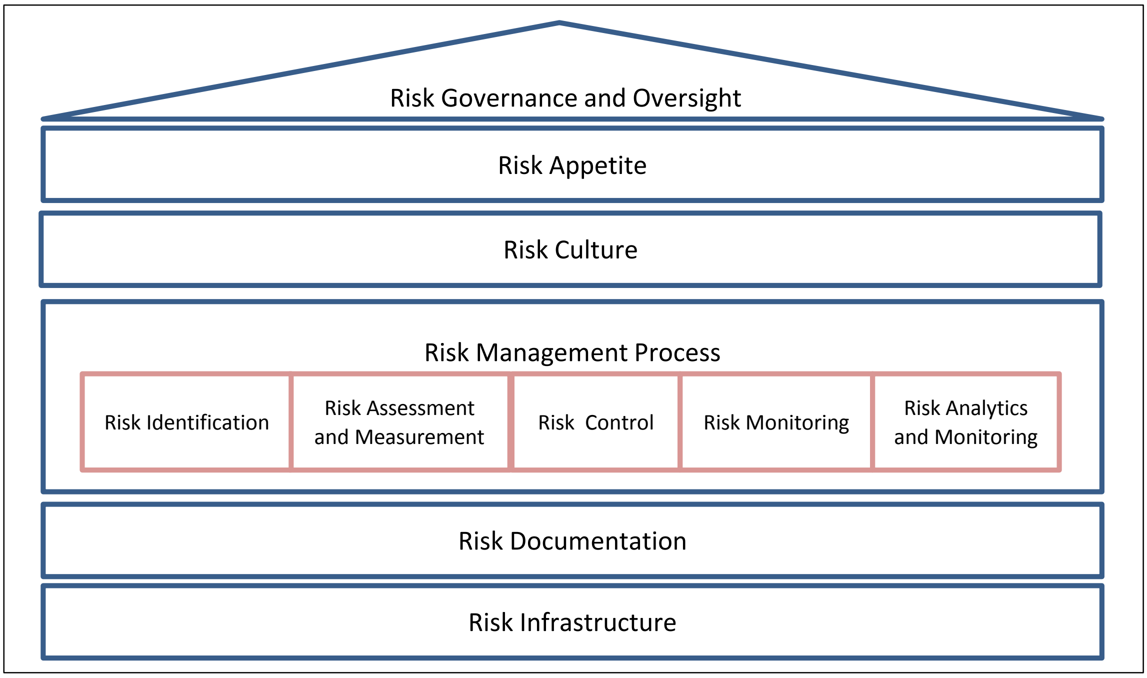
Risk is inherent in the Bank's activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Bank is exposed to a range of other risk types such as market, liquidity, operational, legal, Shariah, strategic and cross-border, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

Effective risk management is fundamental to drive sustainable growth and shareholders' value, while maintaining competitive advantage, and is thus a central part of the proactive risk management of the Bank's operating environment.

The Group Risk Management Framework governs the management of risks in the RHB Banking Group (the Group), as follows:

- It provides a holistic overview of the risk and control environment of the Group, with risk management aimed towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and controls in the organisation.
- It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is realised through building up capabilities and infrastructure in risk management sophistication, and enhanced risk quantification to optimise risk-adjusted returns.

The Group Risk Management Framework is represented in the following diagram:



Key features of the framework are:

Risk Governance and Oversight

The Board of Directors sits at the apex of the risk governance structure and is ultimately responsible for the Group's/respective entities' risk management strategy, appetite, framework and oversight of risk management activities.

In order to manage the businesses and risks across all subsidiaries in an integrated basis, Group level committees are established to ensure consistency in practices. However, the Group maintains entity-specific committees to allow for greater flexibility and agility in managing specific regulatory and business requirements. Each Board Risk Committee which reports directly to the respective Boards provides oversight and assists the respective Boards to review the Group's overall risk management philosophy, frameworks, policies and models, and risk issues relevant and unique to its business.

The responsibility for the supervision of the day-to-day management of enterprise risk and capital matters is delegated to the Group Capital and Risk Committee comprising senior management of the Group and which reports to the relevant board committees and the Group Management Committee. The Investment Bank Risk Management Committee is responsible for oversight of risk management matters relating to RHB Investment Bank Group's business whilst the Group Asset and Liability Committee (Group ALCO) oversees market risk, liquidity risk and balance sheet management.

The Group Chief Risk Officer (GCRO) who reports directly to the Group Managing Director; is responsible for the risk management function. The main roles and responsibilities of GCRO are:

1. Facilitating the setting of the strategic direction and overall policy on management and control of risks of the Group;
2. Ensuring industry best practices in risk management are adopted across the Group, including the setting of risk management parameters and risk models;
3. Developing proactive, balanced and risk attuned culture within the Group; and
4. Advising senior management, management level committees, board level risk committees and Board of Directors of the Group's entities on risk issues and their possible impact on the Group in the achievement of its objectives and strategies.

GCRO is supported by the entities chief risk officers and various teams within risk management function:

1. The entities' chief risk officers main function is to assess and manage the enterprise risk and liaise with regulators in the respective country/entity under his/her purview. They are supported by their respective risk management teams with support from the risk management function from the Group.
2. The risk management function are teams who specialise in the respective risks and responsible for the active oversight of Group-wide functional risk management and support the respective entities/chief risk officers. Group Risk and Credit Management consist of Group Credit Risk Management, Group Market Risk Management, Group Asset and Liability Management, Group Operational Risk Management, Group Technology and Cyber Risk Management, Group Shariah Risk Management, Risk Strategy & Transformation, Enterprise Risk Management, Group Credit Management, Investment Banking and Regional Risk, and Insurance Risk Management.

Risk Appetite

The Board of Directors sets the risk appetite and tolerance level that are consistent with the Group and each entity's overall business objectives and desired risk profile. It describes the types and level of risks the Group is prepared to accept in delivering its business strategies, and reported through various metrics that enable the Group to manage capital resources and shareholders' expectations.

The alignment of the Group's business strategy with its risk strategy, and vice-versa is articulated through the risk appetite setting and the Group's annual business and financial budgetary plan, which is facilitated by the integration of risk measures in capital management.

Risk Culture

The Group subscribes to the principle of 'Risk and Compliance is Everyone's Responsibility' and risk management is managed via a 'three lines of defence' model. Business/functional units of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risk.

The approach is based on the 'three lines of defence' model as depicted below:

FIRST LINE Business/ Functional Level	• Responsible for managing day-to-day risks and compliance issues • Business Risk and Compliance Officer is to assist business/functional unit in day-to-day risks and compliance matters
SECOND LINE Group Risk Management & Group Compliance	• Responsible for oversight, establishing governance and providing support to business/functional unit on risk and compliance matters
THIRD LINE Group Internal Audit	• Provide independent assurance to the Board that risk and compliance management functions effectively as designed

Risk Management Process

The risk management process identifies, assesses and measures, controls, monitors and reports/analyses risk. This ensures that risk exposures are adequately managed and that the expected return compensates for the risk taken.

- Identification: The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and proactive and timely identification of risk within the Group's business operations. This ensures that risks can be managed and controlled within the risk appetite of the Group and specific entity, where necessary.
- Assessment and Measurement: Risks are measured, assessed and aggregated using comprehensive qualitative and quantitative risk measurement methodologies, and the process also serves as an important tool as it provides an assessment of capital adequacy and solvency.
- Controlling: Risks identified during the risk identification process must be adequately managed and mitigated to control the risk of loss. This is also to ensure risk exposures are managed within the Group's or entity's risk appetite.
- Monitoring: Effective monitoring process ensures that the Group is aware of the condition of its exposures vis-à-vis its approved appetite and to facilitate early identification of potential problem on a timely basis by using continuous and on-going monitoring of risk exposures and risk control/mitigation measures.
- Analytics and Reporting: Risk analysis and reports are prepared at the respective entities and consolidated level as well as business level are regularly escalated to the senior management and relevant Boards of the Group's entities to ensure that the risks identified remain within the established appetite and to support an informed decision-making process.

In addition, risk management seeks to ensure that risk decisions are consistent with strategic business objectives and within the risk appetite.

Risk Documentation

The Group recognises that effective implementation of the risk management system and process must be supported by a robust set of documentation. Towards this end, the Group has established frameworks, policies and other relevant control documents to ensure clearly defined practices and processes are effected consistently across the Group.

Risk Infrastructure

The Group has organised its resources and talents into specific functions, and invested in the technology, including data management to support the Group's risk management activities.

6.0 CREDIT RISK

Credit Risk Definition

Credit risk is the risk of loss arising from customers' or counterparties' failure to fulfil their financial and contractual obligations in accordance to the agreed terms. It stems primarily from the Group's financing, trade finance, placement, underwritings, investment, hedging and trading activities from both on- and off-balance sheet transactions. Credit risk does not happen in isolation as certain risk event (e.g. fluctuation of profit rate and foreign exchange) may give rise to both market and credit risks.

6.1 Credit Risk Management Oversight and Organisation

The Group Credit Committee (GCC) is the senior management committee empowered to approve or reject all financial investments, counterparty credit and financing up to the defined threshold limits. GCC will direct, monitor, review and consider such issues as may materially impact on the present and future quality of the Bank's asset book. GCC also acts as the body which, through the relevant Board committees, recommends to the respective Boards, on matters pertaining to credit risk (such as credit and underwriting evaluation/approval/procedure, and delegated financing authorities).

The Board Credit Committee's (BCC) main functions are (i) affirming, vetoing or imposing more stringent conditions on credits of the Group which are duly approved by the GCC, (ii) overseeing the management of impaired and high risk accounts, and (iii) approving credit transactions to connected parties up to the defined threshold limits. BCC also endorses policy financing and financing required by BNM to be referred to the respective members of the Boards for approval.

The Group Credit Management has the functional responsibility to ensure that internal processes and credit underwriting standards are adhered to before financing proposals are approved. All financing proposals are firstly assessed for its credit worthiness by the originating business units before being evaluated by an independent credit manager and decided upon by delegated financing authority/relevant committees.

All financing exposure limits are approved within a defined credit approval authority framework. Large financing exposures are further subject to post approval credit review on a sampling basis by Group Internal Audit. With the exception of credit applications for the Bank's approved program financing which can be auto approved by loan origination system or business units' supervisors, all other credit facilities, are subject to independent assessment by a team of dedicated and experienced credit evaluators in Head Office. For proper checks and controls, joint or escalated approval is required for all discretionary financing between business and independent credit underwriters, except for end financing, which can only be singly assessed by independent reviewers. Financing which are beyond the delegated financing authority limits will be escalated to the relevant committees for approval.

Within Group Risk Management, the Group Credit Risk Management has the functional responsibility for credit risk management, portfolio risk monitoring, risk reporting and development of credit policies and guidelines. The Group also conducts regular credit stress tests to assess the credit portfolio's vulnerability to adverse credit risk events.

Regular risk reporting is made to the senior management, respective commitees and the Board. These reports include various credit risk aspects such as portfolio quality, expected losses, and concentration risk exposures. Such reporting allows senior management to identify adverse credit trends, take prompt corrective actions, and ensure appropriate risk-adjusted decision making.

6.2 Credit Risk Management Approach

The Group's credit risk management framework is founded upon BNM's Policy on Credit Risk. The Group abides by its Group Credit Policy which supports the development of a strong credit culture with the objective of maintaining a diversified portfolio, and a reliable and satisfactory risk-weighted return. Latest regulator requirement and industry best practices are instilled in the continual updating of the Group Credit Policy.

The Bank's credit risk management process is documented in the Group Credit Guidelines (GCG) and Group Credit Procedures Manual (GCPM) which sets out the operational procedures and guidelines governing the credit processes within the Bank.

The GCG and GCPM have been designed to ensure that:

- The process of credit initiation, administration, supervision and management of financing and advances are carried out consistently and uniformly by the business origination and other credit support functions within the Group.
- Procedures and guidelines governing the credit function are in compliance with the credit policies of the Group.

Financing to Corporate and Institutional Customers
Financing to corporate and institutional customers are individually evaluated and risk-rated. Credit underwriters identify and assess the credit risk of large corporate or institutional customers, or customer groups, taking into consideration their financial and business profiles, industry and economic factors, collateral, or other credit support.

Credit Risk from Investment or Trading Activities
In the course of its trading or investment activities, the Bank is also exposed to credit risks from trading, derivative and debt securities activities. Relevant credit guidelines are established to govern the credit risk via guidance on derivatives, hedging and investment related activities of the different exposures.

Financing to Consumers and Small Businesses
For retail and small business' program financing, credit risk is managed on a portfolio basis leveraging on internal credit rating models; Retail financing products comprise home financing, credit cards, motor vehicle financing, commercial property financing, personal financing and other term financing.

Whilst for small business' non-program financing, credit risk is assessed and extended based on a set of clearly defined credit risk acceptance criteria, regular post approval review and credit risk monitoring to enable rigorous risk assessment, objective decision making, cost efficient processing and effective portfolio management.

Credit Transformation
The Bank has embarked on an end-to-end credit transformation journey to support business growth responsibility and protect the asset quality in challenging times. The coverage of the transformation covers the core business segments of retail banking, business banking and corporate banking.

Credit War Room
Established to steer, coordinate and ensure the effective implementation of the Group's payment assistance strategy in relation to borrowers/customers affected by the COVID-19 pandemic, in a consistent and structured response across RHB Banking Group.

Credit Risk Measurement

Along with judgement and experience, risk measurement or quantification plays a critical role in making informed risk taking and portfolio management decisions. As the nature of credit risk varies by financing type, the Group applies different credit risk measuring tools, so that the credit risk of each financing type is appropriately reflected. These measurement tools are developed for the material credit exposures, which fall under the IRB Approach.

The followings represent the dimensions considered in the credit risk measurement:

1. Probability of Default (PD)
   Probability of default refer to likelihood that a customer is unable to meet its debt obligation. For corporate/non-retail financing, the probability of default is measured from obligor (or customer) rating obtained from the risk rating system to determine obligor's level of default risk. The risk rating of each obligor is regularly reviewed to ensure that it actually reflects the debtor's/customer's updated default risk. For retail exposures/financing, the default risk is measured via respective scoring model i.e. application scorecard, behavioural scorecard and customer centric scorecard.

2. Loss Given Default (LGD)
   LGD is the amount of loss incurred when a customer defaults. For corporate financing, LGD is determined via the credit risk mitigation adjustment, in which the coverage of collateral and security will determine the level of LGD for a specific transaction. For retail financing, LGD is determined at respective segment (or pool) level.

3. Exposure at Default (EAD)
   Exposure at default is calculated from the current outstanding balance and availability of committed financing line. In this regard, the key factor is the Bank's obligation related to the available financing line. For corporate financing, the EAD is measured at an individual obligor exposure as per BNM's Guideline on Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets). For retail financing, the principle of credit risk measurement is similar, but measured on a pooled basis, based on internal models.

6.3 Off-Balance Sheet Exposures and Counterparty Credit Risk (CCR)

The management of the following off-balance sheet exposures of the Bank is in accordance to the credit risk management approach as set out under Section 6.2 of this document:

- Financial guarantees and standby letters of credit, which represent undertakings that the Bank will make payments in the event that its customer cannot meet its obligations to third-parties. These exposures carry the same credit risk as financing even though they are contingent in nature;
- Documentary and commercial letters of credit, which are undertakings by the Bank on behalf of its customers. These exposures are usually collateralised by the underlying shipment of goods to which they relate;
- Commitments to extend financing, which includes the unutilised or undrawn portions of financing facilities;
- Unutilised credit card lines; and
- Credit equivalent amount of derivative financial instruments.

Counterparty Credit Risk

Counterparty Credit Risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default. Unlike a firm's exposure to credit risk through a financing, where the exposure to credit risk is unilateral and only the lending bank faces the risk of loss, CCR creates a bilateral risk of loss: the market value of the transaction can be positive or negative to either counterparty to the transaction. The market value is uncertain and can vary over time with the movement of underlying market factors.

Counterparty risk is typically associated wth two broad classes of financial products:

- Over-the-counter derivatives such as profit rate swaps, FX forwards and credit default swaps.
- Securities financing transactions such as repos and reverse repos; and securities borrowing and financing.

Derivative financial instruments are entered into for hedging or proprietary trading purposes governed by Board approved limits and internal controls.

Any financial loss is calculated based on the cost to replace the defaulted derivative financial instruments with another similar contract in the market. The cost of replacement is equivalent to the difference between the original value of the derivatives at the time of contract with the defaulted counterparty and the current fair value of a similar substitute at current market prices.

All outstanding financial derivative positions are marked-to-market on a daily basis. The Bank monitors counterparties' positions and promptly escalates any shortfall in the threshold levels to the relevant parties for next course of action.

6.4 Credit Exposures and Risk-Weighted Assets by Portfolio and Approaches

All credit exposures of the Bank are booked in Malaysia. The following tables show the credit exposures or Exposure at Default (EAD) as at 31 December 2021 compared with 31 December 2020, segregated by:

- the various types of asset classes, showing details of the exposures by type of approaches, before and after credit risk mitigation (CRM), the corresponding RWA and capital requirements;
- disclosure on off-balance sheet and counterparty credit risk;
- industry sector;
- residual maturity; and
- disclosures under the Standardised Approach by risk weights.

Table 5a: Summary of Credit Exposures with Credit Risk Mitigation (CRM) by Asset Class and Minimum Capital Requirements (On and Off-Balance Sheet Exposures) as at 31 December 2021

RHB Islamic Bank Exposure Class	Gross Exposures/ EAD before CRM	Net Exposures/ EAD after CRM	Risk-Weighted Assets	Risk-Weighted Assets Absorbed by PSIA	Total Risk-Weighted Assets After Effect of PSIA	Minimum Capital Requirements
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Exposures under Standardised Approach (SA)						
On-Balance Sheet Exposures						
Sovereigns & Central Banks	11,443,099	11,443,099	-	-	-	-
Public Sector Entities	7,424,851	7,353,251	37,014	-	37,014	2,961
Banks, Development Financial Institutions & MDBs	1,417,524	1,417,524	281,194	-	281,194	22,495
Takaful Cos, Securities Firms & Fund Managers	178	178	178	-	178	14
Corporates	712,021	632,353	616,282	-	616,282	49,303
Regulatory Retail	4,875,145	4,872,671	4,814,307	(1,678,214)	3,136,093	250,887
Residential Financing	7,166	7,166	2,965	(6)	2,959	237
Other Assets	371,022	371,022	359,601	-	359,601	28,768
Defaulted Exposures	11,598	11,588	12,875	(3,714)	9,161	733
Total On-Balance Sheet Exposures	26,262,604	26,108,852	6,124,416	(1,681,934)	4,442,482	355,398
Off-Balance Sheet Exposures						
OTC Derivatives	258,870	258,870	51,911	-	51,911	4,153
Off-balance sheet exposures other than OTC derivatives or credit derivatives	800,763	783,476	70,309	-	70,309	5,625
Defaulted Exposures	-	-	-	-	-	-
Total Off-Balance Sheet Exposures	1,059,633	1,042,346	122,220	-	122,220	9,778
Total On and Off-Balance Sheet Exposures under SA	27,322,237	27,151,198	6,246,636	(1,681,934)	4,564,702	365,176
Exposures under F-IRB Approach						
On-Balance Sheet Exposures						
Corporates, of which	26,975,276	26,975,276	15,490,739	(4,277,984)	11,212,755	897,020
Corporate Exposures (excluding exposures with firm size adjustments)	16,112,679	16,556,431	9,492,783	(3,355,044)	6,137,739	491,019
Corporate Exposures (with firm size adjustments)	8,884,032	8,884,032	4,758,664	(736,063)	4,022,601	321,808
Specialised Financing Exposures (Slotting Approach)						
Project Finance	10,187	10,187	11,715	-	11,715	937
Income Producing Real Estate	1,968,378	1,524,626	1,227,577	(186,877)	1,040,700	83,256
Defaulted Exposures	1,250,665	1,250,665	1,797	-	1,797	144
Total On-Balance Sheet Exposures	28,225,941	28,225,941	15,492,536	(4,277,984)	11,214,552	897,164
Off-Balance Sheet Exposures						
OTC Derivatives	6,121	6,121	8,644	-	8,644	691
Off-balance sheet exposures other than OTC derivatives or credit derivatives	2,903,095	2,903,095	1,079,294	(88,319)	990,975	79,278
Defaulted Exposures	9,269	9,269	-	-	-	-
Total Off-Balance Sheet Exposures	2,918,485	2,918,485	1,087,938	(88,319)	999,619	79,969
Exposures under A-IRB Approach						
On-Balance Sheet Exposures						
Retail, of which	42,137,630	42,137,630	8,176,588	(7,450)	8,169,138	653,531
Residential Financing Exposures	19,033,925	19,033,925	3,333,796	(6,263)	3,327,533	266,203
Qualifying Revolving Retail Exposures	262,083	262,083	169,219	-	169,219	13,537
Hire Purchase Exposures	8,973,609	8,973,609	2,876,972	-	2,876,972	230,158
Other Retail Exposures	13,868,013	13,868,013	1,796,601	(1,187)	1,795,414	143,633
Defaulted Exposures	351,300	351,300	78,164	(64)	78,100	6,248
Total On-Balance Sheet Exposures	42,488,930	42,488,930	8,254,752	(7,514)	8,247,238	659,779
Off-Balance Sheet Exposures						
OTC Derivatives	-	-	-	-	-	-
Off-balance sheet exposures other than OTC derivatives or credit derivatives	4,436,179	4,436,179	711,270	-	711,270	56,902
Defaulted Exposures	6,319	6,319	3,296	-	3,296	264
Total Off-Balance Sheet Exposures	4,442,498	4,442,498	714,566	-	714,566	57,166
Total On and Off-Balance Sheet Exposures before scaling factor under the IRB Approach	78,075,854	78,075,854	25,549,792	(4,373,817)	21,175,975	1,694,078
Total On and Off-Balance Sheet Exposures after scaling factor, 1.06 under the IRB Approach			27,082,779	(4,636,246)	22,446,533	1,795,723
Total (Exposures under the SA Approach and Exposures under the IRB Approach)	105,398,091	105,227,052	33,329,415	(6,318,180)	27,011,235	2,160,899

Table 5b: Summary of Credit Exposures with Credit Risk Mitigation (CRM) by Asset Class and Minimum Capital Requirements (On and Off-Balance Sheet Exposures) as at 31 December 2020

RHB Islamic Bank Exposure Class	Gross Exposures/ EAD before CRM RM'000	Net Exposures/ EAD after CRM RM'000	Risk-Weighted Assets RM'000	Risk-Weighted Assets Absorbed by PSIA RM'000	Total Risk-Weighted Assets After Effect of PSIA RM'000	Minimum Capital Requirements RM'000
Exposures under Standardised Approach (SA)						
On-Balance Sheet Exposures						
Sovereigns & Central Banks	5,762,800	5,762,800	386,291	-	386,291	30,903
Public Sector Entities	7,676,347	7,604,747	18,013	-	18,013	1,441
Banks, Development Financial Institutions & MDBs	1,663,352	1,663,352	335,179	-	335,179	26,814
Takaful Cos, Securities Firms & Fund Managers	983	983	983	-	983	79
Corporates	812,389	734,596	726,470	-	726,470	58,118
Regulatory Retail	4,609,401	4,606,187	4,551,890	(1,028,703)	3,523,187	281,855
Residential Financing	5,427	5,427	2,081	-	2,081	166
Other Assets	278,336	278,336	266,345	-	266,345	21,308
Defaulted Exposures	11,785	11,774	13,772	(2,513)	11,259	901
Total On-Balance Sheet Exposures	20,820,820	20,668,202	6,301,024	(1,031,216)	5,269,808	421,585
Off-Balance Sheet Exposures						
OTC Derivatives	348,768	348,768	69,768	-	69,768	5,581
Off-balance sheet exposures other than OTC derivatives or credit derivatives	812,903	801,404	182,464	-	182,464	14,597
Defaulted Exposures	-	-	-	-	-	-
Total Off-Balance Sheet Exposures	1,161,671	1,150,172	252,232	-	252,232	20,178
Total On and Off-Balance Sheet Exposures under SA	21,982,491	21,818,374	6,553,256	(1,031,216)	5,522,040	441,763
Exposures under F-IRB Approach						
On-Balance Sheet Exposures						
Corporates, of which	26,051,381	26,051,381	16,920,382	(5,821,545)	11,098,837	887,906
Corporate Exposures (excluding exposures with firm size adjustments)	16,558,506	17,058,613	11,114,120	(4,375,349)	6,738,771	539,102
Corporate Exposures (with firm size adjustments)	7,548,457	7,548,457	4,580,035	(1,208,153)	3,371,882	269,750
Specialised Financing Exposures (Slotting Approach)						
Project Finance	37,075	10,742	12,353	-	12,353	988
Income Producing Real Estate	1,907,343	1,433,569	1,213,874	(238,043)	975,831	78,066
Defaulted Exposures	144,586	144,586	55	-	55	4
Total On-Balance Sheet Exposures	26,195,967	26,195,967	16,920,437	(5,821,545)	11,098,892	887,910
Off-Balance Sheet Exposures						
OTC Derivatives	37,857	37,857	65,071	-	65,071	5,206
Off-balance sheet exposures other than OTC derivatives or credit derivatives	2,755,627	2,755,627	1,334,485	-	1,334,485	106,759
Defaulted Exposures	45	45	-	-	-	-
Total Off-Balance Sheet Exposures	2,793,529	2,793,529	1,399,556	-	1,399,556	111,965
Exposures under A-IRB Approach						
On-Balance Sheet Exposures						
Retail, of which	36,231,330	36,231,330	8,363,156	-	8,363,156	669,053
Residential Financing Exposures	16,536,893	16,536,893	3,845,328	-	3,845,328	307,626
Qualifying Revolving Retail Exposures	269,938	269,938	191,612	-	191,612	15,329
Hire Purchase Exposures	8,272,578	8,272,578	2,783,871	-	2,783,871	222,710
Other Retail Exposures	11,151,921	11,151,921	1,542,345	-	1,542,345	123,388
Defaulted Exposures	383,183	383,183	79,213	-	79,213	6,337
Total On-Balance Sheet Exposures	36,614,513	36,614,513	8,442,369	-	8,442,369	675,390
Off-Balance Sheet Exposures						
OTC Derivatives	-	-	-	-	-	-
Off-balance sheet exposures other than OTC derivatives or credit derivatives	3,342,468	3,342,468	583,389	-	583,389	46,671
Defaulted Exposures	11,029	11,029	17,064	-	17,064	1,365
Total Off-Balance Sheet Exposures	3,353,497	3,353,497	600,453	-	600,453	48,036
Total On and Off-Balance Sheet Exposures before scaling factor under the IRB Approach	68,957,506	68,957,506	27,362,815	(5,821,545)	21,541,270	1,723,301
Total On and Off-Balance Sheet Exposures after scaling factor, 1.06 under the IRB Approach			29,004,584	(6,170,838)	22,833,746	1,826,699
Total (Exposures under the SA Approach and Exposures under the IRB Approach)	90,939,997	90,775,880	35,557,840	(7,202,054)	28,355,786	2,268,462

Table 6a: Exposures on Off-Balance Sheet and Counterparty Credit Risk (Before Credit Risk Mitigation) as at 31 December 2021

RHB Islamic Bank Nature of Item	Principal/ Notional Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk-Weighted Assets
	RM'000	RM'000	RM'000	RM'000
Transaction related contingent items	348,068		174,034	96,867
Short term self liquidating trade related contingencies	27,903		5,581	4,606
Forward asset purchases, forward deposits, partly paid shares and securities which represent commitments with certain drawdowns	-		-	-
Foreign exchange related contracts	1,227,939	2,981	23,588	10,420
1 year or less	1,227,939	2,981	23,588	10,420
Over 1 year to 5 years	-	-	-	-
Over 5 years	-	-	-	-
Profit rate related contracts	2,910,000	5,534	9,069	1,814
1 year or less	2,910,000	5,534	9,069	1,814
Over 1 year to 5 years	-	-	-	-
Over 5 years	-	-	-	-
OTC derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	17,768,673	25,839	241,603	48,321
Other commitments, such as formal standby facilities and financing lines, with original maturity of over 1 year	10,078,817		7,965,307	1,762,675
Other commitments, such as formal standby facilities and financing lines, with original maturity of up to 1 year	1,434		1,434	21
Any commitments that are unconditionally cancellable at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	2,648,467		-	-
Total	35,011,301	34,354	8,420,616	1,924,724

Table 6b: Exposures on Off-Balance Sheet and Counterparty Credit Risk (Before Credit Risk Mitigation) as at 31 December 2020

RHB Islamic Bank Nature of Item	Principal/ Notional Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk-Weighted Assets
	RM'000	RM'000	RM'000	RM'000
Transaction related contingent items	321,425		160,713	90,685
Short term self liquidating trade related contingencies	24,011		4,802	2,495
Forward asset purchases, forward deposits, partly paid shares and securities which represent commitments with certain drawdowns	-		-	-
Foreign exchange related contracts	1,264,400	6,256	44,384	66,391
1 year or less	853,335	6,256	19,720	16,545
Over 1 year to 5 years	411,065	-	24,664	49,846
Over 5 years	-	-	-	-
Profit rate related contracts	3,940,005	5,345	8,155	1,631
1 year or less	3,940,005	5,345	8,155	1,631
Over 1 year to 5 years	-	-	-	-
Over 5 years	-	-	-	-
OTC derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	17,942,578	64,880	334,086	66,817
Other commitments, such as formal standby facilities and financing lines, with original maturity of over 1 year	8,829,638		6,755,852	2,024,190
Other commitments, such as formal standby facilities and financing lines, with original maturity of up to 1 year	705		705	32
Any commitments that are unconditionally cancellable at any time by the Bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	2,410,216		-	-
Total	34,732,978	76,481	7,308,697	2,252,241

RHB ISLAMIC BANK
BASEL II PILLAR 3 DISCLOSURES AS AT 31 DECEMBER 2021

Table 7a: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector as at 31 December 2021

RHB Islamic Bank

Exposure Class	Agriculture	Mining & Quarrying	Manufacturing	Electricity, Gas & Water Supply	Construction	Wholesale, Retail Trade, Restaurants & Hotels	Transport, Storage & Communication	Finance, Insurance/ Takaful, Real Estate & Business	Education, Health & Others	Household	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Exposures under Standardised Approach												
Sovereigns & Central Banks	-	-	-	-	-	-	-	9,423,709	2,019,390	-	-	11,443,099
Public Sector Entities	-	-	-	-	119,424	-	-	3,335,057	4,735,801	-	-	8,190,282
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	1,626,140	-	-	-	1,626,140
Takaful Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	-	178	-	-	-	178
Corporates	7,969	3,008	22,746	944	57,493	76,656	124,203	481,523	6,447	14,522	-	795,511
Regulatory Retail	1,399	1,599	17,447	53	9,281	22,309	6,777	12,709	6,381	4,810,824	-	4,888,779
Residential Financing	-	-	-	-	-	-	-	-	-	7,226	-	7,226
Other Assets	-	-	-	-	-	-	-	-	-	-	371,022	371,022
Total Exposures under Standardised Approach	9,368	4,607	40,193	997	186,198	98,965	130,980	14,879,316	6,768,019	4,832,572	371,022	27,322,237
Exposures under IRB Approach												
Corporates, of which	1,668,176	1,203,598	2,174,350	1,646,113	6,735,253	1,629,210	7,224,153	8,568,654	294,919	-	-	31,144,426
Corporate Exposures (excluding exposures with firm size adjustments)	757,571	1,152,811	1,272,873	1,616,010	2,174,596	818,441	5,124,988	6,046,612	82,686	-	-	19,046,588
Corporate Exposures (with firm size adjustments)	910,605	50,787	901,477	21,209	2,570,797	810,769	2,096,495	2,327,481	212,233	-	-	9,901,853
Specialised Financing Exposures (Slotting Approach)												
Project Finance	-	-	-	8,894	13,987	-	-	-	-	-	-	22,881
Income Producing Real Estate	-	-	-	-	1,975,873	-	2,670	194,561	-	-	-	2,173,104
Retail, of which	78,601	26,939	588,569	8,507	523,033	2,009,669	405,278	711,999	104,571	42,474,262	-	46,931,428
Residential Financing Exposures	-	-	-	-	-	-	-	-	-	19,563,046	-	19,563,046
Qualifying Revolving Retail Exposures	-	-	-	-	-	-	-	-	-	402,159	-	402,159
Hire Purchase Exposures	-	-	-	-	-	-	-	-	-	9,005,421	-	9,005,421
Other Retail Exposures	78,601	26,939	588,569	8,507	523,033	2,009,669	405,278	711,999	104,571	13,503,636	-	17,960,802
Total Exposures under IRB Approach	1,746,777	1,230,537	2,762,919	1,654,620	7,258,286	3,638,879	7,629,431	9,280,653	399,490	42,474,262	-	78,075,854
Total Exposures under Standardised and IRB Approaches	1,756,145	1,235,144	2,803,112	1,655,617	7,444,484	3,737,844	7,760,411	24,159,969	7,167,509	47,306,834	371,022	105,398,091

RHB ISLAMIC BANK
BASEL II PILLAR 3 DISCLOSURES AS AT 31 DECEMBER 2021

Table 7b: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector as at 31 December 2020

RHB Islamic Bank

Exposure Class	Agriculture	Mining & Quarrying	Manufacturing	Electricity, Gas & Water Supply	Construction	Wholesale, Retail Trade, Restaurants & Hotels	Transport, Storage & Communication	Finance, Insurance/ Takaful, Real Estate & Business	Education, Health & Others	Household	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Exposures under Standardised Approach												
Sovereigns & Central Banks	-	-	-	-	-	-	-	3,599,331	2,163,469	-	-	5,762,800
Public Sector Entities	-	-	-	-	20,536	-	-	3,512,095	4,825,906	-	-	8,358,537
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	1,953,388	-	-	-	1,953,388
Takaful Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	-	983	-	-	-	983
Corporates	10,688	3,873	30,899	1,203	62,659	86,062	128,731	655,526	21,778	202	-	1,001,621
Regulatory Retail	1,205	724	18,211	-	6,899	17,483	3,711	9,107	1,995	4,562,035	-	4,621,370
Residential Financing	-	-	-	-	-	-	-	-	-	5,456	-	5,456
Other Assets	-	-	-	-	-	-	-	-	-	-	278,336	278,336
Total Exposures under Standardised Approach	11,893	4,597	49,110	1,203	90,094	103,545	132,442	9,730,430	7,013,148	4,567,693	278,336	21,982,491
Exposures under IRB Approach												
Corporates, of which	1,644,904	754,244	1,852,870	1,047,946	6,665,058	1,491,845	6,377,215	8,854,119	301,295	-	-	28,989,496
Corporate Exposures (excluding exposures with firm size adjustments)	771,056	684,705	1,190,543	1,021,074	2,193,651	806,010	4,609,888	6,739,101	53,826	-	-	18,069,854
Corporate Exposures (with firm size adjustments)	873,848	69,539	662,327	16,639	2,405,776	685,835	1,763,552	1,914,948	247,469	-	-	8,639,933
Specialised Financing Exposures (Slotting Approach)												
Project Finance	-	-	-	10,233	14,542	-	-	16,100	-	-	-	40,875
Income Producing Real Estate	-	-	-	-	2,051,089	-	3,775	183,970	-	-	-	2,238,834
Retail, of which	59,728	12,158	439,825	1,739	454,215	1,226,685	197,690	514,565	51,729	37,009,676	-	39,968,010
Residential Financing Exposures	-	-	-	-	-	-	-	-	-	17,022,370	-	17,022,370
Qualifying Revolving Retail Exposures	-	-	-	-	-	-	-	-	-	403,807	-	403,807
Hire Purchase Exposures	-	-	-	-	-	-	-	-	-	8,317,385	-	8,317,385
Other Retail Exposures	59,728	12,158	439,825	1,739	454,215	1,226,685	197,690	514,565	51,729	11,266,114	-	14,224,448
Total Exposures under IRB Approach	1,704,632	766,402	2,292,695	1,049,685	7,119,273	2,718,530	6,574,905	9,368,684	353,024	37,009,676	-	68,957,506
Total Exposures under Standardised and IRB Approaches	1,716,525	770,999	2,341,805	1,050,888	7,209,367	2,822,075	6,707,347	19,099,114	7,366,172	41,577,369	278,336	90,939,997

Table 8a: Credit Risk Exposures (Before Credit Risk Mitigation) by Remaining Maturity as at 31 December 2021

RHB Islamic Bank Exposure Class	One Year or Less RM'000	More Than One to Five Years RM'000	Over Five Years RM'000	Total RM'000
Exposures under Standardised Approach				
Sovereigns & Central Banks	9,324,900	305,507	1,812,692	11,443,099
Public Sector Entities	518,170	1,186,038	6,486,074	8,190,282
Banks, Development Financial Institutions & MDBs	1,287,586	295,551	43,003	1,626,140
Takaful Cos, Securities Firms & Fund Managers	178	-	-	178
Corporates	276,224	377,999	141,288	795,511
Regulatory Retail	24,390	788,447	4,075,942	4,888,779
Residential Financing	-	90	7,136	7,226
Other Assets	-	-	371,022	371,022
Total Exposures under Standardised Approach	11,431,448	2,953,632	12,937,157	27,322,237
Exposures under IRB Approach				
Corporates, of which	7,017,505	13,025,476	11,101,445	31,144,426
Corporate Exposures (excluding exposures with firm size adjustments)	4,040,524	8,180,034	6,826,030	19,046,588
Corporate Exposures (with firm size adjustments)	2,900,388	3,740,507	3,260,958	9,901,853
Specialised Financing Exposures (Slotting Approach)				
Project Finance	2,001	17,908	2,972	22,881
Income Producing Real Estate	74,592	1,087,027	1,011,485	2,173,104
Retail, of which	512,722	3,894,350	42,524,356	46,931,428
Residential Financing Exposures	3,410	54,253	19,505,383	19,563,046
Qualifying Revolving Retail Exposures	86,747	306,740	8,672	402,159
Hire Purchase Exposures	44,451	1,815,234	7,145,736	9,005,421
Other Retail Exposures	378,114	1,718,123	15,864,565	17,960,802
Total Exposures under IRB Approach	7,530,227	16,919,826	53,625,801	78,075,854
Total Exposures under Standardised and IRB Approaches	18,961,675	19,873,458	66,562,958	105,398,091

Table 8b: Credit Risk Exposures (Before Credit Risk Mitigation) by Remaining Maturity as at 31 December 2020

RHB Islamic Bank Exposure Class	One Year or Less RM'000	More Than One to Five Years RM'000	Over Five Years RM'000	Total RM'000
Exposures under Standardised Approach				
Sovereigns & Central Banks	3,558,175	305,378	1,899,247	5,762,800
Public Sector Entities	360,437	1,508,373	6,489,727	8,358,537
Banks, Development Financial Institutions & MDBs	1,503,740	387,695	61,953	1,953,388
Takaful Cos, Securities Firms & Fund Managers	983	-	-	983
Corporates	195,250	521,345	285,026	1,001,621
Regulatory Retail	20,630	679,469	3,921,271	4,621,370
Residential Financing	-	117	5,339	5,456
Other Assets	-	-	278,336	278,336
Total Exposures under Standardised Approach	5,639,215	3,402,377	12,940,899	21,982,491
Exposures under IRB Approach				
Corporates, of which	5,103,181	13,780,972	10,105,343	28,989,496
Corporate Exposures (excluding exposures with firm size adjustments)	2,695,801	9,321,142	6,052,911	18,069,854
Corporate Exposures (with firm size adjustments)	2,340,173	3,481,300	2,818,460	8,639,933
Specialised Financing Exposures (Slotting Approach)				
Project Finance	3,323	10,118	27,434	40,875
Income Producing Real Estate	63,884	968,412	1,206,538	2,238,834
Retail, of which	440,604	3,671,472	35,855,934	39,968,010
Residential Financing Exposures	3,047	48,677	16,970,646	17,022,370
Qualifying Revolving Retail Exposures	119,867	277,507	6,433	403,807
Hire Purchase Exposures	48,756	1,809,365	6,459,264	8,317,385
Other Retail Exposures	268,934	1,535,923	12,419,591	14,224,448
Total Exposures under IRB Approach	5,543,785	17,452,444	45,961,277	68,957,506
Total Exposures under Standardised and IRB Approaches	11,183,000	20,854,821	58,902,176	90,939,997

Standardised Approach for other Portfolios

The Standardised Approach is applied to portfolios that are classified as permanently exempted from the IRB approach, and those portfolios that are currently in transition to the IRB approach. Under this Standardised Approach, the risk weights are prescribed by BNM based on the asset class to which the exposure is assigned.

The following tables show the Bank's credit exposures for its portfolios with the corresponding risk weights and RWA under the Standardised Approach, after credit risk mitigation (CRM):

Table 9a: Portfolios under the Standardised Approach by Risk Weights as at 31 December 2021

RHB Islamic Bank Exposure Class	Sovereigns & Central Banks	Public Sector Entities	Banks, Development Financial Institutions & MDBs	Takaful Cos, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Financing	Other Assets	Total Exposures after Credit Risk Mitigation	Total Risk-Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Supervisory Risk Weights (%)										
0%	**11,443,099**	**7,868,179**	**55,294**	**-**	**-**	**-**	**-**	**11,421**	**19,377,993**	**-**
20%	**-**	**250,503**	**1,541,343**	**-**	**20,589**	**200**	**-**	**-**	**1,812,635**	**362,527**
35%	**-**	**-**	**-**	**-**	**-**	**-**	**4,125**	**-**	**4,125**	**1,444**
50%	**-**	**-**	**29,503**	**-**	**286**	**3,109**	**3,101**	**-**	**35,999**	**17,999**
75%	**-**	**-**	**-**	**-**	**-**	**235,063**	**-**	**-**	**235,063**	**176,297**
100%	**-**	**-**	**-**	**178**	**679,075**	**4,640,559**	**-**	**359,601**	**5,679,413**	**5,679,413**
150%	**-**	**-**	**-**	**-**	**2**	**5,968**	**-**	**-**	**5,970**	**8,956**
Total Exposures	**11,443,099**	**8,118,682**	**1,626,140**	**178**	**699,952**	**4,884,899**	**7,226**	**371,022**	**27,151,198**	**6,246,636**

Table 9b: Portfolios under the Standardised Approach by Risk Weights as at 31 December 2020

RHB Islamic Bank Exposure Class	Sovereigns & Central Banks	Public Sector Entities	Banks, Development Financial Institutions & MDBs	Takaful Cos, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Financing	Other Assets	Total Exposures after Credit Risk Mitigation	Total Risk-Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Supervisory Risk Weights (%)										
0%	3,831,344	8,114,681	78,058	-	-	-	-	11,991	12,036,074	-
20%	1,931,456	171,852	1,814,928	-	10,156	-	-	-	3,928,392	785,678
35%	-	-	-	-	-	-	4,248	-	4,248	1,487
50%	-	-	60,402	-	398	2,128	1,208	-	64,136	32,068
75%	-	-	-	-	-	219,048	-	-	219,048	164,286
100%	-	-	-	983	902,659	4,389,966	-	266,345	5,559,953	5,559,953
150%	-	-	-	-	443	6,080	-	-	6,523	9,784
Total Exposures	5,762,800	8,286,533	1,953,388	983	913,656	4,617,222	5,456	278,336	21,818,374	6,553,256

6.5 Use of External Ratings

For exposures such as sovereigns, corporate and banking institutions, external ratings from approved external credit assessment institutions (ECAIs), where available, are used to calculate the risk-weighted assets and regulatory capital.

The process used to map ECAIs issuer ratings or comparable ECAIs issue ratings, are in accordance to the standards prescribed by BNM. Approved ECAIs are as follows:

- Standard & Poor's (S&P);
- Moody's Investor Services (Moody's);
- Fitch Ratings (Fitch);
- Malaysian Rating Corporation Berhad (MARC);
- Rating Agency Malaysia (RAM); and
- Rating and Investment Information, Inc (R&I).

External ratings for the counterparties are determined as soon as relationship is established and these ratings are tracked and kept updated. Only publicly available credit ratings are used for regulatory risk weighting purpose.

The following tables show the Bank's credit exposures for 31 December 2021 compared with 31 December 2020, according to the ratings by ECAIs:

Table 10a: Rated Exposures According to Ratings by External Credit Assessment Institutions (ECAIs) as at 31 December 2021

RHB Islamic Bank	Moody's	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
Ratings of Corporates by Approved ECAIs	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B1 to D	Unrated
Exposure Class	R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Public Sector Entities		105,260	-	-	-	8,013,422
Takaful Cos, Securities Firms & Fund Managers		-	-	-	-	178
Corporates		20,588	-	-	-	679,364

Ratings of Sovereigns and Central Banks by Approved ECAIs	Moody's	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
Exposure Class	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns & Central Banks		-	11,443,099	-	-	-	-

Ratings of Banking Institutions by Approved ECAIs	Moody's	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
Exposure Class	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Banks, Development Financial Institutions & MDBs		930,520	306,976	554	-	-	388,090

Table 10b: Rated Exposures According to Ratings by External Credit Assessment Institutions (ECAIs) as at 31 December 2020

RHB Islamic Bank	Moody's	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
Ratings of Corporates by Approved ECAIs	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B1 to D	Unrated
Exposure Class	R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Public Sector Entities		15,816	-	-	-	8,270,717
Takaful Cos, Securities Firms & Fund Managers		-	-	-	-	983
Corporates		10,156	-	-	-	903,500

Ratings of Sovereigns and Central Banks	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
by Approved ECAIs	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
Exposure Class	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns & Central Banks		-	5,762,800	-	-	-	-

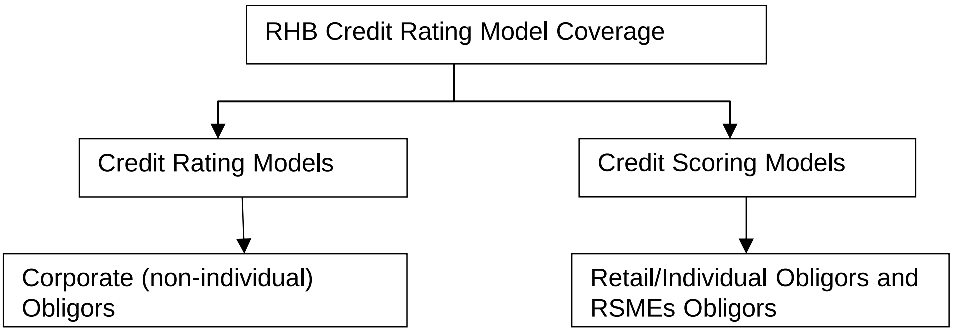
Ratings of Banking Institutions by Approved ECAIs	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
Exposure Class	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Banks, Development Financial Institutions & MDBs		1,692,626	91,910	881	-	-	167,971

6.6 Internal Credit Rating Models

Internal credit rating models are an integral part of the Bank's credit risk management, decision-making process, and regulatory capital calculations. These internal credit rating models are developed by Enterprise Risk Management with active participation by the relevant credit experts from the Bank's functional units and/or business units.

Internal rating model development, validation and implementation process have been established to govern the development and validation of rating models and the application of these models. Specifically, all newly developed models prior to implementation, material changes of the rating systems and validation results must be endorsed by GCRC and approved by Board Risk Committee of RHB Islamic Bank (BRC-i). All models are also subject to independent validation by the Model Risk Management before implementation to ensure that all aspects of the model development process have been satisfied. In addition, the models are also subject to annual review and independent validation by the Model Risk Management to ensure that they are performing as expected.

Credit risk/rating models can be broadly classified into:
- Credit Rating Models
- Credit Scoring Models



The credit rating models for corporate (or non-individual) obligors are used to risk rate the creditworthiness of the corporate obligors/guarantors/debt issuers based on their financial standing (such as gearing, expenses and profit) and qualitative aspects (such as management effectiveness and industry environment). Different rating models will be applied subject to the obligor's asset and sales volume to create further risk differentiation.

The credit scoring models are for large volume of exposures that are managed on a portfolio basis, which includes program financing for RSMEs. These models are developed through statistical modelling and applied onto the portfolio accordingly. For portfolios where data are readily available or when more granular segmentation is required to support business strategy, more models will be developed and deployed.

Application of Internal Ratings

The three components of risk parameters, the PD, LGD and EAD are used in variety of applications that

- Credit Approval : PD models are used in the credit approval process in both retail and non-retail portfolios. In high volume retail portfolios, application scorecard, behaviour scorecard and customer centric scorecard are used as one of the risk management tools.
- Policy : Policies are established to govern the use of ratings in credit decisions and monitoring.
- Reporting : Model performance monitoring report is submitted to senior management on periodic basis.
- Capital Management : The capital management and allocation plan takes into consideration the projected RWA computed based on internal rating.
- Risk Limits : The internal ratings are used in establishing the Group's various internal limits (such as industry risk limit).
- Risk Reward and Pricing : PD, EAD and LGD metrics are used to assess profitability of deals to allow for risk-informed pricing considerations and strategic decisions.

F-IRB for Non-Retail Portfolios

The major non-retail portfolios of the Bank are on the Foundation Internal Ratings-Based (F-IRB) approach for regulatory capital requirements. Specialised financing uses supervisory slotting criteria. Under this approach, internal rating models are used to estimate the PD for each obligor, while the LGD and EAD parameters are prescribed by BNM. The PD models are developed with combination of quantitative and qualitative factors.

A-IRB for Retail Portfolios

For regulatory capital requirements, the Bank has adopted the Advanced Internal Ratings-Based (A-IRB) approach for the retail portfolios, i.e. residential home financing, credit cards, auto financing, commercial property financing, personal financing, other term financing and RSMEs. The Bank is continuously working on migrating its relevant significant portfolio under the Standardised Approach towards IRB compliance. The risk estimates – PD, LGD and EAD; are calibrated for these retail portfolios/pools. In addition, credit application scorecard, behavioural scorecard and customer centric scorecard are developed and implemented for use in credit approval decision support such as limit setting, credit score cut-off and approval, monitoring and reporting.

The following tables set out:

- Exposures subject to the Supervisory Risk Weights;
- Exposures under the IRB Approach by PD Band, Exposure Weighted Average Loss Given Default (LGD) and Exposure Weighted Average Risk Weights;
- Exposures under the A-IRB Approach by EL Range and Exposure Weighted Average Risk Weights; and
- Exposures under IRB Approach by Actual Losses versus Expected Losses.

Table 11a: Exposures Subject to the Supervisory Risk Weights under the IRB Approach as at 31 December 2021

Disclosure on Specialised Financing Exposures under the Supervisory Slotting Criteria

RHB Islamic Bank

	Exposure After Credit Risk Mitigation					
Supervisory Categories/Risk Weights	**Strong**	**Good**	**Satisfactory**	**Weak**	**Default**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Specialised Financing Exposures						
Project Finance	**-**	**-**	**13,987**	**-**	**-**	**13,987**
Income Producing Real Estate	**355,583**	**1,203,955**	**63,403**	**-**	**-**	**1,622,941**
Total Exposures after Credit Risk Mitigation	**355,583**	**1,203,955**	**77,390**	**-**	**-**	**1,636,928**
Total Risk-Weighted Assets	**238,974**	**995,110**	**88,999**	**-**	**-**	**1,323,083**

Table 11b: Exposures Subject to the Supervisory Risk Weights under the IRB Approach as at 31 December 2020

Disclosure on Specialised Financing Exposures under the Supervisory Slotting Criteria

RHB Islamic Bank

	Exposure After Credit Risk Mitigation					
Supervisory Categories/Risk Weights	**Strong**	**Good**	**Satisfactory**	**Weak**	**Default**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Specialised Financing Exposures						
Project Finance	-	-	14,542	-	-	14,542
Income Producing Real Estate	310,540	1,243,544	75,165	-	-	1,629,249
Total Exposures after Credit Risk Mitigation	310,540	1,243,544	89,707	-	-	1,643,791
Total Risk-Weighted Assets	213,375	1,088,562	103,163	-	-	1,405,100

Table 12a: Exposures under the IRB Approach by PD Band, Exposure Weighted Average Loss Given Default (LGD) and Exposure Weighted Average Risk Weights as at 31 December 2021

RHB Islamic Bank Probability of Default (PD) Range (%)	Exposure At Default After Credit Risk Mitigation	Exposure Weighted Average LGD	Exposure Weighted Average Risk Weight	Undrawn Commitments
	RM'000	%	%	RM'000
Non Retail Exposures				
Corporate Exposures (excluding exposures with firm size adjustments)				
0 to 1	12,996,834	39.76	51.01	1,572,993
>1 to 4	4,518,495	24.38	60.04	1,533,621
>4 to 12	524,617	39.40	142.30	298,994
>12 to <100	391,740	0.93	4.78	-
Default or 100	1,173,959	44.46	0.15	-
Total Corporate Exposures (excluding exposures with firm size adjustments)	19,605,645			3,405,608
Corporate Exposures (with firm size adjustments)				
0 to 1	4,616,578	37.94	46.71	915,890
>1 to 4	2,447,017	31.18	68.67	495,357
>4 to 12	883,352	28.18	87.05	273,271
>12 to <100	1,868,931	6.95	29.03	369,127
Default or 100	85,975	37.88	0.02	-
Total Corporate Exposures (with firm size adjustments)	9,901,853			2,053,645
Total Non Retail Exposures	29,507,498			5,459,253
Retail Exposures				
Residential Financing Exposures				
0 to 3	17,462,945	16.58	12.41	362,850
>3 to 10	1,294,351	16.75	48.43	14,245
>10 to 20	236,059	16.52	79.69	180
>20 to <100	418,249	16.75	95.70	404
Default or 100	151,442	16.49	23.29	1,452
Total Residential Financing Exposures	19,563,046			379,131
Qualifying Revolving Retail Exposures				
0 to 3	205,125	58.39	29.07	347,985
>3 to 10	138,411	57.14	73.54	52,254
>10 to 20	33,251	54.81	113.15	6,555
>20 to <100	15,552	50.85	143.56	2,712
Default or 100	9,820	51.43	60.71	-
Total Qualifying Revolving Retail Exposures	402,159			409,506
Hire Purchase Exposures				
0 to 3	8,533,198	43.93	29.19	-
>3 to 10	198,131	45.76	72.66	-
>10 to 20	215,603	44.73	99.21	-
>20 to <100	26,677	44.98	105.17	-
Default or 100	31,812	45.35	29.33	-
Total Hire Purchase Exposures	9,005,421			-
Other Retail Exposures				
0 to 3	12,044,941	18.93	14.94	3,920,592
>3 to 10	4,972,746	6.29	9.31	230,388
>10 to 20	332,737	11.20	23.53	8,430
>20 to <100	445,833	6.02	14.74	8,403
Default or 100	164,545	22.94	18.78	4,850
Total Other Retail Exposures	17,960,802			4,172,663
Total Retail Exposures	46,931,428			4,961,300
Total Non Retail & Retail Exposures under IRB Approach	76,438,926			10,420,553

Table 12b: Exposures under the IRB Approach by PD Band, Exposure Weighted Average Loss Given Default (LGD) and Exposure Weighted Average Risk Weights as at 31 December 2020

RHB Islamic Bank Probability of Default (PD) Range (%)	Exposure At Default After Credit Risk Mitigation	Exposure Weighted Average LGD	Exposure Weighted Average Risk Weight	Undrawn Commitments
	RM'000	%	%	RM'000
Non Retail Exposures				
Corporate Exposures (excluding exposures with firm size adjustments)				
0 to 1	11,757,544	38.63	52.95	1,169,221
>1 to 4	5,252,023	26.26	62.61	1,417,525
>4 to 12	1,440,640	40.06	162.34	480,564
>12 to <100	208,006	2.78	13.62	2,769
Default or 100	47,559	44.80	0.00	-
Total Corporate Exposures (excluding exposures with firm size adjustments)	18,705,772			3,070,079
Corporate Exposures (with firm size adjustments)				
0 to 1	2,482,459	34.40	41.69	872,386
>1 to 4	3,283,055	37.36	75.16	440,996
>4 to 12	1,143,985	32.99	93.88	343,772
>12 to <100	1,633,362	6.84	28.00	392,559
Default or 100	97,072	38.46	0.06	-
Total Corporate Exposures (with firm size adjustments)	8,639,933			2,049,713
Total Non Retail Exposures	27,345,705			5,119,792
Retail Exposures				
Residential Financing Exposures				
0 to 3	14,967,798	16.53	18.52	297,223
>3 to 10	1,416,619	16.72	51.69	2,945
>10 to 20	34,309	16.13	87.24	214
>20 to <100	418,813	16.56	87.42	264
Default or 100	184,831	16.48	24.27	3,069
Total Residential Financing Exposures	17,022,370			303,715
Qualifying Revolving Retail Exposures				
0 to 3	188,896	58.01	28.88	332,777
>3 to 10	152,844	57.19	74.21	53,258
>10 to 20	33,870	55.22	116.04	6,426
>20 to <100	24,459	52.42	145.63	4,043
Default or 100	3,738	50.00	3.22	-
Total Qualifying Revolving Retail Exposures	403,807			396,504
Hire Purchase Exposures				
0 to 3	7,968,951	43.85	31.62	-
>3 to 10	67,175	45.96	69.00	-
>10 to 20	187,635	44.83	85.25	-
>20 to <100	48,817	44.72	118.76	-
Default or 100	44,807	45.10	3.47	-
Total Hire Purchase Exposures	8,317,385			-
Other Retail Exposures				
0 to 3	8,936,575	19.55	16.99	3,036,560
>3 to 10	4,166,267	5.69	8.56	94,390
>10 to 20	387,419	6.78	14.51	2,362
>20 to <100	573,351	6.46	15.41	13,056
Default or 100	160,836	21.66	30.93	7,665
Total Other Retail Exposures	14,224,448			3,154,033
Total Retail Exposures	39,968,010			3,854,252
Total Non Retail & Retail Exposures under IRB Approach	67,313,715			8,974,044

Table 13a: Exposures under the A-IRB Approach by EL Range and Exposure Weighted Average Risk Weights as at 31 December 2021

RHB Islamic Bank Expected Losses (EL) Range (%)	Exposure At Default After Credit Risk Mitigation	Exposure Weighted Average Risk Weights	Undrawn Commitments
	RM'000	%	RM'000
Retail Exposures			
Residential Financing Exposures			
0 to 1	18,732,831	14.84	377,893
>1 to 10	684,972	91.23	798
>10 to <100	133,281	9.76	429
100	11,962	0.00	11
Total Residential Financing Exposures	19,563,046		379,131
Qualifying Revolving Retail Exposures			
0 to 1	154,232	24.48	293,045
>1 to 10	221,076	72.07	113,749
>10 to <100	26,851	112.61	2,712
100	-	0.00	-
Total Qualifying Revolving Retail Exposures	402,159		409,506
Hire Purchase Exposures			
0 to 1	8,307,740	28.29	-
>1 to 10	639,191	78.03	-
>10 to <100	44,722	83.59	-
100	13,768	0.00	-
Total Hire Purchase Exposures	9,005,421		-
Other Retail Exposures			
0 to 1	17,176,865	12.45	4,134,793
>1 to 10	618,530	44.40	31,876
>10 to <100	120,972	19.58	5,601
100	44,435	0.00	393
Total Other Retail Exposures	17,960,802		4,172,663
Total Retail Exposures	46,931,428		4,961,300

Table 13b: Exposures under the A-IRB Approach by EL Range and Exposure Weighted Average Risk Weights as at 31 December 2020

RHB Islamic Bank Expected Losses (EL) Range (%)	Exposure At Default After Credit Risk Mitigation	Exposure Weighted Average Risk Weights	Undrawn Commitments
	RM'000	%	RM'000
Retail Exposures			
Residential Financing Exposures			
0 to 1	16,070,009	20.37	301,681
>1 to 10	693,089	86.28	1,792
>10 to <100	240,113	30.37	242
100	19,159	0.00	-
Total Residential Financing Exposures	17,022,370		303,715
Qualifying Revolving Retail Exposures			
0 to 1	141,820	24.21	273,472
>1 to 10	231,839	73.46	118,989
>10 to <100	30,148	127.29	4,043
100	-	0.00	-
Total Qualifying Revolving Retail Exposures	403,807		396,504
Hire Purchase Exposures			
0 to 1	7,716,060	30.60	-
>1 to 10	507,701	71.88	-
>10 to <100	82,376	72.27	-
100	11,248	0.00	-
Total Hire Purchase Exposures	8,317,385		-
Other Retail Exposures			
0 to 1	13,508,393	13.29	3,109,343
>1 to 10	543,085	43.85	37,651
>10 to <100	136,569	26.12	6,759
100	36,401	0.00	280
Total Other Retail Exposures	14,224,448		3,154,033
Total Retail Exposures	39,968,010		3,854,252

Table 14: Exposures under IRB Approach by Actual Losses versus Expected Losses

RHB Islamic Bank **Exposure Class**	**Actual Losses as at 31 December 2021**	**Expected Losses as at 31 December 2020**	**Actual Losses as at 31 December 2020**	**Expected Losses as at 31 December 2019**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Corporates, of which				
Corporate Exposures (excluding exposures with firm size adjustments)	**4,782**	**44,311**	-	32,041
Corporate Exposures (with firm size adjustments)	**3,315**	**59,919**	1,790	44,742
Specialised Financing Exposures (Slotting Approach)				
- Project Finance	**-**	**407**	-	195
- Income Producing Real Estate	**-**	**11,766**	-	9,955
Retail, of which				
Residential Financing Exposures	**14,903**	**61,835**	17,158	47,926
Qualifying Revolving Retail Exposures	**10,819**	**13,753**	6,084	14,403
Hire Purchase Exposures	**15,942**	**44,968**	19,274	38,732
Other Retail Exposures	**13,114**	**46,784**	12,530	38,357
Total	**62,875**	**283,743**	56,836	226,351

Actual losses are derived from impairment allowances and write-offs during the year, while expected losses (EL) measures the loss expected from the Bank's credit exposures as at 31 December of the preceding year.

A comparison of actual losses and EL provides some insight of the predictive power of the IRB approach models used by the Bank; however the two metrics are not directly comparable due to the differences in methodology. In particular, the EL used in this comparison is the forecast credit loss from the counterparty defaults of the Bank's exposures over a one-year period and is computed as the product of PD, LGD and EAD for the Bank's exposures as at 31 December of the preceding year.

6.7 Credit Risk Monitoring and Control

Credit Risk Mitigation

The Bank generally does not grant credit facilities solely on the basis of collateral provided. All credit facilities are granted based on the credit standing of the customer, source of payment and debt/financing servicing ability.

Collateral is taken whenever possible to mitigate the credit risk assumed, subject to the Bank's policies that govern the eligibility of collateral used for credit risk mitigation. Reliance on collateral when taken is carefully assessed in the light of issues such as legal certainty and enforceability, market valuation and counterparty risk of the guarantor. Recognised collaterals where relevant, include both financial and physical assets. Financial collaterals include cash deposits, shares and unit trusts, while physical collateral includes land and buildings, and vehicles. Apart from financial collateral and physical collateral, the Bank has defined standards on the acceptance of guarantors as credit risk mitigants.

Collateral is valued in accordance with the Bank's policy on collateral valuation, which prescribes the frequency of valuation for different collateral/securities types, based on liquidity and volatility of the collateral value and the underlying product or risk exposure. The value of collaterals/securities pledged is monitored periodically, analysed and updated concurrently with the annual/periodic renewal of facilities, as well as updated into the Bank's collateral system.

The Bank also accepts non-tangible securities as support, such as guarantees from individuals, corporates and institutions, bank guarantees, debenture and assignment of contract proceeds, subject to internal guidelines on eligibility. Currently, the Bank does not employ the use of derivative credit instruments and on-balance sheet netting to mitigate its financing exposures. Where possible, the Bank enters into International Swaps and Derivatives Association (ISDA) Master Agreement with its derivative and swap counterparties as the master agreement provides the legal certainty that the credit exposures between counterparties will be netted.

Equity securities or collaterals acquired arising from debt conversions are accounted for as disposal of the financing and acquisition of equity securities or investment properties. Any further impairment of the assets or business acquired is treated as impairment of the relevant asset or business rather than as impairment of the original instrument.

The Bank has established mechanism to monitor credit and market concentration within its credit mitigation.

The following tables show the credit risk mitigation of portfolios under the Standardised Approach and IRB Approach respectively as at 31 December 2021 compared with 31 December 2020:

Table 15a: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31 December 2021

RHB Islamic Bank Exposure Class	Gross Exposures Before Credit Risk Mitigation	Gross Exposures Covered by Guarantees/ Credit Derivatives	Gross Exposures Covered by Eligible Financial Collateral
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Sovereigns & Central Banks	11,443,099	-	-
Public Sector Entities	7,424,851	7,168,179	71,600
Banks, Development Financial Institutions & MDBs	1,417,524	55,294	-
Takaful Cos, Securities Firms & Fund Managers	178	-	-
Corporates	712,021	-	79,668
Regulatory Retail	4,875,145	200	2,474
Residential Financing	7,166	-	-
Other Assets	371,022	-	-
Defaulted Exposures	11,598	-	10
Total On-Balance Sheet Exposures	26,262,604	7,223,673	153,752
Off-Balance Sheet Exposures			
OTC Derivatives	258,870	-	-
Off-balance sheet exposures other than OTC derivatives or credit derivatives	800,763	700,000	17,287
Defaulted Exposures	-	-	-
Total Off-Balance Sheet Exposures	1,059,633	700,000	17,287
Total On and Off-Balance Sheet Exposures	27,322,237	7,923,673	171,039

Table 15b: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31 December 2020

RHB Islamic Bank **Exposure Class**	**Gross Exposures Before Credit Risk Mitigation**	**Gross Exposures Covered by Guarantees/ Credit Derivatives**	**Gross Exposures Covered by Eligible Financial Collateral**
	RM'000	**RM'000**	**RM'000**
On-Balance Sheet Exposures			
Sovereigns & Central Banks	5,762,800	-	-
Public Sector Entities	7,676,347	7,514,680	71,600
Banks, Development Financial Institutions & MDBs	1,663,352	78,057	-
Takaful Cos, Securities Firms & Fund Managers	983	-	-
Corporates	812,389	-	77,793
Regulatory Retail	4,609,401	-	3,214
Residential Financing	5,427	-	-
Other Assets	278,336	-	-
Defaulted Exposures	11,785	-	11
Total On-Balance Sheet Exposures	20,820,820	7,592,737	152,618
Off-Balance Sheet Exposures			
OTC Derivatives	348,768	-	-
Off-balance sheet exposures other than OTC derivatives or credit derivatives	812,903	600,000	11,499
Defaulted Exposures	-	-	-
Total Off-Balance Sheet Exposures	1,161,671	600,000	11,499
Total On and Off-Balance Sheet Exposures	21,982,491	8,192,737	164,117

Table 16a: Credit Risk Mitigation of Portfolios under the IRB Approach as at 31 December 2021

RHB Islamic Bank Exposure Class	Gross Exposures Before Credit Risk Mitigation	Gross Exposures Covered by Guarantees/ Credit Derivatives	Gross Exposures Covered by Eligible Financial Collateral	Gross Exposures Covered by Other Eligible Collateral
	RM'000	RM'000	RM'000	RM'000
On-Balance Sheet Exposures				
Corporates, of which	26,975,276	6,275,049	1,277,222	5,318,564
Corporate Exposures (excluding exposures with firm size adjustments)	16,112,679	3,984,088	158,222	1,830,391
Corporate Exposures (with firm size adjustments)	8,884,032	1,847,209	1,119,000	3,488,173
Specialised Financing Exposures (Slotting Approach)				
Project Finance	10,187	-	-	-
Income Producing Real Estate	1,968,378	443,752	-	-
Retail, of which	42,137,630	21,005	5,018,742	24,324,815
Residential Financing Exposures	19,033,925	-	-	19,007,393
Qualifying Revolving Retail Exposures	262,083	-	-	-
Hire Purchase Exposures	8,973,609	-	-	-
Other Retail Exposures	13,868,013	21,005	5,018,742	5,317,422
Defaulted Exposures	1,601,965	9,206	8,788	227,946
Total On-Balance Sheet Exposures	70,714,871	6,305,260	6,304,752	29,871,325
Off-Balance Sheet Exposures				
OTC Derivatives	6,121	-	-	-
Off-balance sheet exposures other than OTC derivatives or credit derivatives	7,339,274	1,305,307	120,084	3,763,337
Defaulted Exposures	15,588	-	-	5,761
Total Off-Balance Sheet Exposures	7,360,983	1,305,307	120,084	3,769,098
Total On and Off-Balance Sheet Exposures	78,075,854	7,610,567	6,424,836	33,640,423

Table 16b: Credit Risk Mitigation of Portfolios under the IRB Approach as at 31 December 2020

RHB Islamic Bank Exposure Class	Gross Exposures Before Credit Risk Mitigation	Gross Exposures Covered by Guarantees/ Credit Derivatives	Gross Exposures Covered by Eligible Financial Collateral	Gross Exposures Covered by Other Eligible Collateral
	RM'000	RM'000	RM'000	RM'000
On-Balance Sheet Exposures				
Corporates, of which	26,051,381	6,529,597	1,013,270	4,118,989
Corporate Exposures (excluding exposures with firm size adjustments)	16,558,506	4,451,027	203,002	1,405,906
Corporate Exposures (with firm size adjustments)	7,548,457	1,578,463	810,268	2,713,083
Specialised Financing Exposures (Slotting Approach)				
Project Finance	37,075	26,333	-	-
Income Producing Real Estate	1,907,343	473,774	-	-
Retail, of which	36,231,330	1,093	4,561,570	20,885,010
Residential Financing Exposures	16,536,893	-	-	16,515,678
Qualifying Revolving Retail Exposures	269,938	-	-	-
Hire Purchase Exposures	8,272,578	-	-	-
Other Retail Exposures	11,151,921	1,093	4,561,570	4,369,332
Defaulted Exposures	527,769	329	4,415	257,455
Total On-Balance Sheet Exposures	62,810,480	6,531,019	5,579,255	25,261,454
Off-Balance Sheet Exposures				
OTC Derivatives	37,857	-	-	-
Off-balance sheet exposures other than OTC derivatives or credit derivatives	6,098,095	1,268,292	115,272	2,789,703
Defaulted Exposures	11,074	-	-	6,695
Total Off-Balance Sheet Exposures	6,147,026	1,268,292	115,272	2,796,398
Total On and Off-Balance Sheet Exposures	68,957,506	7,799,311	5,694,527	28,057,852

Credit Concentration Risk
Risk concentration refers to an exposure with the potential to produce losses that are substantial enough to threaten the financial condition of a banking institution. Risk concentrations can materialise from excessive exposures to a single counterparty or group of connected counterparties, a particular instrument or a particular market segment.

The Bank manages the diversification of its portfolio to avoid undue credit concentration risk. Credit concentration risk exists in financing to single customer groups, customers engaged in similar activities, or diverse groups of customers that could be affected by similar economic or underlying shares/counters pledged or other factors. To manage this concentration risk, appropriate exposure thresholds/limits are established accordingly.

Analysis of any single large exposure and group of exposures is regularly conducted and the financing units undertake regular account updates, monitoring and management of these exposures. In addition, the Group also continuously updates lending or financing guidelines based on periodic reviews of sector risk factors and economic outlook.

Credit Monitoring and Annual Reviews
The Bank regularly monitors credit exposures, portfolio performance, and external trends which may impact risk management outcomes. Internal risk management reports are generated for senior management, respective risk committees and Board, and include information on portfolio quality, credit rating migration and concentration risk exposures.

In addition to the on-going qualitative assessment by the account relationship managers, reviews are conducted at least once a year with updated information on the customer's financial position, market position, industry and economic condition and account conduct. Specific financings may be reviewed more frequently under appropriate circumstances. Such circumstances may arise if, for instance, the Bank believes that heightened risk exists in a particular industry, or the customer exhibits early warning signals such as defaulted on obligations to suppliers or other financial institutions or is facing cash flow or other difficulties.

Within Group Risk and Credit Management, there is a mechanism in place for credit monitoring to flag-out problematic financing (watch list accounts) for intensive monitoring under Watchlist Credit Management. These are accounts which may be exhibiting early distress patterns or in the early stages of delinquency but not yet in default.

For these cases, Watchlist Credit Management department will conduct independent assessment and work closely with the business units to implement strategies to address financing/business relationships under Watchlist Credit Management to rehabilitate the accounts after discussion with the customer to determine the root cause of the problem which may result in rescheduling, restructuring or "exit" strategies to be applied. For the larger accounts, regular position update meetings are held with the business units to review or revise these strategies. The relevant guidelines are refined from time to time, to better identify, monitor and resolve such accounts.

Group Internal Audit conducts independent post-approval reviews on a sampling basis to ensure that the quality of credit appraisals and approval standards is in accordance with the credit underwriting standards and financing policies established by the Bank's management, and relevant laws and regulations.

6.8 Impairment Allowances for Financing

The Group adopts BNM's guidelines on Financial Reporting. The principles in these guidelines are in line with the Malaysian Financial Reporting Standards 9 (MFRS 9), which is in compliant with the International Financial Reporting Standards framework. As part of RHB Banking Group, the Bank adopts the Group's policy and guidelines on impairment allowances, where relevant.

MFRS 9 impairment model requires the recognition of expected credit loss (ECL) for all financial assets, except for financial assets classified or designated as Fair Value Through Profit & Loss or FVTPL and equity securities classified under Fair Value through Other Comprehensive Income or FVOCI, which are not subject to impairment assessment. Off-balance sheet items that are subject to ECL include financial guarantees and undrawn financing commitments.

MFRS 9 does not distinguish between individual assessment and collective assessment. The Group first assess whether objective evidence of impairment exists for financial assets which are individually significant. If the Group determine that objective evidence of impairment exists, i.e. credit impaired, for an individually assessed financial asset, a lifetime ECL will be recognised for impairment loss which has been incurred. Financial assets which are individually significant but non-impaired and not individually significant are grouped on the basis of similar credit risk characteristics (such as credit quality, instrument type, credit risk ratings, credit utilisation, level of collateralisation and other relevant factors) for collective assessment. Collectively, the individually assessment allowance and collective assessment allowance form the total expected credit allowance for the Group.

ECL will be assessed using an approach which classifies financial assets into three stages which reflects the change in credit quality of the financial assets since initial recognition:

Stage 1: 12 months ECL – not credit impaired
For credit exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.

Stage 2: Lifetime ECL – not credit impaired
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised.

Stage 3: Lifetime ECL – credit impaired
Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cashflows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognised.

The changes in ECL between two-periods will be recognised in profit and loss.

The assessment of significant deterioration in credit risk since initial recognition is key in establishing the point of switching between the requirement to measure an allowance based on 12-month ECL and one that is based on lifetime ECL. The quantitative and qualitative assessments are required to estimate the significant increase in credit risk by comparing the risk of a default occurring on the financial assets as at reporting date with the risk of default occurring on the financial assets as at the date of initial recognition. The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The measurement of ECL is based on the discounted products of the PD, LGD and EAD models. Certain ECL models are leveraging on the existing Group's Basel II Internal Ratings-Based model, where feasible or available, with necessary adjustment to meet MFRS 9 requirements.

Individual Assessment - Impairment Triggers

The customer assessed under Impairment Allowances (IA) shall be classified as impaired under any one of the following situations:

1. When the principal or profit or both, of any facility(s) of the customer is past due for 90 days or 3 months and above.
2. In the case of revolving facilities (e.g. overdraft facilities), the customer of the facility shall be classified as impaired where the outstanding amount has remained in excess of the approved limit for 90 days or 3 months and above.
3. Where the amount is past due or the outstanding amount has been in excess of the approved limit for less than 90 days or 3 months, the financing exhibits weaknesses (refer to impairment triggers) that would render it to be classified as impaired.
4. Where payments of the financing are scheduled on intervals of 3 months or longer, the customer is classified as impaired as soon as a default occurs.
5. Upon occurrence of any one Mandatory Status Triggers (MSTs), both Ancillary Status Trigger (AST) 1 and AST 4 or any three ASTs and above. These MSTs and ASTs are pre-defined trigger events approved by the Group to facilitate impairment classification.
6. In the case of share margin facilities, the customer shall be classified as impaired where the force selling ratio is triggered and after a period of time after force selling has commenced or where margin of finance exceeds a set threshold above the force selling ratio.

Note:
For R&R facilities, the customer shall be classified as impaired in accordance with paras 1 to 4 above based on the revised or restructured terms.

Individual Impairment Allowances

Customers under individual assessment and triggered either by any one MSTs, both AST 1 and AST 4, or any three ASTs and above will be classified as impaired. Consequently, impairment assessment is to be carried out on these impaired customers, based on reasonable and well documented estimates of the future cashflows/realisations of collateral that is expected to recover from the impaired customers i.e. net present value of future cashflows are discounted based on original effective profit rates and compared against carrying amount. Any impairment on the shortfalls will be provided in full immediately.

Re-classification and Recovery of Impaired Customers

An impaired customer may be re-classified as a non-impaired status under the following situations:

1. When the financing payment of the impaired customer has improved with the principal or profit or both, of its facilities with the Bank being past due less than 90 days or 3 months.
2. Where the customer exhibits weakness(es) that render it to be classified as impaired, even though the financing is past-due less than 90 days or 3 months, such customers may be reclassified as non-impaired status when these weaknesses have been subsequently addressed or resolved.
3. Where the customer has been individually assessed as impaired due to either any one MSTs, both AST 1 and AST 4, or any three ASTs and above, the customer may be reclassified as non-impaired status when these triggers have since been addressed and resolved totally, or with only one AST
4. When the customer's share margin account no longer meet the impairment criteria above.

Write-Off of Impaired Financing

All financing that satisfy any one of the following criteria, may be recommended for write-off:

1. Deemed irrecoverable, worthless and with slim prospect of recovery.
2. Waiver under approved composite settlement schemes.
3. Abandoned project with no sign of revival. The definition of abandoned project must be in compliance with the definition stated under valuation for abandoned projects.
4. Completed projects but is left abandoned or no occupancy for 12 months with 2 rounds of abortive auctions. This includes units/lots in the same complex/project but have not put up for auction due to cost savings reason.
5. Financing secured with properties which have undergone at least 5 rounds of abortive auctions.
6. Financing secured with property with balance outstanding below RM5,000 subject to judgment obtained against all and customer(s) uncontactable.
7. For retail and programmed financing impaired financing, the write-off may be expedited for those with ageing of 12 months and above, provided legal action has reached at least writ of summon filed.
8. In the case of credit card and personal financing, aging is at least 6 months and above.

Partial write-offs of impaired financing is permitted under the following circumstances:

1. The value of security (net recoverable amount in the case of IA) is less than the balance outstanding (including principal, accrued profit and other charges) and topping up of the security deficiency is not forthcoming.
2. The shortfall in security value over the outstanding balance (including principal, accrued profit, and any other charges) is uncollectible and worthless; or
3. Financings secured with properties classified as impaired > 3 years with 3 rounds of abortive auctions. The balance outstanding is written down to 50% of the value of security, with the shortfall to be written off.
4. The Bank is in the final stage of realising the security/collateral; or
5. The balance outstanding is written down to the value of security i.e. shortfall in security value over the outstanding balances is written-off.
6. Upon disposal of the security, shortfall arising from the set off of auction proceeds against written down balance outstanding, if any, will be written off immediately.
7. In the case of approved settlement arrangement, the Bank shall write down the outstanding balance to approved settlement sum at the point of approval of the settlement agreement.

This policy of impairment financing write-off is intended to provide a timely and consistent methodology for financing to be written-off and to reflect the true value of assets in the Bank’s books.

For year 2021 and 2020 respectively, all impaired, past due and allowances for impaired financing are for credit exposures booked in Malaysia.

RHB ISLAMIC BANK
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The following tables show the impaired and past due financing and allowance for credit losses by industry sector as at 31 December 2021 compared with 31 December 2020:

Table 17a: Impaired and Past Due Financing and Allowance for Credit Losses by Industry Sector as at 31 December 2021

RHB Islamic Bank Industry Sector	Impaired Financing RM'000	Past Due Financing RM'000	Allowance for Credit Losses RM'000
Agriculture	**119**	**419**	**34,985**
Mining & Quarrying	**-**	**3,500**	**1,941**
Manufacturing	**25,196**	**1,281**	**22,582**
Electricity, Gas & Water Supply	**12,100**	**92**	**4,434**
Construction	**48,617**	**11,682**	**52,564**
Wholesale, Retail Trade, Restaurants & Hotels	**33,468**	**9,821**	**217,239**
Transport, Storage & Communication	**15,679**	**2,735**	**60,337**
Finance, Takaful, Real Estate & Business	**33,259**	**4,129**	**30,896**
Education, Health & Others	**81**	**4,776**	**2,295**
Household	**217,281**	**717,797**	**173,998**
Others	**-**	**631**	**5,220**
Total	**385,800**	**756,863**	**606,491**

Table 17b: Impaired and Past Due Financing and Allowance for Credit Losses by Industry Sector as at 31 December 2020

RHB Islamic Bank Industry Sector	Impaired Financing RM'000	Past Due Financing RM'000	Allowance for Credit Losses RM'000
Agriculture	359	998	20,262
Mining & Quarrying	13	528	1,961
Manufacturing	23,644	453	21,669
Electricity, Gas & Water Supply	3,805	-	1,592
Construction	43,907	13,664	46,715
Wholesale, Retail Trade, Restaurants & Hotels	47,882	7,736	175,831
Transport, Storage & Communication	14,429	26,600	29,108
Finance, Takaful, Real Estate & Business	33,676	17,033	34,306
Education, Health & Others	6,888	9,566	3,971
Household	260,518	1,176,151	188,595
Others	86	19,130	7,250
Total	435,207	1,271,859	531,260

The following table shows the charges/(write back) and write-offs for financing impairment by industry sector as at 31 December 2021 compared with 31 December 2020:

Table 18: Net Charges/(Write back) and Write-Offs for Financing Impairment by Industry Sector

RHB Islamic Bank	**Twelve Months Period Ended 2021**		**Twelve Months Period Ended 2020**	
Industry Sector	**Net Charges/ (Write back) for Lifetime ECL Credit Impaired (Stage 3)**	**Write-Offs for Lifetime ECL Credit Impaired (Stage 3)**	**Net Charges/ (Write back) for Lifetime ECL Credit Impaired (Stage 3)**	**Write-Offs for Lifetime ECL Credit Impaired (Stage 3)**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Agriculture	**(98)**	**(7)**	(445)	-
Mining & Quarrying	**(5)**	**-**	388	(384)
Manufacturing	**1,237**	**(769)**	(453)	(89)
Electricity, Gas & Water Supply	**4,070**	**-**	1	-
Construction	**3,180**	**(1,552)**	1,628	(3,663)
Wholesale, Retail Trade, Restaurants & Hotels	**(1,749)**	**(286)**	2,267	(1,752)
Transport, Storage & Communication	**4,230**	**(1,979)**	5,131	(472)
Finance, Takaful, Real Estate & Business	**(721)**	**(431)**	3,315	(441)
Education, Health & Others	**3,317**	**(5,657)**	(58)	-
Household	**41,659**	**(50,603)**	35,025	(34,381)
Others	**1,629**	**(705)**	474	(368)
Total	**56,749**	**(61,989)**	47,273	(41,550)

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The following tables show the movement in financing allowance for credit losses as at 31 December 2021 compared with 31 December 2020:

Table 19a: Movement in Financing Allowance for Credit Losses as at 31 December 2021

RHB Islamic Bank	12-month ECL (Stage 1)	Lifetime ECL Not Credit Impaired (Stage 2)	Lifetime ECL Credit Impaired (Stage 3)	Total
	RM'000	RM'000	RM'000	RM'000
Balance as at the beginning of the financial year	**156,636**	**195,019**	**179,605**	**531,260**
Changes due to financial assets recognised in the opening balance that have been:				
- Transferred to 12-month ECL (Stage 1)	**43,835**	**(38,816)**	**(5,019)**	**-**
- Transferred to Lifetime ECL not credit impaired (Stage 2)	**(11,059)**	**29,202**	**(18,143)**	**-**
- Transferred to Lifetime ECL credit impaired (Stage 3)	**(645)**	**(5,733)**	**6,378**	**-**
	32,131	**(15,347)**	**(16,784)**	**-**
Changes in credit risk	**(22,504)**	**88,658**	**91,679**	**157,833**
Purchases and origination	**16,667**	**5,372**	**6,106**	**28,145**
Bad debts written off	**-**	**-**	**(61,989)**	**(61,989)**
Changes in model methodologies	**(4,952)**	**(8,592)**	**55**	**(13,489)**
Derecognition	**(7,269)**	**(12,504)**	**(24,307)**	**(44,080)**
Other movements	**-**	**-**	**8,811**	**8,811**
Balance as at the end of the financial year	**170,709**	**252,606**	**183,176**	**606,491**

Table 19b: Movement in Financing Allowance for Credit Losses as at 31 December 2020

RHB Islamic Bank	12-month ECL (Stage 1)	Lifetime ECL Not Credit Impaired (Stage 2)	Lifetime ECL Credit Impaired (Stage 3)	Total
	RM'000	RM'000	RM'000	RM'000
Balance as at the beginning of the financial year	67,562	99,609	173,882	341,053
Changes due to financial assets recognised in the opening balance that have been:				
- Transferred to 12-month ECL (Stage 1)	29,383	(24,092)	(5,291)	-
- Transferred to Lifetime ECL not credit impaired (Stage 2)	(8,766)	21,718	(12,952)	-
- Transferred to Lifetime ECL credit impaired (Stage 3)	(266)	(3,841)	4,107	-
	20,351	(6,215)	(14,136)	-
Changes in credit risk	54,231	98,014	85,435	237,680
Purchases and origination	23,374	9,502	5,728	38,604
Bad debts written off	-	-	(41,550)	(41,550)
Derecognition	(8,882)	(5,891)	(29,754)	(44,527)
Balance as at the end of the financial year	156,636	195,019	179,605	531,260

7.0 MARKET RISK

Market risk is the risk of losses arising from adverse movements in market indicators, such as profit rates, credit spreads, equity prices, currency exchange rates and commodity prices. Under this definition, market risk will constitute:

- the profit rate and equity risks pertaining to financial instruments in the trading book; and
- foreign exchange risk and commodities risk in the trading and banking books.

The Bank transacts in financial instruments such as debt papers and derivative instruments such as futures, forwards, swaps, and options. Derivative instruments are contracts whose characteristics and value are derived from the underlying instruments that can be a reference to an underlying that may constitute of profit rates, exchange rates, debt paper, equity, indices and commodities.

The Group Market Risk Management within Group Risk Management is the working level that forms a centralised function to support senior management in the development of market risk framework, risk limits, operationalise the processes and implement measurement methodologies to ensure adequate risk control and oversight are in place. The main responsibility of managing market risk as the first line of defence remains at the respective business units.

The Group ALCO and GCRC perform a critical role in the management of market risk and support the board committees in the overall market risk management. The management committees meet regularly and is the forum where strategic and tactical decisions are made for the management of market risk; this includes the development of the Bank's market risk strategy, market risk management structure and the policies as well as measurement techniques to be put in place.

The Bank has established Group Trading Book Policy Statement, frameworks and risk limits as guidance for market risk management. These documents are reviewed regularly and/or upon change in significant event that has a material impact on policy compliance or regulatory changes.

Market Risk Measurement and Control

The Bank applies risk monitoring and assessment tools to measure trading book positions and market risk factors. Statistical and non-statistical risk assessment tools applied include Value-at-Risk (VaR), sensitivity analysis and stress testing.

The Bank adopts a systematic approach in managing these risks by types of instruments and nature of exposure. Market risk is primarily monitored and controlled via a structure of limits and triggers ie cut loss, VaR, trading and notional limit set in accordance with the size of positions and risk tolerance appetites. In addition, the Bank conducts periodic stress testing of its respective portfolios to ascertain market risk under abnormal market conditions.

Market Risk Monitoring and Reporting

For effective control of market risk, defined management action triggers and risk limits are established and actively monitored. Only authorised trading activities may be undertaken by the specific business units within the allocated limits. All trading positions are monitored independently on a daily basis and in accordance to the established escalation procedures and the key actions to be undertaken. Market risk exposure reports are presented to the senior management, relevant committees and the Board.

Hedging Activities

Hedging activities designated for hedge accounting are governed by the Group's Hedging Policy that prescribes the overall hedge activities that can be executed by the Bank and the subsequent control procedures such as effectiveness measurement and reporting to Group ALCO. Hedging instruments used to mitigate these risks include options, futures, forwards and swaps that are approved by the Board. Execution of the hedging is carried out by the relevant division through the Bank's treasury functions with the approval of Group ALCO.

Capital Treatment for Market Risk
The Bank applies the Standardised Approach to calculate market risk capital requirements in accordance with BNM's Guideline. The market risk-weighted assets and the corresponding capital requirements for the Bank as at 31 December 2021 and 31 December 2020 are shown in the tables below:

Table 20a: Market Risk-Weighted Assets and Minimum Capital Requirements as at 31 December 2021

RHB Islamic Bank **Market Risk**	**Long Position**	**Short Position**	**Risk-Weighted Assets**	**Minimum Capital Requirements**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Profit Rate Risk	**13,736,843**	**13,697,737**	**176,507**	**14,120**
Foreign Currency Risk	**4,828**	**25,008**	**25,008**	**2,001**
Total			**201,515**	**16,121**

Table 20b: Market Risk-Weighted Assets and Minimum Capital Requirements as at 31 December 2020

RHB Islamic Bank **Market Risk**	**Long Position**	**Short Position**	**Risk-Weighted Assets**	**Minimum Capital Requirements**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Profit Rate Risk	14,072,600	13,966,670	184,125	14,730
Foreign Currency Risk	7,639	26,219	26,219	2,098
Total			210,344	16,828

Note:
As at 31 December 2021 and 31 December 2020, RHB Islamic Bank did not have any exposure under equity position risk, commodity risk, inventory risk, options risk, and market risk exposure absorbed by PSIA.

8.0 LIQUIDITY RISK

Liquidity risk is the risk of the Group being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due and transact at a reasonable cost. Liquidity risk also arises from the inability to manage unplanned decreases or changes in funding sources.

There are two types of liquidity risk, namely funding liquidity and market liquidity risk. Funding liquidity risk is the risk that the Group is unable to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Group. Market liquidity risk is the risk that the Group cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption.

The primary role of a bank in terms of financial intermediation is the transformation of short-term deposits into long-term financing. By fulfilling the role of maturity transformation, banks are inherently susceptible to liquidity mismatches and consequently funding and market liquidity risk.

Through the Group's Liquidity Risk Policy, the Bank manages the funding and market liquidity risk to ensure that banking operations continue uninterrupted under normal and stressed conditions. The key objective that underpins the Group's Liquidity Risk Policy includes maintaining financial market confidence at all times, protecting key stakeholders' interests and meeting regulatory liquidity requirements.

The Group ALCO supports the board committees by performing the critical role in the management of liquidity risk, and is responsible for establishing strategies that assist in controlling and reducing any potential exposure to liquidity risk. The Group ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of liquidity risk and the Bank's balance sheet profile. Global and domestic economic data, information and events are deliberated at the Group ALCO meetings which enables the Bank to determine its actions and reactions in the capital markets. The Group ALCO is also the governance body which sets profit rates for liabilities products as well as reference rates for financing products and services. Group ALCO is supported by Group Asset and Liability Management (Group ALM) at the working level. Group ALM monitors liquidity risk limits/Management Action Triggers (MATs) and reports to Group ALCO the liquidity risk profile on monthly basis.

The liquidity management process involves establishing liquidity management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions. Some of the key liquidity risk management tools are top depositors' mixture, funding source mixture, maturity profile of funding sources, and contingency funding lines.

The Bank has adopted the BNM's liquidity standards on LCR, to ensure maintenance of adequate stock of unencumbered high quality liquid assets to survive the liquidity needs for 30 calendar day under liquidity stress condition. The Bank also adopted the NSFR to ensure maintenance of sufficient stable funding sources over a time horizon of up to one year. While BNM has relaxed the minimum requirement of LCR to below 100% and NSFR at 80%, the LCR and NSFR at RHB Banking Group level have been maintained at above 100%.

The Group's Liquidity Incident Management Procedure establishes guidelines for managing liquidity crisis, identifying early warning signs of a possible liquidity event and the need for heightened liquidity risk monitoring and reduced liquidity risk exposure. In addition, it also identifies the individuals responsible for formulating and executing the Bank's response to a liquidity event. The Procedure is established to manage any potential adverse liquidity incidences which can be implemented on a timely basis so that appropriate actions can be taken to mitigate against any unexpected market developments.

9.0 RATE OF RETURN RISK IN THE BANKING BOOK

Rate of return risk in the banking book refers to the risk of the Group's earnings and economic value of equity due to the adverse movements in benchmark rate. The risk may arise from the mismatches in the timing of repricing of assets and liabilities from both on and off-balance sheet positions in the banking book, changes in slope and shape of the yield curve, basis risk and optionality risk.

Rate of return risk in the banking book comprises:

- Re-pricing risk (mismatch risk) - Arises from timing differences in the maturity (for fixed-rate) and re-pricing (for floating-rate) of bank assets, liabilities, and off-balance sheet positions. While such re-pricing mismatches are fundamental to the business of banking, they can expose a bank's income and underlying economic value to unanticipated fluctuations as benchmark rates vary;
- Basis risk - Arises from imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics. When benchmark rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities and off-balance sheet instruments of similar maturities or re-pricing frequencies;
- Yield curve risk - Arises when unanticipated shifts of the yield curve have adverse effects on the Bank's income or underlying economic value; and
- Embedded optionality risk - Arises primarily from options that are embedded in many banking book positions (e.g. some fixed rate home financing products give customers the option to prepay the financing early without penalty, call deposit, where customers have the option of withdrawing the deposit funds at any time).

Earnings-at-Risk (EaR) and Economic Value of Equity (EVE) are used to assess rate of return risk in the banking book. They are computed based on the re-pricing gap profile of the banking book using BNM's standard template. Assets and liabilities are bucketed based on their remaining tenure to maturity or next re-price dates. The measurement of EaR and EVE is conducted on a monthly basis.

The Group ALCO supports the board risk committees in establishing policies, strategies and limits for the management of balance sheet risk exposure. The Group ALM within Group Risk Management supports the Group ALCO in the monthly monitoring and reporting of the rate of return risk profile of the banking book. The primary objective in managing balance sheet risk is to manage the net profit income and economic value of equity, as well as to ensure rate of return risk exposures in the banking book are maintained within defined risk tolerances.

In addition, the Group ALM Policy is established to provide the governance of rate of return risk in the banking book. Benchmark rate sensitivity triggers are applied on earnings for the respective profit centres within the Group. The Group regularly considers the economics and necessity of increasing or reducing its rate of return risk hedges.

In line with the Group ALM Policy to achieve a balance between profitability from banking activities and minimising risk to earnings and capital from changes in benchmark rates, rate of return risk to earnings is controlled using Risk Appetite MATs and identified escalation procedures.

Stress testing is also performed regularly to determine the adequacy of capital in meeting the impact of extreme benchmark rate movements on the balance sheet. Such tests are also performed to provide early warnings of potential extreme losses, facilitating proactive management of rate of return risk in the banking book in an environment of rapid financial market changes.

The impact of changes in benchmark rates to net earnings and economic value as at 31 December 2021 and 31 December 2020 are shown in the following tables:

Table 21a: Rate of Return Risk in the Banking Book as at 31 December 2021

RHB Islamic Bank	**Impact on Position as at Reporting Period (100 basis points) Parallel Shift**			
	Increase/(Decline) in Earnings		**Increase/(Decline) in Economic Value**	
Currency	**Impact based on +100 basis points**	**Impact based on -100 basis points**	**Impact based on +100 basis points**	**Impact based on -100 basis points**
	RM'000	**RM'000**	**RM'000**	**RM'000**
MYR - Malaysian Ringgit	**197,184**	**(197,184)**	**(361,165)**	**361,165**
USD - US Dollar	**(15,037)**	**15,037**	**3,778**	**(3,778)**
Others[1]	**427**	**(427)**	**491**	**(491)**
Total	**182,574**	**(182,574)**	**(356,896)**	**356,896**

Table 21b: Rate of Return Risk in the Banking Book as at 31 December 2020

RHB Islamic Bank	**Impact on Position as at Reporting Period (100 basis points) Parallel Shift**			
	Increase/(Decline) in Earnings		**Increase/(Decline) in Economic Value**	
Currency	**Impact based on +100 basis points**	**Impact based on -100 basis points**	**Impact based on +100 basis points**	**Impact based on -100 basis points**
	RM'000	**RM'000**	**RM'000**	**RM'000**
MYR - Malaysian Ringgit	166,033	(166,033)	(457,810)	457,810
USD - US Dollar	(13,132)	13,132	(81)	81
Others[1]	(33)	33	159	(159)
Total	152,868	(152,868)	(457,732)	457,732

Note:
1. Inclusive of GBP, EUR, SGD, etc
2. The EaR and EVE exposures are additive and do not take into account any correlation impact in the aggregation.
3. The earnings and economic values were computed based on the standardised approach adopted by BNM.
4. PSIA between RHB Islamic and RHB Bank which qualifies as a risk absorbent, is excluded from the computation of rate of return risk.

The impact to net earnings above represents financial assets and liabilities that have been prepared on the following basis:
- Benchmark rate sensitive assets and liabilities with residual maturity or re-pricing tenure of up to one year that is not captured in the trading portfolio are slotted into time bands based on the maturity or re-pricing tenure, whichever is earlier.
- A set of risk weights with its respective time band is used to project the applicable basis point benchmark rate change impact.
- For assets and liabilities with non-fix maturity, e.g. current and savings accounts, certain assumptions are made to reflect the actual sensitivity behavior of benchmark rate bearing items.

Economic value is characterised by the impact of benchmark rates changes on the value of all net cash flows, i.e., the effect on the economic value of the Group's assets, liabilities and off-balance sheet positions. This provides a more comprehensive view of the potential long-term effects of changes in benchmark rates than is offered by the earnings perspective. The scenarios used are based on the assumption that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables.

10.0 OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events, which also includes IT, legal and Shariah non-compliance risk but excludes strategic and reputational risk. Operational risk is inherent in the Bank's operations and can never be eliminated entirely. The impact can be in the form of actual financial loss as well as non-financial loss such as loss of reputation, non-compliance and unsatisfactory service level to customers.

One of the Bank's primary safeguards against operational risk is the existence of a sound internal control system, based on the principle of dual control checks and balances, segregation of duties, independent checks and verification processes, and a segmented system access control and authorization process. These controls are documented through a set of policies and procedures at the respective business and operation level.

The Group's Operational Risk Management Framework comprises a wide range of activities and elements, broadly classified into:

- Enhancement - The Group has implemented a Basel II compliant operational risk management system to support its workflow and analytical capabilities.
- Education and Awareness - The Group undertakes change management activities to improve risk management knowledge, culture and practices of the Bank personnel. This is aligned with the principle and requirement that the front-line business and support units of the Group, are by nature of their direct involvement in interfacing with customers and in operating the business, responsible for managing operational risk and acting as the first line of defence.
- Monitoring and Intervention - This is where the principal head office risk control units, including the risk management function, compliance function and the internal audit function, actively manage operational non-compliances and incidences as a second and third line of defence respectively. The second line of defence also monitors and oversees the recovery actions, including business continuity measures in cases of incidents causing disruption to business activities as proposed and undertaken by First Line of Defense.

Operational Risk Management Function and Organisation

The Group Operational Risk Management within Group Risk Management has functional responsibility for the development of operational risk framework, policy and methodologies, and providing guidance and information to the business units on operational risk areas. Its responsibility also includes generating a broader understanding and awareness of operational risk issues at all levels in the Group. It also ensures that operational risks from new products, processes and systems are adequately managed and mitigated.

The respective business and support units are primarily responsible for managing operational risk on a day-to-day basis.

Regular operational risk reporting is made to the senior management, respective committees and the Board that includes various operational risk information such as risk analysis, risk mitigation action plans, risk tools outcomes, risk appetite breaches, significant operational risk events and control failures, and lessons learnt. In addition, key operational risk incidents are reported to senior management daily. Such reporting enables senior management to be informed and deliberate on the identified operational lapses, promptness of corrective actions, and to ensure appropriate risk mitigation decision making and action plans are performed.

Operational Risk Management Processes and Tools

The Bank applies a defined operational risk management process in managing operational risk to enable an institutional and transparent operational risk management practice. The five (5) processes are as follows:

1. Establish the context;
2. Risk identification;
3. Risk analysis;
4. Risk mitigating; and
5. Risk monitoring.

The Bank uses relevant operational risk tools and methodologies to support and ensure an effective operational risk management process. The following tools are being used:

- **Risk and Control Self-Assessment (RCSA)**
  RCSA is a methodology to build risk profile for each business and support unit. RCSA sets out a structured process for the identification and assessment of inherent operational risk, the effectiveness of the control environment, and the adequacy of the risk mitigation in place. The RCSA process is facilitated by the business and support units themselves jointly with personnel from Group Operational Risk Management.

- **Key Risk Indicators (KRI)**
  KRI is a measurable indicator utilised to track and monitor key operational risk exposures. KRI serves as an early warning signal; once a risk indicator exceeds the predefined threshold, a warning message is sent to a predefined list of users. Business and support units are required to monitor their risk exposures via KRIs and are required to develop specific and concrete plans to address those where indicators are unfavourable. KRIs are embedded into critical processes to provide early warning signals of increasing risk and/or control failures by flagging up frequencies of events as a mechanism for continuous risk assessment and monitoring.

- **Key Control Testing (KCT)**
  KCT is a methodology to assist business/functional units in performing assessments periodically to determine the effectiveness of key controls by evaluating whether the control procedures/activities are adequately designed to achieve the goals of the function and control objectives; and testing whether the key controls are operating as intended in actual practice. Effective KCT can lead to early detection of control weakness and deficiencies which will assist the senior management and business/functional units to quickly focus on control weakness and take concentrated efforts where they are most needed.

- **Incident Management and Loss Data Collection (IMLDC)**
  IMLDC provides structured process for the reporting and management of operational risk incidents that have occurred, from the point of discovery until resolution. Business and functional units are required to report and manage all operational risk incidences and losses within defined timeline with further analysis of root cause to avoid further recurrence. Information obtained from such analysis could also be used to review the effectiveness of the RCSA and KRIs.

- **Scenario Analysis**
  Scenario Analysis is used to identify plausible risk scenario that could materialise for assessment. A plausible risk scenario is a possible event resulting in unexpected and extreme losses which may arise when considering a sequence of control failures or individually significant events. Business/functional units are required to assess the potential outcomes related to a variety of operational risks failure, evaluate the vulnerabilities of the Bank to the manifestation of plausible risk scenario, and put in appropriate risk mitigation plans to safeguard the Bank’s safety and soundness.

Risk Mitigation and Controls
Risk mitigation strategies are used to minimise risk to an acceptable level and aim to decrease the likelihood of an undesirable event and the impact on the business, should it occur. The control tools and techniques, amongst others, are as follows:

- **Strengthening internal controls**
  Internal controls are designed to commensurate operational risk exposures faced by the Group. It is mainly categorised into five components, namely:
  a. Control environment – management oversight and risk culture, which sets the tone and serves as a foundation for all other components;
  b. Risk assessment – analyses identified risks to achieve objectives and ensure risks are well managed;
  c. Control activities – policies and procedures implemented manually and/or system-based to ensure management's directives are executed effectively and efficiently;
  d. Information and communication – relevant operational risk information are captured and communicated accordingly for decision making. Such information must be effective for utilisation, delivered timely, confidentiality is preserved, conform integrity needs, comply with relevant law/regulations, sufficient availability and reliable; and
  e. Monitoring – ongoing assessment and correcting deficiencies of internal control to assure it is operating as intended.

- **Business Continuity Management**
  To mitigate the impact of unforeseen operational risk events, the Group has on-going and actively managed Business Continuity Management (BCM) programme for RHB Banking Group. The BCM programme is subject to regular review and testing including continuous enhancement initiatives to ensure efficacy, reliability and functionality, and with coordination and oversight responsibility of the Group Business Continuity Management Department.

  The Board of Directors has an oversight function through the Board Risk Committee (BRC) and GCRC. The Group Business Continuity Committee, which reports to GCRC, is the committee that oversees the Group's business continuity framework, policies, budget and plans.

- **Outsourcing**
  Due to the need to outsource for cost and operational efficiency, policy and guidelines are put in place to ensure that the risks arising from outsourcing activities are adequately identified, assessed and managed prior to entering into any new arrangements and on an on-going basis.

- **Takaful Management**
  The Bank considers risk transfer by means of Takaful to mitigate operational risk. The Bank has a programme of Takaful designed to reduce its exposure to liability and to protect its assets. The Bank purchases Takaful from leading Takaful providers in the market covering fraud, theft, property and casualty, business disruption, liability and other risks for which it may be held responsible. These are provided by third-party Takaful providers and will financially mitigate the economic consequences of risks.

Technology Risk
Technology Risk refers to the risk associated with the use, ownership, operation, involvement, influence and adoption of Information Technology (IT) within an enterprise.

The Bank recognises the risk arising from the advancement and reliance upon information technology to support business operations through the deployment of advance technology and online systems to provide customers with convenient and reliable products and services. The Group's Technology Risk Management Framework ensures that a governance structure is in place for the identification, assessment and management of technology risks within existing IT operations as well as prior to deployment of applications and systems for internal as well as external customers.

Cyber Risk
Cyber Risk refers to threats or vulnerabilities emanating from the connectivity of internal technology infrastructure to the Internet.

This is an inherent risk associated to the industry moving towards the Internet as a channel for the delivery of banking services. The Group recognises the risks associated to cyber and as part of the mitigation shall continuously identify suitable security devices to be deployed and ensure sufficient resources with the right skill sets were allocated to manage this risk. The Group also subscribed to the various threat intelligence providers to obtain the latest cyber landscape information that will used for the risk mitigation. To further provide assurance that the Internet facing application systems are secured, the Group engaged reputable IT security service providers to perform periodic vulnerability assessment/penetration testing where weaknesses detected shall be duly resolved with attestation from external consultants.

New Product and Services Approval Process
The Group has established a Policy on Product Development and Approval and Guidelines on Introduction of New/Variation of Products & Services Lifecycle which governs the risk management of new products, services, or significant changes thereto. The responsible units have a duty to assess the operational risk for new product launches and/or significant changes in product features or related processes and working systems, as well as to ensure that operational risk is at an acceptable level at all times.

Legal Risk
Legal risk is part of operational risk. It can arise from unenforceable, unfavourable, defective or unintended contracts; lawsuits or claims; developments in laws and regulations, or non-compliance with applicable laws and regulations. Business units work together with the Bank’s legal counsel and external legal counsel to ensure that legal risk is effectively managed.

Capital Treatment for Operational Risk
The Bank adopts the Basic Indicator Approach for the calculation of regulatory operational risk capital requirements. The operational risk-weighted assets and the corresponding capital requirements for RHB Islamic Bank as at 31 December 2021 and 31 December 2020, are shown below:

Table 22: Operational Risk-Weighted Assets and Minimum Capital Requirements

RHB Islamic Bank

Operational Risk	2021 RM'000	2020 RM'000
Risk-Weighted Assets	**2,585,628**	2,223,938
Minimum Capital Requirements	**206,850**	177,915

11.0 COUNTRY CROSS-BORDER RISK

Country cross-border risk is the risk that the Group faced mainly involving multiple legal requirements in various jurisdictions which in turn result in compliance with different sets of standards. Some of these requirements may be unique to a jurisdiction or may be incompatible with each other, including those with respect to fiduciary duties, securities laws requirements and deal structure.

Additionally, political considerations such as the country's national security interest, offering policies on foreign investment, anti-trust and labor and employment policies may also require careful consideration. Due to this, there is a need for the Group to set out the policies and underline the expected conduct when venturing into such business activity.

The Bank is guided by the Group Policy on Doing Business Overseas that serves as a high level guidance for the business owner who propose to establish overseas business of the Group. This policy sets out seven (7) principles that must be observed by the business owner in the conduct of overseas business expansion of the Group, including from initiation of overseas business expansion, approval for overseas business expansion as well as continuous monitoring of overseas business. This is to safeguard the Group's interest and reduce the compliance risk associated with the overseas business activities. In addition, the Bank is also guided by the Country Risk limit, to manage the credit concentration risk arising from changes in the country's business environment where it has exposure in.

12.0 REPUTATIONAL RISK

Reputational risk is often seen as significant threat to business as damage to reputation is often irreparable. It is defined as the risk that negative publicity regarding the conduct of the Bank or any of the entities within the Group, and its business practices or associations, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures. It also undermines public confidence in the Group, affecting the share price.

Reputational risk in the Group is managed and controlled through codes of conduct, governance practices and risk management practices, policies, procedures and training. The Group has developed and implemented a reputational risk management policy. The key elements in the management of reputational risk include:

- Practice good corporate governance and culture of integrity to promote execution and achievement of corporate strategies and business objective.
- Manage reputational risk within a very low risk appetite with zero tolerance level reporting approach for incident that affects the Group's reputation.
- Adopt sound risk management practices that include the practice of building "reputation capital" and earning the goodwill of key stakeholder.
- Maintain proper mechanisms to monitor and escalate material lapses/breaches of internal and regulatory policies/guidelines that may place the Group's reputation at risk.
- Maintain proper channels of communication in dealing with internal and external stakeholders.

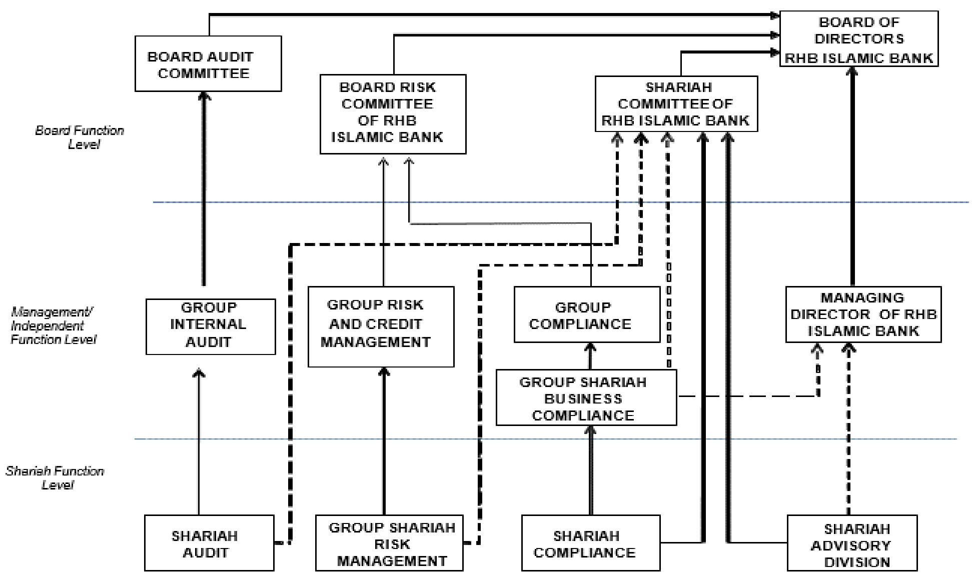
13.0 SHARIAH NON-COMPLIANCE RISK AND GOVERNANCE

Shariah non-compliance risk is the risk of legal or regulatory sanctions, financial loss or non- financial implications including reputational damage, which RHB may suffer arising from failure to comply with the rulings of the Shariah Advisory Council (SAC) of local regulatory bodies (such as the SAC of the BNM for Malaysia operations), standards on Shariah matters issued by the local regulator, or decisions or advice of the Shariah committee/adviser appointed by respective RHB entities.

A Shariah Governance Framework has been developed with the objective of governing the entire Shariah compliance process within Islamic banking operations, and to:

- Ensure that the planning, development, and implementation of the Islamic products, services and conduct of business are in accordance with Shariah principles;
- Ensure that the operations do not contravene any of the Shariah principles and authorities' regulations related to the Shariah; and
- Act as a guide on the expectations to all personnel engaged in the Islamic business activities; to ensure that all such functions are based on the Shariah principles, practices and prudence.

The reporting structure of Shariah governance is as follows:



The Shariah Committee of RHB Islamic Bank (SCR) was established under BNM's Shariah Governance Policy Document.

The main duties and responsibilities of the SCR are to provide objective and sound advice to the Bank on Shariah matters in relation to Islamic business and operations; deliberating, affirming, and addressing any Shariah non-compliance event; as well as to provide written Shariah opinion on new products and RHB Islamic Bank's financial statements. The other entities within the RHB Banking Group without internal Shariah committee established have given the mandate to the SCR to advise on the Shariah matters, which are ultimately governed by the respective entities' board of directors.

On a functional basis, the RHB Banking Group Islamic businesses are supported by Shariah Advisory Division, Group Shariah Risk Management, Group Shariah Business Compliance and Shariah Audit.

The Head of Shariah Advisory Division reports functionally to the SCR and administratively to the Managing Director of RHB Islamic Bank. The main duties and responsibilities of Shariah Advisory Division include, but not limited to, conduct reviews on Islamic products and services; provide internal Shariah advisory support to the management in its daily business and operational matters; assist the SCR in elaborating and discussing on pertinent Shariah issues; provide in-depth research on competitive analysis in order to assist the SCR's decision-making process; ensure the internal Shariah governance, the internal process flow and policies, and Shariah approval processes are well managed and maintained in an efficient manner; ensure the Bank is in compliance with the highest standard of Shariah governance as set by BNM; serve as the secretariat of the SCR and to act as the mediator between the management and the SCR; oversee the computation and distribution of zakat and funds to be channelled to charity; and to represent the management in any Shariah related matters.

The key role and responsibilities of Group Shariah Risk Management is to facilitate the identifying, measuring, monitoring and controlling of Shariah non-compliance risks inherent in the Islamic business and operations to mitigate any potential Shariah non-compliance events. Group Shariah Risk Management also performs independent assessment and provides support relating to Shariah non-

Group Shariah Business Compliance conducts review and assists the SCR in providing opinions from Shariah perspective in relation to the status of Shariah compliance of products, services and operations of the Islamic business operations. Shariah Audit provides independent assessment and objective assurance designed to add value and improve the degree of compliance in relation to the Islamic business operations, with the main objective of ensuring a sound and effective internal control system for Shariah compliance.

Any incidences of Shariah non-compliance decided by the SCR are reported to the GCRC, BRC-i, BRC, the Board of Directors of respective entities in RHB Banking Group and the BNM (for Malaysia operations). Remedial actions may include the immediate termination of the Shariah non-compliant products or services and de-recognition of any Shariah non-compliant income.

There is one (1) Shariah Non-Compliance event reported during the year 2021 with income de-recognised amounting to RM1,188.70. This amount has been channelled to charity during the same year.

14.0 PROFIT SHARING INVESTMENT ACCOUNT (PSIA)

Investment Account

The Group via RHB Islamic Bank offers two types of Investment Account (IA) namely, Restricted Investment Account (RIA) which refers to an IA where the Investment Account Holder (IAH) provides a specific investment to RHB Islamic Bank, and Unrestricted Investment Account (URIA) which refers to an IA where the customer provides RHB Islamic Bank with a mandate to make the ultimate investment decision without specifying any particular restriction or condition. Each IA product under the RIA and URIA must be structured based on the application of the approved Shariah contract.

RHB Islamic Bank has put in place the necessary risk management framework, policies and guidelines as well as operational manuals and procedures in ensuring the interests of the IAH are protected. The operationalisation of the RIA and URIA products are governed by RHB Islamic Bank's governance component, amongst others:

1. Shariah Governance Framework.
2. RHB Islamic Investment Bank Account Pricing Framework.
3. RHB Islamic Bank Investment Account Policy.
4. RHB Islamic Bank Investment Account Guideline.
5. Profit Sharing Investment Account-i (PSIA-i) Operations Manual.
6. Restricted Investment Account-i (RIA-i) Operations Manual.
7. Treasury Operations Manual.

The roles and responsibilities of various parties in ensuring the proper management of the IAH's funds are described as follows:

- Board of Directors committees - provide the strategic directions and risk appetite for the Bank, approve relevant governance structure, objectives and policy as well as providing oversight on the risk management and overall control activities.
- Shariah Committee - oversee and endorse the overall management and operations of the investment account business to be in compliance with Shariah, assess the work carried out by Shariah Advisory, Shariah Risk and Shariah Review on the investment account operations, and provide opinion on Shariah compliance of the IAs and the related operations.
- Senior management - formulate and implement investment strategies, internal control and risk management system, including profit distribution policy and valuation policy, in line with the investment objectives.
- GALCO - approve the structure, pricing and terms of IA based on the approved IA product.
- Other control and support functions - Group Treasury, Strategic Business Group, Group Finance, Group Shariah Business, Group Risk Management, Group Compliance and Group Internal Audit providing the necessary operational functions and independent assessment.

The governing principles as set out in the IA Policy of RHB Islamic Bank include policies related to asset allocations of the IA products which are translated into guidelines and operational document (standard manuals), which help senior management in making the necessary decision during the process. The related policy statements are as below:

1. The management of the assets and funds of the investment accounts must be managed with due care to the rights and safeguarding the interests of the investors,
2. The underlying assets, investment funds and transaction of the various investment accounts must be separated from other funds and assets managed and or owned by the Bank.
3. Transactions between the investment accounts and the Bank, if any, must be conducted in a transparent manner and on an arm's length basis.
4. The records for each investment account must be maintained separately and subjected to the valuation methodology established in accordance with the relevant accounting standards.
5. RHB Islamic Bank shall not implement profit smoothing practices or techniques to manage the Displaced Commercial Risk. The relationship and terms between the parties must be clearly stated in the terms and conditions of each investment account.
6. The Bank shall develop a list of permissible direct expenses that must be approved by the Board and the Shariah Committee. The list must be reviewed at least annually.

Restricted Investment Account (RIA)

Currently RHB Islamic Bank offers the following products under the RIA category:

1. Profit Sharing Investment Account-i (PSIA-i) which uses Mudharabah as the underlying Shariah contract (counterparty restricted to RHB Bank only), and
2. Restricted Investment Account-i (RIA-i) using the Mudharabah contract for retail and non-retail investors.

The products are offered to investors having the following characteristics:

1. Risk appetite match with investment objectives.
2. Require investment that comply with Shariah requirements.
3. Are willing to accept potential risk of losing the capital invested in order to achieve potential higher profit than normal term deposit rate.
4. IAH must be a legal entity that has legal capacity to enter into the contract.

Unrestricted Investment Account (URIA)

RHB Islamic Bank currently offers the Wakalah Money Market Investment Account-i (WMMIA-i) using the Wakalah bi al-Istithmar contract. This product is offered to corporate investors (resident) having the following characteristics:

1. Risk appetite match with investment objectives.
2. Require investment that comply with Shariah requirements.
3. Are willing to accept potential risk of losing the capital invested in order to achieve potential higher profit than normal term deposit rate.
4. IAH must be a legal entity that has legal capacity to enter into Wakalah bi al-Istithmar contract.

Table 23: Disclosure on Profit Sharing Investment Account as at 31 December 2021

RHB Islamic Bank	**Unrestricted Investment Account**
	%
Return on Assets (ROA)	**7.20**
Average Net Distributable Income	**7.20**
Average Net Distributable Income Attributable to the IAH	**2.37**
	RM'000
Impaired assets funded by URIA	**966**
ECL Stage 1 provisions funded by URIA	**176**
ECL Stage 2 provisions funded by URIA	**117**
ECL Stage 3 provisions funded by URIA	**457**

Notes:
1. Return on Assets refers to total gross income/average amount of assets funded by URIA.
2. Average Net Distributable Income refers to total average net distributable income/average amount of assets funded by URIA.

15.0 FORWARD LOOKING STATEMENTS

This document could or may contain forward looking statements that are based on current expectations as well as assumptions or anticipation of future events. These forward looking statements can be identified by the fact that they do not relate only to historical or current facts, and often use words such as anticipate, target, expect, estimate, intend, plan, believe, will, may, should, would, could or other words of similar expressions.

Undue reliance should not be placed on any of such statements. By their nature, forward looking statements are subject to risks and uncertainty because they relate to future events and circumstances, including, but not limited to domestic and global economic and business conditions, the effects of continued volatility in the credit markets, market-related risks such as changes in profit rates and exchange rates, changes in regulation, and future business combinations or dispositions. As a result, the Bank’s actual future results may differ materially from the plans, goals, and the expectations contained in the forward looking statements.

The Bank undertakes no obligation to revise or update any forward looking statements contained in this document, regardless of whether these statements are affected as a result of new information, future events or otherwise.

Table 24: Glossary of Terms

A-IRB	Advanced Internal Ratings-Based Approach
BCC	Board Credit Committee
BCM	Business Continuity Management
BNM	Bank Negara Malaysia
Board	Board of Directors
BRC	Board Risk Committee
BRC-i	Board Risk Committee of RHB Islamic Bank
CAFIB	Capital Adequacy Framework for Islamic Banks
CCB	Capital Conservation Buffer
CCR	Counterparty Credit Risk
CCyB	Countercyclical Capital Buffer
CET	Common Equity Tier
CRM	Credit Risk Mitigation
DFIs	Development Financial Institutions
EAD	Exposure at Default
EaR	Earnings-at-Risk
ECAIs	External Credit Assessment Institutions
EL	Expected Loss
EUR	Euro Dollar
EVE	Economic Value of Equity
F-IRB	Foundation Internal Ratings-Based Approach
Fitch	Fitch Ratings
GBP	Pound Sterling
GCC	Group Credit Committee
GCG	Group Credit Guidelines
GCPM	Group Credit Procedures Manual
GCRC	Group Capital and Risk Committee
Group ALCO	Group Asset and Liability Committee
Group ALM	Group Asset and Liability Management
IA	Investment Account
IAH	Investment Account Holder
ICAAP	Internal Capital Adequacy Assessment Process
IMLDC	Incident Management and Loss Data Collection
IRB Approach	Internal Ratings-Based Approach
ISDA	International Swaps and Derivatives Association
KCT	Key Control Testing
KRI	Key Risk Indicators
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MARC	Malaysian Rating Corporation Berhad
MATs	Management Action Triggers
MDBs	Multilateral Development Banks
MFRS 9	Malaysian Financial Reporting Standards 9
Moody’s	Moody’s Investors Services
MYR	Malaysian Ringgit
NSFR	Net Stable Funding Ratio
OTC	Over-the-Counter
PD	Probability of Default
PSIA	Profit Sharing Investment Accounts
R&I	Rating and Investment Information, Inc
RAM	Rating Agency Malaysia
RCSA	Risk and Control Self-Assessment
RIA	Restricted Investment Account
RM’000	Malaysian Ringgit in nearest thousand
RSME	Retail Small and Medium Sized Enterprises
RWA	Risk-Weighted Assets
SA	Standardised Approach
SCR	Shariah Committee of RHB Islamic Bank
SGD	Singapore Dollar
S&P	Standard & Poor’s
SMEs	Small-and medium-sized enterprises
URIA	Unrestricted Investment Account
USD	US Dollar
VaR	Value-at-Risk
WMMIA	Wakalah Money Market Investment Account