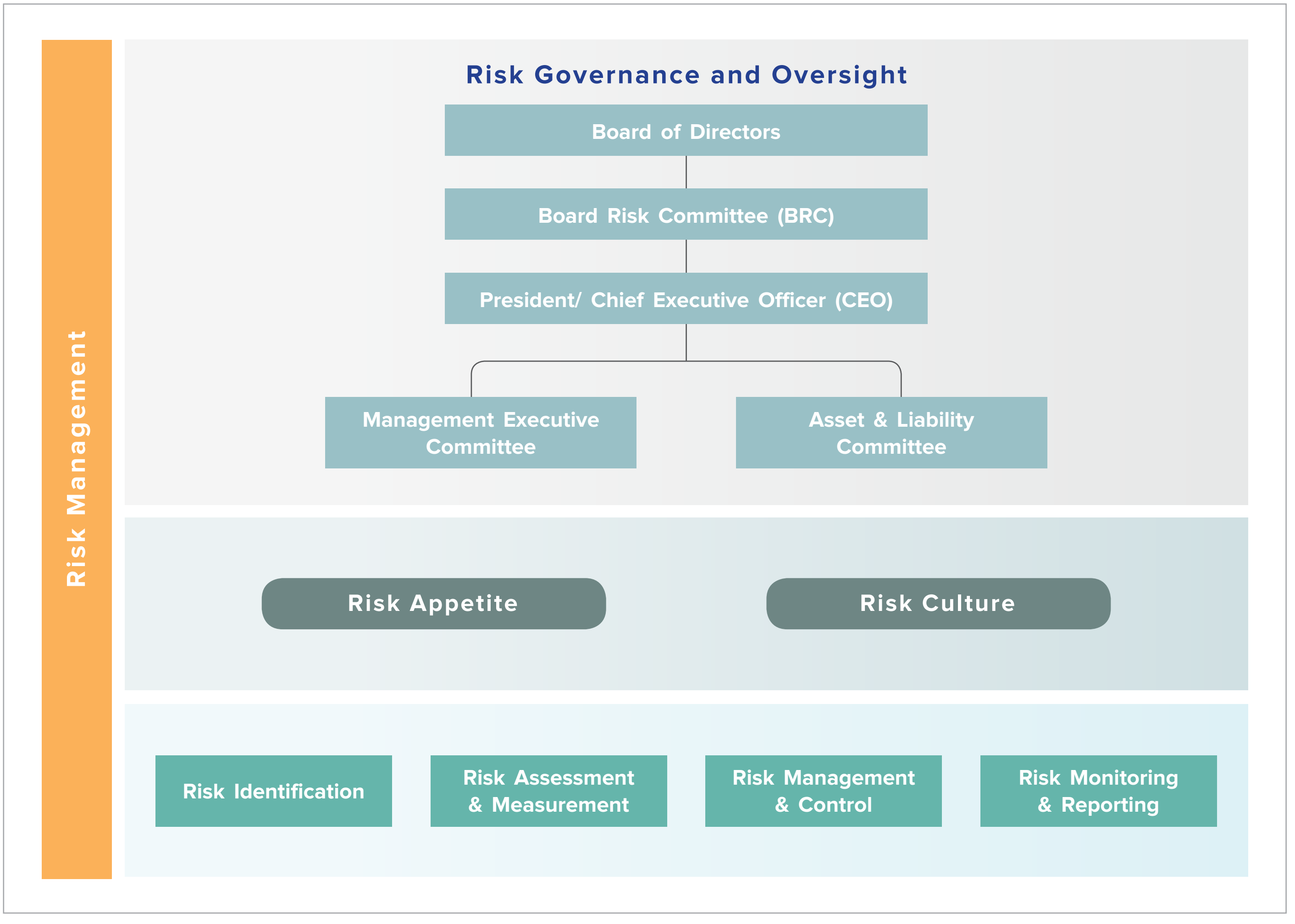
Risk Management

The Group embraces risk management as an integral part of the Group's business, operations and decision-making process. In ensuring that the Group achieves optimum returns whilst operating within a sound business environment, the risk management & compliance team is involved at the early stage of the risk-taking process by providing independent inputs, including credit evaluations, new product assessments, quantification of capital requirements and relevant operational and legal & regulatory requirements. These inputs enable the business units to assess the risk-vs-reward propositions, thus mitigating the risks whilst enabling residual risk to be priced appropriately in relation to the expected return.

RISK MANAGEMENT OVERVIEW

The Group's risk management approach is supported by a sound and robust Enterprise Risk Management Framework (Framework), which is continuously enhanced to remain relevant and resilient against the background of a versatile risk landscape and evolving industry practices.

Key components of the Enterprise Risk Management Framework are represented in the diagram below:



RISK MANAGEMENT GOVERNANCE

In line with the Framework, three lines of defence in managing risks are adopted within the Group. The following table summarises the responsibility and accountability of the various parties involved in the risk management of the Group.

01 First Line Of Defence: Business and Support Units	02 Second Line of Defence: Risk Management & Compliance Division (RMD)	03 Third Line Of Defence: Internal Audit Division (IAD)
• primary responsibility to identify, mitigate and manage risks within their respective lines of business. • ensure day-to-day activities are carried out within the established risk and compliance policies, procedures and limits.	• independently assess risk exposures and the coordination of risk management on an enterprise-wide basis. • ensure that risk management and compliance policies are implemented accordingly. • ensure compliance with the applicable laws and regulations.	• the IAD being the third line of defence is responsible for independently reviewing the adequacy and effectiveness of risk management processes, system of internal controls and conformity with risk and compliance policies.

Management recognises and manages the following key risks that could prevent the Group from achieving its objectives as part of its enterprise risk management:

Strategic Risk is the risk of not achieving the Group's corporate strategy and goals. This may be caused by internal factors such as deficiency in performance planning, execution and monitoring as well as external factors such as changes in the market environment.

Strategic risk management is addressed by the Board's involvement in the setting of the Group strategic goals. The Board is regularly updated on matters affecting corporate strategy implementation and corporate direction.

Credit Risk is defined as the potential financial loss arising from the failure of a borrower or counterparty to fulfil its financial or contractual obligations. Credit risk within the Group arises from Purchase With Recourse (PWR) and Purchase Without Recourse (PWOR) business, mortgage guarantee programmes, investments and treasury hedging activities.

The primary objective of credit risk management is to proactively manage credit risk and limits to ensure that all exposures to credit risks are kept within parameters approved by the Board. Investment activities are guided by internal credit policies and guidelines that are approved by the Board.

Market Risk is defined as the potential loss arising from adverse movements of market prices and rates. Within the Group, market risk exposure is limited to interest/ profit rate risk and foreign exchange risk as the Group does not engage in any equity or commodity trading activities.

The Group manages market risk by imposing threshold limits and entering into derivative hedging contracts. The limits are set based on the Group's risk appetite and risk-return considerations. These limits are regularly reviewed and monitored. The Group has an Asset Liability Management System which provides tools such as duration gap analysis, interest/ profit sensitivity analysis and income simulations under different scenarios to assist in managing and monitoring the interest/ profit rate risk.

The Group also uses derivative instruments such as interest rate swaps, profit rate swaps, cross currency swaps and Islamic cross currency swaps to manage and hedge its market risk exposure against fluctuations in interest/ profit rates and foreign currency exchange rates.

Liquidity Risk arises when the Group does not have sufficient funds to meet its financial obligations as and when they fall due.

The Group manages liquidity risk by adhering to a match-funding principle whereby all asset purchases are funded by bonds of closely matched size, duration, and are self-sufficient in terms of cash flow. A forward looking liquidity mechanism is in place to promote efficient and effective cash flow management while avoiding excessive concentrations of funding. The Group plans its cash flow and monitors closely every business transaction to ensure that available funds are sufficient to meet business requirements at all times. Reserve liquidity, which comprises marketable debt securities, is also set aside to meet any unexpected shortfall in cash flow or adverse economic conditions in the financial markets.

Operational Risk is the potential loss resulting from inadequate or failed internal processes, people and systems, or from external events. Each business or support unit undertakes self-assessment of its own risk and control environment to identify, assess and manage its operational risks. The Group has established comprehensive internal controls, systems and procedures which are subject to regular reviews by both internal and external auditors.

Exposure to operational risk also entails the management of the following risk categories:

- **Technology Risk:** Technology Risk management involves structured and consistent risk assessment pertaining to technology and cyber security risks. The Group has embedded sound governance and effective management of technology risk which encompass strong information technology (IT) security, reliability, resiliency and recoverability to ensure the availability, accuracy, accessibility and agility of systems and data.
- **Business Disruption Risk:** The Group has a robust Business Continuity Management (BCM) program to minimise the impact and likelihood of any unexpected disruptions to its business operations through implementation of its BCM framework and policy, business continuity plans as well as regular BCM exercises. The Group has various enterprise-wide recovery strategies to expedite business and technology recovery and resumption during catastrophic events.

Reputational Risk can be defined as the risk arising from negative real/ perceived impact on the part of shareholders, investors, counterparties, customers, market analyst, regulators, employees and other relevant parties that can adversely affect the Group's ability to maintain existing/ new business relationship, preserve credibility and maintain stakeholders' trust and confidence.

The Group has implemented Reputational Risk Framework which outlines reputational risk management process, tools and controls to effectively manage reputational risk within the Group. The process for managing reputational risks in the Group can be divided into 3-stage approach namely risk assessment, early warning & escalation and risk monitoring & control which are important to safeguard the Group's business reputation and image.

Shariah Non-Compliance Risk is risk of legal or regulatory sanctions, financial loss or non-financial implications including reputational damage, which the Group may suffer arising from the failure to comply with the rulings of the Shariah Advisory Council of Bank Negara Malaysia (BNM) and/ or Securities Commission of Malaysia (SC) (collectively referred as SACs), standards on Shariah matters issued by BNM or advice of the Shariah Advisors that are consistent with the rulings of the SACs.

The Group consults and obtains endorsements/ clearance from an independent Shariah Advisor for all its Islamic products, transactions and operations to ensure compliance with relevant Shariah requirements. From a regulatory standpoint, the Group does not have direct access to the SACs for Shariah ruling/ advice. Where applicable, the Group will obtain approval of the SACs through the counterparty or intermediary that falls under the purview of BNM, and/ or through the principal adviser of the sukuk programme for submission of its Islamic financial products to SC.

Annual internal audit is performed to verify that Islamic operations conducted by the business units are in compliance with the decisions endorsed by the Shariah Advisor. Any incidences of Shariah non-compliance are reported to the Shariah Advisor, Group Board Audit Committee, BRC and Board.

2021 KEY RISK MANAGEMENT & COMPLIANCE HIGHLIGHTS

Performed a comprehensive business risk assessment which encompass current portfolio state, Cagamas' competitive positioning, identification and diagnostic of key business risk.

Developed new Reputational Risk Framework which includes Identification of sources of reputational risk, reputational risk assessment process, monitoring and control.

Formulated Capital at Risk computation for all Cagamas products.

Automated computation of Net Stable Funding Ratio (NSFR) via internal effort without any additional cost.

Enhanced the Compliance's Monitoring Plan by expanding the compliance review scope to cover all divisions in Cagamas and conducted thematic enterprise-wide compliance review (e.g: Thematic review of Malaysian Anti-Corruption Commission Act).

Implemented trade surveillance monitoring system as an additional control for Treasury activities.

Successfully conducted BCM Manual Workaround Exercise (BCM exercise without availability of critical system).

Conducted feasibility assessment on the current recovery site.

Increased staff risk awareness through risk & compliance trainings and newsletters on various risk areas and emerging threats.

Streamlined credit practices to industry's best practice.

Collaborated with business to develop pricing and risk parameters for new Capital Management Solution (CMS) product.

Provided independent risk assessment for all new products, counterparties and Request For Proposal (RFP) vendors.