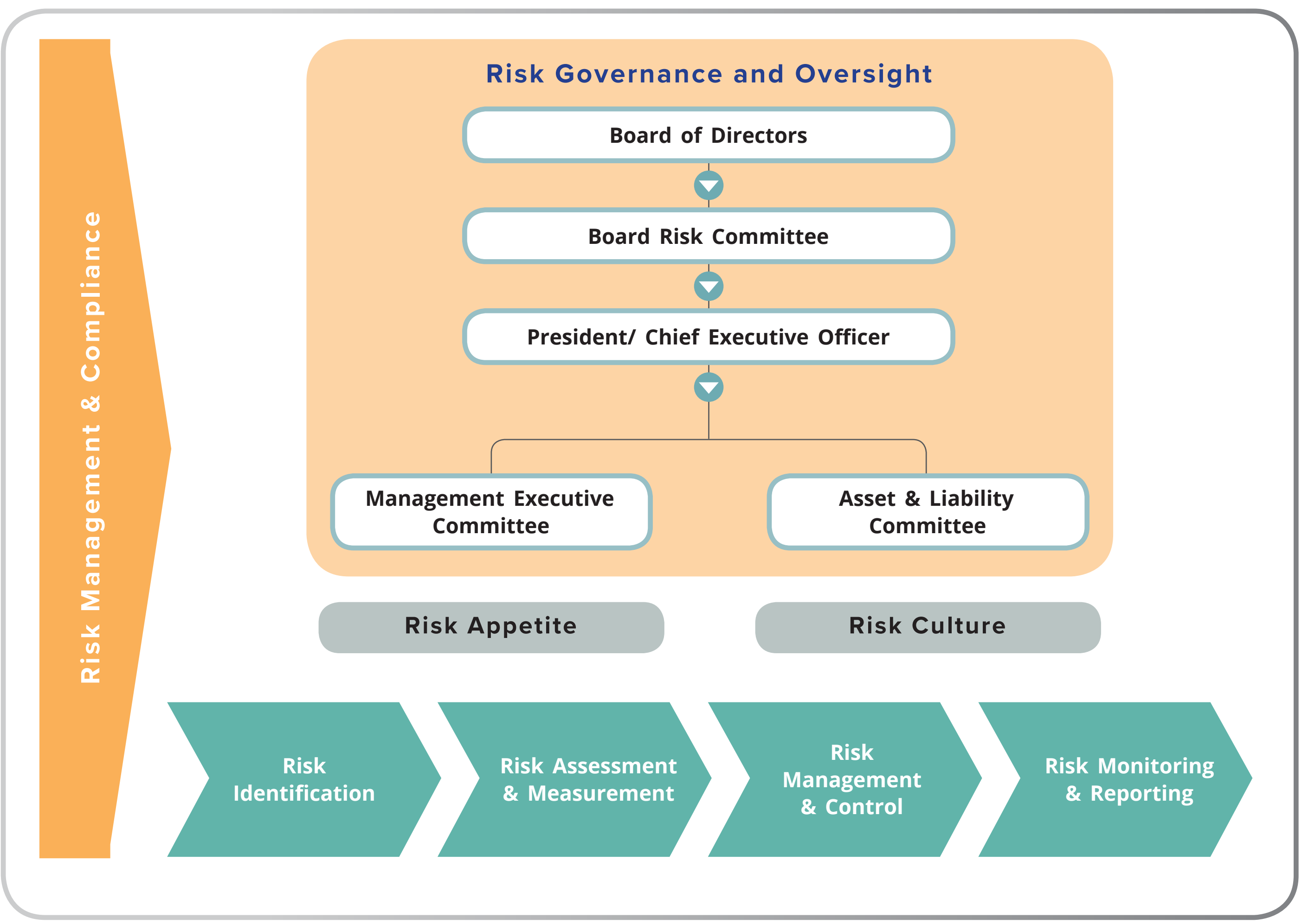
RISK MANAGEMENT

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 function 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 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 considered and 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 reviewed and enhanced to remain relevant and resilient against the background of a volatile 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.

1 FIRST LINE OF DEFENCE: Business and Support Units

- primarily responsible 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.

2 SECOND LINE OF DEFENCE: Risk Management & Compliance Division (RMD)

- independently assess risk exposures and coordinate 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.

3 THIRD LINE OF DEFENCE: Internal Audit Division (IAD)

- independently review 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

Risk of not achieving the Group's corporate strategy objectives 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.

RISK MANAGEMENT *(continued)*

Credit Risk

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 including Capital Management Solution (CMS), Skim Saraan Bercagar (SSB) 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

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/ sukuk 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 always meet business requirements. Reserve liquidity, which comprises of 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

Defined as 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.

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.

Regulatory Compliance Risk

Regulatory compliance risk is the failure to observe relevant laws and regulations resulting in adverse consequences that leads to fines, penalties, and reputational damage to Group's business.

The Group embedded policies that outlines overarching principles and guidelines to manage regulatory compliance risk within the Group. This includes, first line manages compliance risks inherent in business activities, to ensure the Group remains compliant. Periodic regulatory compliance reviews are independently carried out by Compliance Department (CD), on adequacy of controls and level of adherence of laws and regulatory requirements. Further, CD keep abreast of industry regulatory developments which impact the Group and provide recommendations for necessary controls to be in place.

Any incidences of non-compliance, deficiencies, corrective measures, and information are reported to the Board through Board Risk Committee (BRC), to facilitate a holistic and overall view of all compliance matters across the Group.

RISK MANAGEMENT *(continued)*

Reputational Risk

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 in place 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

Shariah non-compliance risk refers to the 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 SC including 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.

Periodic Shariah compliance review by Compliance Department (CD) and annual audit by Internal Audit Division are 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 will be reported to the Shariah Advisor, relevant Board Committee and Board.

2022 KEY RISK MANAGEMENT & COMPLIANCE HIGHLIGHTS

01 **Establishment of Reverse Mortgage Credit Committee (RMCC)** that reviews and approves the reverse mortgage (RM) applications within the set eligibility criteria.

02 **Introduction and implementation of Capital at Risk (CaR)** computation for better risk quantification and measurement to ensure that risk exposures are sufficiently backed by an adequate amount of capital.

03 Portfolio management and monitoring has been intensified and heighten to detect timely emerging threats i.e. **rigorous environmental scanning** covering holistic market outlook and its potential impact to Cagamas.

04 Provided **independent advisories and risk assessment** on business strategic initiatives to ensure risk identification, control and mitigations are provided for Management and Board to make informed decisions.

05 **Stress testing parameters have been enhanced** i.e. include CMS and refinement to crisis parameters to reflect the risk profile of Cagamas business as well as the economic outlook.

06 **Thematic risk and compliance review** conducted to identify emerging risk and to assess current risk levels with recommended adequate mitigations amongst other assessments on credit portfolio, funding risk, Shariah Compliance Review, as well as post implementation of Skim Saraan Bercagar (SBB).

07 **Assessed and updated new/ revised regulations** issued by relevant authorities in relation to risk management and compliance to the Management and the Board.

08 **Established a structured reporting of Data Loss Prevention (DLP)** alerts and incidents to the Management and Board.

09 **Established 'Monthly Reputational Risk Event Reporting' tool** to identify and conduct assessment on any emerging trends and potential reputational risk events and its impact to Cagamas.

10 Collaborated with Information Technology Department (ITD) via **providing independent assessments and feedbacks** on ITD' initiatives pertaining to risk of data loss, security of database and application, compliance to the regulatory requirements which may impact Cagamas operations and reputation.

11 **Continuous staff risk awareness** initiatives through risk and compliance trainings, newsletters and quizzes on various risk areas and emerging threats.