KEY RISKS AND MITIGATION

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 safe and sound business environment, the risk management and 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 as well as Shariah, legal 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, mitigated and priced appropriately in relation to the expected return.

Management recognises and manages the following key risk that could prevent the Group from achieving its objectives as part of its enterprise risk management. In line with the Group Sustainability Framework, climate-related risks considerations are integrated into the existing risk management process:

CREDIT RISK

Description

- Arises from Purchase with Recourse (PWR) and Purchase without Recourse (PWOR) business, mortgage guarantee programmes, *Skim Saraan Bercagar* (SSB), investment activities including Capital Management Solution (CMS), and treasury hedging activities.
- Potential financial loss arising from the failure of a borrower or counterparty to fulfil its financial or contractual obligations.

Risk Response and Mitigation

- Proactively manage credit risk with appropriate limits and thresholds are in place to ensure that all exposures to credit risks are kept within parameters approved by the Board.
- Investment activities and credit approvals are guided by internal credit policies and guidelines, including eligibility criteria that are approved by the Board.
- In general, all credit approval and monitoring processes have been carried out in line with the internal credit risk management policy.

MARKET RISK

Description

- 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.
- Potential loss arising from adverse movements of market prices and rates.

Risk Response and Mitigation

- Imposing threshold limits and entering into derivative hedging contracts based on the Group's risk appetite and risk-return considerations. These limits are regularly reviewed and monitored.
- Asset Liability Management System which that 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.
- Utilisation of derivative instruments to manage and hedge its market risk exposure against fluctuations in interest/profit rates and foreign currency exchange rates.

KEY RISKS AND MITIGATION *(continued)*

LIQUIDITY & FUNDING RISK

Description

- Funding liquidity risk may arise when the Group is unable to meet financial obligations as they fall due arising from the inability to liquidate assets or obtain adequate funding.
- Market liquidity may arise when the Group is unable to easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions.

Risk Response and Mitigation

- Management of 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 ensure effective cash flow management while avoiding any potential funding concentrations. Cash flow planning and monitoring is a crucial part of liquidity management, and every business transaction will be monitored closely to ensure adequate funds are available to meet business requirements.
- Establishment of reserve liquidity comprising marketable debt securities that serve to meet any unexpected shortfall in cash flow or adverse economic conditions in the financial markets.

OPERATIONAL RISK

Description

- Operational Risk may arise from the disruption in business operations by failed or flawed internal processes, people, systems, or external events.
- The impact of operational risks may result in direct or indirect financial losses, which eventually affect the reputation of the company.

Risk Response and Mitigation

- Each business or support unit undertakes periodic self-assessment of its own risks and controls to identify, assess and manage its operational risks.
- Each business or support unit maintains a robust internal controls, systems, and procedures, and regularly reviewed by internal and external auditors for comprehensive oversight.
- A robust Business Continuity Management (“BCM”) programme is in place as part of its operational resiliency and to minimise the potential impact and likelihood of any unexpected disruptions to its business operations.
- Planned activities of the Group’s BCM framework and policy implementation, business continuity plans and BCM exercises.
- Institution of diverse enterprise-wide scenarios and recovery strategies to expedite business and technology recovery and resumption during catastrophic events.

TECHNOLOGY RISK

Description

- May arise from various sources, including legacy systems, cyber-attacks, software malfunctions, hardware failures and data integrity issues.
- Potential for operational disruptions, financial losses and damage to an organisation’s reputation due to failures or security breaches within its technology eco-systems.

Risk Response and Mitigation

- 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.
- Data Loss Prevention (“DLP”) is a critical component of Cagamas’ technology risk management strategy to ensure data governance through identification, monitoring, and protecting data across various platforms, including on-premises systems, cloud environments and endpoint devices.

KEY RISKS AND MITIGATION *(continued)*

REGULATORY COMPLIANCE RISK

Description

- Failure to observe relevant laws and regulations, potentially resulting in fines, penalties, and reputational damage to the Group's business.
- Importance of a robust compliance framework to safeguard the Group's operations and reputation.

Risk Response and Mitigation

- Group-wide policies in place that outline overarching principles and guidelines to manage regulatory compliance risks within the Group to address key areas such as anti-bribery, anti-money laundering ("AML"), data protection, and cybersecurity.
- Periodic regulatory compliance reviews are independently carried out by Risk Management and Compliance Division ("RMD") to evaluate the adequacy of controls and adherence to laws and regulatory requirements. These reviews enable proactive identification of gaps, ensuring timely resolution. Findings from these reviews are shared with relevant stakeholders to inform adjustments to policies, procedures and business practices.
- Incidents of non-compliance, identified deficiencies, corrective measures, and tracking progress are reported to the Board through the Board Risk Committee ("BRC"). This process provides the Board with a comprehensive view of compliance matters, ensures accountability, and facilitates informed decision-making on compliance risks across the Group.
- The Group remains committed to integrating insights from compliance reviews into its overall risk management framework, enabling a culture of continuous improvement. Timelines, accountability, and tracking mechanisms are in place to ensure that any non-compliance issues are resolved effectively and efficiently.

REPUTATIONAL RISK

Description

- Perceived or real adverse effects on shareholders, investors, counterparties, customers, market analysts, regulators, employees, and other pertinent stakeholders.
- Potentially hinder the Group's capacity to uphold current or establish new business relationships, maintain credibility, and sustain stakeholders' trust and confidence.

Risk Response and Mitigation

- Establishment of a Reputational Risk Framework, delineating a structured process, tools, and controls to proficiently navigate and mitigate reputational risks across its operations. This framework operates through a three-stage approach, comprising risk assessment, early detection and escalation, and continuous risk monitoring and control of continuous improvement. Timelines, accountability, and tracking mechanisms are in place to ensure that any non-compliance issues are resolved effectively and efficiently.

SHARIAH NON-COMPLIANCE RISK

Description

- 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 to 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.
- Potential legal or regulatory sanctions, financial loss or non-financial implications, including reputational damage, which the Group may suffer.

Risk Response and Mitigation

- Consultation and obtains endorsements from an independent Shariah Advisor for all its Islamic products, transactions, and operations to ensure compliance with relevant Shariah requirements.
- 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 is conducted by RMD with endorsements by the Shariah Advisor and an annual audit by the Internal Audit Division 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 will be reported to the Shariah Advisor, the relevant Board Committee and the Board.