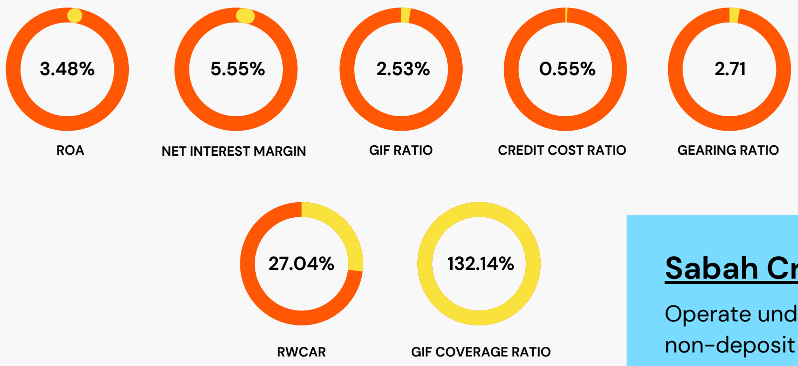
SABAH CREDIT CORPORATION
A STATUTORY BODY WHOLLY OWNED BY THE STATE GOVERNMENT OF SABAH

Financial Updates as at 31 December 2022



Objective

The primary objective of the Corporation is to help contribute towards the socio-economic development of the State of Sabah. In its capacity as a financial institution, the Corporation complements the Sabah State Government's efforts by providing or facilitating financial credits to promote and encourage private investment involving agriculture, light industry, development of rural and urban housing, shophouses and public utilities and amenities.

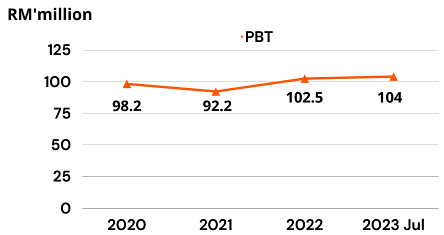
Sabah Credit Corporation

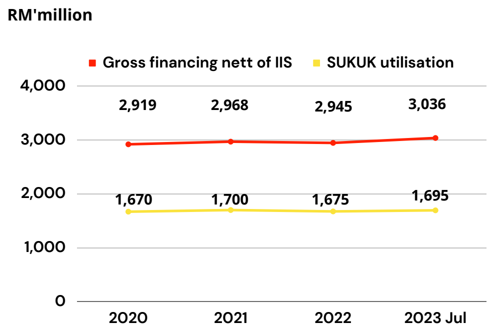
Operate under the purview of Sabah's Ministry of Finance, SCC is a non-deposit taking financial institution fully owned by the Sabah government. While the Corporation has historically provided residential property and project financing, its current financing base predominantly comprises personal financing facilities extended to federal and state civil servants. The Corporation has 13 branches and 7 collection centres accross Sabah, with a 173-strong force as at end June 2023.

RAM Rating (AA1/Stable/P1)

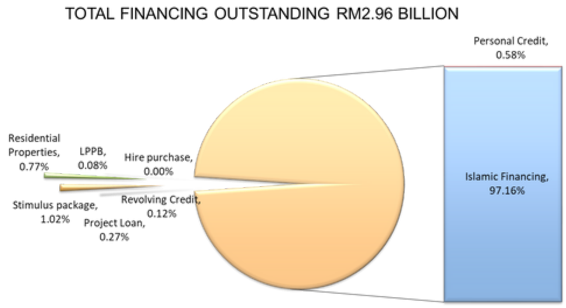
RAM Ratings has reaffirmed the AA1/Stable/P1 ratings of Sabah Credit Corporation's outstanding sukuk instruments.

Financial performance history

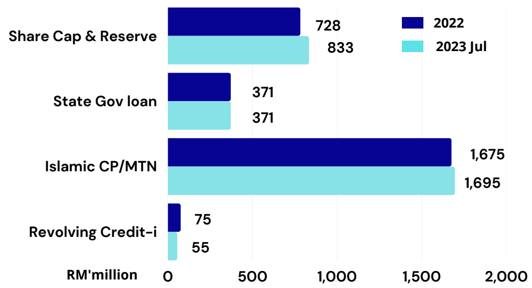


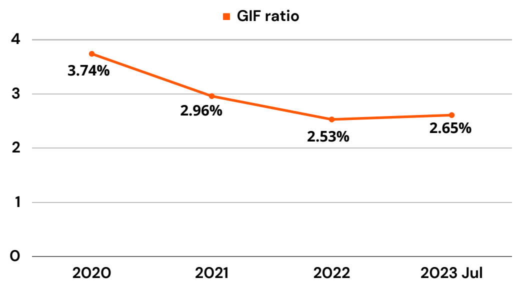


Portfolio Magnifying as at 31 December 2022



Sources of fund





Scan for latest audited financial statement

Analysis

SCC's asset quality remains sound. Its gross impaired financing (GIF) ratio eased to 2.5% as at end-December 2022 (end 2021: 3.0%, end-2020: 3.7%), thanks to a lower accretion of GIF and significant write-offs of impaired PF that was 12 months or more in arrears. Excluding impaired PF facilities that are 12 months or more in arrears and those impaired on technical grounds due to three-month moratorium in 2020, for which repayments have resumed, SCC's adjusted GIF ratio would clock in at a lower 1.7% as at end-December 2022 (end-December 2021: 1.7% on adjusted basis). All PF facilities are fully provided for once they are classified as impaired (more than three month past due).

-Source: RAM Rating Service Berhad-

Significant Events

Date	Event
Jan 2022	Reintroduction of the newly revised Mortgage Loan
Feb 2022	Launching of Kinabatangan Collection Centre
April 2022	Launching of Sook Collection Centre
May 2022	Seminar on Introduction of Section 17(A) ASPRM 2009 (Corporate Liability)
June 2022	Launching of Beluran Collection Centre
July 2022	Opening of the SCC Outlet, Wisma UTC
Aug 2022	Reintroduction of the newly revised Private Housing Loan
Sept 2022	Anti Money Laundering and Counter Financial Terrorism Knowledge Program (Enhance Integrity)
	Awareness Program on (AML/CFT) to Branches, Cashier and front liner in order to meet the LOR 1 and 2 execution

Corporate Social Responsibilities

In December 2018, the incorporation of Yayasan Perbadanan Pinjaman Sabah was made official to streamline the management of its CSR projects through the utilisation of the Corporation's 10% annual profit before tax.

Most of the projects concentrated around the construction of rural hostels, school's multipurpose hall and the less fortunates. In addition for 2022, SCC has approved RM3.4mil worth of CSR project. Nevertheless, SCC continue to support the social development of the Corporation's mandate.

Food Basket to Kg Biau Bongawan
26.4.2022

Handover Asrama Desa Pekan Kota Marudu
7.7.2022

Donation of HDPE Pipe to Kg. Baru Jumpa, Tenom
13.09.2022

Donation of Water Gravity Equipment for Kg Pamilaan Laut & Kg Ulu Tepo
16.11.2022

Members Of The Corporation

Datuk Dr. Yee Moh Chai
(Chairman)

Datuk Surinam Binti Sadikun
(Deputy Chairman)

Mr. George Taitim Tulas
(Secretary)

Yb Datuk Seri Panglima
Sr. Hj. Safar Bin Untong, Jp
(Member)

Mr Mohd Sofian Alfian Nair
(Permanent Secretary - Ministry Of Finance)

Sr. Bernard Liew Chau Min
(Director - Lands & Surveys Department)

Mr. Jifrin Hj. Mohamad
(Director - Agriculture Department)

Datuk Hj. Kaim Kalimin
(Member)

Mr. Nixon Bin Hj. Abdul Habi
(Member)

Mr. Willie Tadam
(Member)

Hjh. Zaitun Dsp Hj. Mohd Kassim
(Member)

Management Team

Mr. George Taitim Tulas
(Chief Executive Officer)

Mr. Victor Monsibol
(Deputy CEO-Operation)

Mr. Richard Chiew
(Deputy CEO-Admin)

Mr. Nelson Chan
(Deputy CEO-Technology)

Ms. Patricia Chow
(Head of Finance Department)

Mr. Charles Peter Mojuntin
(Head of Internal Audit Department)

Mr. Chang Kok Kien
(Head of Credit Department)

Mr. Johari Ahmad
(Head of Recovery Department)

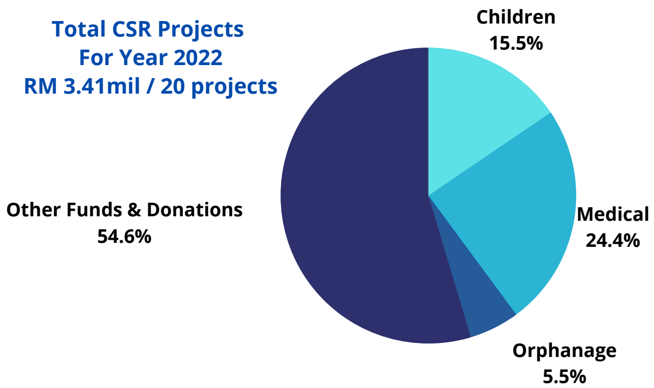
Ms. Doreen Lajuat
(Head of Human Resource Department)

Mr. Ismail Benjamin
(Head of Property Management Department)

Ms. Salina Salimi
(Head of Admin Logistic Department)

Mr. Zahir Ridwan Bin Zainal
(Head of CEO Office Department)

Total CSR Projects For Year 2022
RM 3.41mil / 20 projects



Client Service Centres around Sabah

CREDIT RATING RATIONALE

CORPORATE RATINGS

RAM
RATINGS

Sabah Credit Corporation

- RM3.5 billion Islamic Medium-Term Notes Programme (2014/2039)
- RM1 billlion Islamic Medium-Term Notes Programme (2011/2031)
- RM1.75 billion Islamic Commercial Papers Programme (2021/2028)

June 2023

CREDIT RATING RATIONALE
CORPORATE RATINGS
June 2023

Sabah Credit Corporation
Rating Review

Ratings

i. RM1 billion Islamic Medium-Term Notes Programme (2011/2031):
AA_1/Stable [Affirmed]

ii. RM3.5 billion Islamic Medium-Term Notes Programme (2014/2039):
AA_1/Stable [Affirmed]

iii. RM1.75 billion Islamic Commercial Papers Programme (2021/2028)
P1 [Affirmed]

ESG Credit Impact Assessment

Environment Risk	Neutral
Social Risk	Neutral
Governance Risk	Neutral

(See Appendix for definitions and click here for more sustainability insights)

Last Rating Action
13 June 2022

Analysts
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Wong Yin Ching, CFA
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yinching@ram.com.my

Related Criteria, Methodologies and Publications
i. Financial Institutions, December 2008
ii. Government-linked Financial Institutions, June 2015

Rating Action Basis

- The affirmation of Sabah Credit Corporation's (SCC or the Corporation) issue ratings incorporates our expectation of ready financial support from the Sabah state government, which wholly owns the Corporation. The ratings also reflect the Corporation's healthy profitability, comfortable gearing and well-controlled asset quality risks. While asset quality slippages cannot be ruled out, we expect any weakening in this respect to be manageable given the Corporation's civil servant-centric personal financing (PF) book where repayments are effected via non-discretionary direct salary deductions.

Rating Drivers

\+ **Ready support from Sabah government.** SCC's primary objective is to enhance Sabah's socio-economic development. The state government has shown strong support through the subordination of state borrowings to SCC's debt securities and the conversion of some of these borrowings into share capital. It has also provided letters of support for the Corporation's debt securities.

\+ **Healthy profitability underpinned by lucrative PF portfolio.** SCC's profitability is underpinned by its large base of high-yielding PF facilities. The Corporation's net financing margin (NFM) held steady at 5.6% in FY Dec 2022 (FY Dec 2021: 5.6%). The successive overnight policy rate hikes last year did not affect SCC's margins as both its PF facilities and a sizeable portion of its funding are long-term and secured on fixed rates[1]. Pre-tax profit improved by 11% y-o-y in FY Dec 2022, chiefly owing to the absence of a one-off financing moratorium modification loss of RM18.8 mil incurred the previous year.

\+ **Non-discretionary salary deduction feature moderates asset quality risks.** Personal financing comprises 98% of SCC's financing base. Almost all these facilities feature salary deduction arrangements with Biro Perkhidmatan Angkasa (Angkasa) and the Sabah state treasury, which mitigate credit risk to a large extent. As at end-December 2022, SCC's overall GIF ratio abated further to 2.5% (end-2021: 3.0%; end-2020: 3.7%), thanks to a lower accretion of GIF and significant write-offs of impaired PF that was 12 months or more in arrears.

We note that the Corporation's write-off of defaulted PF is slower than peers' due to bureaucratic policies. Excluding impaired PF facilities that are 12 months or more in arrears and those impaired on technical grounds due to the three-month moratorium in 2020, for which repayments have resumed, SCC's adjusted GIF ratio would clock in at a lower 1.7% as at end-December 2022 (end-December 2021: 1.7% on an adjusted basis). All PF facilities are fully provided for once they are classified as impaired (more than three months past due). The Corporation's GIF coverage stood at a higher 132% (end-December 2021: 115%) while its credit cost rose to 55 bps in FY Dec 2022 (FY Dec 2021: 20 bps).

\+ **Comfortable gearing.** SCC's gearing ratio continued to improve to 2.7 times as at end-December 2022 (end-December 2021: 3.0 times) on the back of healthy earnings accretion and muted financing growth. Considering the nature of its business, the ratio is viewed to be comfortable. If adjusted to exclude borrowings from the state government, which are

[1] As at end-December 2022, fixed-rate sukuk made up 79% of SCC's funding.

subordinated to SCC's sukuk programmes, the Corporation's gearing would stand at a lower 2.2 times.

- **Small industry player; keen competition.** With an asset base of RM2.8 bil as at end-December 2022, SCC is one of the smallest players in the Malaysian PF space. This is partly due to the Corporation's geographical scope which is confined to the state of Sabah.[2] This contrasts with the financing portfolio of its closest competitors – Bank Kerjasama Rakyat Malaysia Berhad and Malaysia Building Society Berhad – which operate nationwide. Stiff competition from banks also puts pressure on the Corporation's PF growth, although its strength in managing customer relationships has helped stem the impact of cannibalisation to a certain degree.

- **Dependence on market-based, wholesale funding gives rise to refinancing risk.** SCC relies on the debt capital market as well as bank and state borrowings, to a lesser extent, to fund its financing activities. This could potentially bring about refinancing and liquidity risks, particularly during times of heightened market uncertainty. These risks are partly mitigated by undrawn banking lines amounting to RM470 mil as at end-December 2022 (end-December 2021: RM335 mil). These facilities however are uncommitted. We believe support from the state government will be readily extended if required.

- **Susceptibility to PF sector developments given significant concentration.** With 98% of its financing base consisting of PF facilities, SCC faces a significant level of concentration risk. This renders the Corporation susceptible to adverse industry, competitive and regulatory developments. Recently introduced financing products such as housing loans and government contract financing, as well as the development of a proprietary digital financial services platform are aimed at diversifying the Corporation beyond its monoline business. This may give rise to additional credit risk.

Rating Outlook: Stable

- The stable rating outlook is premised on our expectation of continued support for SCC from the Sabah government. The Corporation's asset quality is anticipated to remain steady, backed by its mostly payroll-deductible PF. SCC's comfortable financing loss coverage and healthy profitability also provide an adequate buffer against potential credit deterioration.

Rating Triggers

- Upside potential: Any rating upside is limited as substantial state support has already been factored into the ratings.

- Downward pressure: The ratings may be downgraded if the Sabah government's propensity or ability to extend extraordinary support diminishes. Prolonged liquidity stress in the capital market and/or sharp deterioration in the Corporation's asset quality would also exert downward pressure.

[2] As per Sabah Credit Corporation Enactment No. 22 of 1981.

Company Description

Operating under the purview of Sabah's Ministry of Finance, SCC is a non-deposit taking financial institution fully owned by the Sabah government. While the Corporation has historically provided residential property and project financing, its current financing base predominantly comprises PF facilities extended to federal and state civil servants. The Corporation has 13 branches and seven collection centres across Sabah, with a 167-strong staff force as at end-December 2022.

SCC enjoys a strong relationship with the state government. Evidence of past support includes the subordination of SCC's existing and future state government borrowings to its debt securities, the conversion of loans into share capital and state letters of support for SCC's debt securities. We believe state support will be readily extended if needed.

SCC has previously been involved in state-related initiatives outside its core financing operations. The Corporation took over loans originated by Lembaga Pembangunan Perumahan dan Bandar (Housing and Town Development Authority) for three low-cost housing projects developed by the latter, along with the associated funding attached to these loans. In November 2007, SCC formed a joint venture with Kota Kinabalu Industrial Park – a state-linked entity – to develop a residential property project in Sepangar Bay. The first phase of the project – launched in October 2009 – was fully sold but the launch and development of subsequent phases have been put on hold. SCC has also been tasked with providing building management services for the Urban Transformation Centre (UTC) in Sabah. The establishment of UTC Sabah had involved the refurbishment of two unoccupied buildings owned by SCC, to house government agencies.

In February 2020, SCC launched a mobile application – Sabah Pay – which was jointly developed with Sunline International (Malaysia). Besides being an alternative government bill payment channel, Sabah Pay alerts users to news from government departments and major events in the state. Boost's e-wallet serves as the only payment option in Sabah Pay at present. SCC plans to incorporate other payment options like the financial process exchange (FPX) and credit cards in the near term. The Corporation is also in the process of developing Pay2me – its own e-wallet application which will cater to both public sector and retail services – as well as Yono, a mobile platform for loan applications. Sabah Pay is currently loss-making although the quantum is not material.

ESG Risk Assessment

Environmental

Neutral	**Material E factors**	-

Social

Neutral	**Material S factors**	Selling practices Customer privacy

Governance

Neutral	**Material G factors**	Risk Management

- **Exposure to social risk via PF operations.** Its PF operations expose SCC to social risks relating to customer privacy and selling practices. These operations deal with large volumes of sensitive personal information that could be at risk of data leaks caused by cybersecurity breaches or employee negligence. Failure to provide transparent information to customers about products and services can also be viewed as unfair or deceptive.

- **Lagging ESG practices**. SCC appears to lag in its environmental, social and governance (ESG) practices compared to peers. The Corporation does not have an ESG or a sustainability framework at present. It however does not provide financing to highly leveraged borrowers in most instances as Angkasa and the State Treasury enforce a salary deduction cap of 60% on new disbursements.

Peer Comparison

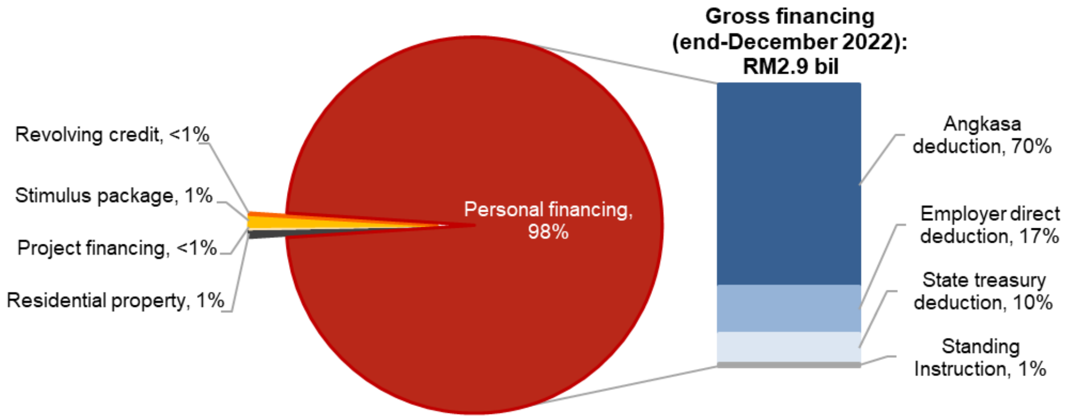
Table 1: Peer Comparison

	Sabah Credit Corporation		Bank Kerjasama Rakyat Malaysia Berhad		MBSB Bank Berhad	
Corporate Credit Rating / Financial Institution Rating	AA_1/Stable/P1		AA_2/Stable/P1		A_2/Stable/P1	
FY	Dec 2021	Dec 2022	Dec 2021	Dec 2022	Dec 2021	Dec 2022
Total assets (MYR bil)	2.9	2.9	115.1	117.3	49.6	54.1
Gross financing (MYR bil)	3.0	2.9	79.6	80.4	35.3	37.9
Pre-tax profit/(loss) (MYR bil)	0.1	0.1	1.6	1.7	0.7	0.6
GIF ratio (%)	3.0	2.5	1.7	2.0	2.7	5.5
Financing credit cost ratio (%)	0.2	0.6	0.7	0.6	0.2	0.6
GIF coverage ratio^ (%)	114.7	132.1	195.7	191.9	133.8	66.0
Net financing margin (%)	5.6	5.6	3.3	3.2	3.3	2.8
Non-financing income / Gross income (%)	7.2	8.9	6.4	8.8	4.9	3.6
Return on assets (%)	3.2	3.5	1.4	1.5	1.4	1.2

^ Includes regulatory reserves where applicable

Risk Profile

Figure 1: Personal financing constituted almost all of SCC's financing base



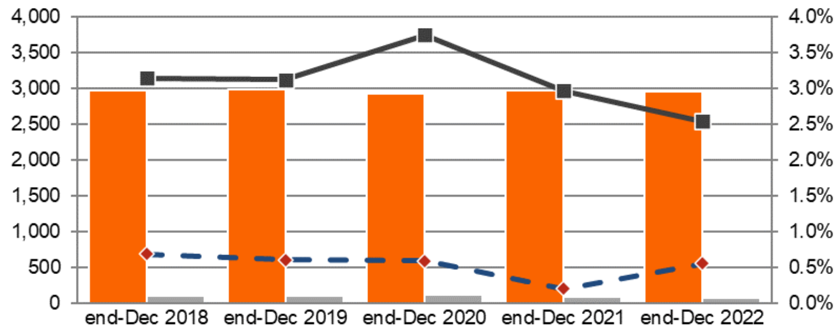
Source: SCC
Note: Percentages in chart may not add up due to rounding

- **Challenging growth prospects.** SCC's financing book remained largely stagnant, contracting by a marginal RM22 mil to reach RM2.9 bil as at end-December 2022 (end-December 2021: +1.7% or +RM49 mil). Historically, a portion of loan growth has been attributed to refinancing before maturity, as customers seize the opportunity to obtain larger facilities enabled by salary increases. However, many SCC customers who took up the Covid-19 promotional campaign offer[3] (which featured lower financing rates and longer tenures) had not refinanced under normalised rates during the year. This resulted in a lower refinancing rate which led to the minimal growth contraction last year. Overall, financing growth has been challenging over the last few years in view of intense competition from commercial banks in an already saturated market.

  To diversify its financing portfolio, SCC is actively introducing new products like housing loans and government contract financing. SCC is currently focusing on developing digital offerings, specifically its e-wallet and payment platform for government-related services as well as a micro-financing application platform. These channels also serve as data analytics avenues to identify potential customers with strong credit profiles.

- **Salary deduction mitigates credit risk.** The sizeable exposure to PF (98% of total financing) renders the Corporation susceptible to concentration risk. Almost all the PF facilities are extended to civil servants and repaid via non-discretionary salary deductions administered by Angkasa, the Sabah state treasury or state-related agencies, and government-linked companies. The salary deduction feature and the historically low attrition rate of government employees significantly mitigate the credit risk associated with this portfolio.

Figure 2: Post-Covid improvement in asset quality



	end-Dec 2018	end-Dec 2019	end-Dec 2020	end-Dec 2021	end-Dec 2022
Gross financing (RM mil)	2,962	2,977	2,919	2,967	2,945
GIF (RM mil)	93	93	109	88	75
GIF ratio (%)	3.1%	3.1%	3.7%	3.0%	2.5%
Credit cost ratio (%)	0.7%	0.6%	0.6%	0.2%	0.5%

Note: GIF ratio spiked in FY Dec 2020 on the back of PF facilities becoming technically impaired due to the three-month moratorium on loan repayments. The ratio subsequently declined as borrowers settled arrears or refinanced the facilities.

- **Continued improvement in asset quality indicators.** Total GIF decreased to RM74.6 mil as at end-December 2022 (end-December 2021: RM87.8 mil), translating to a lower overall GIF ratio of 2.5% (end-December 2021: 3.0%). SCC's net newly impaired financing ratio – which disregards the effect of write-offs – increased only slightly to 0.3% from 0.2% the year before. The lower GIF ratio was largely attributed to continued sizeable writeoffs involving impaired financing facilities that were 12 months or more in arrears (RM22.4 mil). A similar write-off of RM23 mil is expected for FY Dec 2023.

[3] Running from July 2020 to December 2021, the campaign offered PF at lower profit rates for up to 15-year tenures (vs 10 years). Customers were also allowed a three-month grace period on principal and interest repayment (vs one month), along with administrative fee waivers and a one-month advance salary deduction.

While accounting for only 2% of its financing book, non-PF segments made up a notable 22% of the Corporation's GIF. Most of these facilities are legacy financing and have been gradually written off or recovered. The introduction of state-backed funding schemes[4] in 2020 saw an uptick in non-PF defaults, although the quantum is relatively small (RM5 mil). SCC's GIF coverage stayed healthy at 132% (end-December 2020: 115%) while its credit cost inched back up to 55 bps in FY Dec 2022 (FY Dec 2021: 20 bps).

Table 2: Slower GIF formation and continued write-offs in 2022 reduced impaired financing

RM mil	FY Dec 2020	FY Dec 2021	FY Dec 2022
Balance at beginning of financial period	92.7	109.2	87.8
Classified as impaired (A)	34.6	16.1	17.3
Reclassified as non-impaired (B)	(1.1)	(7.8)	(5.4)
Recoveries (C)	(0.6)	(3.1)	(1.9)
Amount written off	(16.4)	(26.5)	(23.1)
Other adjustments (modification loss on moratorium)	-	-	(0.1)
Balance at end of financial period	109.2	87.8	74.6
Net formation of new impaired financing (A+B+C) as % of average gross financing	1.1%	0.2%	0.3%

Source: SCC

- **Slower write-offs compared to peers.** The GIF ratio of the PF portfolio eased to 2.0% as at end-December 2022 (end-December 2021: 2.5%), albeit remaining higher than those of its peers such as Bank Kerjasama Rakyat (end-June 2022: 0.9%) and MBSB Bank (end-December 2022: 0.3%). To some extent, this is due to historically slower write-offs of the Corporation's impaired PF, some of which can be overdue for longer than 12 months. This is despite the fact that PF facilities more than three months in arrears are fully provided for. All collection efforts must be exhausted before impaired accounts are submitted to the board of members and the Sabah Minister of Finance for approval to be written off.

  Adjusting to exclude impaired PF 12 months or more in arrears and those technically impaired due to the 2020 moratorium but had since resumed payments, the GIF ratio of the PF portfolio would have clocked in at a better 1.2% as at end-December 2022 (end-December 2021: 1.2%). The overall adjusted GIF ratio would have stood at 1.7% on the same date (end-December 2021: 1.7%).

- **New financing products may pose credit risk.** As part of its strategy to move towards secured financing, SCC has introduced new products in recent years, such as revolving credit facilities[5] and housing loans. Take-up of the Corporation's private housing loan facility, rolled out in June 2022, has been muted. SCC also plans to launch two new non-salary deductible short-term micro PF products via its digital platform, with financing limits of RM1,000 and RM5,000, respectively. While these products may pose some credit risk, the allocations for both are small at a respective RM5 mil and RM50 mil.

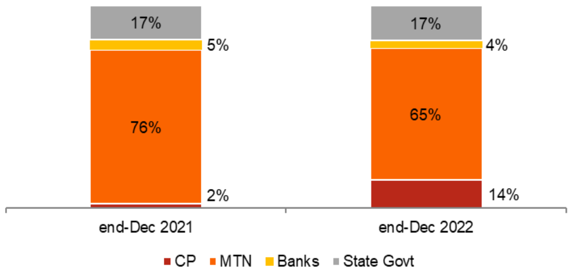
  The RM120 mil granted to SCC for the earlier mentioned state-backed funding schemes comes at zero or very low interest rates, although the Corporation bears all the credit risk. As at end-December 2022, total financing under these schemes amounted to RM40 mil, with a relatively

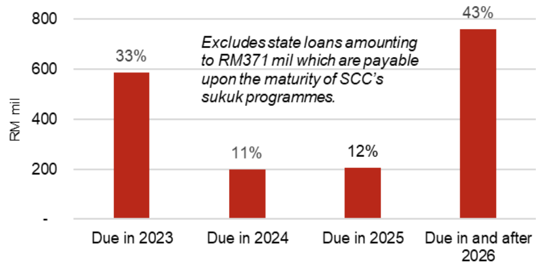
[4] In 2020, the state government granted SCC RM120 mil for funding schemes targeting four segments affected by the pandemic – youth & entrepreneurs, small-medium enterprises, micro-enterprises and the agricultural sector. No repayment period was stipulated, and a cost of 1% p.a. was imposed on the funding, except for RM25 mil allocated to the agricultural sector (zero cost). As at end-December 2022, financing outstanding stood at RM30 mil, with GIF of RM5 mil.
[5] Targeted at small businesses, these facilities require customers to provide security in the form property. Outstanding financing stood at RM3.5 mil as at end-December 2022 (end-December 2021: RM1.9 mil).

high default rate of 12.5%. Meanwhile, under its upcoming Contract Credit Facility, SCC will finance small contractors with secured contracts awarded by government ministries and departments and approved agencies. The amount of financing per contract is estimated to be less than RM1 mil.

Funding & Liquidity

Figure 3: MTNs dominate funding



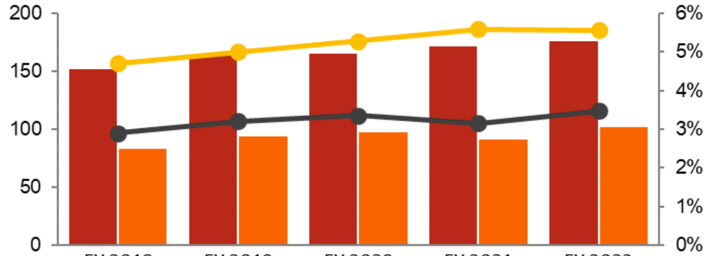


Source: SCC
MTN = Medium-term notes
CP = Commercial Papers

- **Refinancing and liquidity risks.** As it cannot accept deposits, SCC funds its operations through sukuk issuances, credit facilities from banks and state borrowings. About 33% of the Corporation's non-state borrowings are due in 2023. Its reliance on market-based, wholesale funding exposes SCC to potential refinancing and liquidity risks especially during periods of heightened market uncertainty. The Corporation's undrawn banking lines amounting to RM470 mil as at end-December 2022 (end-December 2021: RM335 mil), although uncommitted, partly mitigate these risks. We anticipate state funding support to be forthcoming when required.

Financial Performance

Figure 4: Broad margins underpin healthy profitability



	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Gross income (RM mil)	153	165	166	172	177
Pre-tax income (RM mil)	84	95	98	92	102
Net financing margin (RM mil)	4.7%	5.0%	5.3%	5.6%	5.6%
ROA (%)	2.9%	3.2%	3.4%	3.2%	3.5%

Source: SCC
ROA = Return on assets

- **Healthy profitability to be pressured in 2023.** SCC generally enjoys wider margins compared to commercial banks on account of its large exposure to high-yielding PF. The Corporation maintained a broad NFM of 5.6% in FY Dec 2022 (FY Dec 2021: 5.6%; FY Dec 2020: 5.3%) despite the 100-bp increase in interest rates during the year as both financing and funding rates were secured on a fixed basis. Pre-tax profit was up 11% y-o-y at RM102 mil in fiscal 2022 (2021: RM92 mil), chiefly owing to the absence of the one-off modification loss of RM18.8 mil incurred in the previous year. We expect to see some margin compression this year, given that funding costs are expected to rise as maturing sukuk are rolled over at higher rates. This, coupled with hefty digitalisation expenditure[6], will likely exert pressure on SCC's profit performance in the near term.

  The recently reported proposal to remove the Rule of 78[7] in finance income recognition will only affect new facilities when it comes into effect. As SCC already recognises PF income based on effective profit rate, any potential negative impact to the future profitability of this portfolio is anticipated to be small.

Capitalisation

- **Comfortable gearing.** SCC's gearing ratio continued to improve to 2.7 times as at end-December 2022 (end-December 2021: 3.0 times) on the back of healthy earnings accretion and muted financing growth, displaying a steady decline from 4.3 times at end-December 2017. Considering the nature of its business, the ratio is viewed to be comfortable. Adjusting to exclude state borrowings, which are subordinated to SCC's sukuk programmes, gearing would be a lower 2.2 times.

[6] The RM30.7 mil budgeted for digitalisation expenditure is spread over five years from 2022 to 2026.
[7] Finance income is computed based on total principal, without considering the reduction in principal outstanding after each repayment. Finance income charges are front-loaded in the earlier months of the financing tenure.

State Implicit Strength

Note: The assessment of the State of Sabah is based on publicly available information. Data sources include Department of Statistics Malaysia, the Sabah State Budget Speech 2023 and the Auditor General's Report on the Sabah State Government Financial Statements.

- **Commodity-centric economy.** Sabah's growth trend is inherently volatile due to its large exposure to the agriculture and mining sectors, which in aggregate accounted for 42% of the state's GDP in 2021. The cyclical growth trend was evident in Sabah's economic contraction of 9.5% in 2020 (the steepest among the Malaysian states) as exports of petroleum and refined petroleum products fell sharply following the plunge in crude oil prices (2020 average: USD42/barrel; 2019: USD64/barrel). The Movement Control Order in 2020 also led to lower crude palm oil (CPO) production (-11.4% y-o-y) and weak tourism activities. Following GDP growth of 1.1% in 2021, Sabah's economy is expected to expand at a stronger 4%-5% in 2022 and 2023, driven by the re-opening of the economy and stronger commodity prices.

- **Relatively high poverty and unemployment levels.** Longstanding structural factors including poor infrastructure and the lack of reliable water and electricity supply in parts of Sabah limit business competitiveness and employment opportunities. These have led to high poverty and unemployment levels compared to other states. The pandemic exacerbated these indicators, which came in at 25.3% and 8.5%, respectively, in 2020 (2019: 19.5% and 5.9%). In this regard, ongoing works related to the Pan Borneo Highway and the electrification of the east coast of Sabah can help attract investments and stimulate the state's economic development in the longer term.

- **State finances lifted by additional income sources stipulated in Constitution.** While most Malaysian states derive the bulk of their income from Federal Government grants and transfers, the Federal Constitution accords Sabah and Sarawak additional revenues. The most prominent of these allows both Sabah and Sarawak to impose a state sales tax on petroleum products within their borders, which was implemented by the Sabah state government on 1 April 2020. The full-year collection of the state sales tax on petroleum products added RM1.5 bil to state government revenue in 2021 (26% of total revenue) (2020: RM178 mil).

- **Commendable fiscal track record.** Sabah has a track record of prudent budgeting and fiscal surpluses. After the pandemic blip in 2020, receipts of RM1.5 bil from the state sales tax on petroleum products in 2021 allowed the state government to end the year with a strong fiscal surplus of RM1.1 bil. The surge in crude oil and CPO prices in 2022 will further lift revenue, estimated at RM6 bil by the state government. Meanwhile, Sabah's exposure to contingent liabilities from letters of support or comfort extended to state-owned entities is manageable. Potential upside to the state government's finances from ongoing negotiations on the Malaysia Agreement 1963 will help absorb any unforeseen calls on contingent liabilities.

- **Aligned with Federal Government despite political changes**. Sabah is viewed to be strategically important to the Federal Government, given its sizeable representation in the Dewan Rakyat (25 out of 222 seats, third highest after Sarawak and Johor) and its wealth of natural resources. These characteristics ensure that Sabah's relationship with the Federal Government stays supportive and stable despite shifts in the national political landscape.

Issue Details

i. RM1 billion Islamic Medium-Term Notes Programme (2011/2031):

Islamic Contract	Musharakah
Profit Margin	Determined at issuance
Tenure	20 Years
Lead Arranger	AmInvestment Bank Berhad
Trustee	AmTrustees Berhad
Shariah Adviser	Dr Daud Bakar
Securities	None

ii. RM3.5 billion Islamic Medium-Term Notes Programme (2014/2039):

Islamic Contract	Musharakah
Profit Margin	Determined at issuance
Tenure	25 Years
Lead Arranger	AmInvestment Bank Berhad
Trustee	AmTrustees Berhad
Shariah Advisers	AmInvestment Bank Berhad and Amanie Advisor Sdn Bhd
Securities	None

iii. RM1.75 billion Islamic Commercial Papers Programme (2021/2028):

Islamic Contract	Musharakah
Profit Margin	Determined at issuance
Tenure	7 Years
Lead Arranger	AmInvestment Bank Berhad
Trustee	AmTrustees Berhad
Shariah Adviser	AmBank Islamic Berhad
Securities	None

Corporate Information

Date of Incorporation	15 June 1955
Major Shareholders	Sabah Government – 100%
Board Members	Datuk Seri Panglima Dr Yee Moh Chai (chairman) Datuk Surinam Binti Sadikun Datuk Mohd Sofian Alfian Nair Datuk Sr Bernard Liew Chau Min Mr. Jifrin Hj. Mohamad YB Datuk Seri Panglima Sr Hj. Safar Bin Untong Datuk Hj. Kaim Kalimin Mr. Nixon Bin Hj. Abdul Habi Mr. Willie Tadam Hjh. Zaitun Dsp Hj. Mohd Kassim Mr. George Taitim Tulas
Auditor	Auditor General
Key Management	Mr. George Taitim Tulas (Chief Executive Officer) Mr. Victor Monsibol (Deputy Chief Executive Officer, Operation) Mr. Richard Chiew Wing Woh (Deputy Chief Executive Officer, Human Resource / Administration & Property) Mr. Nelson Chan Kin Ren (Deputy Chief Executive Officer, Technology) Mr. Charles Peter Mojuntin (Chief Audit Officer) Ms. Patricia Chow Siew Ping (Chief Financial Officer) Mr. Zahir Ridwan Bin Zainal (Head of CEO's Office) Mr. Chang Kok Kien (Chief Operation Officer) Mr. Johari Ahmad (Head of Recovery) Ms. Doreen Lajuat (Head of Human Resource) Mr. Ismail Benjamin (Head of Admin & Logistic) Mr. David George (Head of Property Management)

Financials

STATEMENT OF FINANCIAL POSITION (MYR Million)	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22
Property, Plant & Equipment	36.03	36.65	36.13	25.51	27.16
Leased Assets	0.00	0.00	0.00	0.00	0.00
Investments in Associates/Jointly Controlled Entities	1.50	1.48	1.46	1.43	1.40
Deferred Tax Assets	0.00	0.00	0.00	0.00	2.57
Other Investments & Non-Current Assets	1.10	1.12	1.17	11.16	12.01
Goodwill & Intangible Assets	0.00	0.00	0.00	0.00	0.00
Gross Financing	2,962.39	2,977.39	2,918.53	2,967.46	2,945.18
Total Impairment Allowances	*(105.17)*	*(111.26)*	*(116.17)*	*(100.75)*	*(98.58)*
Other Adjustments	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Net Financing	2,857.22	2,866.13	2,802.36	2,866.71	2,846.59
Contract Assets	0.00	0.00	0.00	0.00	0.00
Contract Costs	0.00	0.00	0.00	0.00	0.00
Other Current Assets	9.97	6.63	33.02	4.97	7.94
Amounts Due from Holding/Related Companies & Directors	0.00	0.00	0.00	0.00	0.00
Amount Due from Associates/Jointly Controlled Entities	4.00	4.00	4.00	4.00	4.00
Cash and Cash Equivalents	21.75	44.49	17.45	34.33	48.13
Total Assets	**2,931.56**	**2,960.49**	**2,895.59**	**2,948.10**	**2,949.82**
Share Capital	200.00	200.00	200.00	200.00	200.00
Equity-Like Hybrid Capital	0.00	0.00	0.00	0.00	0.00
Share Premium	0.00	0.00	0.00	0.00	0.00
Treasury Shares	0.00	0.00	0.00	0.00	0.00
Retained Profits/(Accumulated Losses)	371.21	424.13	478.12	528.99	582.82
Other Reserves	0.00	0.00	0.00	0.00	0.00
Non-Controlling Interests	0.00	0.00	0.00	0.00	0.00
Total Equity	**571.21**	**624.13**	**678.12**	**728.99**	**782.82**
Short-Term Bonds/Sukuk	880.00	920.00	930.00	1,010.00	510.00
Amounts Due to Holding/Related Companies & Directors	0.00	0.00	0.00	0.00	0.00
Amounts Due to Associates/Jointly Controlled Entities	0.00	0.00	0.00	0.00	0.00
Other Short-Term Debts	326.22	287.38	401.90	348.78	315.67
Trade Payables	0.00	0.00	0.00	0.00	0.00
Contract Liabilities	0.00	0.00	0.00	0.00	0.00
Taxation	0.00	3.08	3.15	1.93	8.05
Dividends Payable	0.00	0.00	0.00	0.00	0.00
Other Current Liabilities	35.42	35.90	30.49	32.03	32.58
Deferred Tax Liabilities	0.00	0.00	0.00	0.00	0.00
Other Non-Current Liabilities	1.80	1.71	4.29	4.05	4.25
Debt-Like Hybrid Capital	0.00	0.00	0.00	0.00	0.00
Long-Term Bonds/Sukuk	1,110.00	1,070.00	740.00	690.00	1,165.00
Other Long-Term Debts	6.91	18.29	107.64	132.32	131.43
Total Liabilities	**2,360.35**	**2,336.36**	**2,217.46**	**2,219.12**	**2,166.99**
Total Equity + Total Liabilities	**2,931.56**	**2,960.49**	**2,895.59**	**2,948.10**	**2,949.82**

Financials

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (MYR Million)	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22
Interest Income	230.14	237.60	234.94	230.86	230.71
Interest Expense	(96.26)	(93.43)	(83.70)	(71.15)	(69.69)
Net Interest Income	**133.88**	**144.16**	**151.24**	**159.71**	**161.02**
Non-Interest Income	19.42	20.71	15.03	12.30	15.69
Gross Income	**153.30**	**164.87**	**166.27**	**172.02**	**176.71**
Operating Expenses	(46.33)	(48.37)	(47.52)	(51.88)	(54.49)
Depreciation & Amortisation	(2.87)	(3.11)	(3.23)	(3.18)	(3.38)
Operating Income before Impairment Charges	**104.10**	**113.39**	**115.52**	**116.95**	**118.84**
Net Impairment Charges on Financing	(20.05)	(18.00)	(17.34)	(5.75)	(16.21)
Operating Income after Impairment Charges	**84.05**	**95.40**	**98.19**	**111.20**	**102.63**
Non-Recurring Items	(0.19)	0.02	0.05	(18.94)	(0.10)
Share of Profit/(Loss) of Associates/Jointly Controlled Entities	(0.05)	(0.01)	(0.02)	(0.03)	(0.03)
Pre-Tax Profit/(Loss)	**83.81**	**95.41**	**98.22**	**92.23**	**102.50**
Taxation	(22.09)	(26.49)	(25.89)	(23.02)	(31.22)
Net Profit/(Loss)	**61.72**	**68.92**	**72.33**	**69.21**	**71.28**
Profit/(Loss) from Discontinued Operations	0.00	0.00	0.00	0.00	0.00
Other Comprehensive Income/(Loss)	0.00	0.00	(1.34)	(0.84)	(0.43)
Total Comprehensive Income/(Loss)	**61.72**	**68.92**	**70.99**	**68.37**	**70.84**
Additional Disclosure:					
Profit/(Loss) Attributable to Non-Controlling Interests	0.00	0.00	0.00	0.00	0.00
Dividends - Ordinary Shares & Preference Shares	15.00	16.00	17.00	17.50	17.00

Financials

KEY FINANCIAL RATIOS	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22
PROFITABILITY (%):					
Net Interest Margin	4.68%	4.98%	5.28%	5.58%	5.55%
Cost to Income	30.22%	29.34%	28.58%	30.16%	30.84%
Pre-Impairment Return on Assets	3.57%	3.85%	3.95%	4.00%	4.03%
Return on Assets	2.88%	3.24%	3.35%	3.16%	3.48%
Return on Equity	15.13%	15.96%	15.08%	13.11%	13.56%
CAPITALISATION (times):					
Leverage	5.13	4.74	4.27	4.04	3.77
Gearing Ratio	4.07	3.68	3.21	2.99	2.71
Internal Rate of Capital Generation (%)	8.43%	8.85%	8.50%	7.35%	7.18%
LIQUIDITY (TIMES):					
Cash and Cash Equivalents to Short-Term Debts	0.02	0.04	0.01	0.03	0.06
Short-Term Debts to Total Debt (%)	51.92%	52.59%	61.11%	62.30%	38.91%
INTEREST COVERAGE (TIMES):					
Interest Coverage Ratio	1.90	2.05	2.21	2.61	2.52
ASSET QUALITY (%):					
Gross Impaired Financing Ratio	3.14%	3.11%	3.74%	2.96%	2.53%
Credit Cost Ratio	0.68%	0.61%	0.59%	0.20%	0.55%
Gross Impaired Financing Coverage Ratio	113.12%	120.03%	106.41%	114.71%	132.14%

Financials

KEY FINANCIAL RATIOS	FORMULAE
PROFITABILITY (%):	
Net Interest Margin	Net Interest Income / Average Interest Earning Assets
Cost to Income	Operating Expenses / (Net Interest Income + Non-Interest Income)
Pre-Impairment Return on Assets	Operating Income before Impairment Charges / Average Total Assets
Return on Assets	Pre-Tax Profit/(Loss) / Average Total Assets
Return on Equity	Pre-Tax Profit/(Loss) / Average Total Equity
CAPITALISATION (times):	
Leverage	Total Assets / Total Equity
Gearing Ratio	Total Debt / Total Equity
Internal Rate of Capital Generation	(Net Profit/(Loss) - Dividends) / Average Total Equity
LIQUIDITY (TIMES):	
Cash and Cash Equivalents to Short-Term Debts	Cash and Cash Equivalents / Short-Term Debts
Short-Term Debts to Total Debt (%)	Short-Term Debts / Total Debt
INTEREST COVERAGE (TIMES):	
Interest Coverage Ratio	(Operating Income after Impairment Charges + Depreciation & Amortisation + Interest Expense*) /
	(Interest Expense* + Dividend on Preference Shares + Interest Capitalised)
ASSET QUALITY (%):	
Gross Impaired Financing Ratio	Gross Impaired Financing / Gross Financing
Gross Impaired Financing Coverage Ratio	Total Impairment Allowances / Gross Impaired Financing
Credit Cost Ratio	Net Impairment Charges on Financing / Average Gross Financing

** Include on-going, non-discretionary payments on hybrid securities and realised debt-related foreign exchange gain/loss, if any.*

Appendix: Definition of ESG Credit Impact Descriptors

RAM's ESG Credit Impact descriptors summarise our views on the possible impact that the identified ESG considerations have or may potentially have on the credit risk profile of the entity, issuer or transaction over a reasonable timeframe.

Supportive	The entity is in a business that positively and meaningfully contributes to environmental and/or social objectives or ESG factors that have positive credit implications and are likely a positive rating driver.
Neutral	ESG risks have little bearing on the credit profile of the entity due to their limited impact on its business and financial profiles. Any risks are sufficiently and appropriately mitigated and are not likely to impact the current ratings.
Moderate	ESG risks have some bearing on the credit profile of the entity. Mitigation/adaptation efforts only partially diffuse these risks and/or prevailing conditions continue to support the entity's business and financial profiles. An adverse impact may be felt in the medium to longer term.
Sensitive	ESG risks have a considerable bearing on the credit profile of the entity. Mitigation/adaptation efforts are insufficient to diffuse these risks. The risks are expected to alter the entity's business and financial profiles in the short to medium term and may impact the rating in the negative direction.
Vulnerable	ESG risks have a very strong influence over the credit profile of the entity and are already a key negative rating driver or have triggered a rating action.

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SHARIAH ADVISER'S REPORT FOR SABAH CREDIT CORPORATION ("SCC")

In the name of Allah, the Most Compassionate, the Most Merciful

In carrying out the roles and responsibilities of the Shariah Adviser in accordance with our letter of appointment, we hereby submit the following report to SCC for the financial year ended 31 December 2022.

Based on the information provided to us, we are of the opinion and to the best of our knowledge:

a. the contracts and legal documents of the Islamic financing products that we have reviewed are in compliance with the Shariah rules and principles; and
b. nothing has come to our attention that causes us to believe that the overall Islamic financing business operations of the SCC involves any material Shariah non-compliances.

We have performed our review so as to obtain all the information and explanations, which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the SCC has complied with Shariah rules and principles for their Islamic financing business.

To the best of our knowledge based on the information provided and disclosed to us during discussions and meetings, we hereby confirm that the Islamic financing business operations of the SCC for the year ended 31 December 2022 had been conducted in conformity with the applicable Shariah rules and principles.

We beg Allah SWT to grant us wisdom, strength and humility to perform our tasks in the best possible way and Allah knows best.

For and on behalf of **IBFIM**

Mohamad Salihin Deris
Designated Person Responsible for Shariah Advisory
10 August 2023