BANKING ON GROWTH

ANNUAL REPORT 2013

AFFIN ISLAMIC

AFFIN ISLAMIC BANK BERHAD (709506-V)

OUR VISION

AFFIN ISLAMIC to play a significant role in the ever expanding Islamic banking world by providing innovative Shariah Compliant financial solutions and services, which will establish itself as a “PREMIER LOCAL AND INTERNATIONAL ISLAMIC FINANCIAL INSTITUTION”.

At AFFIN ISLAMIC, we take tremendous pride in all that we do, paying attention to detail to ensure quality and value for our customers and stakeholders alike. Keeping abreast of the changes and continuously growing - this is the guiding principle behind the way the Bank operates so that we may deliver beyond expectations.

GROWING RELATIONSHIPS

We understand that life comes with ups and downs. That's why, no matter what the issue is, the customer comes first and we listen and welcome their feedback. This ensures our standards improve in measurable ways that continue to nurture our relationships – which is the core and backbone of our corporate culture.

GROWING PERFORMANCES

Our commitment to cultivate performance drives us to place great diligence in developing the Bank's business and market presence. We believe in taking a proactive role and making prudent business decisions when we implement new initiatives, launch fresh marketing campaigns, and expand our branch network. This creates a strong sustainability in our performance.

GROWING CAPABILITIES

We believe that our aptitude and expertise grow when we foster a shared corporate vision and value within our team. This creates coherence in our ability to provide unparalleled service to our customers and meet their needs above and beyond. We take pride in instilling the power of teamwork within our corporate culture and this in itself, allows us to craft innovative financial solutions and services.

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CORPORATE INFORMATION

NAME

Affin Islamic Bank Berhad
(Co. No.: 709506-V)

DATE OF INCORPORATION

13 September 2005

PRINCIPAL ACTIVITIES

Affin Islamic Bank Berhad is principally involved in the carrying out of Islamic banking and finance related services. The Bank has two (2) associate companies which are principally engaged in property management services.

BOARD OF DIRECTORS

Chairman

YBhg. Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara)
(Non-Independent Non-Executive Director)

Directors

YBhg. Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin
(Non-Independent Non-Executive Director)

Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)
(Non-Independent Non-Executive Director)

YBhg. Tan Sri Dato' Seri Mohamed Jawhar
(Independent Non-Executive Director)

Encik Mohd Suffian Bin Haji Haron
(Independent Non-Executive Director)

Dr. Asyraf Wajdi Bin Dato' Dusuki
(Independent Non-Executive Director)

YBhg. Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman
(Independent Non-Executive Director)

CHIEF EXECUTIVE OFFICER

Encik Kamarul Ariffin Bin Mohd Jamil

SECRETARY

Nimma Safira Binti Khalid

REGISTERED OFFICE

17th Floor, Menara AFFIN,
80, Jalan Raja Chulan,
50200 Kuala Lumpur.
Tel.: 03-2055 9000
Fax.: 03-2026 1415

AUTHORISED SHARE CAPITAL

No of shares
1,000,000,000
Par value
RM1.00
Total
RM1,000,000,000

ISSUED AND PAID-UP SHARE CAPITAL

No of shares
360,000,002
Par value
RM1.00
Total
RM360,000,002

SUBSTANTIAL SHAREHOLDER

No of shares
Affin Bank Berhad - 360,000,002

EXTERNAL AUDITORS

PricewaterhouseCoopers (AF 1146)

CORPORATE STRUCTURE
as at 31 December 2013

LEMBAGA TABUNG ANGKATAN TENTERA

Lembaga Tabung Angkatan Tentera **35.18%**

58.69% [4] (Lembaga Tabung Angkatan Tentera in Boustead Holdings Berhad)

Boustead Holdings Berhad **20.69%**

BEA 東亞銀行 Bank of East Asia Limited **23.52%**

OTHERS **20.61%**

AFFIN HOLDINGS BERHAD

- **100%** AFFIN Bank Berhad
  - **100%** AFFIN Islamic Bank Berhad
    - **30%** KL South Development Sdn Bhd [2]
      (formerly known as Grand Duplex Sdn Bhd)
      (jointly owned by AFFIN Islamic Bank Berhad and Albatha Bukit Kiara Holdings Sdn Bhd with a 30:70 ownership)
    - **50%** AFFIN-i Nadayu Sdn Bhd [2]
      (formerly known as AFFIN-i Goodyear Sdn Bhd)
      (jointly owned by AFFIN Islamic Bank Berhad and Jurus Positif Sdn Bhd with a 50 : 50 ownership)
  - **100%** ABB Nominee (Tempatan) Sdn Bhd
  - **100%** PAB Properties Sdn Bhd
  - **100%** AFFIN Recoveries Berhad
  - **20%** ABB Trustee Berhad [2]
    (80% held by Directors of Affin Bank Berhad in trust for Affin Bank Berhad)
  - **100%** AFFIN Factors Sdn Bhd [1]
  - **100%** ABB Nominee (Asing) Sdn Bhd [1]
  - **100%** AFFIN Futures Sdn Bhd [1]
  - **100%** ABB IT & Services Sdn Bhd [3]
  - **100%** BSNCB Nominees (Tempatan) Sdn Bhd [3]
  - **100%** AFFIN-ACF Nominees (Tempatan) Sdn Bhd [3]
  - **100%** PAB Property Development Sdn Bhd [3]
  - **100%** BSNC Nominees (Tempatan) Sdn Bhd [3]
- **100%** AFFIN Capital Sdn Bhd
- **100%** AFFIN MoneyBrokers Sdn Bhd
- **100%** AFFIN-ACF Holdings Sdn Bhd
  - **100%** AFFIN-ACF Capital Sdn Bhd
- **100%** AFFIN Investment Bank Berhad
  - **100%** AFFIN Fund Management Berhad
  - **100%** Merchant Nominees (Tempatan) Sdn Bhd
  - **67%** Classic Precision Sdn Bhd
  - **100%** AFFIN Nominees (Tempatan) Sdn Bhd
  - **100%** AFFIN Nominees (Asing) Sdn Bhd
- **51%** AXA AFFIN Life Insurance Berhad
- **33.6%** AXA AFFIN General Insurance Berhad

1 Dormant - company inactive but currently holding asset.
2 Associate.
3 Companies where application to strike-off has been filed by the Bank.
4 58.69% repersents the shareholding of LTAT in Boustead Holdings Berhad as at 31 December 2013.

BOARD OF DIRECTORS

From left to right:

YBhg. Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin
Non-Independent Non-Executive Director

YBhg. Jen. Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara)
Chairman
Non-Independent Non-Executive Director

YBhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)
Non-Independent Non-Executive Director

BOARD OF DIRECTORS

From left to right:

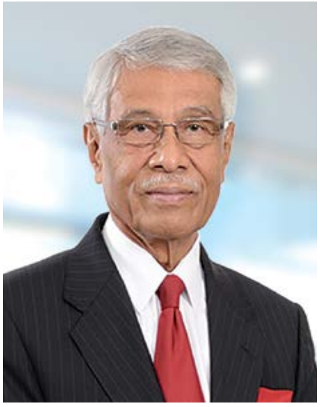
YBhg. Tan Sri Dato' Seri Mohamed Jawhar
Independent Non-Executive Director

En. Mohd Suffian Bin Hj. Haron
Independent Non-Executive Director

Dr. Asyraf Wajdi Bin Dato' Dusuki
Independent Non-Executive Director

YBhg. Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman
Independent Non-Executive Director

PROFILE OF DIRECTORS



YBhg. Jen. Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara)
Chairman / Non-Independent Non-Executive Director

Jen. Tan Sri Dato' Seri Ismail Bin Hj. Omar (Bersara), aged 72, was appointed as Director and Chairman of AFFIN ISLAMIC on 1 April 2006.

He was formerly Chief Defence Forces (CDF) Malaysia from 1995 until his retirement in 1998, after 38 years of military service. He graduated from Royal Military Academy, Sandhurst, United Kingdom in 1961 and subsequently attended professional and management development courses at several institutions including The Land Forces Command and Staff College, Canada; the United Nation International Peace Academy, Vienna; the National Defence College, India and INTAN Malaysia.

His military service saw Key Command and Staff appointments at all levels of the Armed Forces. As CDF, his responsibilities included key roles in Malaysia's Regional and International Defence Relations.

He was the Chairman of Affin Holdings Berhad and Affin-ACF Finance Berhad from 1999 prior to joining AFFINBANK. He currently holds directorships in AFFINBANK, ABB Trustee Berhad, EP Engineering Sdn Bhd and Global Medical Alliance Sdn Bhd.

Jen. Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara) attended all 12 Board Meetings held during the financial year ended 31 December 2013.

YBhg. Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin
Non-Independent Non-Executive Director

Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin, aged 64, was reappointed to the Board of Directors of AFFIN ISLAMIC on 4 October 2010. He was appointed as the Managing Director of Affin Holdings Berhad in February 1991 and redesignated as Deputy Chairman on 1 July 2008.

He has extensive experience in managing a provident fund and in the establishment, restructuring and management of various business interests ranging from plantation, trading, financial services, property development to oil and gas, pharmaceuticals and shipbuilding. He is the Chief Executive of LTAT and the Deputy Chairman / Group Managing Director of Boustead Holdings Berhad. Prior to joining LTAT, he was the General Manager of Perbadanan Kemajuan Bukit Fraser for 9 years.

He is also the Chairman of Boustead Heavy Industries Corporation Berhad, Boustead Naval Shipyard Sdn Bhd, Pharmaniaga Berhad, Boustead Petroleum Marketing Sdn Bhd, Boustead REIT Managers Sdn Bhd and 1Malaysia Development Berhad. He sits on the Board of The University of Nottingham in Malaysia Sdn Bhd, Minority Shareholder Watchdog Group, FIDE Forum, Atlas Hall Sdn Bhd, AFFINBANK, Affin Investment Bank Berhad, AXA Affin Life Insurance Berhad and Boustead Plantations Berhad.

He graduated from the University of Toledo, Ohio, USA with a Bachelor of Business Administration and a Master of Business Administration. Among the many awards Tan Sri Dato' Seri Lodin received todate include the Chevalier De La Legion D'Honneur from the French Government, the Malaysian Outstanding Entrepreneurship Award, the Degree of Laws honoris causa from the University of Nottingham, United Kingdom, the UiTM Alumnus of the Year 2010 Award and The BrandLaureate Most Eminent Brand ICON Leadership Award 2012 by Asia Pacific Brands Foundation.

Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin attended all 12 Board Meetings held during the financial year ended 31 December 2013.

PROFILE OF DIRECTORS

YBhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)
Non-Independent Non-Executive Director

Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor, aged 69, was appointed to the Board of Directors of AFFIN ISLAMIC on 1 July 2006. He retired as Chief of Royal Malaysian Navy in 1999.

He graduated from the Brittania Royal Naval College Dartmouth, United Kingdom in 1965, the Indonesia Naval Staff College in 1976, the United States Naval War College and Naval Post-Graduate School Monterey in 1981. He also holds a Masters Degree in Public Administration from the Harvard University, United States of America.

Presently he is the Executive Deputy Chairman / Managing Director of Boustead Heavy Industries Corporation Berhad. He is also the Board member of Favelle Favco Berhad.

Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor attended 10 out of 12 Board Meetings held during the financial year ended 31 December 2013.

YBhg. Tan Sri Dato' Seri Mohamed Jawhar
Independent Non-Executive Director

Tan Sri Dato' Seri Mohamed Jawhar, aged 69, was appointed to the Board of Directors of AFFIN ISLAMIC on 1 July 2006.

His other positions include: Independent Non-Executive Director, AFFINBANK; Chairman ISIS Malaysia; Non-Executive Chairman, New Straits Times Press (Malaysia) Berhad; Member of Securities Commission Malaysia; Member, Advisory Board, Malaysian Anti-Corruption Commission; Distinguished Fellow, Institute of Diplomacy and Foreign Relations (IDFR); Board Member, Institute of Advanced Islamic Studies (IAIS); Chairman, Malaysian National Committee of the Council for Security Cooperation in the Asia Pacific (CSCAP); and Member, International Advisory Board, East West Center, USA. He is also the Expert and Eminent Person for the ASEAN Regional Forum (ARF).

He was also Co-Chair, Network of East Asia Think-tanks (NEAT) 2005-2006; Chairman, Malaysian National Committee, Pacific Economic Cooperation Council (PECC) 2006-2010; and Co-Chair, Council for Security Cooperation in the Asia Pacific (CSCSP) 2007-2009.

He served with the government before he joined ISIS Malaysia as Deputy Director-General in 1990. He was appointed Director-General in March 1997 and was subsequently appointed Chairman and CEO in 2006. He was appointed Chairman ISIS Malaysia on 9 January 2010.

His positions while in government included Director-General, Department of National Unity; Under-Secretary, Ministry of Home Affairs; Director (Analysis) Research Division, Prime Minister's Department; and Principal Assistant Secretary, National Security Council. He also served as Counselor in the Malaysian Embassies in Indonesia and Thailand.

Tan Sri Dato' Seri Mohamed Jawhar attended 11 out of 12 Board Meetings held during the financial year ended 31 December 2013.

PROFILE OF DIRECTORS

En. Mohd Suffian Bin Hj. Haron

Independent Non-Executive Director

En. Mohd Suffian Bin Hj. Haron, aged 68, was appointed to the Board of Directors of AFFIN ISLAMIC on 1 July 2006.

He graduated with a Bachelor of Economics from University of Malaya (1970) and holds a Master of Business Administration from University of Oregon (USA) in 1976.

He started his career as a Diplomatic and Administrative Officer, attached to the Prime Minister's Department, and after thirteen years, left the Government Service to be the General Manager, International Business of a Government-Linked Company; and after six years left for the Private Sector. He brings with him vast experience in the financial services sector which include asset management and insurance-related services, general trading, power/energy the oil and gas services sectors.

Presently he is a Board member of AFFINBANK, L.K. & Associates Sdn Bhd and Pharmaniaga Bhd.

En. Mohd Suffian Bin Haji Haron attended all 12 Board Meetings held in the financial year ended 31 December 2013.

Dr. Asyraf Wajdi Bin Dato' Dusuki

Independent Non-Executive Director

Dr. Asyraf Wajdi Bin Dato' Dusuki, aged 37, was appointed to the Board of Directors of AFFIN ISLAMIC on 9 May 2011.

He is currently the President of Islamic Da'wah Foundation Malaysia (YADIM). Prior to serving YADIM, he was the Head of Research Affairs at International Shariah Research Academy for Islamic Finance (ISRA). He is the Chairman of AFFIN ISLAMIC Shariah Committee. He also acts as Shariah consultant and advisor to several financial institutions and advisory firms including Maldives Capital Market Development Authority, AIA AFG Takaful Berhad, AIA Takaful International, Maldives Allied Insurance Pvt Ltd., London-based Mortgage Company Chain Mender Limited, London-based Halal Industries PLC, US-Based Islamic Financial Institution United Chartered Bank (UCB), PricewaterhouseCoopers (PWC) Malaysia and Singapore-based IFIS Business Advisory Pte Ltd.

He is a member of Board of Studies for Islamic Finance Programme at International Islamic University Malaysia (IIUM), University Utara Malaysia (UUM), University Tun Abdul Razak (UniRAZAK) and Associate Fellow at ISDEV, University Sains Malaysia (USM).

He holds a Master of Science degree in Islamic Economics, Banking and Finance and Ph.D in Islamic Banking and Finance from Loughborough University, United Kingdom.

His articles have been published in numerous international and local referred academic journals. One of his article entitled "Banking for the Poor: The Role of Islamic Banking in Microfinance Initiatives" has been awarded as the 2009 Outstanding Paper Award by the well-known International Referred Journal Article Publisher Emerald Literati Network.

In 2011, he was also conferred the Global Islamic Finance Award for the category "The Most Upcoming Personality in Islamic Finance" in Oman Islamic Economic Forum. Apart from that he has presented papers at both local and international conferences including London, New Zealand, Luxembourg, Bahrain, Doha, Kuwait, Berlin, Dubai, Tehran, Istanbul, Oman, Jakarta, Singapore and Brunei. He also conducts training in Islamic banking and finance related areas to officers of Central Bank of Malaysia, banking practitioners, government officials and public; both local and international.

Dr. Asyraf Wajdi Bin Dato' Dusuki attended 11 out of 12 Board Meetings held during the financial year ended 31 December 2013.

YBhg. Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman
Independent Non-Executive Director

Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman, aged 67, was appointed to the Board of Directors of AFFIN ISLAMIC on 1 November 2011.

He graduated with a Bachelor of Commerce from University of New South Wales, Sydney, Australia. He is a member of the Malaysian Institute of Certified Public Accountants (MICPA) and the Malaysian Institute of Accountants (MIA).

He has served as Chairman and Board member of several government institutions, agencies and public listed companies, both in Australia and Malaysia.

At the corporate level he was with PricewaterhouseCoopers Sydney, Malaysia Airlines and Managing Director of Bank Rakyat Bhd before venturing into politics and public service as the Pahang State Assemblyman, State Executive Councillor and Deputy Chief Minister of Pahang. He was a Senator of Malaysian Parliament for a maximum period of two (2) terms.

Presently he is a Board member of AFFINBANK, the International Islamic University Malaysia and University Malaysia Pahang.

Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman attended all 12 Board Meetings held during the financial year ended 31 December 2013.

MANAGEMENT TEAM

En. Kamarul Ariffin Bin Mohd Jamil
Chief Executive Officer

En. Ferdaus Toh Bin Abdullah
Head, Consumer Banking and Strategic Services

En. Hazlan Bin Hasan
Head, Business Banking I

En. Lokman Bin Shamsuddin
Head, Remedial Management

En. Muhizan Bin Yahaya
Head, Business Finance Centre/ Business Development

Pn. Radziah Binti Ahmad
Head, HP-i, Bancatakaful & Islamic Branches

Pn. Raja Arni Binti Raja Aris
Head, Business Banking II

En. Mohd Fizar Bin Mohidin
Head, Islamic Treasury

En. Mohd Faiz Bin Rahim
Head, Shariah Supervisory

Cik Norazlinda Binti Mohd Fadzil
Head, Promotion & Marketing Communications

Pn. Norhayati Binti Mohd Shah
Head, Product Development

En. Mohd Ruslee Bin Omar
Head, Institutional Deposits & Special Projects

SHARIAH COMMITTEE MEMBERS

Dr. Asyraf Wajdi Bin Dato' Dusuki

Dr Asyraf Wajdi Dusuki is currently the President of Islamic Da'wah Foundation Malaysia (YADIM). Apart from serving YADIM, he also serves as an Independent Director of Affin Islamic Bank Berhad. He is the Chairman of AFFIN ISLAMIC Shariah Committee. He also acts as Shariah consultant and advisor to several financial institutions and advisory firms including Maldives Capital Market Development Authority, AIA AFG Takaful Berhad, AIA Takaful International, Maldives Allied Insurance Pvt Ltd., London-based Mortgage Company Chain Mender Limited, London-based Halal Industries PLC, US-Based Islamic Financial Institution United Chartered Bank (UCB), PricewaterhouseCoopers (PWC) Malaysia and Singapore-based IFIS Business Advisory Pte Ltd. He is a member of the Board of Studies for Islamic Finance Programme at International Islamic University Malaysia (IIUM), University Utara Malaysia (UUM), University of Management and Technology (UMTECH) and Associate Fellow at ISDEV, University Sains Malaysia (USM). He holds a Master of Science degree in Islamic Economics, Banking and Finance and Ph.D in Islamic Banking and Finance from Loughborough University, United Kingdom. His articles have been published in numerous international and local referred academic journals. One of his articles entitled "Banking for the Poor: The Role of Islamic Banking in Microfinance Initiatives" has been awarded as the 2009 Outstanding Paper Award by the well-known International Referred Journal Article Publisher Emerald Literati Network. In 2011, he was also conferred the Global Islamic Finance Award for the category "The Most Upcoming Personality in Islamic Finance" in Oman Islamic Economic Forum. Apart from that, he has presented papers at both local and international conferences including London, New Zealand, Luxembourg, Bahrain, Doha, Kuwait, Berlin, Dubai, Tehran, Istanbul, Oman, Jakarta, Singapore and Brunei. He also conducts training in Islamic banking and finance related areas to officers of Central Bank of Malaysia, banking practitioners, government officials and public; both local and international.

Associate Professor Dr. Said Bouheraoua

Associate Professor Dr. Said Bouheraoua obtained a Bachelor in Fiqh and Usul Fiqh from the National Higher Institute of Religion Foundations (University of Algiers) in 1991, Master of Quran and Sunnah in 1998 and Ph.D in Fiqh/Usul Fiqh (Shariah) from International Islamic University Malaysia (IIUM) in 2002. He was also an Associate Professor at Department of Islamic Law, Ahmad Ibrahim Kulliyyah of Laws, IIUM and Coordinator of Arabic Unit at the faculty. He is an expert in the research area of Usul Fiqh/Shariah in terms of providing Shariah ruling based on Islamic legal sources which contribute to the authentic innovation in Islamic Banking and Finance. He is currently an appointed referee for Journal of Islam in Asia, Member of Editorial Board of At-Tajdid International Referred Journal and Consultant Editor in Al-Risalah Referred Journal IIUM. He was also the Winner of the Lamya al-Faruqi award for academic excellence year 1999, organised by International Institute of Islamic Thought & IIUM.

SHARIAH COMMITTEE MEMBERS

Assistant Professor Dr. Ahmad Azam Othman

Assistant Professor Dr. Ahmad Azam Othman is currently an Assistant Professor at Islamic Law Department, Ahmad Ibrahim Kulliyyah of Laws (AIKOL), International Islamic University Malaysia (IIUM). He was the Director of Harun M. Hashim Law Centre, AIKOL, IIUM and the Head of Islamic Law Department, AIKOL, IIUM. His specialised areas are Islamic law of Property, Transactions, Personal Bankruptcy, Banking and Takaful as well as comparative laws. He has vast experience in teaching for postgraduate as well as undergraduate courses. He is also an internal examiner and supervisor to a number of Ph.D. Theses and Master Dissertation in various areas including Islamic Banking, Islamic Microfinance, Islamic Capital Market, Takaful and Waqf. Dr. Ahmad Azam Othman holds a Ph.D from University of Wales, UK. In addition, he holds a Master of Comparative Laws from IIUM where he also obtained his LLB (Bachelor of Laws) and LLB.S (Bachelor of Shariah) as his first degree.

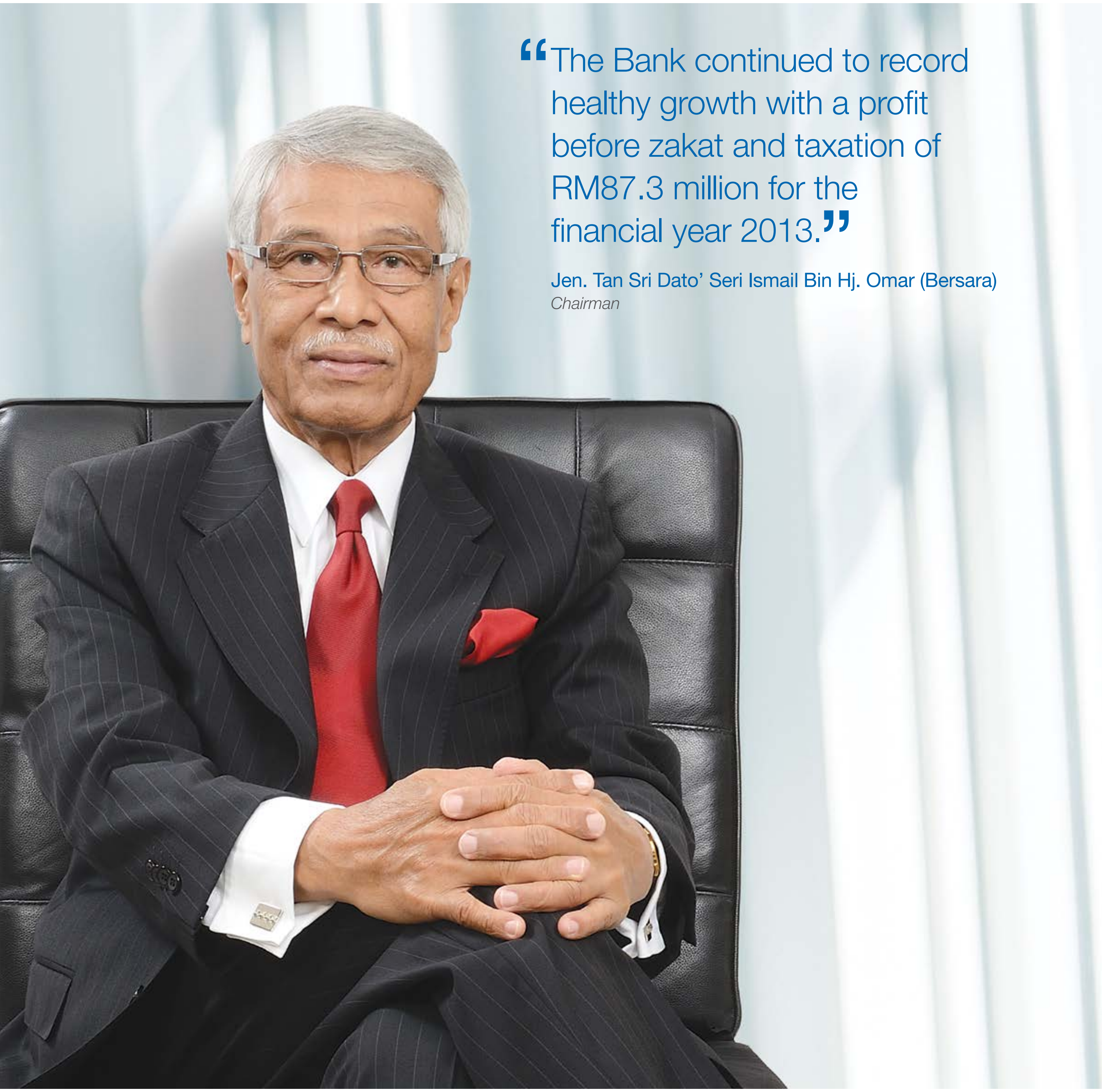
Dr. Zulkifli Hasan

Dr. Zulkifli Hasan is a senior lecturer at the Shariah and Law Faculty, Islamic Science University of Malaysia (USIM). He is also a Shariah panel for the Institute of Fatwa Management and Research, USIM. Besides these appointments, he is involved as editor and reviewer for various journals such as the Malaysian Journal of Shariah and Law, the International Journal of Business and Finance Research, Shariah Law Reports and the Global Islamic Finance Magazine. His industry experience was as an in-house advocate and solicitor for Bank Muamalat Malaysia Berhad, member of Rules and Regulations Working Committee for Association of Islamic Banking Institutions Malaysia and member of corporate governance working committee for Awqaf South Africa. He also underwent internship at Hawkamah, the Institute for Corporate Governance, Dubai International Financial Centre whereby he was involved in developing corporate governance guidelines for Islamic Financial Institutions in the Middle East and North Africa (MENA) as well as in the Task Force on Environmental, Social and Governance (ESG) which led towards development of the S&P/Hawkamah Pan Arab ESG Index. His articles have been numerously published in various academic journals and he has presented many papers in various conferences both local and abroad. His research includes corporate and Shariah governance and regulation in Islamic finance. His recent book entitled 'Shari'ah Governance in Islamic Banks: Edinburgh Guides to Islamic Finance' published by the Edinburgh University Press, UK is available in the market. Dr. Zulkifli Hasan holds a Ph.D in Islamic Finance from Durham University, UK. Besides this, he holds a Master of Comparative Laws from International Islamic University of Malaysia where he also obtained his LLB (Bachelor of Laws) and LLB.S (Bachelor of Shariah) as his first degree.

Dr. Yasmin Hanani Mohd Safian

Dr. Yasmin Hanani Mohd Safian is the Dean of Faculty Shariah and Law, Universiti Sains Islam Malaysia. Dr. Yasmin holds a bachelor degree in Shariah Islamiyyah from Al-Azhar University, Masters in Islamic Studies from Birmingham University and a Ph.D in Islamic Studies from Exeter University. She has been involved in a series of research and academic writing including The Small and Medium Sized Enterprises (SMEs)'s Perception Towards Islamic Banking Product and Services, Legal Evidences in Utilizing Fiat Money, Masalih Mursalah and its Application in Islamic Banking Finance: A Case Study on BBA, Variable Rate Financing in Malaysian Islamic Banking, Sistem Ekonomi Kerajaan Turki Uthmaniyyah, Legal Issues in Takaful and The Development of Islamic Wealth Management. Dr. Yasmin has actively participated in paper presentations in many seminars and conferences nationally and internationally including in Pennyslvania USA, United Kingdom, Italy, Egypt and Brunei. She is also actively involved in academic paper reviewing, examining of Ph.D theses, supervising Masters and Ph.D students as well as conducting research grants which are related to muamalat, Islamic banking and takaful.

CHAIRMAN'S STATEMENT



"The Bank continued to record healthy growth with a profit before zakat and taxation of RM87.3 million for the financial year 2013."

Jen. Tan Sri Dato' Seri Ismail Bin Hj. Omar (Bersara)
Chairman

Assalamualaikum w.b.t
Dear Shareholders,

In 2013, AFFIN ISLAMIC entered into its 7th year of operations since its incorporation as a full-fledged Islamic bank in September 2005. We are pleased to note that the Bank continued to record healthy growth with a profit before zakat and taxation of RM87.3 million for the financial year 2013.

Despite the challenging business environment forecasted in the market for 2013, the Bank remained optimistic for the year as we continued to focus on growing market share in the Islamic banking arena via launches of new and innovative products. Leveraging on the large distribution network and branches of our parent bank, Affin Bank Berhad (AFFINBANK), we have successfully achieved growth in deposits by 2.8% in 2013, especially in the retail segment. This increase was a result of the joint promotions and campaigns with AFFINBANK such as the Chinese New Year Triple Fortune promotion and our ever popular OMG deposit campaign.

New initiatives with the objective of creating and enhancing the Bank's presence in the corporate and commercial business bear fruit with total gross financing reaching RM6.1 billion in 2013. I am pleased to note that the Bank has made good use of the parent and holding company's strength and we have worked in synergy to achieve our corporate objectives.

We continued to make our presence felt in 2013 with several branding initiatives, not only via our product launches, but also from strategic partnerships, such as the musharakah joint-venture agreement with Albatha Bukit Kiara Holdings Sdn Bhd to develop the upmarket VERVE Suites in Kuala Lumpur, and our collaboration with TV AlHijrah to produce a talk show to educate the general public and younger segment on Islamic banking and finance.

RM87.3 MILLION
PROFIT BEFORE ZAKAT AND TAXATION

2.8%
GROWTH IN DEPOSITS

RM6.1 BILLION
TOTAL GROSS FINANCING

Zakat contribution of RM700,000 to the Malaysian Armed Forces.

Strategic partnership to develop VERVE Suites in Kuala Lumpur.

CHAIRMAN'S STATEMENT

Collaboration with TV AlHijrah for a 13-episode programme called FULUS.

Back-end support functions and staff development were equally important to contribute to the steady growth in AFFIN ISLAMIC. As a wholly owned subsidiary of AFFINBANK, the Bank leveraged fully on the shared services and improvements in operational, IT, human resources and staff training.

In line with our corporate vision and value, the Bank has always placed greater emphasis on Zakat contributions to eligible people and community. In 2013, our commitment towards these endeavours was no different. This time, we reached out to our grassroots and made a difference in a very basic aspect of living for the poor and needy. AFFIN ISLAMIC constructed several housing projects across the nation in Terengganu, Kelantan, Perak, Penang, Kedah and Pahang. These projects included building homes worth RM2.1 million in Mukim Batu Rakit, Terengganu; RM100,000 in Pahang; and rebuilding the 'Rumah Asnaf Miskin' in Bagan Datoh worth RM700,000.

The Bank also collaborated with TV AlHijrah in 2013, to contribute Zakat of RM104,000 to assist deserving families to start up new businesses, and improve their quality of life. This initiative was aired on TV AlHijrah's 13-episode programme called 'Man Jadda Wajada' from 11 January to 5 April 2013.

Students were also at the core of our Zakat contribution in 2013 and the Bank dedicated our Zakat contribution to assist deserving poor students to have an equal access to education, with a total contribution of RM1.62 million. The Bank also contributed RM2.8 million to Zakat Centres and RM700,000 to the Tabung Zakat Angkatan Tentera Malaysia (Tabung Zakat ATM). All in all, our total Zakat contribution in 2013 amounted to RM7.8 million.

Together with our parent Bank, the Bank hosted a "buka puasa" dinner for approximately 130 orphans from selected orphanages and 30 new Muslim converts from Pertubuhan Kebajikan Islam Malaysia (PERKIM).

For the year ahead, the Bank will continue to strengthen domestic business and reaffirm our commitment towards a regional footprint with the ultimate goal of generating long-term income.

We are optimistic that our growth in 2014 will continue to benefit from our retail and business banking. We are also eager to step up our game and increase our momentum to offer products that remain effective and viable against our competitors by diligently conducting periodic review and analysis of our products, pricing, and packages. In addition, the Bank will introduce several new Shariah-based and wealth management products to boost both

Majlis Berbuka Puasa with orphans and new Muslim converts at Menara Affin.

AFFIN ISLAMIC Fraser branch at Wilayah Persekutuan.

Professional and friendly customer service in AFFIN ISLAMIC branch.

profit and fee income. The Bank is determined to expand on our capacity building with more new branches next year.

We are confident that the year ahead will be promising and productive, especially since we will continue to have the advantage of the group synergy and leverage offered by AFFINBANK.

At this juncture, I would like to extend my deep appreciation to the Board of Directors, Management team, Shariah Committee and every staff at AFFIN ISLAMIC. It is your dedication and hard work that has produced the results we have achieved thus far. I would also like to urge the Management team and staff to continue relying on the enduring power of great teamwork to achieve our corporate goals.

I have no doubt that in 2014 we will continue to strive for operational quality and efficiency, while creating greater value for our customers and stakeholders. I am confident in our endeavours to develop new and innovative Shariah-based products, and most of all, to ensure that we strive for another year of growth and profitability.

I encourage each staff to always exhibit prudence and professionalism when working with our customers, and become the embodiment of a responsible banker. The Bank's Corporate Values will dictate our actions at work so that we are continually delivering great service and meeting the needs of our customers by truly providing "Banking without Barriers".

Jen. Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara)
Chairman

PERFORMANCE REVIEW

In 2013, Affin Islamic Bank Berhad ("AFFIN ISLAMIC" or "the Bank") continued to register growth with an increase of 2.8% or RM248 million in deposits as compared to 2012 to reach a total of RM9.3 billion in 2013.

Retail deposits contributed 50% of the total growth of deposits. The performance of deposits augurs well for the Bank's business plan and strategy to increase its deposits customer base, especially from the retail segment.

The operating environment for AFFIN ISLAMIC was challenging throughout 2013 as the Bank experienced margin compression, tighter regulations and challenging business environment. Nevertheless, total gross financing strengthened with a 17.3% year-on-year increase or RM903.8 million to grow to RM6.1 billion compared to RM5.2 billion in 2012.

The growth was contributed mainly from Consumer Financing, led by Affin Home Invest-i and Hire Purchase-i. In tandem with the Bank's business plan and strategy to move away from questionable Shariah concepts or structures, business financing products based on Shariah concept, such as Istisna', Musyarakah, Ijarah, Murabahah and Ijarah registered a strong growth in year 2013.

The growth in deposits and financing, resulted in a profit before zakat and taxation of RM87.3 million for the year 2013.

There was healthy growth in the Bank's assets to RM12.3 billion in 2013, which was an increase of 5.2% or RM607.2 million from the previous financial year. The Bank implemented strong measures to maintain the quality of our assets in 2013 with enhancements in collection systems and methods. As a result, AFFIN ISLAMIC's asset quality improved and we registered an improved net impaired financing ratio of 1.4% against 1.6% recorded in 2012.

Business Initiatives

As in previous years, the Bank was strongly positioned and geared up in 2013 to continue to reaffirm our position as a premier Islamic financial institution in Malaysia. This year, we continued to offer innovative Shariah-based products and introduced six new products; three of which focused on the financing segment, namely, Tawarruq Cashline-i, Tawarruq Term Financing-i and Tawarruq Revolving Credit-i to replace the Bai 'Inah financing products. The remaining three products centred on deposits: Affin Barakah Charity Account-i, Affin Impian Haji Savings Account-i and AFFIN ISLAMIC Term Deposit-i.

Affin Barakah Charity Account-i is a Mudharabah savings account that is designed with a charity element and provides convenience to account holders to donate a certain percentage of their monthly earned profit to charity.

2.8%
TOTAL DEPOSITS GROWTH

17.3%
TOTAL GROSS FINANCING GROWTH

5.2%
TOTAL ASSETS GROWTH

Grand prize winners for FULUS Season 1.

Affin Impian Haji Savings Account-i is a product developed for the Muslim community to save and plan to fulfill their hajj dreams in future. This product is the first Islamic banking product in Malaysia that provides several structured savings plans with Takaful insurance protection, so that customers will have the flexibility to choose the plan based on their needs and affordability.

Various joint promotions and campaigns were also launched with AFFINBANK, i.e. “The Invasion of the OMG” campaign which provided a boost to deposits and increased customers in the retail segment. AFFIN ISLAMIC also participated in the Chinese New Year Triple Fortune promotion at the start of the year, which is another campaign to increase deposits.

In 2013, the Bank took on another musharakah project that is estimated at a gross development value of RM300 million. This musharakah joint-venture (JV) agreement with Albatha Bukit Kiara Holdings Sdn. Bhd. is to develop VERVE Suites KL South and convert the Old Klang Road in Kuala Lumpur. Completion of this project is expected by 2015 and we are excited about the outcome.

In order to promote Islamic banking, AFFIN ISLAMIC collaborated with TV AlHijrah to produce a modern talk show called FULUS. This 26-episode programme will educate and create public awareness on the importance of Islamic banking, investment, money management, and its relevant products and services.

We continue to leverage on the strength and experience of our parent bank (AFFINBANK) via cross-sharing of industry expertise, human resources, operational, IT and other business capabilities. These improvements to support functions are important to enable continuous growth for the Bank.

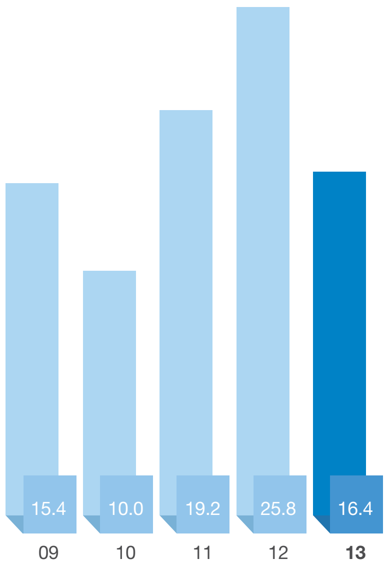
Outlook and Prospects

In the year ahead, the Bank will continue to strengthen domestic business and establish our reputation as a true Shariah-based bank and establish the Bank’s business presence in the Asia region.

The year ahead is paved with prospects of joint promotions and campaigns held in AFFINBANK’s 103 branches which includes AFFIN ISLAMIC’s 8 full fledged Islamic branches. We have plans to enhanced customer accessibility to Islamic banking with more AFFIN ISLAMIC branches next year. This will allow us to further extend our own market reach, as it will progress positively in developing AFFIN ISLAMIC’s growth in 2014.

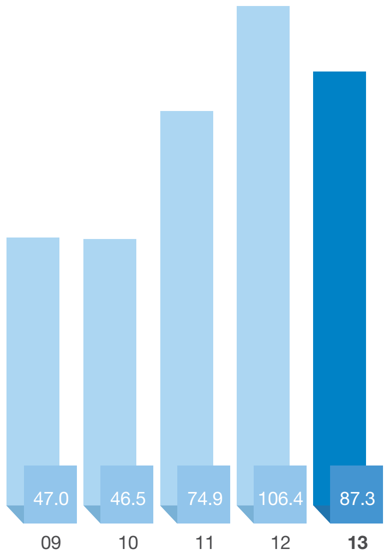
FINANCIAL HIGHLIGHTS

Earnings Per Share (EPS) (Sen)



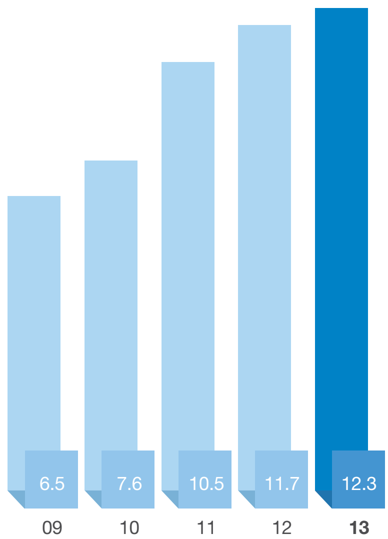
The Bank's EPS for the financial year ended 31 December 2013 stood at 16.4 sen.

Profit Before Zakat And Taxation (RM'million)



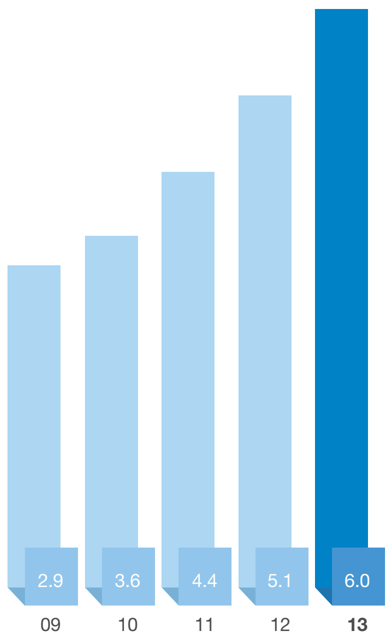
The Bank achieved a profit before zakat and taxation of RM87.3 million, 18.0% decline for the year ended 31 December 2013, compared to RM106.4 million in 2012. This was primarily due to the lower write back of provision and the lower fee-based income in 2013. The Bank's profit after zakat and taxation was recorded at RM58.9 million for the year ended 31 December 2013.

Total Assets (RM'billion)



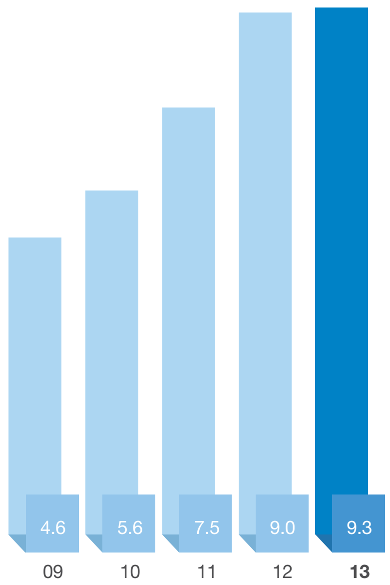
The Bank's financial position as at 31 December 2013 continued to remain strong with total assets of RM12.3 billion, an increase of 5.2% compared with RM11.7 million as at 31 December 2012.

Net Financing, Advances & Other Financing (RM'billion)



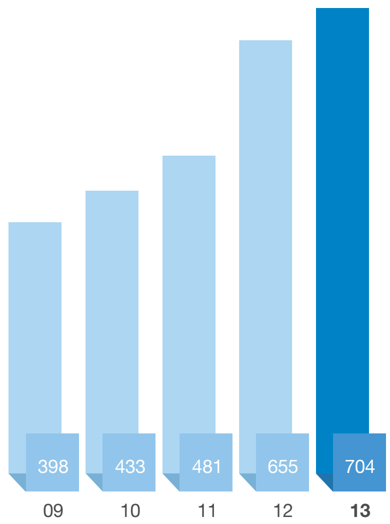
The Bank's net financing, advances and other financing grew by 17.6% to RM6.0 billion as at 31 December 2013, from RM5.1 billion in 2012. This boost was derived primarily from both consumer banking segments, namely AFFIN Home Invest-i Financing and Hire Purchase-i, and business banking segment.

Deposit From Customers (RM'billion)



Total deposits increased by 2.8% year-on-year to RM9.3 billion as at 31 December 2013, a steady increase corresponding to the Bank's financing growth.

Shareholders' Equity (RM'million)



Total shareholders' equity of the Bank increased by 7.5% to RM704 million from RM655 million the year before.

CORPORATE DIARY

11 January – 4 April 2013

In collaboration with TV AlHijrah, AFFIN ISLAMIC contributed Zakat of RM104,000 to assist deserving families to start up business and improve their livelihood. This initiative was aired on a 'Man Jadda Wajada' program at TV AlHijrah.

18 March 2013

AFFIN ISLAMIC entered into a musharakah joint- venture (JV) agreement with Albatha Bukit Kiara Holdings Sdn Bhd to develop VERVE Suites KL South with a gross development value of RM 300 million. The project will involve the conversion of an existing two-tower free hold development at Old Klang Road, Kuala Lumpur and is expected to be completed by 2015.

2 June 2013

AFFIN ISLAMIC SS2 Branch held its 'Jom Singgah' event where customers participated in fun-filled activities. The event was held to show appreciation to valued existing customers and promote products within the local community.

2 August 2013

AFFIN ISLAMIC Taman Molek Branch contributed Zakat of RM18,000 to 60 students from Sekolah Agama Taman Molek, in preparation for Eid Fitr celebration. In total, AFFIN ISLAMIC contributed Zakat of RM161,390 to orphanage homes and schools nationwide during the month of Ramadhan.

1 August 2013

AFFIN ISLAMIC provided support to the Malaysian Armed Forces by contributing RM700,000 from its Zakat funds to Tabung Zakat Angkatan Tentera Malaysia (Tabung Zakat ATM), as a way of honoring the services, sacrifices and contributions of our armed forces to the country.

17 September 2013

AFFIN ISLAMIC contributed RM1.6 million in 2013 from the Zakat fund to assist the deserving poor students in view of pursuing their education in various higher institutions.

19 September 2013

AFFIN ISLAMIC collaborated with TV AlHijrah to hold a press conference for its television program, FULUS. The press conference was attended by main stream media.

22 September – 15 December 2013

FULUS is a modern talk show program aired on TV AlHijrah. This program aims to educate and create awareness amongst the public on the importance of Islamic Banking, investment, money management, products and services.

6 October 2013

Live interview on TV AlHijrah morning talk show, Assalamualaikum with CEO AFFIN ISLAMIC, Encik Kamarul Ariffin Mohd Jamil and Head of Consumer Banking and Strategic Services, Encik Ferdaus Toh Abdullah.

18 – 31 December 2013

AFFIN ISLAMIC contributed RM2.8 million from its Zakat fund to Pusat Zakat in 6 states including Selangor, Johor, Perak, Terengganu, Pahang and Kedah.

NETWORK OF BRANCHES

WILAYAH PERSEKUTUAN

1. **Fraser**
   20-G & 20-1,
   Jalan Metro Pudu,
   Fraser Business Park,
   55100 Kuala Lumpur.
   Tel : 03-9222 8877
   Fax : 03-9222 9877

SELANGOR

1. **Bangi**
   No.175 & 177 Ground Floor,
   Jalan 8/1, Seksyen 8,
   43650 Bandar Baru Bangi,
   Selangor.
   Tel : 03-8925 7333
   Fax : 03-8927 4815

2. **MSU Shah Alam**
   Management & Science University
   2nd Floor, University Drive,
   Persiaran Olahraga, Section 13,
   40100 Shah Alam,
   Selangor.
   Tel : 03-5510 0425
   Fax : 03-5510 0563

2. **SS2**
   161-163,
   Jalan SS2/24,
   47300 Petaling Jaya,
   Selangor.
   Tel : 03-7874 3513
   Fax : 03-7874 3480

JOHOR

1. **Taman Molek**
   No. 23, 23-01, 23-02,
   Jalan Molek 1/29,
   Taman Molek,
   81100 Johor Bahru, Johor.
   Tel : 07-351 9522
   Fax : 07-357 9522

PULAU PINANG

1. **Juru Auto-City**
   No. 1813A,
   Jalan Perusahaan, Auto-City,
   North-South Highway,
   Juru Interchange,
   13600 Prai, Pulau Pinang.
   Tel : 04-507 7422
   Fax : 04-507 6522 / 0522

KEDAH

1. **Jitra**
   No 17, Jalan Tengku Maheran 2,
   Taman Tengku Maheran, Fasa 4,
   06000 Jitra, Kedah.
   Tel : 04-919 0888
   Fax : 04-919 0380

TERENGGANU

1. **Kuala Terengganu**
   63 & 63-A,
   Jalan Sultan Ismail,
   20200 Kuala Terengganu,
   Terengganu.
   Tel : 09-622 3725
   Fax : 09-623 6496

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE **8TH ANNUAL GENERAL MEETING** OF **AFFIN ISLAMIC BANK BERHAD** WILL BE HELD AT THE BOARD ROOM, 19TH FLOOR, MENARA AFFIN, 80, JALAN RAJA CHULAN, 50200 KUALA LUMPUR ON **TUESDAY, 25 MARCH 2014** AT **8.30 A.M**. FOR THE TRANSACTION OF THE FOLLOWING BUSINESS:-

AGENDA:

1. To receive the Statutory Statements of Accounts for the year ended 31 December 2013 together with the Directors' and Auditors' Reports thereon.

2. To re-elect the following Directors who retire pursuant to Article 68 of the Articles of Association and who, being eligible, offer themselves for re-election:-

   (a) En. Mohd Suffian Bin Hj. Haron
   (b) YBhg. Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman

3. To consider and if though fit, to pass the following resolution in accordance with Section 129(6) of the Companies Act, 1965:-

   (a) "That pursuant to Section 129(6) of the Companies Act, 1965, YBhg. Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara) be and is hereby re-appointed as Director of the Company to hold office until the next Annual General Meeting."

4. To approve Directors' fees and Committees' fees for 2013.

5. To re-appoint Messrs PricewaterhouseCoopers as Auditors for the financial year ending 31 December 2014 and to authorise the Directors to fix their remuneration.

6. To transact any other ordinary business of the Company.

BY ORDER OF THE BOARD

NIMMA SAFIRA BINTI KHALID
Secretary

NOTE:
A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him and the proxy need not be a member of the Company.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing or, if the appointor is a corporation, either under the seal or in some other manner approved by Directors.

The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority shall be deposited at the Company's registered office at the 17th Floor, Menara Affin, 80, Jalan Raja Chulan, 50200 Kuala Lumpur, at least forty-eight (48) hours before the time appointed for holding the Meeting or adjourned Meeting as the case may be otherwise the person so named shall not be entitled to vote in respect thereof.

FINANCIAL STATEMENTS

DIRECTORS' REPORT
for the financial year ended 31 December 2013

The Directors hereby submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are Islamic banking business and the provision of related financial services. There were no significant changes in these activities during the financial year.

FINANCIAL RESULTS

	Economic Entity RM'000	The Bank RM'000
Profit before zakat and taxation	87,268	87,478
Zakat	(8,583)	(8,583)
Profit before taxation	78,685	78,895
Taxation	(19,744)	(19,744)
Net profit for the financial year	58,941	59,151

DIVIDENDS

No dividends have been paid by the Bank in respect of the financial year ended 31 December 2012 and 2013.

The Directors do not recommend the payment of any dividend in respect of the current financial year.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

BAD AND DOUBTFUL FINANCING

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad financing and the making of allowances for doubtful financing, and have satisfied themselves that all known bad financing had been written off and adequate allowances had been made for bad and doubtful financing.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for bad financing, or the amount of the allowance for doubtful financing in the financial statements of the Bank, inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that any current assets, other than financing, which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Bank have been written down to their estimated realisable value.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Bank misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities in the Bank's accounts misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report there does not exist:

(a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or

(b) any contingent liability in respect of the Bank that has arisen since the end of the financial year.

No contingent or other liability of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial period which, in the opinion of the Directors, will or may substantially affect the ability of the Bank to meet its obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Bank, that would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Bank during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Bank for the current financial year in which this report is made.

SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

There is no significant event during the financial year.

SUBSEQUENT EVENTS

There were no material events subsequent to the reporting date that require disclosure or adjustments to the financial statements.

DIRECTORS

The Directors of the Bank who have held office during the period since the date of the last report are:

Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara)
Chairman / Non-Independent Non-Executive Director

Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin
Non-Independent Non-Executive Director

Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)
Non-Independent Non-Executive Director

Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman
Independent Non-Executive Director

Tan Sri Dato' Seri Mohamed Jawhar
Independent Non-Executive Director

En. Mohd Suffian Bin Haji Haron
Independent Non-Executive Director

Dr. Asyraf Wajdi Bin Dato' Dusuki
Independent Non-Executive Director

RESPONSIBILITY STATEMENT BY BOARD OF DIRECTORS

In the course of preparing the annual financial statements of the Bank, the Directors are collectively responsible in ensuring that these financial statements are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

It is the responsibility of the Directors to ensure that the financial reporting of the Bank present a true and fair view of the state of affairs of the Bank as at 31 December 2013 and of the financial results and cash flows of the Bank for the financial year then ended.

The financial statements are prepared on the going concern basis and the Directors have ensured that proper accounting records are kept, applied the appropriate accounting policies on a consistent basis and made accounting estimates that are reasonable and fair so as to enable the preparation of the financial statements of the Bank with reasonable accuracy.

The Directors have also taken the necessary steps to ensure that appropriate systems are in place for the assets of the Bank to be properly safeguarded for the prevention and detection of fraud and other irregularities. The systems, by their nature, can only provide reasonable and not absolute assurance against material misstatements, whether due to fraud or error.

The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out on page 141 of the financial statements.

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings, the interest of Directors in office at the end of the financial year in shares, warrants and options of related corporations are as follows:

	Ordinary shares of RM1 each			
	As at 1.1.2013	**Bought**	**Sold**	**As at 31.12.2013**
AFFIN Holdings Berhad				
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin	* 808,714	-	-	* 808,714
Boustead Heavy Industries Corporation Berhad				
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin	* 2,000,000	-	-	* 2,000,000
Boustead Petroleum Sdn Berhad				
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin	5,916,465	-	-	5,916,465
Al-Hadharah Boustead REIT				
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin	* 250,000	-	-	* 250,000

* Shares held in trust by nominee company

DIRECTORS' INTERESTS

	As at 1.1.2013	Bought	Sold	As at 31.12.2013
	Ordinary shares of 50 sen each			
Pharmaniaga Berhad				
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin	5,681,886	^ 6,818,262	-	12,500,148

^ Share split on the basis of one (1) bonus share for every ten (10) subdivided shares held on 4 June 2013. Bonus issue on 4 June 2013.

	As at 1.1.2013	Bought	Transfer	As at 31.12.2013
	Ordinary shares of RM10 each; RM5 uncalled			
ABB Trustee Berhad ***				
Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara)	20,000	-	-	20,000
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)	20,000	-	-	20,000

*** Shares held in trust for the Bank

	As at 1.1.2013	Bought	Sold	As at 31.12.2013
	Ordinary shares of 50 sen each			
Boustead Holdings Berhad				
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin	28,192,758	-	-	28,192,758

	As at 1.1.2013	Bought	Sold	As at 31.12.2013
	Redeemable preference shares of RM1 each			
Boustead Petroleum Sdn Berhad				
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin	50	-	50	-

Other than the above, the Directors in office at the end of the financial year did not have any other interest in shares, warrants and options over shares in the Bank or its related corporations during the financial year.

DIRECTORS' BENEFITS

Neither at the end of the financial period, nor at any time during the financial year, did there subsist any arrangement to which the Bank is a party with the object or objects of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debenture of, the Bank or any other body corporate.

Since the date of incorporation, no Director of the Bank has received or become entitled to receive a benefit (other than the fees and other emoluments shown in Note 26 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which he is a member or with a company in which he has a substantial financial interest.

CORPORATE GOVERNANCE

The Board of Directors is committed to ensure the highest standards of corporate governance throughout the organisation with the objectives of safeguarding the interests of all stakeholders and enhancing the shareholders' value and financial performance of the Bank. The Board considers that it has applied the Best Practices as set out in the Malaysian Code of Corporate Governance throughout the financial year. The Bank is also required to comply with BNM's Guidelines on Directorship in the Islamic Banks ('BNM/GP1-i').

(i) Board of Directors Responsibility and Oversight

The Board of Directors

The direction and control of the Bank rest firmly with the Board as it effectively assumes the overall responsibility for corporate governance, strategic direction, formulation of policies and overseeing the investments and operations of the Bank. The Board exercises independent oversight on the management and bears the overall accountability for the performance of the Bank and compliance with the principle of good governance.

There is a clear division of responsibility between the Chairman and the Chief Executive Officer to ensure that there is a balance of power and authority. The Board is responsible for reviewing and approving the longer term strategic plans of the Bank as well as the business strategies. It is also responsible for identifying the principal risks and implementation of appropriate systems to manage those risks as well as reviewing the adequacy and integrity of the Bank's internal control systems, management information systems, including systems for compliance with applicable laws, regulations and guidelines.

Whilst the Management Committee, headed by the Chief Executive Officer, is responsible for the implementation of the strategies and internal control as well as monitoring performance, the Committee is also a forum to deliberate issues pertaining to the Bank's business, strategic initiatives, risk management, manpower development, supporting technology platform and business processes.

The Board Meetings

Throughout the financial year, 12 Board meetings were held. All Directors have complied with the minimum number of attendances for Board meetings as stipulated by Bank Negara Malaysia. All Directors review Board papers or reports providing updates on operational, financial and corporate developments prior to the Board meetings. These papers and reports are circulated prior to the meeting to enable the Directors to obtain further explanations and having sufficient time to deliberate on the issues and make decisions during the meeting.

CORPORATE GOVERNANCE

(i) Board of Directors Responsibility and Oversight (continued)

Board Balance

Currently the Board has seven members, comprising three Non-Independent Non-Executive Directors (including the Chairman) and four Independent Non-Executive Directors. The Board of Directors Meetings are presided by Non-Independent Non-Executive Chairman whose role is clearly separated from the role of Chief Executive Officer. The composition of the Board and the number of meetings attended by each Director are as follows:

Directors	Total Meetings Attended
Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara) *Chairman / Non-Independent Non-Executive Director*	12 / 12
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin *Member / Non-Independent Non-Executive Director*	12 / 12
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara) *Member / Non-Independent Non-Executive Director*	10 / 12
Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman *Member / Independent Non-Executive Director*	12 / 12
Tan Sri Dato' Seri Mohamed Jawhar *Member / Independent Non-Executive Director*	11 / 12
En. Mohd Suffian Bin Haji Haron *Member / Independent Non-Executive Director*	12 / 12
Dr. Asyraf Wajdi Bin Dato' Dusuki *Member / Independent Non-Executive Director*	11 / 12

CORPORATE GOVERNANCE

(i) Board of Directors Responsibility and Oversight (continued)

Board Committees

The Board is assisted by three committees with specific terms of reference. This enables the committees to focus on areas or issues of critical importance to the operations of Bank. Compositions, functions and terms of reference of these committees are highlighted below:

Nomination Committee

The Nomination Committee was established to provide a formal and transparent procedure for the appointment of Directors and Chief Executive Officer. The Committee also assesses the effectiveness of the Board as a whole, contribution of each Director, contribution of the Board's various committees and the performance of Chief Executive Officer and key senior management officers.

There were 6 meetings held during the financial year ended 31 December 2013. The Nomination Committee comprises the following members:

Members	Total Meetings Attended
En. Mohd Suffian Bin Haji Haron *Chairman / Independent Non-Executive Director*	6 / 6
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin *Member / Non-Independent Non-Executive Director*	6 / 6
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara) *Member / Non-Independent Non-Executive Director*	5 / 6
Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman *Member / Independent Non-Executive Director*	6 / 6
Tan Sri Dato' Seri Mohamed Jawhar *Member / Independent Non-Executive Director*	5 / 6

CORPORATE GOVERNANCE

(i) Board of Directors Responsibility and Oversight (continued)

Board Committees (continued)

Remuneration Committee

The Remuneration Committee was established to evaluate and recommend to the Board the framework of remuneration and the remuneration package for Directors, Chief Executive Officer and key senior management officers. The Board is ultimately responsible for the approval of the remuneration package. The Committee is guided by the need to 'attract and retain' and at the same time link the rewards to clearly articulate corporate and individual performance parameters.

There were 3 meetings held during the financial year ended 31 December 2013. The Remuneration Committee comprises the following members:

Members	Total Meetings Attended
Tan Sri Dato' Seri Mohamed Jawhar *Chairman / Independent Non-Executive Director*	3 / 3
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin *Member / Non-Independent Non-Executive Director*	3 / 3
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara) *Member / Non-Independent Non-Executive Director*	2 / 3

Shariah Committee

The Affin Islamic Bank Berhad's business activities are subject to Shariah compliance and conformation by the Shariah Committee. The Shariah Committee is formed as legislated under the Islamic Financial Services Act 2013 and as per Shariah Governance Framework for Islamic Financial Institutions.

The duties and responsibilities of the Shariah Committee include the following:

- To advise the Board on Shariah matters in order to ensure that the business operations of the Bank comply with the Shariah principles at all times;
- To endorse and validate relevant documentations of the Bank's products and to ensure that the products comply with Shariah principles; and
- To advise the Affin Islamic Bank Berhad on matters to be referred to the Shariah Advisory Council.

CORPORATE GOVERNANCE

(i) Board of Directors Responsibility and Oversight (continued)

Board Committees (continued)

Shariah Committee (continued)

During the financial year ended 31 December 2013, a total of 21 meetings were held. The Shariah Committee comprises the following members and the details of attendance of each member at the Shariah Committee meetings held during the financial year are as follows:

Members	Total Meetings Attended
Dr. Asyraf Wajdi Bin Dato' Dusuki *Chairman*	21 / 21
Associate Professor Dr. Said Bouheraoua *Member*	16 / 21
Assistant Professor Dr. Ahmad Azam Bin Othman *Member*	21 / 21
Dr. Yasmin Hanani Binti Mohd Safian *Member*	16 / 21
Dr. Zulkifli Bin Hasan *Member*	16 / 21

(ii) Group Risk Management

The Group Risk Management function, operating in an independent capacity, is part of the Bank's senior management structure which works closely as a team in managing risks to enhance stakeholders' value.

The Group Risk Management function provides support to the Board Risk Management Committee ('BRMC'). Committees namely Board Loan Review and Recovery Committee ('BLRRC'), Management Committee ('MCM'), Group Management Loan Committee ('GMLC'), Asset and Liability Management Committee ('ALCO'), Group Operational Risk Management Committee ('GORMC') and Early Alert Committee ('EAC') assist the BRMC in managing credit, market, liquidity and operational risks respectively.

Responsibilities of these committees include:
- risk identification
- risk assessment and measurement
- risk control and mitigation
- risk monitoring

CORPORATE GOVERNANCE

(ii) Group Risk Management (continued)

Board Risk Management Committee ('BRMC')

The main function of Board Risk Management Committee ('BRMC') is to assist the Board in its supervisory role in the management of risk in the Bank. It has responsibility for approving and reviewing all risk management policies and methodologies of the Bank. BRMC also reviews guidelines and portfolio management reports including risk exposure information.

BRMC provides oversight and management of all risks in the Bank. The Committee also ensures that the procedures and framework in relation to identifying, measuring, monitoring and controlling risk are operating effectively. The Bank's risk management framework is set out in Note 31 to the financial statements.

The BRMC meeting for the Bank were jointly held with AFFIN Bank Berhad and the following Director of the Bank sits in the meeting:

	Total Meetings Attended
En. Mohd Suffian Bin Haji Haron *Member / Independent Non-Executive Director*	5 / 5

Board Loan Review and Recovery Committee ('BLRRC')

Board Loan Review and Recovery Committee ('BLRRC') critically reviews financing and other credit facilities with higher risk implications, after due process of checking, analysis, review and recommendation by the Credit Risk Management function, and if found necessary, exercise the power to veto financing applications that have been accepted by the Group Management Loan Committee ('GMLC'). The Committee is also responsible to review the impaired financing presented by Management.

The BLRRC meeting for the Bank were jointly held with AFFIN Bank Berhad and the Directors of the Bank sit in the meeting:

	Total Meetings Attended
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara) *Member / Independent Non-Executive Director*	12 / 12

Management Committee ('MCM')

MCM comprising the senior management team chaired by the MD/CEO, assists the Board in managing the day-to-day operations and ensure its effectiveness. MCM formulates tactical plans and business strategies, monitors the Bank's overall performance, and ensures that the activities are in accordance with corporate objectives, strategies, policies and annual business plan and budget.

Group Management Loan Committee ('GMLC')

Group Management Loan Committee ('GMLC') approves complex and larger financing and workout/recovery proposals beyond the delegated authority of the concerned individual senior management personnel of the Bank.

CORPORATE GOVERNANCE

(ii) Group Risk Management (continued)

Individual Approvers

Credit authority is delegated based on skills, experience and track record of the officer assuming an approver's position. Delegation of credit authority is subject to credit checks to ensure approvers have a clean disciplinary record and not be in a financially embarrassed position.

Asset and Liability Management Committee ('ALCO')

ALCO comprising the senior management team chaired by the MD/CEO, manages the Bank's asset liability position and oversees the Bank's capital management to ensure that the Bank is adequately capitalised on an economic and regulatory basis.

Group Operational Risk Management Committee ('GORMC')

Responsibilities of these committees include:

- To evaluate operational risks issues of escalating importance/strategic risk exposure;
- To review and recommend on broad operational risk management policies/best practices for adoption by the Bank's operating units;
- To review the effectiveness of broad internal controls and make recommendations/approve on changes if necessary;
- To review/approve recommendation of operational risk management groups set up to address specific issue;
- To take the lead in inculcating an operational risks awareness culture;
- To approve operational risk management methodologies/measurements tools;
- To review and approve the strategic operational risk management initiatives/plans and to endorse for BRMC's approval if necessary ; and
- To update BRMC on loss events and relevant key issues that may adversely impact core processes, system defects and any changes to critical business or system related processes.

Early Alert Committee ('EAC')

Early Alert Committee ('EAC') is established within senior management to monitor credit quality through monthly review of the Early Alert, Watchlist and Exit Accounts and review the actions taken to address the emerging risks and issues in these accounts.

CORPORATE GOVERNANCE

(iii) Internal Audit and Internal Control Activities

Relationship with the Auditors

The Bank has established appropriate relationship with both internal and external auditors in conducting the audit function of the Bank.

Internal Controls

The Board acknowledges its overall responsibility for maintaining a sound system of internal control to safeguard shareholders' investments, Bank's assets, and the need to review the adequacy and integrity of those systems regularly.

In accordance with BNM's Guidelines on Minimum Audit Standards for Internal Auditors of Financial Institutions ('BNM/GP10'), the Group Internal Audit Division ('GIA') conducts continuous reviews on auditable areas within the Bank. The continuous reviews by GIA are focused on areas of significant risks and effectiveness of internal control in accordance to the audit plan approved by the Audit and Examination Committee ('AEC'). The risk highlighted on the respective auditable areas as well as recommendation made by the GIA are addressed at AEC and Management meetings on bi-monthly basis. The AEC also conduct annual reviews on the adequacy of internal audit function, scope of work, resources and budget of GIA.

At present, GIA consists of Operational Audit, IS Audit, Credit Review, Investigation and Compliance. Audit activities include these key components:

- Conduct audit on all auditable entities (Head Office, branches and subsidiaries) processes, services, products, system and provide an independent assessment to the Board of Directors, AEC and Management that appropriate control environment is maintained with clear authority and responsibility with sufficient staff and resources to carry out control responsibilities.

- Perform risk assessments to identify control risk and evaluate actions taken to provide reasonable assurance that procedures and controls exist to contain those risks.

- Maintain strong control activities including documented processes and system incorporating adequate controls to produce accurate financial data and provide for the safeguarding of assets, and a documented review of reported results.

- Ensure effective information flows and communication including:
  - training and the dissemination of standards and requirements;
  - an information system to produce and convey complete, accurate and timely data including financial data; and
  - the upward communication of trends, developments and emerging issues.

- Monitor controls, including procedures to verify that controls are in place and functioning, follow up on corrective action on control findings till its full resolution. Based on GIA's review, identification and assessment of risk, testing and evaluation of controls, GIA will provide an opinion on the effectiveness of internal controls maintained by each entity.

CORPORATE GOVERNANCE

(iii) Internal Audit and Internal Control Activities (continued)

Audit and Examination Committee ('AEC')

The AEC comprises members of the Bank's Board of Directors whose primary function is to assist the Board in its supervision over:

- The reliability and integrity of accounting policies and financial reporting and disclosure practise;
- The provision of advice to the Board with regards to the financial statements and business risks to enable the Board to fulfill its fiduciary duties and obligations; and
- The establishment and maintenance of processes to ensure that they:
    - are in compliance with all applicable laws, regulations and company policies; and
    - have adequately addressed the risk relating to internal controls and system, management of inherent and business risks, and ensuring that the assets are properly managed and safeguarded.

The AEC meetings for the Bank were jointly held with AFFIN Bank Berhad during the financial year ended 31 December 2013 and the following Independent Non-Executive Directors of the Bank sit in the meeting:

Members	**Total Meetings Attended**
Tan Sri Dato' Seri Mohamed Jawhar *Member / Independent Non-Executive Director*	7 / 7
Dr. Asyraf Wajdi Bin Dato' Dusuki *Member / Independent Non-Executive Director*	6 / 7

(iv) Management Reports

Before each Board meeting, Directors are provided with a complete set of Board papers itemised in the agenda for Board's review/approval and/or notation.

The Board monitors the Bank's performance by reviewing the monthly Management Report, which provides a comprehensive review and analysis of the Bank's operations and financial issues. In addition, the minutes of the Board Committees and Management Committees meetings and other issues are also tabled and considered by the Board.

Procedures are in place for Directors to seek both independent professional advice at the Bank's expense and the advice and services of the Company Secretary in order to fulfill their duties and specific responsibilities.

BUSINESS PLAN AND STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 AND FUTURE OUTLOOK

AFFIN ISLAMIC ("the Bank") registered a pre-tax profit of RM87.3 million contributed from the gross financing of RM6.12 billion and customer deposits (excluding Treasury deposits) of RM8.72 billion. During the year, total gross financing grew 17.3% y-o-y or RM904 million with emphasized on Consumer Financing contributing 67% of the total growth. In tandem with the Bank's business plan and strategy to move away from questionable Shariah concepts or structures, financing using Shariah concepts such as Istisna', Musyarakah, Murabahah and Ijarah have registered higher growth while both Bai Inah and Bai Bithaman Ajil portfolios have reduced significantly.

On deposits taking, total deposits (excluding Treasury deposits) increased 6.2% y-o-y or RM507 million of which Retail deposits contributed 50% of the total growth. The deposits performance also augurs well its business plan and strategy to increase its deposits customer base, especially from the Retail segment.

During the year, the Bank introduced 6 new products of which three were for the financing segment, namely Tawarruq Cashline-i, Tawarruq Revolving Credit-i and Tawarruq Term Financing-i to replace Bai Inah financing products while the other three products were catered towards deposits segment, i.e. Affin Barakah Charity Account-i, Impian Haji Savings Account-i and AFFIN ISLAMIC Term Deposit-i.

The Bank's asset quality improved with net impaired financing ratio of 1.38% (2012: 1.62%) and it's total capital ratio remained strong at 14.27%.

The global economy is expected to mildly improve in 2014 after experiencing slowdown for the past three years. The Malaysian economy is also expected to grow by 5% in 2014 buoyed by strong sustained domestic demand due to growth in wages, stable employment outlook and better external demand.

The Islamic banking business in Malaysia is expected to further expand in 2014 from the better economic outlook and continued initiatives introduced by Bank Negara Malaysia to promote Malaysia as an international Islamic banking hub.

The Bank will continue to focus on both Consumer and Business financing using globally accepted Shariah concepts. In addition, the Bank will launch several new financing products during the year to further contribute to its financing growth as well as increase its products offering. On deposit taking activities, the Bank will continue to source for cheap deposits, namely from Current and Saving Accounts, and continue to increase its Consumer deposits base. In addition, new deposits and fee based products will be developed in 2014 to meet customers' needs and expectation.

RATING BY EXTERNAL RATING AGENCIES

The Bank was not rated by any external rating agencies during the financial year.

ZAKAT OBLIGATIONS

The Bank did not pay zakat on behalf of its depositors.

DIRECTORS' REPORT
for the financial year ended 31 December 2013

HOLDING COMPANY, PENULTIMATE AND ULTIMATE HOLDING CORPORATE BODY

The holding company of the Bank is AFFIN Bank Berhad. The penultimate holding company is AFFIN Holdings Berhad and ultimate holding corporate body is Lembaga Tabung Angkatan Tentera, a statutory body incorporated under the Tabung Angkatan Tentera Act, 1973.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 26 February 2014.

Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara)
Chairman

En. Mohd Suffian Bin Haji Haron
Director

STATEMENTS OF FINANCIAL POSITION
as at 31 December 2013

	Note	Economic Entity 2013 RM'000	Economic Entity 2012 RM'000	The Bank 2013 RM'000	The Bank 2012 RM'000
ASSETS					
Cash and short-term funds	2	4,506,301	4,076,266	4,506,301	4,076,266
Deposits and placements with banks and other financial institutions	3	120,016	250,086	120,016	250,086
Financial investments available-for-sale	4	1,283,123	1,979,812	1,283,123	1,979,812
Financial investments held-to-maturity	5	85,064	-	85,064	-
Financing, advances and other financing	6	6,048,876	5,143,356	6,048,876	5,143,356
Other assets	8	42,517	64,317	42,517	64,317
Amount due from jointly controlled entity		4,185	2,745	4,185	2,745
Deferred tax assets	9	2,960	-	2,960	-
Statutory deposits with Bank Negara Malaysia	10	233,000	201,500	233,000	201,500
Investment in jointly controlled entity	11	-	60	650	500
Property and equipment	12	3,046	3,027	3,046	3,027
Intangible assets	13	1,666	2,458	1,666	2,458
TOTAL ASSETS		12,330,754	11,723,627	12,331,404	11,724,067
LIABILITIES AND EQUITY					
Deposits from customers	14	9,290,544	9,042,261	9,290,544	9,042,261
Deposits and placements of banks and other financial institutions	15	2,242,480	1,839,724	2,242,480	1,839,724
Other liabilities	16	31,167	23,521	31,167	23,521
Amount due to holding company	17	60,115	153,296	60,115	153,296
Provision for taxation		2,031	9,560	2,031	9,560
Deferred tax liabilities	9	-	266	-	266
TOTAL LIABILITIES		11,626,337	11,068,628	11,626,337	11,068,628
Share capital	18	360,000	360,000	360,000	360,000
Reserves	19	344,417	294,999	345,067	295,439
TOTAL EQUITY		704,417	654,999	705,067	655,439
TOTAL LIABILITIES AND EQUITY		12,330,754	11,723,627	12,331,404	11,724,067
COMMITMENTS AND CONTINGENCIES	30	1,667,189	1,569,943	1,667,189	1,569,943

The accounting policies on pages 58 to 72 and the notes on pages 73 to 140 form an integral part of these financial statements.

INCOME STATEMENTS
for the financial year ended 31 December 2013

		Economic Entity		The Bank	
	Note	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Income derived from investment of depositors' funds and others	20	428,385	459,994	428,385	459,994
Income derived from investment of shareholders' funds	21	29,781	23,650	29,781	23,650
Allowances for losses on financing	22	335	15,420	335	15,420
Total distributable income		458,501	499,064	458,501	499,064
Income attributable to the depositors	23	(267,277)	(295,030)	(267,277)	(295,030)
Total net income		191,224	204,034	191,224	204,034
Personnel expenses	24	(65,474)	(61,339)	(65,474)	(61,339)
Other overheads and expenditures	25	(38,272)	(36,043)	(38,272)	(36,043)
		87,478	106,652	87,478	106,652
Share of joint venture's results		(210)	(230)	-	-
Profit before zakat and taxation		87,268	106,422	87,478	106,652
Zakat		(8,583)	(6,064)	(8,583)	(6,064)
Profit before taxation		78,685	100,358	78,895	100,588
Taxation	27	(19,744)	(26,526)	(19,744)	(26,526)
Net profit after zakat and taxation		58,941	73,832	59,151	74,062
Attributable to:					
Equity holders of the Bank		58,941	73,832	59,151	74,062
Earnings per share (sen):					
- Basic/fully diluted	28	16.4	25.8	16.4	25.9

The accounting policies on pages 58 to 72 and the notes on pages 73 to 140 form an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

for the financial year ended 31 December 2013

	Economic Entity		The Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Profit after zakat and taxation	58,941	73,832	59,151	74,062
Other comprehensive income:				
Items that may be reclassified subsequently to profit and loss:				
Net fair value change in financial investments available-for-sale	(12,576)	(159)	(12,576)	(159)
Deferred tax on financial investments available-for-sale	3,053	38	3,053	38
Other comprehensive income for the financial year, net of tax	(9,523)	(121)	(9,523)	(121)
Total comprehensive income for the year	49,418	73,711	49,628	73,941
Attributable to equity holders of the Bank:				
- Total comprehensive income	49,418	73,711	49,628	73,941

The accounting policies on pages 58 to 72 and the notes on pages 73 to 140 form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 31 December 2013

	Attributable to Equity Holders of the Bank				
Economic Entity	**Share capital RM'000**	**Statutory reserves RM'000**	**AFS revaluation reserves RM'000**	**Retained profits RM'000**	**Total RM'000**
At 1 January 2013	360,000	143,451	2,598	148,950	654,999
Comprehensive income:					
Net profit for the financial year	-	-	-	58,941	58,941
Other comprehensive income (net of tax)					
- Financial investments available-for-sale	-	-	(9,523)	-	(9,523)
Total comprehensive income	-	-	(9,523)	58,941	49,418
Transfer to statutory reserves	-	29,575	-	(29,575)	-
At 31 December 2013	360,000	173,026	(6,925)	178,316	704,417
At 1 January 2012	260,000	106,420	2,719	112,149	481,288
Comprehensive income:					
Net profit for the financial year	-	-	-	73,832	73,832
Other comprehensive income (net of tax)					
- Financial investments available-for-sale	-	-	(121)	-	(121)
Total comprehensive income	-	-	(121)	73,832	73,711
Issued during the financial period	100,000	-	-	-	100,000
Transfer to statutory reserves	-	37,031	-	(37,031)	-
At 31 December 2012	360,000	143,451	2,598	148,950	654,999

STATEMENTS OF CHANGES IN EQUITY
for the financial year ended 31 December 2013

	Non-Distributable			Distributable	
The Bank	**Share capital RM'000**	**Statutory reserves RM'000**	**AFS revaluation reserves RM'000**	**Retained profits RM'000**	**Total RM'000**
At 1 January 2013	360,000	143,451	2,598	149,390	655,439
Comprehensive income:					
Net profit for the financial year	-	-	-	59,151	59,151
Other comprehensive income (net of tax)					
- Financial investments available-for-sale	-	-	(9,523)	-	(9,523)
Total comprehensive income	-	-	(9,523)	59,151	49,628
Transfer to statutory reserves	-	29,575	-	(29,575)	-
At 31 December 2013	360,000	173,026	(6,925)	178,966	705,067
At 1 January 2012	260,000	106,420	2,719	112,359	481,498
Comprehensive income:					
Net profit for the financial year	-	-	-	74,062	74,062
Other comprehensive income (net of tax)					
- Financial investments available-for-sale	-	-	(121)	-	(121)
Total comprehensive income	-	-	(121)	74,062	73,941
Issued during the financial period	100,000	-	-	-	100,000
Transfer to statutory reserves	-	37,031	-	(37,031)	-
At 31 December 2012	360,000	143,451	2,598	149,390	655,439

The accounting policies on pages 58 to 72 and the notes on pages 73 to 140 form an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

for the financial year ended 31 December 2013

	Economic Entity		The Bank	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	78,685	100,358	78,895	100,588
Adjustments for items not involving the movement of cash and cash equivalents:				
Finance income and hibah from:				
- financial investments available-for-sale	(55,750)	(58,072)	(55,750)	(58,072)
- financial investments held-to-maturity	(2,975)	-	(2,975)	-
Amortisation of premium less accretion of discount				
- financial investments available-for-sale	(2,422)	(14,456)	(2,422)	(14,456)
Gain on sale from:				
- financial investments available-for-sale	(1,044)	(5,831)	(1,044)	(5,831)
Depreciation of property and equipment	801	1,153	801	1,153
Property and equipment written-off	-	1	-	1
Amortisation of intangible assets	792	797	792	797
Net individual impairment	256	2,653	256	2,653
Net collective impairment	242	(17,569)	242	(17,569)
Bad debt on financing written-off	74	82	74	82
Zakat	8,583	6,064	8,583	6,064
Share of joint venture's results	210	230	-	-
Operating profit before changes in working capital	27,452	15,410	27,452	15,410
Decrease/(Increase) in operating assets:				
Deposits and placements with banks and other financial institutions	130,070	(250,086)	130,070	(250,086)
Foreign exchange transaction	443	(1,302)	443	(1,302)
Financing, advances and other financing	(906,092)	(754,317)	(906,092)	(754,317)
Other assets	21,775	(16,314)	21,775	(16,314)
Amount due from holding company	(93,181)	(202,239)	(93,181)	(202,239)
Statutory deposits with Bank Negara Malaysia	(31,500)	(41,500)	(31,500)	(41,500)
Amount due from jointly controlled entity	(1,440)	-	(1,440)	-
Increase/(decrease) in operating liabilities:				
Deposits from customers	248,283	1,565,022	248,283	1,565,022
Deposits and placements of banks and other financial institutions	402,756	(359,420)	402,756	(359,420)
Other liabilities	6,704	5,447	6,704	5,447
Cash used in operations	(194,730)	(39,299)	(194,730)	(39,299)
Zakat paid	(7,616)	(4,819)	(7,616)	(4,819)
Tax refund	24	-	24	-
Tax paid	(27,470)	(14,147)	(27,470)	(14,147)
Net cash used in operating activities	(229,792)	(58,265)	(229,792)	(58,265)

STATEMENTS OF CASH FLOWS
for the financial year ended 31 December 2013

	Economic Entity		The Bank	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Increase in investment in jointly controlled entity	(150)	-	(150)	-
Finance income and hibah received from:				
- financial investments available-for-sale	55,750	58,072	55,750	58,072
- financial investments held-to-maturity	2,975	-	2,975	-
Purchase of financial investments held-to-maturity	(85,064)	-	(85,064)	-
Net sale/(purchase) of financial investments available-for-sale	687,579	(479,406)	687,579	(479,406)
Purchase of property and equipment	(819)	(1,136)	(819)	(1,136)
Net cash generated from/(used in) investing activities	660,271	(422,470)	660,271	(422,470)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in share capital	-	100,000	-	100,000
Net cash generated from financing activities	-	100,000	-	100,000
Net increase/(decrease) in cash and cash equivalents	430,479	(380,735)	430,479	(380,735)
Net (decrease)/increase in foreign exchange	(444)	1,301	(444)	1,301
Cash and cash equivalents at beginning of the financial year	4,076,266	4,455,700	4,076,266	4,455,700
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR (Note 2)	4,506,301	4,076,266	4,506,301	4,076,266

The accounting policies on pages 58 to 72 and the notes on pages 73 to 140 form an integral part of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 31 December 2013

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

(A) BASIS OF PREPARATION

The financial statements of the Bank have been prepared in accordance with the provisions of the Malaysian Financial Reporting Standards ('MFRS'), International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

The financial statements of the Bank have been prepared under the historical cost convention, unless otherwise indicated in this summary of significant accounting policies.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgment in the process of applying the Bank's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 34.

Standards and amendments to published standards that are effective and applicable to the Bank

The new accounting standards and amendments to published standards that are effective and applicable to the Bank for the financial year beginning 1 January 2013 are as follows:

- MFRS 10 "Consolidated financial statements"
- MFRS 11 "Joint arrangements"
- MFRS 12 "Disclosures of interests in other entities"
- MFRS 13 "Fair value measurement"
- Revised MFRS 127 "Separate financial statements"
- Revised MFRS 128 "Investments in associates and joint ventures"
- Amendment to MFRS 7 "Financial instruments: Disclosures - offsetting financial assets and financial liabilities"
- Amendment to MFRS 101 "Presentations of items of other comprehensive income"
- Amendment to MFRS 119 "Employee benefits"
- Amendment to MFRS 134 "Interim financial reporting"
- Amendment to MFRS 10, MFRS 11 and MFRS 12 "Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition Guidance"

(A) BASIS OF PREPARATION

Standards and amendments to published standards that are effective and applicable to the Bank (continued)

- Annual improvements 2009-2011 Cycle
  - MFRS 1 "First-time Adoption of Malaysian Financial Reporting Standards" - Repeated application of MFRS 1 and borrowing costs
  - MFRS 101 "Presentation of Financial Statements" - Clarification of the requirements for comparative information
  - MFRS 116 "Property, Plant and Equipment" - Classification of servicing equipment
  - MFRS 132 "Financial Instruments: Presentation" - Tax effect of distribution to holders of equity instruments
  - MFRS 134 "Interim Financial Reporting" - Interim financial reporting and segment information for total assets and liabilities

The adoption of the new accounting standards, amendments and improvements to published standards did not have material impact on the financial statements of the Bank.

(A) BASIS OF PREPARATION

Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective

The Bank will apply these standards, amendments to published standards from:

(i) Financial year beginning on/after 1 January 2014

- Amendment to MFRS 132 "Financial instruments: Presentation" (effective from 1 January 2014) does not change the current offsetting model in MFRS 132. It clarifies the meaning of 'currently has a legally enforceable right of set-off' that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria.

- Amendments to MFRS 10, MFRS 12 and MFRS 127 "Investment entities" (effective from 1 January 2014) introduce an exception to consolidation of investment entities. Investment entities are entities whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both and evaluate the performance of its investments on fair value basis. The amendments require investment entities to measure particular subsidiaries at fair value instead of consolidating them.

- Amendment to MFRS 136 "Recoverable amount disclosures for non-financial assets" (effective from 1 January 2014) clarifies that disclosure of recoverable amount is required for an asset or cash generating unit when an impairment loss has been recognised or reversed during the period. When the recoverable amount of impaired assets is based on fair value less costs of disposal, additional information about fair value measurement is required. This amendment removes the unintended requirement to disclose the recoverable amount for a cash-generating unit (containing goodwill or indefinite lived intangible assets) when no impairment loss has been recognised or reversed during the period.

- Amendment to MFRS 139 "Financial Instruments: Recognition and Measurement" - Novation of Derivatives and Continuation of Hedge Accounting (effective 1 January 2014) provides relief from discontinuing hedge accounting in a situation where a derivative (which has been designated as a hedging instrument) is novated to effect clearing with a central counterparty as a result of laws or regulation, subject to meeting the following criteria - the parties to the hedging instrument agree that the central counterparty replaces the original counterparty, other changes to the hedging instrument are limited to those that are necessary to effect replacement of the counterparty.

(A) BASIS OF PREPARATION

Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (continued)

(ii) Financial year beginning on / after 1 January 2017

- MFRS 9, 'Financial Instruments – Classification and Measurement of Financial Assets and Financial Liabilities' (effective from 1 January 2017) replaces the parts of MFRS 139 that relate to the classification and measurement of financial instruments. MFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  For financial liabilities, the standard retains most of the MFRS 139 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

  The financial effect of the MFRS 9 is still being assessed by the Bank.

  The adoption of the above new accounting standards will not have any significant impact on the financial results of the Bank except for MFRS 9.

(B) JOINTLY CONTROLLED ENTITIES

The Bank's interest in jointly controlled entities are accounted for in the financial statements by the equity method of accounting. Under the equity method of accounting, interests in jointly controlled entities are initially recognised at cost and adjusted thereafter to recognise the Bank's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Bank's share of losses in a jointly controlled entites equals or exceeds its interests in the jointly controlled entities (which includes any long-term interests that, in substance, form part of the Bank's net investment in the jointly controlled entities), the Bank does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entities.

Investment in jointly controlled entity

In the Bank's separate financial statements, investment in a jointly controlled entity is stated at cost less accumulated impairment losses. On disposal of investment in subsidiaries and jointly controlled entity, the difference between disposal proceed and the carrying amounts of the investments are recognised in profit or loss.

(C) INTANGIBLE ASSETS

Computer software

Acquired computer software are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (five years). Computer software classified as intangible asset are stated at cost less accumulated amortisation and accumulated impairment losses, if any.

(D) IMPAIRMENT ON NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

(E) RECOGNITION OF FINANCING INCOME AND EXPENSE

Financing income and expense for all profit-bearing financial instruments measured at amortised cost and profit bearing financial assets as held-for-trading and available-for-sale are recognised within "income derived from investment from depositors' funds", "income derived from investment from shareholders' funds" and "income attributable to depositors" respectively in the income statement using the effective profit method.

The effective profit method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the financing income or expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective profit rate, the Bank takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate, but not future credit losses.

Profit or income on impaired financial assets is recognised using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

(F) RECOGNITION OF FEES AND OTHER INCOME

Fees and commissions are recognised as income when all conditions precedent are fulfilled.

Guarantee fees which are material are recognised as income based on a time apportionment method.

Dividends are recognised when the right to receive payment is established.

(G) FINANCIAL ASSETS

All financial assets which include derivative financial instruments have to be recognised in the statement of financial position and measured in accordance with their assigned category.

The Bank allocates financial assets to the following MFRS 139 categories:
Financing, advances and other financing, financial assets at fair value through profit or loss, financial investments available-for-sale, and financial investments held-to-maturity, Management determines the classification of its financial instruments at initial recognition.

Financing, advances and other financing

Financing, advances and other financing are non-derivative financial assets with fixed or determinable payments that are not quoted in active market.

Financing, advances and other financing are initially recognised at fair value which is the cash consideration to originate or purchase the financing including any transaction costs and measured subsequently at amortised cost using the effective profit rate method, less impairment allowance.

An uncollectible financing, advances and other financing or portion of a financing, advances and other financing classified as bad is written off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

At each reporting date, the Bank assesses whether there is objective evidence that a financing or group of financing is impaired. A financing or a group of financing is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financing (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financing or group of financing that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include among others:
- past due contractual payments;
- significant financial difficulties of customer;
- probability of bankruptcy or other financial re-organisation;
- default of related customer.

The estimated period between a loss occurring and its identification for all other financing are twelve months.

The Bank first assesses whether objective evidence of impairment exists individually for financing that are individually significant, and individually or collectively for financing that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financing, whether significant or not, it includes the financing in a group of financing with similar credit risk characteristics and collectively assesses them for impairment. Financing that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. Financing that are individually assessed for impairment and for which no impairment loss is required (over collateralised financing) are collectively assessed as a separate segment.

(G) FINANCIAL ASSETS

Financing, advances and other financing (continued)

The amount of the loss is measured as the difference between the financing's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financing's original effective profit rate. The carrying amount of the financing is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a financing has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financing reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financing are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such financing by being indicative of the customers' ability to pay all amounts due according to the contractual terms of the financing being evaluated.

Future cash flows in a group of financing that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the financing in the Bank and historical loss experience for financing with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of financing should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Rescheduled and restructured financing

Where a financing, advances and other financings shows evidence of credit weaknesses, the Bank may seek to renegotiate the financing rather than to take possession of collateral. This may involve an extension of the payment arrangements via rescheduling or the renegotiation of new financing terms and conditions via restructuring. Management monitors the renegotiated financing, advances and other financings to ensure that all the revised terms are met and that the payments are made promptly for a continuous period. Where an impaired financing is renegotiated, the customer must adhere to the revised and/or restructured payment terms for a continuous period of six months before the financing, advances and other financing is classified as non-impaired. These financing, advances and other financing continue to be subjected to individual or collective impairment assessment.

Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held-for-trading and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held-for-trading unless they are designated and effective as hedging instruments. Derivatives are recognised in the statement of financial position as 'Derivative financial assets' when their fair values are positive. Financial assets held-for-trading consist of debt instruments, including money-market paper, traded corporate and bank financing, and equity instruments, as well as financial assets with embedded derivatives. They are recognised in the statement of financial position as 'Financial assets held-for-trading'.

(G) FINANCIAL ASSETS

Financial assets at fair value through profit or loss (continued)

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the income statement. Financial assets at fair value through profit or loss are subsequently carried at fair value. Changes in fair values including the effects of currency translation, profit and dividend income are recognised in the income statement in the period in which the changes arise.

The Bank may designate certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed. The fair value option is only applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise; or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis; or
- the financial assets consists of debt host and an embedded derivatives that must be separated.

Financial assets for which the fair value option is applied are recognised in the statement of financial position as 'Financial assets designated at fair value'. Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in the income statement.

The Bank may choose to reclassify a non-derivative financial assets held-for-trading out of this category where:

- in rare circumstances, it is no longer held for the purpose of selling or repurchasing in the near term; or
- it is no longer held for purpose of trading, it would have met the definition of a financing and receivable on initial classification and the Bank have the intention and ability to hold it for the foreseeable future or until maturity.

Financial investments available-for-sale

Financial investments available-for-sale are non-derivative financial assets that are either designated in this category or not classified as financing and receivables, held-for-trading or held-to-maturity investments.

Financial instruments available-for-sale are initially recognised at fair value plus transaction costs and subsequently measured at fair value.

Investments in equity instruments where there is no quoted market price in an active market and whose fair value cannot be reliably measured, will be stated at cost.

(G) FINANCIAL ASSETS

Financial investments available-for-sale (continued)

Any gains or losses arising from the change in fair value adjustments are recognised directly in statement of comprehensive income except for impairment losses and foreign exchange gains or losses. When the financial asset is derecognised, the cumulative gains or loss previously recognised in statement of comprehensive income shall be transferred to the income statement.

A financial investments available-for-sale that would have met the definition of financing and receivables may only be transferred from the available-for-sale classification where the Bank have the intention and the ability to hold the asset for the foreseeable future or until maturity.

Impairment of financial investments available-for-sale is assessed when there is an objective evidence of impairment. Cumulative unrealised losses that had been recognised directly in equity shall be removed and recognised in income statement even though the securities have not been derecognised. Impairment loss in addition to the above unrealised losses is also recognised in the income statement. Subsequent reversal of impairment on debt instrument in the income statement is allowed when the decrease in impairment can be related objectively to an event occurring after the impairment was recognised.

For debt securities, the Bank set the criteria similar to assets carried at amortised cost.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. Impairment losses recognised in the income statement on equity instruments shall not be reversed.

Financial investments held-to-maturity

Financial investments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity.

Financial investments held-to-maturity are initially recognised at fair value plus transaction costs, and subsequently measured at amortised cost using the effective profit method.

Financial investments held-to-maturity are measured at amortised cost using the effective profit rate method. Gains or losses are recognised in income statement when the securities are derecognised or impaired and through the amortisation process.

If, as a result of a change in intention or ability, it is no longer appropriate to classify a financial investment as held-to-maturity, the Bank shall reclassify the investment as available-for-sale and remeasured at fair value, and the difference between its carrying amount and fair value shall be recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

(G) FINANCIAL ASSETS

Financial investments held-to-maturity (continued)

Any sale or reclassification of a significant amount of financial instruments held-to-maturity before maturity during the current financial year or last two preceding financial years will "taint" the entire category and result in the remaining financial instruments held-to-maturity being reclassified to available-for-sale except for sales or reclassification that:

- are so close to maturity or call date that changes in the market rate would not have significant effect on the financial asset's fair value;
- occur after the Bank has collected substantially all of the financial asset's original principal; or
- are attributable to an isolated event that is beyond the Bank's control is non-recurring and could not have been reasonably anticipated by the Bank.

Impairment of financial investments held-to-maturity is assessed when there is an objective evidence of impairment. The impairment loss is measured as the difference between the financial investments' carrying amount and the present value of estimated future cash flows discounted at the financial investments' original effective profit rate. Subsequent reversal of impairment is allowed in the event of an objective decrease in impairment. Recognition of impairment losses and its reversal is made through the income statement.

Recognition

The Bank uses settlement date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

De-recognition

Financial assets are de-recognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent de-recognition).

(H) FINANCIAL LIABILITIES

All financial liabilities which include derivative financial instruments have to be recognised in the statement of financial position and measured in accordance with their assigned category.

The Bank's holding in financial liabilities are in financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that designated at fair value) and financial liabilities at amortised cost. Financial liabilities are de-recognised when extinguished.

This category comprises two sub-categories: financial liabilities classified as held-for-trading, and financial liabilities designated by the Bank as at fair value through profit or loss upon initial recognition.

(H) FINANCIAL LIABILITIES

A financial liability is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held-for-trading unless they are designated and effective as hedging instruments. Derivatives are recognised in the statement of financial position as 'Derivative financial liabilities' when their fair values are negative.

Gains and losses arising from changes in fair value of financial liabilities classified held-for-trading are included in the income statement.

Other liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. All the financial liabilities of the Bank are measured at amortised cost.

De-recognition

Financial liabilities are de-recognised when they have been redeemed or otherwise extinguished.

(I) OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liability simultaneously.

(J) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the placed part is de-recognised. All the repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Property and equipment are depreciated on the straight-line basis to write-off the cost of the assets, to their residual values over their estimated useful lives summarised as follows:

Renovation	5 years or the period of the lease whichever is greater
Office equipment and furniture	10 years
Computer equipment and software	5 years
Motor vehicles	5 years

Depreciation on capital work in progress commences when the assets are ready for their intended use.

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

(J) PROPERTY AND EQUIPMENT

At each reporting date, the Bank assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount. Any subsequent increase in the recoverable amount is recognised in the income statement (refer to accounting policy D on impairment of non-financial assets).

Gains and losses on disposal are determined by comparing proceeds with carrying amount and are recognised within other operating income in the income statement.

(K) FOREIGN CURRENCY TRANSLATIONS

Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Ringgit Malaysia, which is the Bank's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the financial asset and other changes in the carrying amount of the financial asset. Translation differences related to changes in the amortised cost are recognised in income statement, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit and loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in other comprehensive income.

(L) CURRENT AND DEFERRED INCOME TAXES

Current tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period where the Bank and jointly controlled entity operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

(L) CURRENT AND DEFERRED INCOME TAXES

Deferred tax

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the end of the reporting date and are expected to apply when the related deferred tax assets is realised or the deferred tax liability is settled.

Deferred tax is recognised on temporary differences arising on investment in jointly controlled entity where the timing of the reversal of the temporary difference can be controlled by the Entity and it is possible that the temporary difference will not reverse in the foreseeable future.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on net basis.

(M) ZAKAT

The Bank pays zakat based on 2.5775% of the prior year's net asset method, to comply with the principles of Shariah and as approved by the Shariah Committee. The Bank does not pay zakat on behalf of the depositors.

(N) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand, bank balances and deposits and placements maturing within one month which are held for the purpose of meeting short term commitments and are readily convertible to cash without significant risk of changes in value.

(O) FORECLOSED PROPERTIES

Foreclosed properties are stated at the lower of cost and net realisable value.

(P) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Bank does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Bank or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts.

(P) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Bank. The Bank does not recognise a contingent asset but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

(Q) BILLS AND ACCEPTANCES PAYABLE

Bills and acceptances payable represent the Bank's own bills and acceptances rediscounted and outstanding in the market.

(R) OTHER PROVISIONS

Provisions are recognised by the Bank when all of the following conditions have been met:

- the Bank has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources to settle the obligation will be required; and
- a reliable estimate of the amount of obligation can be made.

Where the Bank expects a provision to be reimbursed (for example, under an insurance/takaful contract), the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

(S) EMPLOYEE BENEFITS

Short-term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Bank.

Defined contribution plan

The defined contribution plan is a pension plan under which the Bank pays fixed contributions to the National Pension Scheme, the Employees' Provident Fund ('EPF') and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The Bank's contribution to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Bank has no further payment obligations.

(S) EMPLOYEE BENEFITS

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without any possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

(T) FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to financial institutions and other bodies on behalf of customers to secure banking facilities.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premium is recognised.

The liability is subsequently recognised at the higher of the amount determined in accordance with MFRS 137 "Provisions, contingent liabilities and contingent assets" and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where financial guarantees in relation to payables of subsidiaries are provided by the Bank for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of investment in subsidiaries.

(U) PROFIT EQUALISATION RESERVE ('PER')

The Bank has adopted the revised Guidelines on PER and has apply in managing the Displaced Commercial Risk ('DCR') in accordance with Shariah principles. The PER is for Mudharabah account/deposit products.

Under the PER Guidelines, the release of PER shall be appropriated from both Investment Account Holder ('IAH') and the Bank's portion based on the contractual profit sharing ratio at the point of utilisation. The amount of PER shall be limited to the maximum of the either PER of the IAH or the Bank depending on prevailing profit sharing ratio.

The IAH portion of the existing PER shall be classified as a liability and is recognised at cost. Subsequent apportionments will be recognised in the income statement. The eventual distribution of PER as profit distributable to the IAH will be treated as an outflow of funds due to the settlement of the obligation to the IAH.

The PER of the Bank shall be classified as a separate reserve in equity and subsequent apportionments from and distributions to retained earnings will be treated as a transfer between reserves.

1 GENERAL INFORMATION

The Bank, a wholly-owned subsidiary of AFFIN Bank Berhad, was incorporated on 13 September 2005 and commenced operations on 1 April 2006. The net assets of AFFIN Bank's Islamic Division was transferred to AFFIN Islamic Bank on 1 April 2006.

The Bank is principally engaged in all aspects of Islamic banking and finance business and in the provision of related financial services in accordance with the Shariah principles.

The number of employees in the Bank at the end of financial year was 230 (2012: 220) employees.

The holding company of the Bank is AFFIN Bank Berhad. The penultimate holding company is AFFIN Holdings Berhad and ultimate holding corporate body is Lembaga Tabung Angkatan Tentera, a statutory body incorporated under the Tabung Angkatan Tentera Act, 1973.

The Bank is a limited liability company, incorporated and domiciled in Malaysia.

2 CASH AND SHORT-TERM FUNDS

	Economic Entity and The Bank	
	2013	**2012**
	RM'000	**RM'000**
Cash and bank balances with banks and other financial institutions	4,972	4,727
Money at call and interbank placements with remaining maturity not exceeding one month	4,501,329	4,071,539
	4,506,301	4,076,266

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Economic Entity and The Bank	
	2013	**2012**
	RM'000	**RM'000**
Licensed banks	120,016	150,078
Bank Negara Malaysia	-	100,008
	120,016	250,086

4 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	Economic Entity and The Bank	
	2013 RM'000	2012 RM'000
At fair value		
Malaysian Government investment issues	616,840	874,709
Sukuk Perumahan Kerajaan	68,300	-
Bank Negara Malaysia Monetary Notes	58,514	367,054
Khazanah Sukuk	29,684	36,189
	773,338	1,277,952
Unquoted securities:		
Shares in Malaysia	69	69
Private debt securities in Malaysia	509,716	701,791
	1,283,123	1,979,812

5 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	Economic Entity and The Bank	
	2013 RM'000	2012 RM'000
At amortised cost		
Unquoted securities:		
Private debt securities in Malaysia	85,064	-
	85,064	-

6 FINANCING, ADVANCES AND OTHER FINANCING

(i) By type

	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Cash line	182,947	187,020
Term financing		
- House financing	1,712,692	1,511,961
- Hire purchase receivables	1,795,689	1,438,230
- Syndicated financing	268,072	259,993
- Business term financing	1,610,756	1,458,138
Bills receivables	32,260	390
Trust receipts	25,702	28,445
Claims on customers under acceptance credits	67,474	133,577
Staff financing (of which RM Nil to Directors)	10,880	10,899
Revolving credit	410,707	184,734
Gross financing, advances and other financing	6,117,179	5,213,387
Less:		
Allowance for impairment		
- Individual	(34,584)	(35,095)
- Collective	(33,719)	(34,936)
Total net financing, advances and other financing	6,048,876	5,143,356

Included in business term financing as at reporting date is RM47.4 million (2012: RM35.2 million) of term financing disbursed by the Bank to jointly controlled entity, AFFIN-i Nadayu Sdn Bhd.

(ii) By maturity structure

	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Maturing within one year	749,108	565,710
One year to three years	560,747	354,583
Three years to five years	770,939	770,713
Over five years	4,036,385	3,522,381
	6,117,179	5,213,387

6 FINANCING, ADVANCES AND OTHER FINANCING

(iii) By contract

	Economic Entity and The Bank 2013 RM'000	Economic Entity and The Bank 2012 RM'000
Bai' Bithaman Ajil (deferred payment sale)	1,890,400	2,223,828
AITAB	1,795,689	1,438,230
Murabahah (cost-plus)	768,532	248,623
Others	1,662,558	1,302,706
	6,117,179	5,213,387

(iv) By type of customer

	Economic Entity and The Bank 2013 RM'000	Economic Entity and The Bank 2012 RM'000
Domestic non-banking institutions		
- Others	173,426	310,059
Domestic business enterprises		
- Small medium enterprises	479,727	427,991
- Others	1,584,730	1,326,600
Government and statutory bodies	53,835	21,662
Individuals	3,463,437	2,916,350
Other domestic entities	242,599	85,726
Foreign entities	119,425	124,999
	6,117,179	5,213,387

(v) By profit rate sensitivity

	Economic Entity and The Bank 2013 RM'000	Economic Entity and The Bank 2012 RM'000
Fixed rate		
- House financing	72,091	83,011
- Hire purchase receivables	1,795,689	1,438,230
- Other fixed rate financing	621,817	662,096
Variable rate		
- BFR plus	2,640,486	2,395,805
- Cost plus	987,096	634,245
	6,117,179	5,213,387

6 FINANCING, ADVANCES AND OTHER FINANCING

(vi) By economic sectors

	Economic Entity and The Bank	
	2013 RM'000	2012 RM'000
Primary agriculture	8,013	85,078
Mining and quarrying	1,133	812
Manufacturing	219,066	220,650
Electricity, gas and water supply	37,589	22,971
Construction	504,771	430,657
Real estate	431,177	409,472
Wholesale & retail trade and restaurants & hotels	146,859	137,276
Transport, storage and communication	106,927	17,147
Finance, insurance and business services	523,514	487,510
Education, health & others	646,994	460,216
Household	3,488,349	2,940,583
Others	2,787	1,015
	6,117,179	5,213,387

(vii) By economic purpose

	Economic Entity and The Bank	
	2013 RM'000	2012 RM'000
Purchase of securities	13	34
Purchase of transport vehicles	1,794,188	1,438,181
Purchase of landed property of which:		
- Residential	1,729,436	1,601,485
- Non-residential	848,029	865,774
Fixed assets other than land and building	79,648	65,883
Personal use	34,056	39,854
Consumer durable	8	17
Construction	579,492	214,075
Working capital	1,016,670	981,028
Others	35,639	7,056
	6,117,179	5,213,387

6 FINANCING, ADVANCES AND OTHER FINANCING

(viii) By geographical distribution

	Economic Entity and The Bank	
	2013	2012
	RM'000	RM'000
Perlis	51,655	9,337
Kedah	333,380	275,950
Pulau Pinang	127,866	90,357
Perak	314,735	249,961
Selangor	2,141,066	1,854,322
Wilayah Persekutuan	1,627,566	1,417,487
Negeri Sembilan	136,922	98,342
Melaka	87,178	55,684
Johor	261,096	181,161
Pahang	250,289	250,096
Terengganu	380,028	354,214
Kelantan	194,116	195,746
Sarawak	28,701	26,755
Sabah	88,033	53,344
Labuan	88	7
Outside Malaysia	94,460	100,624
	6,117,179	5,213,387

7 IMPAIRED FINANCING

(i) Movements of impaired financing

	Economic Entity and The Bank	
	2013	2012
	RM'000	RM'000
At beginning of the financial year	129,792	172,344
Classified as impaired	69,047	67,040
Reclassified as non-impaired	(45,964)	(80,004)
Amount recovered	(19,782)	(21,384)
Amount written-off	(1,463)	(8,204)
At end of the financial year	131,630	129,792
Ratio of gross impaired financing, advances and other financing to gross financing, advances and other financing	2.15%	2.49%

7 IMPAIRED FINANCING

(ii) Movements in allowance for impairment on financing

	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Individual impairment		
At beginning of the financial year	35,095	34,927
Provision for financing impairment	690	2,823
Amount recovered	(434)	(170)
Unwinding of discount of allowance	(1,045)	(2,485)
Exchange differences	278	-
At end of the financial year	34,584	35,095
Collective impairment		
At beginning of the financial year	34,936	60,709
Provision made for (recovered)/impairment financing	242	(17,569)
Amount written-off	(1,459)	(8,204)
At end of the financial year	33,719	34,936

(iii) Impaired financing by economic sectors

	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Primary agriculture	113	-
Mining and quarrying	-	62
Manufacturing	22,041	20,879
Construction	65,976	66,192
Wholesale & retail trade and restaurants & hotels	2,009	3,500
Transport, storage and communication	65	57
Finance, insurance and business services	582	766
Household	40,844	38,232
Others	-	104
	131,630	129,792

7 IMPAIRED FINANCING

(iv) Impaired financing by economic purpose

	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Purchase of transport vehicles	8,570	6,079
Purchase of landed property of which:		
- Residential	30,746	32,115
- Non-residential	1,945	560
Personal use	195	-
Construction	65,656	61,296
Working capital	24,518	29,637
Others	-	105
	131,630	129,792

(v) Impaired financing by geographical distribution

	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Perlis	12	-
Kedah	1,823	1,225
Pulau Pinang	1,472	1,342
Perak	3,066	1,484
Selangor	41,827	44,752
Wilayah Persekutuan	3,313	5,955
Negeri Sembilan	2,631	2,375
Melaka	357	237
Johor	2,613	2,116
Pahang	3,368	2,961
Terengganu	2,480	1,687
Kelantan	2,321	2,375
Sarawak	496	587
Sabah	198	1,400
Outside Malaysia	65,653	61,296
	131,630	129,792

8 OTHER ASSETS

	Economic Entity and The Bank 2013 RM'000	Economic Entity and The Bank 2012 RM'000
Other debtors, deposits and prepayments	602	707
Cheque clearing accounts	41,520	63,215
Foreclosed properties (a)	395	395
	42,517	64,317

	Economic Entity and The Bank 2013 RM'000	Economic Entity and The Bank 2012 RM'000
(a) Foreclosed properties		
At beginning of the financial year	395	395
At end of the financial year	395	395

9 DEFERRED TAX ASSETS / (LIABILITIES)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts determined after appropriate offsetting, are shown in the statement of financial position:

	Economic Entity and The Bank	
	2013 RM'000	2012 RM'000
Deferred tax assets:		
- to be recovered after more than 12 months	(268)	-
- to be recovered within 12 months	3,228	-
Deferred tax liabilities:		
- to be recovered after more than 12 months	-	(810)
- to be recovered within 12 months	-	544
	2,960	(266)
At beginning of the financial year	(266)	(907)
Credited/(charged) to income statement (Note 27)	173	603
- property and equipment	(61)	72
- intangible assets	214	199
- provision for other liabilities	20	332
Charged to equity	3,053	38
At end of the financial year	2,960	(266)
Subject to income tax		
Deferred tax assets (before offsetting)		
AFS revaluation reserve for AFS securities	2,187	-
Provision for other liabilities	1,479	1,462
	3,666	1,462
Offsetting	(706)	(1,462)
Deferred tax assets (after offsetting)	2,960	-
Deferred tax liabilities (before offsetting)		
Property and equipment	(306)	(245)
Intangible assets	(400)	(615)
AFS revaluation reserves	-	(868)
	(706)	(1,728)
Offsetting	706	1,462
Deferred tax liabilities (after offsetting)	-	(266)

10 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act 2009, the amounts of which are determined at set percentages of total eligible liabilities.

11 INVESTMENT IN JOINTLY CONTROLLED ENTITY

	Economic Entity	
	2013 RM'000	2012 RM'000
Unquoted shares at cost	650	500
Economic Entity's share of post acquisition retained losses	(650)	(440)
	-	60

	The Bank	
	2013 RM'000	2012 RM'000
Unquoted shares at cost	650	500
The summarised financial information of jointly controlled entity are as follows:		
Revenue	16,781	8
Loss after tax	(3,050)	(460)
Total assets	181,084	46,516
Total liabilities	183,572	46,396
Capital commitment for property and equipment	-	-

AFFIN-i Nadayu Sdn Bhd

The jointly controlled entity was incorporated on 1 April 2008 and the details are as follows:

Name	Principal activities	Issued and paid up share capital RM'000	Percentage of equity held 2013 %	2012 %
AFFIN-i Nadayu Sdn Bhd	Land development project	1,000	50	50

11 INVESTMENT IN JOINTLY CONTROLLED ENTITY

On 1 April 2008, the Bank and Jurus Positif Sdn Bhd, a subsidiary of Nadayu Properties Berhad (fka Mutiara Goodyear Development Berhad), entered into a joint venture agreement under the Shariah principles ('Musharakah Agreement') to develop a land into a housing scheme at Bukit Gambir, Pulau Pinang.

The agreement also includes an arrangement where Jurus Positif Sdn Bhd may acquire the Bank's shares upon the completion of the project at a mutually agreed price, unless both shareholders decide to continue the joint venture for subsequent projects.

Major strategic operation and financial decisions relating to the activities of AFFIN-i Nadayu Sdn Bhd requires unanimous consent by both joint venture parties. The Economic Entity's interest in AFFIN-i Nadayu Sdn Bhd has been treated as investment in jointly controlled entity, which has been accounted for in the consolidated financial statements using the equity method of accounting.

KL South Development Sdn Bhd

On 2 January 2013, AFFIN Islamic Bank Berhad (the 'Bank') entered into a Musharakah Joint Venture Agreement ('JV Agreement') with Albatha Bukit Kiara Holdings Sdn Bhd ('Albatha'), a subsidiary of Bukit Kiara Capital Sdn Bhd, to jointly develop a property project namely "VERVE Suites KL South" at Jalan Klang Lama, Kuala Lumpur.

Pursuant to the JV Agreement, the Bank acquired 30% stake in the joint venture company namely KL South Development Sdn Bhd ('KL South') by way of subscription of 150,000 shares of RM1.00 each in KL South at par. The remaining stake of 70% in KL South is held by Albatha.

Under the Musharakah structure, the Bank would be the sole banker to KL South, providing financing using the Islamic concept such as Istisna' for the bridging financing.

Major strategic operation and financial decisions relating to the activities of KL South requires consent by both joint venture parties. The Bank's interest in KL South has been treated as investment in jointly controlled entity, which has been accounted for in the consolidated financial statements using the equity method of accounting.

KL South has commenced operations and the project is scheduled for completion by mid 2016.

12 PROPERTY AND EQUIPMENT

	Renovation RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
Economic Entity and The Bank					
2013					
Cost					
At 1 January 2013	2,717	1,939	2,002	458	7,116
Additions	147	71	105	496	819
Reclassification	-	(2)	-	-	(2)
At 31 December 2013	2,864	2,008	2,107	954	7,933
Accumulated depreciation					
At 1 January 2013	1,700	636	1,310	442	4,088
Charge for the financial year	305	195	235	66	801
Reclassification	-	(2)	-	-	(2)
At 31 December 2013	2,005	829	1,545	508	4,887
Net book value as at 31 December 2013	859	1,179	562	446	3,046

	Renovation RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
Economic Entity and The Bank					
2012					
Cost					
At 1 January 2012	2,226	1,508	1,884	458	6,076
Additions	490	432	214	-	1,136
Write-off	-	-	(140)	-	(140)
Reclassification	-	(1)	44	-	43
At 31 December 2012	2,716	1,939	2,002	458	7,115
Accumulated depreciation					
At 1 January 2012	1,185	459	1,064	351	3,059
Charge for the financial year	514	178	369	92	1,153
Write-off	-	-	(139)	-	(139)
Reclassification	-	(1)	16	-	15
At 31 December 2012	1,699	636	1,310	443	4,088
Net book value as at 31 December 2012	1,017	1,303	692	15	3,027

13 INTANGIBLE ASSETS

	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Computer software		
Cost		
At beginning of the financial year	6,402	6,402
At end of the financial year	6,402	6,402
Accumulated amortisation		
At beginning of the financial year	3,944	3,147
Charge for the financial year	792	797
At end of the financial year	4,736	3,944
Net book value as at end of the financial year	1,666	2,458

14 DEPOSITS FROM CUSTOMERS

(i) By type of deposit

	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Non-Mudharabah		
Demand deposits	2,717,722	2,604,233
Savings deposits	227,884	221,111
Murabahah term deposits	1,021,789	-
Mudharabah		
Demand deposits	37,631	31,496
Savings deposits	136,702	112,378
General investment deposits	4,574,624	5,239,911
Special investment deposits	574,192	833,132
	9,290,544	9,042,261

14 DEPOSITS FROM CUSTOMERS

(ii) Maturity structure of general investment deposits and NID

	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Due within six months	4,236,110	4,353,807
Six months to one year	1,357,552	874,676
One year to three years	2,478	11,227
Three years to five years	273	201
	5,596,413	5,239,911

(iii) By type of customer

	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Government and statutory bodies	3,309,130	2,941,589
Business enterprises	3,680,168	3,302,604
Individuals	1,056,745	845,270
Others	1,244,501	1,952,798
	9,290,544	9,042,261

15 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Mudharabah		
Licensed banks	2,032,108	1,578,884
Licensed investment banks	30,031	58,521
Other financial institutions	180,341	202,319
	2,242,480	1,839,724
Maturity structure of deposits		
Due within six months	1,920,443	1,580,067
One year to three years	219,884	-
Three years to five years	-	210,980
Over five years	102,153	48,677
	2,242,480	1,839,724

16 OTHER LIABILITIES

	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Margin and collateral deposits	4,830	3,032
Other creditors and accruals	25,603	19,750
Defined contribution plan (b)	711	716
Accrued employee benefits (c)	23	23
	31,167	23,521

(a) Defined contribution plan

The Bank contributes to the Employee Provident Fund ('EPF'), the national defined contribution plan. Once the contributions have been paid, the Bank has no further payment obligations.

(b) Accrued employee benefits

This refers to the accruals for short-term employee benefits for leave entitlement. Under employment contract, employees earn their leave entitlement which they are entitled to carry forward and will lapse if not utilised in the following accounting period. Accruals are made for the estimated liability for unutilised annual leave.

17 AMOUNT DUE TO HOLDING COMPANY

	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Amount due to holding company	60,115	153,296
	60,115	153,296

The amount due to holding company is unsecured and bear profit rate of 3.00% per annum (2012: 3.08%) with no fixed terms of repayment.

18 SHARE CAPITAL

Economic Entity and The Bank
2013

	Number of ordinary shares of RM 1 each '000	Amount RM'000
Authorised		
At beginning/end of the financial year	1,000,000	1,000,000
Issued and fully paid		
At beginning of the financial year	360,000	360,000
At end of the financial year	360,000	360,000

Economic Entity and The Bank
2012

	Number of ordinary shares of RM 1 each '000	Amount RM'000
Authorised		
At beginning/end of the financial year	1,000,000	1,000,000
Issued and fully paid		
At beginning of the financial year	260,000	260,000
Issued during the financial year	100,000	100,000
At beginning/end of the financial year	360,000	360,000

19 RESERVES

	Economic Entity		The Bank	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Retained profits	178,316	148,950	178,966	149,390
AFS revaluation reserves	(6,925)	2,598	(6,925)	2,598
Statutory reserves	173,026	143,451	173,026	143,451
	344,417	294,999	345,067	295,439
Statutory reserves				
At beginning of the financial year	143,451	106,420	143,451	106,420
Transfer from retained profits	29,575	37,031	29,575	37,031
At end of the financial year	173,026	143,451	173,026	143,451

Movement of the AFS revaluation reserves

	Economic Entity and The Bank	
	2013	2012
	RM'000	RM'000
At beginning of the financial year	2,598	2,719
Net fair value change in financial investments available-for-sale	(12,576)	(159)
Deferred tax on financial investments available-for-sale	3,053	38
At end of the financial year *	(6,925)	2,598

* The depositors' portion of net unrealised gains or losses on 'Available-for-sale' at the end of financial year is net unrealised losses of RM8,519,546 (2012: net unrealised losses of RM3,295,000).

(a) A single tier company tax was introduced effective 1 January 2008. Under this single tier system, tax on a company's profits is a final tax, and dividends distributed to shareholders will be exempted from tax. Companies with Section 108 tax credit balance are given an option to elect to move to a single tier system immediately or allowed to use the Section 108 credit balance for the purpose of dividend distribution during a transitional period of 6 years until 31 December 2013.

The Bank has elected to use its Section 108 credit balance for the purpose of dividend distribution during a transitional period of 6 years until 31 December 2013. The Section 108 balance of the Bank as at 31 December 2007 will be frozen and can only be adjusted downwards for any tax discharged, remitted or refunded during the 6 years period.

As at 31 December 2013, the Bank has a tax credit balance of RM27,882,876 (2012: RM27,882,876) under Section 108 of the Income Tax Act, 1967 and tax exempt account balance of RM6,779,562 (2012: RM6,779,562) under Section 12 of the Income Tax (Amendment) Act 1999, subject to agreement by the Inland Revenue Board.

(b) The statutory reserves of the Bank are maintained in compliance with the provisions of the Islamic Financial Services Act 2013 and are not distributable as cash dividends.

(c) AFS revaluation reserves represent the unrealised gains or losses arising from the change in fair value of investments classified as financial investment available-for-sale. The gains or losses are transferred in the income statement upon disposal or when the securities become impaired.

20 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Income derived from investment of:		
- General investment deposits (a)	274,210	305,298
- Other deposits (b)	154,175	154,696
	428,385	459,994

a) Income derived from investment of general investment deposits

	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Finance income and hibah		
Financing, advances and other financing	171,082	166,781
Financial investments available-for-sale	33,366	36,658
Financial investments held-to-maturity	1,781	-
Money at call and deposits with financial institutions	58,677	81,591
	264,906	285,030
Amortisation of premium less accretion of discount	1,450	9,125
Total finance income and hibah	266,356	294,155
Other operating income		
Fee income		
Commission	706	935
Service charges and fees	3,075	3,722
Guarantee fees	1,294	1,074
	5,075	5,731
Income from financial instruments:		
Gain on sale of:		
- financial investments available-for-sale	625	3,681
	625	3,681
Other income		
Foreign exchange profit:		
- realised	631	239
Other non-operating income	1,523	1,492
	2,154	1,731
Total income derived from investment of general investment deposits	274,210	305,298

20 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

b) Income derived from investment of other deposits

	Economic Entity and The Bank	
	2013 RM'000	2012 RM'000
Finance income and hibah		
Financing, advances and other financing	96,192	84,509
Financial investments available-for-sale	18,760	18,575
Financial investments held-to-maturity	1,001	-
Money at call and deposits with financial institutions	32,991	41,342
	148,944	144,426
Amortisation of premium less accretion of discount	815	4,624
Total finance income and hibah	149,759	149,050
Other operating income		
Fee income		
Commission	397	474
Service charges and fees	1,729	1,886
Guarantee fees	728	544
	2,854	2,904
Income from financial instruments:		
Gain on sale of:		
- financial investments available-for-sale	351	1,865
	351	1,865
Other income		
Foreign exchange profit:		
- realised	355	121
Other non-operating income	856	756
	1,211	877
Total income derived from investment of other deposits	154,175	154,696

21 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	Economic Entity and The Bank	
	2013 RM'000	2012 RM'000
Finance income and hibah		
Financing, advances and other financing	18,581	12,920
Financial investments available-for-sale	3,624	2,839
Financial investments held-to-maturity	193	-
Money at call and deposits with financial institutions	6,373	6,321
	28,771	22,080
Amortisation of premium less accretion of discount	157	707
Total finance income and hibah	28,928	22,787
Other operating income		
Fee income		
Commission	77	72
Service charges and fees	334	288
Guarantee fees	141	83
	552	443
Income from financial instruments:		
Gain on sale of:		
- financial investments available-for-sale	68	285
	68	285
Other income		
Foreign exchange profit:		
- realised	68	19
Other non-operating income	165	116
	233	135
Total income derived from investment of shareholders' funds	29,781	23,650

22 ALLOWANCES FOR LOSSES ON FINANCING

	Economic Entity and The Bank	
	2013 RM'000	2012 RM'000
Individual impairment		
- made in the financial year	690	2,823
- written-back	(434)	(170)
Collective impairment		
- made/(written-back)	242	(17,569)
Bad debts on financing:		
- recovered	(907)	(586)
- written-off	74	82
	(335)	(15,420)

23 INCOME ATTRIBUTABLE TO THE DEPOSITORS

	Economic Entity and The Bank	
	2013 RM'000	2012 RM'000
Deposits from customers		
- mudharabah	184,123	209,334
- non-mudharabah	31,979	29,197
Deposits and placement of banks and other financial institutions		
- mudharabah	46,832	52,575
Others	4,343	3,924
	267,277	295,030

24 PERSONNEL EXPENSES

	Economic Entity and The Bank	
	2013 RM'000	2012 RM'000
Wages, salaries and bonuses	50,873	47,630
Defined contribution plan ('EPF')	8,269	7,758
Other personnel costs	6,332	5,951
	65,474	61,339

25 OTHER OVERHEADS AND EXPENDITURES

	Economic Entity and The Bank	
	2013	2012
	RM'000	RM'000
Establishment costs		
Rental of premises	4,180	3,822
Equipment rental	51	38
Repair and maintenance	4,367	4,716
Depreciation of property and equipment	801	1,153
Amortisation of intangible assets	792	797
IT consultancy fees	8,662	8,040
Dataline rental	518	565
Security services	2,667	2,273
Electricity, water and sewerage	1,572	1,498
Licence fees	195	197
Insurance/takaful and indemnities	121	120
Other establishment costs	3,424	3,706
	27,350	26,925
Marketing expenses		
Business promotion and advertisement	1,199	431
Entertainment	384	443
Traveling and accommodation	1,166	1,037
Other marketing expenses	400	332
	3,149	2,243
Administration and general expenses		
Telecommunication expenses	902	793
Auditors' remuneration	364	299
Professional fees	986	1,107
Property and equipment written-off	-	1
Mail and courier charges	467	628
Stationery and consumables	2,327	2,150
Commissions expenses	219	220
Brokerage expenses	126	100
Directors' fees and allowances	1,078	959
Donations	88	132
Settlement, clearing and bank charges	352	319
Stamp duties	3	4
Operational and litigation write-off expenses	-	45
Other administration and general expenses	861	118
	7,773	6,875
	38,272	36,043

25 OTHER OVERHEADS AND EXPENDITURES

The expenditure includes the following statutory disclosures:

	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Directors' remuneration (Note 26)	2,863	2,686
Rental of premises	4,180	3,822
Equipment rental	51	38
Auditors' remuneration		
- statutory audit fees	136	136
- audit related fees	168	123
- non-audit fees	60	40
Depreciation of property and equipment	801	1,153
Amortisation of intangible assets	792	797

26 CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION

The Directors of the Bank who have held office during the period since the date of the last report are:

CEO

En. Kamarul Ariffin Bin Mohd Jamil

Non-Executive Directors

Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara) (Chairman)
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)
Tan Sri Dato' Seri Mohamed Jawhar
En. Mohd Suffian Bin Haji Haron
Dr. Asyraf Wajdi Bin Dato' Dusuki
Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman

26 CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION

The aggregate amount of remuneration for the Directors of the Bank for the financial year are as follows:

	Economic Entity and The Bank 2013 RM'000	2012 RM'000
CEO		
Salaries	600	582
Bonuses	780	755
Defined contribution plan ('EPF')	228	221
Other employee benefits	43	43
Benefits-in-kind	41	42
Non-executive Directors		
Fees	1,078	959
Shariah Committee fees		
Shariah fees	93	84
Directors' remuneration	2,863	2,686

26 CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION

A summary of the total remuneration of the Directors, distinguishing between Executive and Non-Executive Directors.

Economic Entity and The Bank 2013	**Salaries RM'000**	**Bonuses RM'000**	**Directors' Fees RM'000**	***Other emoluments RM'000**	**Benefits-in-kind RM'000**	**Total RM'000**
CEO						
Kamarul Ariffin Bin Mohd Jamil	600	780	-	271	41	1,692
Total	600	780	-	271	41	1,692
Non-executive Directors						
Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara)	-	-	149	-	-	149
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin	-	-	154	-	-	154
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)	-	-	181	-	-	181
Tan Sri Dato' Seri Mohamed Jawhar	-	-	155	-	-	155
En. Mohd Suffian Bin Haji Haron	-	-	141	-	-	141
Dr. Asyraf Wajdi Bin Dato' Dusuki	-	-	253	-	-	253
Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman	-	-	138	-	-	138
Total	-	-	1,171	-	-	1,171
Grand Total	600	780	1,171	271	41	2,863

Economic Entity and The Bank 2012	Salaries RM'000	Bonuses RM'000	Directors' Fees RM'000	*Other emoluments RM'000	Benefits-in-kind RM'000	Total RM'000
CEO						
Kamarul Ariffin Bin Mohd Jamil	582	755	-	264	42	1,643
Total	582	755	-	264	42	1,643
Non-executive Directors						
Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Bersara)	-	-	134	-	-	134
Tan Sri Dato' Seri Lodin Bin Wok Kamaruddin	-	-	135	-	-	135
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)	-	-	167	-	-	167
Tan Sri Dato' Seri Mohamed Jawhar	-	-	139	-	-	139
En. Mohd Suffian Bin Haji Haron	-	-	123	-	-	123
Dr. Asyraf Wajdi Bin Dato' Dusuki	-	-	227	-	-	227
Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman	-	-	118	-	-	118
Total	-	-	1,043	-	-	1,043
Grand Total	582	755	1,043	264	42	2,686

* Executive Director's other emoliments include allowance and EPF

27 TAXATION

	Economic Entity and The Bank	
	2013 RM'000	2012 RM'000
Malaysian income tax		
Current tax	20,364	27,060
Under/(over) provision in prior year	(447)	69
Deferred tax (Note 9)	(173)	(603)
	19,744	26,526

Numerical reconciliation between the average effective tax rate and the Malaysian tax rate:

	%	%
Malaysian tax rate	25.00	25.00
Tax effect of:		
- change in tax rate	0.04	-
Non-allowable expenses		
- non-taxable income	0.30	0.09
Tax savings arising from income exempt from tax for International Currency Business Unit (ICBU)	(1.45)	(0.28)
Over/(under) provision in prior years	(0.52)	0.06
Zakat contribution	(0.80)	-
Average effective tax rate	22.57	24.87

28 EARNINGS PER SHARE

The basic and fully diluted earnings per ordinary share for the Economic Entity and the Bank have been calculated based on the net profit attributable to ordinary equity holders of the Economic Entity and the Bank of RM58,941,000 (2012: RM73,832,000) and RM59,151,000 (2012: RM74,062,000) respectively. The weighted average number of shares in issue during the financial year of RM360,000,000 (2012: 285,956,000) is used for the computation.

29 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

Related parties	Relationships
Lembaga Tabung Angkatan Tentera ('LTAT')	Ultimate holding corporate body, which is Government-Link Investment Company ('GLIC') of the Government of Malaysia
AFFIN Holdings Berhad ('AHB')	Penultimate holding company
AFFIN Bank Berhad ('ABB')	Holding company
Subsidiaries and associates of LTAT	Subsidiary and associate companies of the ultimate holding corporate body
Subsidiaries and associates of AHB as disclosed in its financial statements	Subsidiary and associate companies of the penultimate holding company
Subsidiaries of ABB as disclosed in its financial statements	Subsidiary companies of the holding company
Joint controlled entity as disclosed in Note 11	Joint controlled entity of AFFIN Islamic Bank Berhad
Voting shares in body corporate not less than 15% of votes	Other related companies
Key management personnel	The key management personnel of the Bank consist of: - Chief Executive Officer - Member of Senior Management team
Related parties of key management personnel (deemed as related to the Bank)	- Close family members and dependents of key management personnel - Entities that are controlled, jointly controlled or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly.

The Bank do not have any individually or collectively significant transactions outside the ordinary course of business with the Government of Malaysia and government related entities. In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances.

29 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related parties transactions and balances

Economic Entity and The Bank	Ultimate holding corporate body 2013 RM'000	Ultimate holding corporate body 2012 RM'000	Penultimate holding company 2013 RM'000	Penultimate holding company 2012 RM'000	Holding companies 2013 RM'000	Holding companies 2012 RM'000
Income						
Income on short-term financing	-	-	-	-	-	-
Income on deposits and placement with banks and other financial institutions	-	-	-	-	14	-
Other income	-	-	-	-	-	-
	-	-	-	-	14	-
Expenditure						
Hibah/profit paid on general investment deposits	77	-	-	-	-	-
Hibah/profit paid on deposits and placement of banks and other financial institutions	-	-	-	-	576	525
Hibah/profit paid on special investment account	1	-	-	-	-	-
Hibah/profit paid on PSIA/RPSIA	-	-	-	-	25,311	24,174
Brokerage fees	-	-	-	-	-	-
Others	-	-	-	-	71,745	67,490
	78	-	-	-	97,632	92,189

Economic Entity and The Bank	Other related companies 2013 RM'000	Other related companies 2012 RM'000	Companies in which certain Directors have substantial interest 2013 RM'000	Companies in which certain Directors have substantial interest 2012 RM'000	Key Management Personnel 2013 RM'000	Key Management Personnel 2012 RM'000
Income						
Income on financing, advances and other financing	2,815	1,802	-	-	-	-
Income on deposits and placement with banks and other financial institutions	2,849	3,813	-	-	-	-
Other income	-	-	-	-	-	-
	5,664	5,615	-	-	-	-
Expenditure						
Hibah/profit paid on general investment deposits	1,571	1,277	-	-	40	15
Hibah/profit paid on deposits and placement of banks and other financial institutions	-	-	-	-	-	-
Hibah/profit paid on special investment account	1,565	2,079	-	-	-	-
Hibah/profit paid on PSIA/RPSIA	-	-	-	-	-	-
Brokerage fees	-	-	-	-	-	-
Others	139	238	-	-	-	-
	3,275	3,594	-	-	40	15

29 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related parties transactions and balances

Economic Entity and The Bank	Ultimate holding corporate body 2013 RM'000	Ultimate holding corporate body 2012 RM'000	Penultimate holding company 2013 RM'000	Penultimate holding company 2012 RM'000	Holding companies 2013 RM'000	Holding companies 2012 RM'000
Amount due from						
Financing,advances and other financing	-	-	-	-	-	-
Deposits and placement with banks and other financial institutions	-	-	-	-	26,720	-
Intercompany balances	-	-	-	-	-	-
	-	-	-	-	26,720	-
Amount due to						
Demand and general investment deposits	46,323	736	-	-	-	-
Deposits and placement of banks and other financial institutions	-	-	-	-	93,945	102,434
Special investment account	-	-	-	-	715,807	656,230
Income payable	-	-	-	-	-	-
Intercompany balances	-	-	-	-	60,115	153,296
	46,323	736	-	-	869,867	911,960
Commitment	-	-	-	-	-	-

Economic Entity and The Bank	Other related companies 2013 RM'000	Other related companies 2012 RM'000	Companies in which certain Directors have substantial interest 2013 RM'000	Companies in which certain Directors have substantial interest 2012 RM'000	Key Management Personnel 2013 RM'000	Key Management Personnel 2012 RM'000
Amount due from						
Financing,advances and other financing	99,130	36,123	-	-	-	549
Deposits and placement with banks and other financial institutions	-	200,493	-	-	-	-
Intercompany balances	4,185	2,745	-	-	-	-
	103,315	239,361	-	-	-	549
Amount due to						
Demand and general investment deposits	62,743	83,402	45	13	3,158	2,301
Deposits and placement of banks and other financial institutions	-	-	-	-	-	-
Special investment account	68,726	9,366	-	-	-	-
Income payable	-	-	-	-	-	-
	131,469	92,768	45	13	3,158	2,301
Commitment	118,180	80,399	-	-	-	-

29 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(b) Key management personnel compensation

	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Short-term employment benefits		
Salaries	600	582
Bonuses	780	755
Defined contribution plan ('EPF')	228	221
Other employee benefits	43	43
Benefit-in-kind	41	42
	1,692	1,643

Included in the above table are Directors' remuneration as disclosed in Note 26.

30 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

The commitments and contingencies consist of:

Economic Entity and The Bank 2013	**Principal amount RM'000**	**Credit equivalent amount * RM'000**	**Risk weighted amount * RM'000**
Direct credit substitutes	8,454	8,454	6,876
Transaction-related contingent items	125,567	62,784	60,717
Short-term self-liquidating trade related contingencies	220,392	44,078	13,104
Irrevocable commitments to extend credit:			
- maturity less than one year	978,152	195,630	157,426
- maturity more than one year	334,624	167,312	151,793
	1,667,189	478,258	389,916

Economic Entity and The Bank 2012	Principal amount RM'000	Credit equivalent amount * RM'000	Risk weighted amount * RM'000
Direct credit substitutes	9,374	9,374	7,732
Transaction-related contingent items	130,067	65,034	63,374
Short-term self-liquidating trade related contingencies	237,199	47,440	11,535
Irrevocable commitments to extend credit:			
- maturity less than one year	811,391	162,278	139,768
- maturity more than one year	381,912	190,955	175,291
	1,569,943	475,081	397,700

* The credit equivalent amount and risk-weighted amount is arrived at using the credit conversion factors as per Bank Negara Malaysia's revised Capital Adequacy for Islamic Banks ("CAFIB") guidelines.

31 FINANCIAL RISK MANAGEMENT

(i) Credit risk

Credit risk is the potential financial loss resulting from the failure of the customer or counterparty to settle the financial and contractual obligations to the Bank. Credit risk emanates mainly from financing, advances and other financing, financing commitments arising from such financing activities, as well as through financial transactions with counterparties including interbank money market activities, derivative instruments used for hedging and debt securities.

The management of credit risk in the Bank is governed by a set of approved credit policies, guidelines and procedures. Approval authorities are delegated to Senior Management and Group Management Loan Committee ('GMLC') to implement the credit policies and ensure sound credit granting standards.

An independent Group Risk Management ('GRM') function, headed by Group Chief Risk Officer ('GCRO') with direct reporting line to Board Risk Management Committee ('BRMC') is in place to ensure adherence to risk standards and discipline. Portfolio management risk reports are submitted regularly to BRMC.

Financing guidelines and credit strategies are formulated and incorporated in the Annual Credit Plan. New businesses are governed by the risk acceptance criteria and customer qualifying criteria/fitness standards prescribed in the Annual Credit Plan. The Annual Credit Plan is reviewed at least annually and approved by the BRMC.

Credit risk measurement

Financing, advances and other financing

Credit evaluation is the process of analysing the creditworthiness of the prospective customer against the Bank's underwriting criteria and the ability of the Bank to make a return commensurate to the level of risk undertaken. A critical element in the evaluation process is the assignment of a credit risk grade to the counterparty. This assists in the risk assessment and decision making process. The Bank has developed internal rating models to support the assessment and quantification of credit risk.

For consumer mass market products, statistically developed application scorecards are used by the Business to assess the risks associated with the credit applications. The scorecards are used as a decision support tool at financing origination.

Over-the-Counter ('OTC') Derivatives

The OTC Derivatives credit exposure is computed using the Current Exposure Method. Under the Current Exposure Method, computation of credit equivalent exposure for profit rate and exchange rate related contracts is derived from the summation of the two elements; the replacement costs (obtained by marking-to-market) of all contracts and the potential future exposure of outstanding contracts (Add On charges depending on the specific remaining tenor to maturity).

31 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Risk limit control and mitigation policies

The Bank employs various policies and practices to control and mitigate credit risk.

Financing limits

The Bank establishes internal limits and related financing guidelines to manage large exposures and avoid undue concentration of credit risk in its credit portfolio. The limits include single customer groupings, large exposures, connected parties, and geographical and industry segments. These risks are monitored regularly and the limits reviewed annually or sooner depending on changing market and economic conditions when considered appropriate.

The credit risk exposure for derivative and financing books is managed as part of the overall financing limits with customers together with potential exposure from market movements.

Collateral

Credits are established against customer's capacity to pay rather than rely solely on security. However, collateral may be taken to mitigate credit risk. The main collateral types accepted and given value by the Bank are:-

- mortgage over residential properties;
- charges over commercial real estate or vehicles financed;
- charges over business assets such as business premises, inventory and accounts receivable; and
- charges over financial instruments such as marketable equities.

Documentary and commercial letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct financing.

Credit Related Commitments

Commitment to extend credit represents unutilised portion of approved credit in the form of financing, guarantees or letters of credit. In terms of credit risk, the Bank is potentially exposed to loss in an amount equal to the total unutilised commitments. However, the potential amount of loss is less than the total unutilised commitments, as most commitments to extend credit are contingent upon customers maintaining specific minimum credit standards.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than short-term commitments.

Credit risk monitoring

Retail credits are actively monitored and managed on a portfolio basis by product type. A collection management system in place to promptly identify, monitor and manage delinquent accounts at early stages of delinquency.

Corporate credits and large individual accounts are reviewed by the Business Units at least once a year against updated information. This is to ensure that the credit grades remain appropriate and detect any signs of weaknesses or deterioration in the credit quality. Remedial action is taken where evidence of deterioration exists.

Early Alert Process is in place as part of a means to pro-actively identify, report and manage deteriorating credit quality. Watchlist accounts are closely reviewed and monitored with corrective measures initiated to prevent them from turning impaired. As a rule, watchlist accounts are either worked up or worked out within a period of twelve months.

31 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Credit risk culture

The Bank recognises that learning is a continuous journey and is committed to enhance the knowledge and required skills set of its staff. It places strong emphasis in creating and enhancing risk awareness in the organisation.

For effective and efficient staff learning, an E–Learning Program is implemented with an online Learning Management System ('LMS'). The LMS provides staff with a progressive self-learning alternative at own pace.

Group Risk Management implements an Internal Credit Certification ('ICC') Programme for both Business Banking and Consumer Credit.

The aim of the ICCs is to assist the core credit related group of personnel in Affin achieve a minimum level of knowledge and analytical skills required to make sound corporate and commercial financing to customers.

Maximum exposure to credit risk

For financial assets recognised on the statement of financial position, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the guarantees were to be called upon. For financing commitments and other credit related commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

The exposure to credit risk of the Bank equals their carrying amount in the statement of financial position as at reporting date, except for the followings:

	Economic Entity and The Bank	
	2013 Carrying Value RM'000	2013 Maximum Credit Exposure RM'000
Credit risk exposures of on-balance sheet assets:		
Cash and short-term funds	4,506,301	4,506,301
Financial investments available-for-sale	1,283,123	1,283,054
Credit risk exposure of off-balance sheet items:		
Financial guarantees	^ 139,441	74,408
Financing commitments and other credit related commitments	^ 1,527,748	403,850
Total maximum credit risk exposure	7,456,613	6,267,613

31 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Maximum exposure to credit risk (continued)

	Economic Entity and The Bank	
	2012 Carrying Value RM'000	2012 Maximum Credit Exposure RM'000
Credit risk exposures of on-balance sheet assets:		
Cash and short-term funds	4,076,266	4,076,266
Financial investments available-for-sale	1,979,812	1,979,743
Credit risk exposure of off-balance sheet items:		
Financial guarantees	^ 139,441	74,408
Financing commitments and other credit related commitments	^ 1,430,502	400,673
Total maximum credit risk exposure	7,626,021	6,531,090

The following have been excluded for the purpose of maximum credit risk exposure calculation:

investment in quoted and unquoted shares
^ amount stated at notional value

Whilst the Bank's maximum exposure to credit risk is the carrying value of the assets, or in the case of off-balance sheet items, the amount guaranteed, committed or accepted, in most cases the likely exposure is far less due to collateral, credit enhancements and other actions taken to mitigate the credit exposure.

The financial effect of collateral held for financing, advances and other financing of the Bank is 77% (2012: 77%). The financial effects of collateral for the other financial assets are insignificant.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2013

31 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Credit risk concentration

Credit risk is the risk of financial loss from the failure of customers to meet their obligations. Exposure to credit risk is managed through portfolio management. The credit portfolio's risk profiles and exposures are reviewed and monitored regularly to ensure that an acceptable level of risk diversification is maintained. Exposure to credit risk is also managed in part by obtaining collateral security and corporate and personal guarantees.

The credit risk concentrations of the Bank, by industry concentration, are set out in the following tables:

Economic Entity and The Bank 2013	Cash and short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity securities RM'000	Financing, advances and other financing (*) RM'000	Other assets RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	-	-	8,013	-	8,013	5,256
Mining and quarrying	-	-	-	-	1,133	-	1,133	-
Manufacturing	-	-	68,467	-	213,192	-	281,659	27,851
Electricity, gas and water supply	-	-	-	-	37,589	-	37,589	-
Construction	-	-	-	-	477,980	-	477,980	176,204
Real estate	-	-	-	-	431,177	-	431,177	29,640
Transport, storage and communication	-	-	-	-	106,927	-	106,927	12,301
Finance, insurance and business services	250,967	120,016	460,659	85,064	523,514	-	1,440,220	38,507
Government and government agencies	4,255,334	-	743,655	-	21,662	-	5,020,651	80,628
Wholesale & retail trade and restaurants & hotels	-	-	10,273	-	145,047	-	155,320	25,873
Others	-	-	-	-	4,116,360	41,991	4,158,351	81,998
Total assets	4,506,301	120,016	1,283,054	85,064	6,082,594	41,991	12,119,020	478,258

* Not inclusive of collective allowance amounting to RM34 million.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 30.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2013

31 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Credit risk concentration (continued)

Economic Entity and The Bank 2012	Cash and short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity securities RM'000	Financing, advances and other financing (*) RM'000	Other assets RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	-	-	85,078	-	85,078	2,617
Mining and quarrying	-	-	-	-	812	-	812	-
Manufacturing	-	-	-	-	214,211	-	214,211	36,447
Electricity, gas and water supply	-	-	-	-	22,971	-	22,971	-
Construction	-	-	15,397	-	403,895	-	419,292	181,964
Real estate	-	-	-	-	409,472	-	409,472	12,627
Transport, storage and communication	-	-	-	-	17,147	-	17,147	6,110
Finance, insurance and business services	385,144	150,078	712,233	-	487,510	-	1,734,965	50,302
Government and government agencies	3,691,122	100,008	1,241,763	-	21,662	-	5,054,555	82,555
Wholesale & retail trade and restaurants & hotels	-	-	10,350	-	135,418	-	145,768	20,672
Others	-	-	-	-	3,380,116	63,795	3,443,911	81,787
Total assets	4,076,266	250,086	1,979,743	-	5,178,292	63,795	11,548,182	475,081

* Not inclusive of collective allowance amounting to RM35 million.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 30.

31 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Collaterals

The main types of collateral obtained by the Bank are as follows:
- for personal house financing, mortgages over residential properties;
- for commercial property financing, charges over the properties being financed;
- for hire purchase facilities, charges over the vehicles or plant and machineries financed; and
- for other financing, charges over business assets such as premises, inventories, trade receivables or deposits.

Total financing, advances and other financing - credit quality

All financing, advances and other financing are categorised into "neither past due nor impaired", "past due but not impaired" and "impaired". Past due financing refer to financing that are overdue by one day or more. Impaired financing are financing with months-in-arrears more than 3 months (i.e. 90 days) or with impairment allowances.

Distribution of financing, advances and other financing by credit quality

	Economic Entity and The Bank	
	2013 RM'000	2012 RM'000
Neither past due nor impaired (a)	5,586,200	4,640,565
Past due but not impaired (b)	399,349	443,030
Impaired (c)	131,630	129,792
Gross financing, advances and other financing	6,117,179	5,213,387
less: Allowance for impairment		
- Individual	(34,584)	(35,095)
- Collective	(33,719)	(34,936)
Net financing, advances and other financing	6,048,876	5,143,356

Past due but not impaired includes accounts within grace period amounting to RM0.1 billion (2012: RM0.1 billion).

(a) Financing neither past due nor impaired

Analysis of financing, advances and other financing that are neither past due nor impaired analysed based on the Bank's internal credit grading system is as follows:

	Economic Entity and The Bank	
	2013 RM'000	2012 RM'000
Quality classification		
Satisfactory	5,256,874	4,219,125
Special mention	329,326	421,440
	5,586,200	4,640,565

31 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Total financing, advances and other financing - credit quality (continued)

(a) Financing neither past due nor impaired (continued)

Quality classification definitions

Satisfactory: Exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or levels of expected loss.

Special mention: Exposures require varying degrees of special attention and default risk is of greater concern.

(b) Financing past due but not impaired

Certain financing, advances and other financing are past due but not impaired as the collateral values of these financing are in excess of the principal and profit outstanding. Allowances for these financing may have been set aside on a portfolio basis. The Bank's financing, advances and other financing which are past due but not impaired are as follows:

	Economic Entity and The Bank	
	2013 RM'000	**2012 RM'000**
Past due up to 30 days	146,639	201,631
Past due 30-60 days	172,502	160,251
Past due 60-90 days	80,208	81,148
	399,349	443,030

(c) Financing impaired

	Economic Entity and The Bank	
	2013 RM'000	**2012 RM'000**
Analysis of impaired assets:		
Gross impaired financing	131,630	129,792
Individually impaired financing	69,181	70,855

31 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Collateral and other credit enhancements obtained

During the year, the Bank has not obtained any assets by taking possession of collateral held as security or calling upon other credit enhancements.

Private debt securities, treasury bills and derivatives

Private debt securities, treasury bills and other eligible bills included in financial assets held-for-trading and financial investments available-for-sale are measured on a fair value basis. The fair value will reflect the credit risk of the issuer.

Most listed and some unlisted securities are rated by external rating agencies. The Bank mainly uses external credit ratings provided by RAM, MARC, Standard & Poor's or Moody's.

The following table presents an analysis of debt securities, treasury bills and other eligible bills by rating agency.

31 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Economic Entity and The Bank 2013	**AAA RM'000**	**AA- to AA+ RM'000**	**A- to A+ RM'000**	**Lower than A- RM'000**	**Unrated RM'000**	**Impaired RM'000**	**Total RM'000**
Financial assets held-for-trading							
Private debt securities	-	-	-	-	-	-	-
Financial investments available-for-sale							
Malaysian Government investment issues	-	-	-	-	616,840	-	616,840
Bank Negara Malaysia Monetary Notes	-	-	-	-	58,514	-	58,514
Sukuk Perumahan Kerajaan	68,300	-	-	-	-	-	68,300
Others	-	-	-	-	29,684	-	29,684
Private debt securities	499,443	10,273	-	-	-	-	509,716
Financial investments held-to-maturity							
Private debt securities	-	-	-	-	85,064	-	85,064
	567,743	10,273	-	-	790,102	-	1,368,118

Economic Entity and The Bank 2012	AAA RM'000	AA- to AA+ RM'000	A- to A+ RM'000	Lower than A- RM'000	Unrated RM'000	Impaired RM'000	Total RM'000
Financial investments available-for-sale							
Malaysian Government investment issues	-	-	-	-	874,709	-	874,709
Bank Negara Malaysia Monetary Notes	-	-	-	-	367,054	-	367,054
Others	-	-	-	-	36,189	-	36,189
Private debt securities	691,440	10,351	-	-	-	-	701,791
Financial investments held-to-maturity	-	-	-	-	-	-	-
	691,440	10,351	-	-	1,277,952	-	1,979,743

Collateral is not generally obtained directly from the issuers of debt securities. Certain debt securities may be collateralised by specifically identified assets that would be obtainable in the event of default.

31 FINANCIAL RISK MANAGEMENT

(ii) Market risk

Market risk is defined as the risk of losses to the Bank's portfolio positions arising from movements in market factors such as profit rates, foreign exchange rates and changes in volatility. The Bank is exposed to market risks from its trading and investment activities. The Bank's market risk management objective is to ensure that market risk is appropriately identified, measured, controlled, managed and reported.

The Bank's exposure to market risk stems primarily from price rate risk and foreign exchange rate risk. Price rate risk arises mainly from differences in timing between the maturities or repricing of assets, liabilities and derivatives. The Bank is also exposed to basis risk when there is a mismatch between the change in price of a hedge and the change in price of the assets it hedges. Foreign exchange rate risk arises from unhedged positions of customers' requirements and proprietary positions.

The Bank's market risk management control strategy is established based on its risk appetite, market liquidity and business strategies as well as macroeconomic conditions. These limits are reviewed at least on an annual basis.

Market risk arising from the Bank's trading book is primarily controlled through the imposition of Cut-loss and Value-at-Risk ('VaR') Limits.

The Bank quantifies price rate risk by analysing the repricing mismatch between the rate sensitive assets and rate sensitive liabilities. It also conducts Net Profit Income simulations to assess the variation in earnings under various rates scenarios. The potential long term effects of the Bank's overall exposure is also tracked by assessing the impact on economic value of equity ('EVE').

The Bank's profit rate risk is managed through Earnings-at-Risk ('EaR') and Economic Value-at-Risk ('EVaR') limits.

In addition, the Bank conducts periodic stress test of its respective business portfolios to ascertain market risk under abnormal market conditions.

The Bank's Management, ALCO and BRMC are regularly kept informed of its risk profile and positions.

Net profit income sensitivity

The table below shows the pre-tax net profit income sensitivity for the financial assets and financial liabilities held as at reporting date. The sensitivity has been measured using the Repricing Gap Simulation methodology based on 100 basis points parallel shifts in the profit rate.

Economic Entity and The Bank 2013	**+100 basis point RM million**	**-100 basis point RM million**
Impact on net profit income	3.0	(3.0)
As percentage of net profit income	1.7%	-1.7%

Economic Entity and The Bank 2012	+100 basis point RM million	-100 basis point RM million
Impact on net profit income	13.0	(13.0)
As percentage of net profit income	6.4%	-6.4%

31 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Foreign exchange risk sensitivity analysis

Economic Entity and The Bank 2013	**Open position** US Dollar equivalent amount '000	Ringgit Malaysia equivalent amount '000	Ringgit Malaysia equivalent amount for 1% fall in US Dollar '000	**Impact of 1% fall in US Dollar exchange rate '000**
US Dollar	**1,090**	**3,571**	**3,535**	**(36)**
Others	**(1,020)**	**(3,342)**	**(3,309)**	**33**

The impact on the outstanding foreign exchange position as at 31 December 2013 for a one percent change in USD exchange rate from 3.2775 to 3.2447 was a decrease of RM2,292.

Economic Entity and The Bank 2012	Open position US Dollar equivalent amount '000	Ringgit Malaysia equivalent amount '000	Ringgit Malaysia equivalent amount for 1% fall in US Dollar '000	Impact of 1% fall in US Dollar exchange rate '000
US Dollar	583	1,782	1,765	(18)
Others	(417)	(1,275)	(1,262)	13

The impact on the Bank's outstanding foreign exchange position as at 31 December 2012 for a one percent change in USD exchange rate from 3.0590 to 3.0284 was a decrease of RM5,000.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2013

31 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table summarises the Bank's exposure to foreign currency exchange rate risk as at reporting date. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

Economic Entity and The Bank 2013	Euro RM'000	United States Dollar RM'000	Great Britain Pound RM'000	Australian Dollar RM'000	Japanese Yen RM'000	Others RM'000	Total RM'000
Assets							
Cash and short-term funds	1,506	27,491	256	727	44	842	30,866
Financing, advances and other financing	-	135,969	-	-	-	-	135,969
Total financial assets	1,506	163,460	256	727	44	842	166,835
Liabilities							
Deposits from customers	18	599	7	7	4	1	636
Deposits and placements of banks and other financial institutions	-	93,945	-	-	-	-	93,945
Total financial liabilities	18	94,544	7	7	4	1	94,581
Net on-balance sheet financial position	1,488	68,916	249	720	40	841	72,254
Off balance sheet credit commitments	53,764	157,837	1,119	-	-	309	213,029

31 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Foreign exchange risk (continued)

Economic Entity and The Bank 2012	Euro RM'000	United States Dollar RM'000	Great Britain Pound RM'000	Australian Dollar RM'000	Japanese Yen RM'000	Others RM'000	Total RM'000
Assets							
Cash and short-term funds	1,359	2,141	379	213	229	270	4,591
Financing, advances and other financing	-	164,355	-	-	-	-	164,355
Total financial assets	1,359	166,496	379	213	229	270	168,946
Liabilities							
Deposits from customers	1,165	244	7	-	3	-	1,419
Deposits and placements of banks and other financial institutions	-	102,434	-	-	-	-	102,434
Total financial liabilities	1,165	102,678	7	-	3	-	103,853
Net on-balance sheet financial position	194	63,818	372	213	226	270	65,093
Off balance sheet credit commitments	163,762	57,486	2,671	-	-	9,618	233,537

31 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk

The Bank is exposed to the risks associated with the effects of fluctuations in the prevailing levels of profit rate on the financial position and cash flows of its portfolio. The fluctuations in the profit rate can be influenced by changes in profit rates that affect the value of financial instruments under its portfolio.

	Non-trading book								
Economic Entity 2013	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
Assets									
Cash and short-term funds	4,493,709	-	-	-	-	12,592	-	4,506,301	3.04
Deposits and placements with banks and other financial institutions	-	120,000	-	-	-	16	-	120,016	3.35
Financial investments available-for-sale	-	65,039	414,159	589,955	202,858	11,112	-	1,283,123	3.81
Financial investments held-to-maturity	-	-	85,000	-	-	64	-	85,064	6.85
Financing, advances and other financing									
- non-impaired	3,287,420	209,320	514,183	1,335,655	638,971	(33,719) *	-	5,951,830	5.15
- impaired	-	-	-	-	-	97,046 #	-	97,046	
Others (1)	-	-	-	-	-	287,374	-	287,374	
Total assets	7,781,129	394,359	1,013,342	1,925,610	841,829	374,485	-	12,330,754	

* The negative balance represents collective allowance for financing, advances and other financing.

Net of individual allowance.

(1) Others include other assets, deferred tax assets, statutory deposits with Bank Negara Malaysia, investment in jointly controlled entity, amount due from jointly controlled entity, property and equipment and intangible assets.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2013

31 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

Economic Entity 2013	Non-trading book Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
Liabilities									
Deposits from customers	5,305,634	1,355,778	2,558,767	2,741	-	67,624	-	9,290,544	2.73
Deposits and placements of banks and other financial institutions	1,400,110	353,414	157,775	197,210	100,000	33,971	-	2,242,480	3.26
Amount due to holding company	60,115	-	-	-	-	-	-	60,115	3.00
Other liabilities (2)	-	-	-	-	-	33,198	-	33,198	
Total liabilities	6,765,859	1,709,192	2,716,542	199,951	100,000	134,793	-	11,626,337	
Equity	-	-	-	-	-	704,417	-	704,417	
Total liabilities and equity	6,765,859	1,709,192	2,716,542	199,951	100,000	839,210	-	12,330,754	
On-balance sheet profit sensitivity gap	1,015,270	(1,314,833)	(1,703,200)	1,725,659	741,829	(464,725)			
Total profit sensitivity gap	1,015,270	(1,314,833)	(1,703,200)	1,725,659	741,829	(464,725)			

(2) Other liabilities include provision for taxation and other liabilities.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2013

31 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

	Non-trading book								
Economic Entity 2012	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
Assets									
Cash and short-term funds	4,067,999	-	-	-	-	8,267	-	4,076,266	3.00
Deposits and placements with banks and other financial institutions	-	250,000	-	-	-	86	-	250,086	3.13
Financial investments available-for-sale	132,051	209,188	380,689	859,634	383,275	14,975	-	1,979,812	3.43
Financing, advances and other financing									
- non-impaired	2,789,158	158,374	411,599	1,106,885	617,579	(34,936) *	-	5,048,659	5.37
- impaired	-	-	-	-	-	94,697 #	-	94,697	
Others (1)	-	-	-	-	-	274,107	-	274,107	
Total assets	6,989,208	617,562	792,288	1,966,519	1,000,854	357,196	-	11,723,627	

* The negative balance represents collective allowance for financing, advances and other financing.

Net of individual allowance.

(1) Others include other assets, investment in jointly controlled entity, amount due from jointly controlled entity, property and equipment, intangible assets and statutory deposits with Bank Negara Malaysia.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2013

31 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

Economic Entity 2012	Non-trading book Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
Liabilities									
Deposits from customer	5,253,150	1,732,177	1,976,034	11,366	-	69,534	-	9,042,261	2.74
Deposits and placements of banks and other financial institutions	1,127,472	396,515	49,037	197,211	46,627	22,862	-	1,839,724	3.21
Amount due to holding company	153,296	-	-	-	-	-	-	153,296	3.08
Other liabilities (2)	-	-	-	-	-	33,347	-	33,347	
Total liabilities	6,533,918	2,128,692	2,025,071	208,577	46,627	125,743	-	11,068,628	
Equity	-	-	-	-	-	654,999	-	654,999	
Total liabilities and equity	6,533,918	2,128,692	2,025,071	208,577	46,627	780,742	-	11,723,627	
On-balance sheet profit sensitivity gap	455,290	(1,511,130)	(1,232,783)	1,757,942	954,227	(423,546)			
Total profit sensitivity gap	455,290	(1,511,130)	(1,232,783)	1,757,942	954,227	(423,546)			

2) Other liabilities include deferred tax liabilities, provision for taxation and other liabilities.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2013

31 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

The Bank 2013	Non-trading book: Up to 1 month RM'000	Non-trading book: >1-3 months RM'000	Non-trading book: >3-12 months RM'000	Non-trading book: >1-5 years RM'000	Non-trading book: Over 5 years RM'000	Non-trading book: Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
Assets									
Cash and short-term funds	4,493,709	-	-	-	-	12,592	-	4,506,301	3.04
Deposits and placements with banks and other financial institutions	-	120,000	-	-	-	16	-	120,016	3.35
Financial investments available-for-sale	-	65,039	414,159	589,955	202,858	11,112	-	1,283,123	3.81
Financial investments held-to-maturity	-	-	85,000	-	-	64	-	85,064	6.85
Financing, advances and other financing									
- non-impaired	3,287,420	209,320	514,183	1,335,655	638,971	(33,719) *	-	5,951,830	5.15
- impaired	-	-	-	-	-	97,046 #	-	97,046	
Others (1)	-	-	-	-	-	288,024	-	288,024	
Total assets	7,781,129	394,359	1,013,342	1,925,610	841,829	375,135	-	12,331,404	

* The negative balance represents collective allowance for financing, advances and other financing.

\# Net of individual allowance.

(1) Others include other assets, deferred tax assets, statutory deposits with Bank Negara Malaysia, investment in jointly controlled entity, amount due from jointly controlled entity, property and equipment and intangible assets.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2013

31 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

The Bank 2013	Non-trading book								
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
Liabilities									
Deposits from customers	5,305,634	1,355,778	2,558,767	2,741	-	67,624	-	9,290,544	2.73
Deposits and placements of banks and other financial institutions	1,400,110	353,414	157,775	197,210	100,000	33,971	-	2,242,480	3.26
Amount due to holding company	60,115	-	-	-	-	-	-	60,115	3.00
Other liabilities (2)	-	-	-	-	-	33,198	-	33,198	
Total liabilities	6,765,859	1,709,192	2,716,542	199,951	100,000	134,793	-	11,626,337	
Equity	-	-	-	-	-	705,067	-	705,067	
Total liabilities and equity	6,765,859	1,709,192	2,716,542	199,951	100,000	839,860	-	12,331,404	
On-balance sheet profit sensitivity gap	1,015,270	(1,314,833)	(1,703,200)	1,725,659	741,829	(464,725)			
Total profit sensitivity gap	1,015,270	(1,314,833)	(1,703,200)	1,725,659	741,829	(464,725)			

(2) Other liabilities include provision for taxation and other liabilities.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2013

31 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

The Bank 2012	Non-trading book Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
Assets									
Cash and short-term funds	4,067,999	-	-	-	-	8,267	-	4,076,266	3.00
Deposits and placements of banks and other financial institutions	-	250,000	-	-	-	86	-	250,086	3.13
Financial investments available-for-sale	132,051	209,188	380,689	859,634	383,275	14,975	-	1,979,812	3.43
Financing, advances and other financing									
- non-impaired	2,789,158	158,374	411,599	1,106,885	617,579	(34,936) *	-	5,048,659	5.37
- impaired	-	-	-	-	-	94,697 #	-	94,697	
Others (1)	-	-	-	-	-	274,547	-	274,547	
Total assets	6,989,208	617,562	792,288	1,966,519	1,000,854	357,636	-	11,724,067	

* The negative balance represents collective allowance for financing, advances and other financing.

\# Net of individual allowance.

(1) Others include other assets, statutory deposits with Bank Negara Malaysia, investment in jointly controlled entity, amount due from jointly controlled entity, property and equipment and intangible assets.

31 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

The Bank 2012	Non-trading book Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
Liabilities									
Deposits from customers	5,253,150	1,732,177	1,976,034	11,366	-	69,534	-	9,042,261	2.74
Deposits and placements of banks and other financial institutions	1,127,472	396,515	49,037	197,211	46,627	22,862	-	1,839,724	3.21
Amount due to holding company	153,296	-	-	-	-	-	-	153,296	3.08
Other liabilities (2)	-	-	-	-	-	33,347	-	33,347	
Total liabilities	6,533,918	2,128,692	2,025,071	208,577	46,627	125,743	-	11,068,628	
Equity	-	-	-	-	-	655,439	-	655,439	
Total liabilities and equity	6,533,918	2,128,692	2,025,071	208,577	46,627	781,182	-	11,724,067	
On-balance sheet profit sensitivity gap	455,290	(1,511,130)	(1,232,783)	1,757,942	954,227	(423,546)			
Total profit sensitivity gap	455,290	(1,511,130)	(1,232,783)	1,757,942	954,227	(423,546)			

(2) Other liabilities include provision for taxation, deferred tax liabilities and other liabilities.

31 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk

Liquidity risk is the current and prospective risk to earnings or capital arising from a bank's inability to meet its obligations when they fall due. Liquidity risk includes the inability to manage sudden decreases or changes in funding sources. Liquidity risk also arises from the failure to recognise changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

To measure and manage net funding requirements, the Bank adopts BNM's New Liquidity Framework ('NLF'). The NLF ascertains the liquidity condition based on the contractual and behavioural cash-flow of assets, liabilities and off-balance sheet commitments, taking into consideration the realisable cash value of the eligible liquefiable assets. The NLF is also supported by indicative ratios on the Bank's funding structure to monitor the reliance on particular funding sources.

The Bank employs liquidity risk indicators as an early alert of any structural change for liquidity risk management. Liquidity risk is tracked using internal and external qualitative and quantitative indicators. The Bank also conducts liquidity stress tests to gauge the Bank's resilience in the event of a liquidity crisis. In addition, the Bank has in place the Contingency Funding Plan, which provides a systematic approach in handling liquidity disruption. The document encompasses strategies, decision-making authorities, and courses of action to be taken in the event of liquidity crisis and emergencies.

The liquidity positions in the major currencies are being closely monitored by tracking the availability of medium to long term foreign currency funding and adhering to the guiding principles for foreign currency assets creations.

Basel III Liquidity Standards

The Basel Committee developed the Liquidity Coverage Ratio ('LCR') and Net Stable Funding Ratio ('NSFR') with the goal of strengthening the resilience of the banking systems. The LCR and NSFR are tracked monthly to assess the short term and long term liquidity risk profile of the Bank.

The BRMC is responsible for the Bank's liquidity policy although the strategic management of liquidity has been delegated to the ALCO. The BRMC is informed regularly of the liquidity situation in the Bank.

31 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

Liquidity risk disclosure table which is based on contractual undiscounted cash flow

The table below provides analysis of cash flow payables for financial liabilities based on remaining contractual maturities on undiscounted basis. The balances in the table below do not agree directly to the balances reported in the statement of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and profit payments.

Economic Entity and The Bank 2013	**Up to 1 month RM'000**	**>1-3 months RM'000**	**>3-12 months RM'000**	**>1-5 years RM'000**	**Over 5 years RM'000**	**Total RM'000**
Deposits from customers	5,318,387	1,387,130	2,641,359	2,954	-	9,349,830
Deposits and placements of banks and other financial institutions	1,403,096	361,633	159,565	242,355	124,311	2,290,960
Other liabilities	31,167	-	-	-	-	31,167
Amount due to holding company	60,115	-	-	-	-	60,115
	6,812,765	1,748,763	2,800,924	245,309	124,311	11,732,072

Economic Entity and The Bank 2012	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Deposits from customers	5,273,752	1,767,507	2,040,154	11,933	-	9,093,346
Deposits and placements of banks and other financial institutions	1,128,165	405,176	49,594	242,355	70,047	1,895,337
Other liabilities	23,521	-	-	-	-	23,521
Amount due to holding company	153,296	-	-	-	-	153,296
	6,578,734	2,172,683	2,089,748	254,288	70,047	11,165,500

31 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

Liquidity risk for assets and liabilities based on remaining contractual maturities

The maturities of on-balance sheet assets and liabilities as well as other off-balance sheet assets and liabilities, commitments and counter-guarantees are important factors in assessing the liquidity of the Bank. The table below provides analysis of assets and liabilities into relevant maturity tenures based on remaining contractual maturities.

Economic Entity 2013	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Assets						
Cash and short-term funds	4,506,301	-	-	-	-	4,506,301
Deposits and placements with banks and other financial institutions	-	120,016	-	-	-	120,016
Financial investments available-for-sale	819	73,178	416,313	589,955	202,858	1,283,123
Financial investments held-to-maturity	-	-	64	16,168	68,832	85,064
Financing, advances and other financing	187,367	123,568	240,489	1,417,970	4,079,482	6,048,876
Other assets	41,984	-	112	-	421	42,517
Amount due from jointly controlled entity	4,185	-	-	-	-	4,185
Other non-financial assets (1)	235,960	-	-	-	4,712	240,672
	4,976,616	316,762	656,978	2,024,093	4,356,305	12,330,754
Liabilities						
Deposits from customers	5,315,337	1,380,107	2,592,348	2,752	-	9,290,544
Deposits and placements of banks and other financial institutions	1,402,540	359,716	158,187	219,884	102,153	2,242,480
Other liabilities	31,167	-	-	-	-	31,167
Amount due to holding company	60,115	-	-	-	-	60,115
Other non-financial liabilities (2)	-	-	2,031	-	-	2,031
	6,809,159	1,739,823	2,752,566	222,636	102,153	11,626,337
On balance sheet gap	(1,832,543)	(1,423,061)	(2,095,588)	1,801,457	4,254,152	704,417
Off balance sheet credit commitments	(161,028)	-	(1,285,769)	-	-	(1,446,797)
Net maturity mismatch	(1,993,571)	(1,423,061)	(3,381,357)	1,801,457	4,254,152	(742,380)

(1) Other non-financial assets include deferred tax assets, statutory deposits with Bank Negara Malaysia, investment in jointly controlled entity, property and equipment and intangible assets.
(2) Other non-financial liabilities include provision for taxation.

31 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

Liquidity risk for assets and liabilities based on remaining contractual maturities (continued)

Economic Entity 2012	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Assets						
Cash and short-term funds	4,076,266	-	-	-	-	4,076,266
Deposits and placements with banks and other financial institutions	-	250,086	-	-	-	250,086
Financial investments available-for-sale	132,891	221,279	382,733	859,634	383,275	1,979,812
Financing, advances and other financing	87,765	92,478	188,289	1,048,201	3,726,623	5,143,356
Other assets	63,788	-	108	-	421	64,317
Amount due from jointly controlled entity	2,745	-	-	-	-	2,745
Other non-financial assets (1)	201,500	-	-	-	5,545	207,045
	4,564,955	563,843	571,130	1,907,835	4,115,864	11,723,627

Economic Entity 2012	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Liabilities						
Deposits from customers	5,270,770	1,756,365	2,003,697	11,429	-	9,042,261
Deposits and placements of banks and other financial institutions	1,127,768	403,153	49,146	210,980	48,677	1,839,724
Other liabilities	23,521	-	-	-	-	23,521
Amount due to holding company	153,296	-	-	-	-	153,296
Other non-financial liabilities (2)	-	-	9,560	-	266	9,826
	6,575,355	2,159,518	2,062,403	222,409	48,943	11,068,628
On balance sheet gap	(2,010,400)	(1,595,675)	(1,491,273)	1,685,426	4,066,921	654,999
Off balance sheet credit commitments	-	-	(1,332,744)	-	-	(1,332,744)
Net maturity mismatch	(2,010,400)	(1,595,675)	(2,824,017)	1,685,426	4,066,921	(677,745)

(1) Other non-financial assets include statutory deposits with Bank Negara Malaysia, investment in jointly controlled entity, property and equipment and intangible assets.
(2) Other non-financial liabilities include deferred tax liabilities and provision for tax.

31 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

Liquidity risk for assets and liabilities based on remaining contractual maturities (continued)

The Bank 2013	Up to 1 month RM'000	> 1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Assets						
Cash and short-term funds	4,506,301	-	-	-	-	4,506,301
Deposits and placements with banks and other financial institutions	-	120,016	-	-	-	120,016
Financial investments available-for-sale	819	73,178	416,313	589,955	202,858	1,283,123
Financial investments held-to-maturity	-	-	64	16,168	68,832	85,064
Financing, advances and other financing	187,367	123,568	240,489	1,417,970	4,079,482	6,048,876
Other assets	41,984	-	112	-	421	42,517
Amount due from jointly controlled entity	4,185	-	-	-	-	4,185
Other non-financial assets (1)	235,960	-	-	-	5,362	241,322
	4,976,616	316,762	656,978	2,024,093	4,356,955	12,331,404
Liabilities						
Deposits from customers	5,315,337	1,380,107	2,592,348	2,752	-	9,290,544
Deposits and placements of banks and other financial institutions	1,402,540	359,716	158,187	219,884	102,153	2,242,480
Other liabilities	31,167	-	-	-	-	31,167
Amount due to holding company	60,115	-	-	-	-	60,115
Other non-financial liabilities (2)	-	-	2,031	-	-	2,031
	6,809,159	1,739,823	2,752,566	222,636	102,153	11,626,337
On balance sheet gap	(1,832,543)	(1,423,061)	(2,095,588)	1,801,457	4,254,802	705,067
Off balance sheet credit commitments	(161,028)	-	(1,285,769)	-	-	(1,446,797)
Net maturity mismatch	(1,993,571)	(1,423,061)	(3,381,357)	1,801,457	4,254,802	(741,730)

(1) Other non-financial assets include deferred tax assets, statutory deposits with Bank Negara Malaysia, investment in jointly controlled entity, property and equipment and intangible assets.

(2) Other non-financial liabilities include provision for taxation.

31 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

Liquidity risk for assets and liabilities based on remaining contractual maturities (continued)

The Bank 2012	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Assets						
Cash and short-term funds	4,076,266	-	-	-	-	4,076,266
Deposits and placements with banks and other financial institutions	-	250,086	-	-	-	250,086
Financial investments available-for-sale	132,891	221,279	382,733	859,634	383,275	1,979,812
Financing, advances and other financing	87,765	92,478	188,289	1,048,201	3,726,623	5,143,356
Other assets	63,788	-	108	-	421	64,317
Amount due from jointly controlled entity	2,745	-	-	-	-	2,745
Other non-financial assets (1)	201,500	-	-	-	5,985	207,485
	4,564,955	563,843	571,130	1,907,835	4,116,304	11,724,067
Liabilities						
Deposits from customers	5,270,770	1,756,365	2,003,697	11,429	-	9,042,261
Deposits and placements of banks and other financial institutions	1,127,768	403,153	49,146	210,980	48,677	1,839,724
Other liabilities	23,521	-	-	-	-	23,521
Amount due to holding company	153,296	-	-	-	-	153,296
Other non-financial liabilites (2)	-	-	9,560	-	266	9,826
	6,575,355	2,159,518	2,062,403	222,409	48,943	11,068,628
On balance sheet gap	(2,010,400)	(1,595,675)	(1,491,273)	1,685,426	4,067,361	655,439
Off balance sheet credit commitments	-	-	(1,332,744)	-	-	(1,332,744)
Net maturity mismatch	(2,010,400)	(1,595,675)	(2,824,017)	1,685,426	4,067,361	(677,305)

(1) Other non-financial assets include statutory deposits with Bank Negara Malaysia, investment in jointly controlled entity, property and equipment and intangible assets.

(2) Other non-financial liabilities include provision for taxation and deferred tax liabilities.

31 FINANCIAL RISK MANAGEMENT

(iv) Operational risk management

Operational risk is the risk of loss arising from inadequate or failed internal processes, action on or by people, infrastructure or technology or events which are beyond the bank's immediate control which have an operational impact, including natural disaster, fraudulent activities and money laundering/financing of terrorism.

The Bank manages operational risk through a control based environment in which policies and procedures are formulated after taking into account individual unit's business activities, the market in which it is operating and regulatory requirement in force.

The Bank adopts the Basic Indicator Approach for the purpose of calculating the capital requirement for operational risk. The capital requirement is calculated by taking 15% of the Bank's average annual gross income over the previous three years.

Risk is identified through the use of assessment tools and measured using threshold/limits mapped against risk matrix. Monitoring and control procedures include the use of key control standards, independent tracking of risk, back-up procedures and contingency plans, including disaster recovery and business continuity plans. This is supported by periodic reviews undertaken by Group Internal Audit to ensure adequacy and effectiveness of the Group Operational Risk Management process.

The Bank gathers, analyses and reports operational risk loss and 'near miss' events to Group Operational Risk Management Committee and Board Risk Management Committee. Appropriate preventive and remedial actions are reviewed for effectiveness and implemented to minimise the recurrence of such events.

As a matter of requirement, all Operational Risk Coordinators must satisfy an Internal Operational Risk (including anti-money laundering/counter financing of terrorism and business continuity management) Certification Program. These coordinators will first go through an on-line self learning exercise before attempting on-line assessments to measure their skills and knowledge level. This will enable Group Risk Management to prescribe appropriate training and development activities for the coordinators.

31 FINANCIAL RISK MANAGEMENT

(v) Fair value financial assets and liabilities

The fair value of the financial assets and financial liabilities of the Bank approximated to their carrying value as at reporting date, except for the following:

Economic Entity and The Bank 2013	**Carrying value RM'000**	**Fair value RM'000**
Financial Assets		
Financial investments held-to-maturity	85,064	82,079
Financing, advances and other financing	6,048,876	6,018,229
	6,133,940	6,100,308
Financial Liabilities		
Deposits from customers	9,290,544	9,288,130
Deposits and placements of banks and other financial institutions	2,242,480	2,250,965
	11,533,024	11,539,095

Economic Entity and The Bank 2012	Carrying value RM'000	Fair value RM'000
Financial Assets		
Financing, advances and other financing	5,143,356	5,098,046
Financial Liabilities		
Deposits from customers	9,042,261	9,042,025
Deposits and placements of banks and other financial institutions	1,839,724	1,852,696
	10,881,985	10,894,721

The following tables analyse within the fair value hierarchy the Bank's assets and liabilities not measured at fair value at 31 December 2013 but for which fair value is disclosed:

Economic Entity and The Bank 2013	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Financial Assets				
Financial investments held-to-maturity	-	82,079	-	82,079
Financing, advances and other financing	-	6,018,229	-	6,018,229
Financial Liabilities				
Deposits from customers	-	9,288,130	-	9,288,130
Deposits and placements of banks and other financial institutions	-	2,250,965	-	2,250,965

31 FINANCIAL RISK MANAGEMENT

(v) Fair value financial assets and liabilities (continued)

Economic Entity and The Bank 2012	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial Assets				
Financing, advances and other financing	-	5,098,046	-	5,098,046
Financial Liabilities				
Deposits from customers	-	9,042,025	-	9,042,025
Deposits and placements of banks and other financial institutions	-	1,852,696	-	1,852,696

The fair value estimates were determined by application of the methodologies and assumptions described below.

Short-term funds and placements with banks and other financial institutions

For short-term funds and placements with banks and other financial institutions with maturity of less than six months, the carrying amount is a reasonable estimate of fair value.

For amounts with maturities of six months or more, fair values have been estimated by reference to current rates at which similar deposits and placements would be made with similar credit ratings and maturities.

Financial investments available-for-sale and held-to-maturity

The fair values of financial investments available-for-sale and financial investments held-to-maturity are reasonable estimates based on quoted market prices. In the absence of such quoted prices, the fair values are based on the expected cash flows of the instruments discounted by indicative market yields for the similar instruments as at reporting date or the audited net tangible asset of the invested company.

Financing, advances and other financing

Financing, advances and other financing of the Bank comprise of floating rate financing and fixed rate financing. For performing floating rate financing, the carrying amount is a reasonable estimate of their fair values.

The fair values of performing fixed rate financing are arrived at using the discounted cash flows based on the prevailing market rates of financing, advances and other financing with similar credit ratings and maturities.

The fair values of impaired financing, whether fixed or floating are represented by their carrying values, net of individual and collective allowances, being the reasonable estimate of recoverable amount.

31 FINANCIAL RISK MANAGEMENT

(v) Fair value financial assets and liabilities (continued)

Deposits from customers, banks and other financial institutions and bills and acceptances payable

The carrying values of deposits and liabilities with maturities of six months or less are assumed to be reasonable estimates of their fair values. Where the remaining maturities of deposits and liabilities are above six months, their estimated fair values are arrived at using the discounted cash flows based on prevailing market rates currently offered for similar remaining maturities.

The estimated fair value of deposits with no stated maturity, which include non-profit bearing deposits, approximates carrying amount which represents the amount repayable on demand.

Other assets and liabilities

The carrying value less any estimated allowance for financial assets and liabilities included in other assets and other liabilities are assumed to approximate their fair values as these items are not materially sensitive to the shift in market profit rates.

Fair value measurements

The following table presents assets and liabilities measured at fair value and classified by level of the following fair value measurement hierarchy:

(a) Level 1 - quoted price (unadjusted) in active markets for identical assets and liabilities;

(b) Level 2 - inputs other than quoted price included within level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e.derived from prices); and

(c) Level 3 - inputs for the asset and liability that are not based on observable market data (unobservable inputs).

Economic Entity and The Bank 2013	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Assets				
Financial investments available-for-sale				
- Private debt securities	-	509,716	-	509,716
- Equity securities	-	-	69	69
- Other financial assets	-	773,338	-	773,338

Economic Entity and The Bank 2012	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Assets				
Financial investments available-for-sale				
- Private debt securities	-	701,791	-	701,791
- Equity securities	-	-	69	69
- Other financial assets	-	1,277,952	-	1,277,952

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2013

31 FINANCIAL RISK MANAGEMENT

Fair value measurements (continued)

Financial instruments that are valued using quoted prices in active market are classified as Level 1 of the valuation hierarchy. These would include listed equities which are actively traded.

Where fair value is determined using quoted prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Bank then determine fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high. These would include corporate private debt securities and corporate notes.

The Bank classify financial instruments as Level 3 when there is reliance on unobservable inputs to the valuation model attributing to a significant contribution to the instrument value. Valuation reserves or pricing adjustments where applicable will be used to converge to fair value.

The Bank may also use valuation models or discounted cash flow technique to determine the fair value.

The valuation techniques and inputs used generally depend on the contractual terms and the risks inherent in the instrument as well as the availability of pricing information in the market. Principal techniques used include discounted cash flows, and other appropriate valuation models.

The following table present the changes in Level 3 instruments for the financial year ended:

	Economic Entity and The Bank	
	2013 RM'000	**2012 RM'000**
Opening	69	69
AFS revaluation reserves	-	-
Closing	69	69

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

As at reporting date, financial instruments measured with valuation techniques using significant unobservable inputs (Level 3) mainly include unquoted shares held for socio economic purposes.

In estimating its significance, the Bank used an approach that is currently based on methodologies used for fair value adjustments. These adjustments reflects the values that the Bank estimates is appropriate to adjust from the valuations produced to reflect for uncertainties in the inputs used. The methodologies used can be a statistical or other relevant approved techniques.

32 CAPITAL MANAGEMENT

With effect from 1 January 2013, the total capital and capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework (Capital Components) dated 28 November 2012.

The Bank is currently adopting Standardised Approach for Credit Risk and Market Risk, the Basic Indicator Approach for Operational Risk. In line with the transitional arrangements under the Bank Negara Malaysia's Capital Adequacy Framework (Capital Components), the minimum capital adequacy requirement for Common Equity Tier 1 Capital Ratio ('CET 1') and Tier 1 Capital Ratio are 3.5% and 4.5% respectively for year 2013. The minimum regulatory capital adequacy requirement remains at 8.0% (2012 : 8.0%) for total capital ratio.

The Bank has adopted and to comply with the Guidelines and are subject to the transition arrangements as set out by BNM.

The Bank's objectives when managing capital are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level agreed with the management which takes into account the risk profile of the Bank.

The table in Note 33 below summarises the composition of regulatory capital and the ratios of the Bank for the financial year ended 31 December 2013.

33 CAPITAL ADEQUACY

The capital adequacy ratios are as follows:

	Economic Entity		The Bank	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
Paid-up share capital	360,000	360,000	360,000	360,000
Retained profits	178,316	148,950	178,966	149,390
Statutory reserves	173,026	143,451	173,026	143,451
Unrealised gains and losses on AFS	(9,112)	-	(9,112)	-
	702,230	652,401	702,880	652,841
Less:				
Deferred tax assets	(773)	(600)	(773)	(600)
55% of cumulative unrealised gains of AFS	-	-	-	-
CET1 capital	701,457	651,801	702,107	652,241
Tier I capital	701,457	651,801	702,107	652,241
Collective impairment @	20,470	23,782	20,470	23,782
Less:				
Investment in subsidiaries/associates/ jointly controlled entity	(650)	-	(650)	-
Tier II capital	19,820	23,782	19,820	23,782
Total capital/Capital base	721,277	675,583	721,927	676,023

@ Qualifying collective impairment is restricted to allowances on unimpaired portion of the financing, advances and other financing.

33 CAPITAL ADEQUACY

The capital adequacy ratios are as follows (continued):

	Economic Entity		The Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
CET1 capital ratio	13.876%	-	13.889%	-
Tier 1 capital ratio/Core capital ratio	13.876%	14.613%	13.889%	14.623%
Total capital ratio/Risk-weighted capital ratio	14.269%	15.146%	14.281%	15.156%
CET1 capital ratio (net of proposed dividends)	13.876%	-	13.889%	-
Tier 1 capital ratio/Core capital ratio (net of proposed dividends)	13.876%	14.613%	13.889%	14.623%
Total capital ratio/Risk-weighted capital ratio (net of proposed dividends)	14.269%	15.146%	14.281%	15.156%
Risk-weighted assets for:				
Credit risk	4,712,068	4,135,300	4,712,068	4,135,300
Market risk	3,570	1,782	3,570	1,782
Operational risk	339,365	323,284	339,365	323,284
Total risk-weighted assets	5,055,003	4,460,366	5,055,003	4,460,366

34 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. To enhance the information content of the estimates, certain variables that are anticipated to have material impact to the Bank's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Allowance for losses on financing, advances and other financing

The accounting estimates and judgments related to the impairment of financing and provision for off-balance sheet positions is a critical accounting estimate because the underlying assumptions used for both the individually and collectively assessed impairment can change from period to period and may significantly affect the Bank's results of operations.

In assessing assets for impairment, management judgment is required. The determination of the impairment allowance required for financing which are deemed to be individually significant often requires the use of considerable management judgment concerning such matters as local economic conditions, the financial performance of the counterparty and the value of any collateral held, for which there may not be a readily accessible market. The actual amount of the future cash flows and their timing may differ from the estimates used by management and consequently may cause actual losses to differ from the reported allowances.

The impairment allowance for portfolios of smaller balance homogenous financing, such as those to individuals and small business customers of the private and retail business, and for those financing which are individually significant but for which no objective evidence of impairment exists, is determined on a collective basis. The collective impairment allowance is calculated on a portfolio basis using statistical models which incorporate numerous estimates and judgments, and therefore is subject to estimation uncertainty. The Bank performs a regular review of the models and underlying data and assumptions as far as possible to reflect the current economic circumstances. The probability of default, loss given defaults, and loss identification period, amongst other things, are all taken into account during this review.

35 CREDIT EXPOSURES ARISING FROM TRANSACTIONS WITH CONNECTED PARTIES

The following credit exposures are based on Bank Negara Malaysia's revised Guidelines on Credit Transaction and Exposures with Connected Parties, which are effective 1 January 2008.

(i)	The aggregate value of outstanding credit exposures with connected parties (RM'000)	**487,876**
(ii)	The percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	**6%**
(iii)	The percentage of outstanding credit exposures with connected parties which is impaired or in default	**Nil**

36 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 26 February 2014.

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT, 1965

We, JEN TAN SRI DATO' SERI ISMAIL BIN HAJI OMAR (BERSARA) and EN. MOHD SUFFIAN BIN HAJI HARON, two of the Directors of AFFIN ISLAMIC BANK BERHAD, state that, in the opinion of the Directors, the accompanying financial statements set out on pages 51 to 140 are drawn up so as to give a true and fair view of the state of affairs of the Economic Entity and the Bank as at 31 December 2013 and of the results and cash flows of the Economic Entity and the Bank in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 26 February 2014.

JEN TAN SRI DATO' SERI ISMAIL BIN HAJI OMAR (BERSARA)
Chairman

EN. MOHD SUFFIAN BIN HAJI HARON
Director

STATUTORY DECLARATION
PURSUANT TO SECTION 169 (16) OF THE COMPANIES ACT, 1965

I, EE KOK SIN, the officer of AFFIN ISLAMIC BANK BERHAD primarily responsible for the financial management of the Economic Entity and the Bank, do solemnly and sincerely declare that in my opinion, the accompanying financial statements set out on pages 51 to 140 are correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

EE KOK SIN

Subscribed and solemnly declared by the abovenamed EE KOK SIN at Kuala Lumpur in Malaysia on 26 February 2014, before me.

Commissioner for Oaths

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF AFFIN ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of AFFIN Islamic Bank Berhad on pages 51 to 140 which comprise the statements of financial position as at 31 December 2013 of the Economic Entity and of the Bank, and the statements of income, comprehensive income, changes in equity and cash flows of the Economic Entity and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes 1 to 35.

Directors' Responsibility for the Financial Statements

The directors of the Bank are responsible for the preparation of financial statements that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965, and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Economic Entity and of the Bank as of 31 December 2013 and of their financial performance and cash flows for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

This report is made solely to the members of the Bank, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS
(No. AF : 1146)
Chartered Accountants

SOO HOO KHOON YEAN
(No. 2682/10/15 (J))
Chartered Accountant

Kuala Lumpur, Malaysia
26 February 2014

SHARIAH COMMITTEE'S REPORT

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

Praise to Allah, the Lord of the Worlds, and peace and blessings on our Prophet Muhammad and on his scion and companions

Assalamualaikum w.b.t

In compliance with the letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by AFFIN Islamic Bank Berhad ('the Bank') during the period ended 31 December 2013. We have also conducted our review to form an opinion as to whether the Bank has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.

The management of the Bank is responsible for ensuring that the financial institution conducts its business in accordance with Shariah principles. It is our responsibility to form an independent opinion, based on the review work carried out by Shariah review and Shariah audit of the Bank and to report to you.

We have assessed the work carried out by Shariah review and Shariah audit which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by the Bank.

We planned and 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 Bank has not violated the Shariah principles.

We conducted an interactive session with senior management to enhance understanding on Islamic finance. Periodic training for staff has been conducted in order to provide adequate knowledge and competencies in undertaking tasks for the business of the Bank.

In our opinion:

1. the contracts, transactions and dealings entered into by the Bank during the year ended 31 December 2013 that we have reviewed are in compliance with the Shariah principles;

2. the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles;

3. all earnings that have been realised from sources or by means prohibited by the Shariah principles have been considered for disposal to charitable causes; the amount channeled to charity fund for financial year ended 31 December 2013 was RM1,862.66 (2012: RM22,581.72) as purification of fees income earned from use of debit card at certain merchants; and

4. the calculation of zakat is in compliance with Shariah principles.

SHARIAH COMMITTEE'S REPORT

We, the members of the Shariah Committee of AFFIN ISLAMIC, do hereby confirm that the operations of the Bank for the year ended 31 December 2013 have been conducted in conformity with the Shariah principles.

Chairman of the Shariah Committee:

Dr. Asyraf Wajdi Bin Dato' Dusuki

Shariah Committee:

Associate Professor Dr. Said Bouheraoua

Shariah Committee:

Assistant Professor Dr. Ahmad Azam Bin Othman

Shariah Committee:

Dr. Yasmin Hanani Binti Mohd Safian

Shariah Committee:

Dr. Zulkifli Bin Hasan

Kuala Lumpur, Malaysia
26 February 2014

BASEL II
PILLAR 3 DISCLOSURES

BASEL II
PILLAR 3 DISCLOSURES
for the financial year ended 31 December 2013

1 Introduction

1.1 Background

AFFIN Islamic Bank Berhad ('the Bank') adopts Basel II since January 2008 in line with the directive from Bank Negara Malaysia ('BNM'). The Basel II framework is structured around three fundamental Pillars.

- Pillar 1 defines the minimum capital requirement to ensure that financial institutions hold sufficient capital to cover their exposure to credit, market and operational risks.

- Pillar 2 requires financial institutions to have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels.

- Pillar 3 requires financial institutions to establish and implement an appropriate disclosure policy that promotes transparency regarding their risk management practices and capital adequacy positions.

The Bank elected to adopt the following approaches under Pillar 1 requirements:

- Standardised Approach for Credit Risk
- Basic Indicator Approach for Operational Risk
- Standardised Approach for Market Risk

1.2 Scope of Application

This document contains the disclosure requirements under Pillar 3 for the Bank for the year ended 31 December 2013. The disclosures are made in line with the Pillar 3 disclosure requirements under the Basel II framework as laid out by BNM.

The disclosures should be read in conjunction with the Bank's 2013 Annual Report for the year ended 31 December 2013.

2 Risk Governance Structure

2.1 Overview

The Board of Directors of the Bank is ultimately responsible for the overall performance of the Bank. The Board's responsibilities remain within the framework of BNM Guidelines. The Board also exercises great care to ensure that high ethical standards are upheld, and that the interests of stakeholders are not compromised. These include responsibility for determining the Bank's general policies and strategies for the short, medium and long term, approving business plans, including targets and budgets, and approving major strategic decisions.

The Board has overall responsibility for maintaining the proper management and protection of the Bank's interests by ensuring effective implementation of the risk management policy and process, as well as adherence to a sound system of internal control, and by seeking regular assurance on their effectiveness. The Board also recognises that risks cannot be eliminated completely. As such, the inherent system of internal control is designed to provide a reasonable though not absolute assurance against the risk of material errors, fraud or losses occurring. The system of internal controls encompasses controls relating to financial, operational, risk management and compliance with applicable laws, regulations, policies and guidelines.

2 Risk Governance Structure

2.1 Overview (continued)

The terms of reference of the Board Committees as disclosed in the Annual Report provide an outline of its role and functions. In carrying out its functions, the Board has delegated specific responsibilities to other Board Committees, which operate under approved terms of reference, to assist the Board in discharging their duties. The Chairmen of the various Committees report on the outcome of their Committee meetings to the Board and any further deliberation is made at Board level, if required. These reports and deliberations are incorporated into the Minutes of the Board meetings. The Board meets on a monthly basis.

The Board of the Bank has a balance composition with a strong independent element. It consists of representatives from the private sector with suitable qualifications fulfilling the fit and proper criteria as required by BNM/GP1, a mixture of different skills, competencies, experience and personalities.

2.2 Board Committees

Board Remuneration Committee ('BRC')

The BRC is responsible for providing a formal and transparent procedure for developing the remuneration policy for Directors, Managing Director/Chief Executive Officer and key senior management officers and ensuring that compensation is competitive and consistent with the Bank's culture, objectives and strategy.

The Committee obtains advice from experts in compensation and benefits, both internally and externally.

Board Nominating Committee ('BNC')

The BNC is responsible for providing a formal and transparent procedure for the appointment of Directors and Managing Director/Chief Executive Officer, assessing the effectiveness of individual Directors, the Board as a whole and the performance of the Managing Director/Chief Executive Officer and key senior management personnel.

Board Risk Management Committee ('BRMC')

The BRMC is responsible for overseeing management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and functioning.

It has responsibility for reviewing and approving all risk management policies and risk management methodologies. BRMC also reviews guidelines and portfolio management reports including risk exposure information.

The Committee also ensures that the procedures and framework in relation to identifying, measuring, monitoring and controlling risk are operating effectively.

Board Loan Review and Recovery Committee ('BLRRC')

The BLRRC is responsible in providing critical review of financing and other credit facilities with higher risk implications, after due process of checking, analysis, review and recommendation by the Credit Risk Management function, and if found necessary, exercise the power to veto financing applications that have been approved by the Group Management Loan Committee ('GMLC'). BLRRC also reviews the impaired financing reports presented by the Management.

2 Risk Governance Structure

2.2 Board Committees (continued)

Audit and Examination Committee ('AEC')

The AEC is responsible for providing oversight on reviewing the adequacy and integrity of the internal control systems and oversees the work of the internal and external auditors.

Reliance is placed on the results of independent audits performed primarily by internal auditors, the outcome of statutory audits on financial statements conducted by external auditors and on representations by Management based on their control self-assessment of all areas of their responsibility.

Minutes of Audit & Examination Committee meetings, which provide a summary of the proceedings, are circulated to Board members for notation and discussion. The Bank has an established Group Internal Audit Division ('GIA') which reports functionally to the Audit Committee and administratively to the Managing Director/Chief Executive Officer.

2.3 Management Committees

Shariah Committee

The Bank's business activities are subject to Shariah compliance and conformation by the Shariah Committee. The Shariah Committee is formed as legislated under the Islamic Financial Services Act 2013 and as per Shariah Governance Framework for Islamic Financial Institutions.

The duties and responsibilities of the Shariah Committee include the following:

(i) To advise the Board on Shariah matters in order to ensure that the business operations of the Bank comply with the Shariah principles at all times;

(ii) To endorse and validate relevant documentations of the Bank's products to ensure that the products comply with Shariah principles; and

(iii) To advise the Bank on matters to be referred to the Shariah Advisory Council.

Management Committee ('MCM')

MCM comprising the senior management team chaired by the MD/CEO, assists the Board in managing the day-to-day operations and ensures its effectiveness. MCM formulates tactical plans and business strategies, monitors the Bank's overall performance, and ensures that the activities are in accordance with corporate objectives, strategies, policies and annual business plan and budget.

Group Management Loan Committee ('GMLC')

GMLC is established within senior management chaired by the MD/CEO to approve complex and larger financing and workout/recovery proposals beyond the delegated authority of the concerned individual senior management personnel of the Bank.

2 Risk Governance Structure

2.3 Management Committees (continued)

Asset and Liability Management Committee ('ALCO')

ALCO comprising the senior management team chaired by the MD/CEO, manages the Bank's asset liability position and oversees the Bank's capital management to ensure that the Bank is adequately capitalised on an economic and regulatory basis.

Group Operational Risk Management Committee ('GORMC')

GORMC is established within senior management chaired by MD/CEO to deliberate and manage operational risks. Its responsibilities include:

(i) To evaluate operational risks issues of escalating importance/strategic risk exposure;

(ii) To review and recommend on broad operational risks management policies/best practices for adoption by the Bank's operating units;

(iii) To review the effectiveness of broad internal controls and making recommendation/approve on changes, if necessary;

(iv) To review/approve recommendation of operational risk management groups set up to address specific area;

(v) To take the lead in inculcating an operational risks awareness culture;

(vi) To approve operational risk management methodologies/measurements tools;

(vii) To review and approve the strategic operational risk management initiatives/plans and to endorse for BRMC's approval if necessary; and

(viii) To update BRMC on loss events and related key issues that may adversely impact core processes, system defects and any changes to critical business or system related processes.

Early Alert Committee ('EAC')

EAC is established within senior management to monitor credit quality through monthly review of the Early Alert, Watchlist and Exit Accounts and review the actions taken to address the emerging risks and issues in these accounts.

2.4 Group Risk Management Function

An integrated risk management framework is in place. The Group Risk Management ('GRM') function, headed by Group Chief Risk Officer ('GCRO') and operating in an independent capacity, is part of the Bank's senior management structure which works closely as a team in managing risks to enhance stakeholders' value.

GRM reports to BRMC. Committees namely BLRRC, MCM, GMLC, ALCO, GORMC and EAC assist BRMC in managing credit, market, liquidity and operational risks. The responsibilities of these Committees include risk identification, risk assessment and measurement, risk control and mitigation; and risk monitoring.

2 Risk Governance Structure

2.5 Internal Audit and Internal Control Activities

In accordance with BNM's GP10 guidelines, GIA conducts continuous reviews on auditable areas within the Bank. The continuous reviews by GIA are focused on areas of significant risks and effectiveness of internal control in accordance to the audit plan approved by the AEC.

Based on GIA's review, identification and assessment of risk, testing and evaluation of controls, GIA will provide an opinion on the effectiveness of internal controls maintained by each entity. The risks highlighted on the respective auditable areas as well as recommendation made by the GIA are addressed at AEC and Management meetings on bi-monthly basis. The AEC also conduct annual reviews on the adequacy of internal audit function, scope of work, resources and budget of GIA.

3 Capital Management

3.1 Internal Capital Adequacy Assessment Process ('ICAAP')

In line with the BNM guideline on Risk-Weighted Capital Adequacy Framework - Internal Capital Adequacy Assessment Process (Pillar 2), the Bank has put in place the ICAAP Framework to assess the capital adequacy to ensure the level of capital maintained by the Bank is adequate at all times, taking into consideration the Bank's risk profile and business strategies.

The Bank's capital management approach is focused on maintaining an appropriate level of capital to meet its business needs and regulatory requirements as capital adequacy and risk management are closely aligned. The Bank operates within an agreed risk appetite whilst optimising the use of shareholders' funds to deliver sustainable returns.

3.2 Capital Structure

With effect from 1 January 2013, the total capital and capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework (Capital Components) dated 28 November 2012.

The Bank is currently adopting Standardised Approach for Credit Risk and Market Risk, the Basic Indicator Approach for Operational Risk. In line with the transitional arrangements under the Bank Negara Malaysia's Capital Adequacy Framework (Capital Components), the minimum capital adequacy requirement for Common Equity Tier 1 Capital Ratio ('CET 1') and Tier 1 Capital Ratio are 3.5% and 4.5% respectively for year 2013. The minimum regulatory capital adequacy requirement remains at 8.0% (2012 : 8.0%) for total capital ratio.

The following table sets forth details on the capital resources and capital adequacy ratios for the Bank as at 31 December 2013.

3 Capital Management

3.2 Capital structure (continued)

	Economic Entity		The Bank	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000
Paid-up share capital	360,000	360,000	360,000	360,000
Retained profits	178,316	148,950	178,966	149,390
Statutory reserves	173,026	143,451	173,026	143,451
Unrealised gains and losses on AFS	(9,112)	-	(9,112)	-
	702,230	652,401	702,880	652,841
Less:				
Deferred tax assets	(773)	(600)	(773)	(600)
CET1 capital	701,457	651,801	702,107	652,241
Tier I capital	701,457	651,801	702,107	652,241
Collective impairment	20,470	23,782	20,470	23,782
Less:				
Investment in subsidiaries/associates/ jointly controlled entity	(650)	-	(650)	-
Tier II capital	19,820	23,782	19,820	23,782
Total capital/Capital base	721,277	675,583	721,927	676,023
CET1 capital ratio	13.876%	-	13.889%	-
Tier 1 capital ratio/Core capital ratio	13.876%	14.613%	13.889%	14.623%
Total capital ratio/Risk-weighted capital ratio	14.269%	15.146%	14.281%	15.156%
CET1 capital ratio (net of proposed dividends)	13.876%	-	13.889%	-
Tier 1 capital ratio/Core capital ratio (net of proposed dividends)	13.876%	14.613%	13.889%	14.623%
Total capital ratio/Risk-weighted capital ratio (net of proposed dividends)	14.269%	15.146%	14.281%	15.156%
Risk-weighted assets for:				
Credit risk	4,712,068	4,135,300	4,712,068	4,135,300
Market risk	3,570	1,782	3,570	1,782
Operational risk	339,365	323,284	339,365	323,284
Total risk-weighted assets	5,055,003	4,460,366	5,055,003	4,460,366

3.3 Capital Adequacy

The Bank's has in place an internal limit for its CET1 capital ratio, Tier I capital ratio and Total capital ratio, which is guided by the need to maintain a prudent relationship between available capital and the risks of its underlying businesses. The capital management process is monitored by senior management through periodic reviews.

Refer to Appendix I

4 Risk Management Objectives and Policies

The Bank is principally engaged in all aspects of banking and related financial services. There have been no significant changes in these principal activities during the financial year.

The Bank's business activities involve the analysis, measurement, acceptance, and management of risks but it operates within well defined risk acceptance criteria covering customer segments, industries and products. The Bank does not enter into risk it cannot administer, book, monitor or value, or deal with persons of questionable integrity.

The Bank's risk management policies are established to identify all the key risks, assess and measure these risks, control and mitigate these risks, and manage and monitor the risk positions.

The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best practice in risk management processes. The Bank's aim is to achieve an appropriate balance between risk and return and minimise any potential adverse effects.

The key business risks to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk.

5 Credit Risk

5.1 Credit Risk Management Objectives and Policies

Credit risk is the potential financial loss resulting from the failure of the customer or counterparty to settle the financial and contractual obligations to the Bank. Credit risk emanates mainly from financing, advances and other financing, financing commitments arising from such financing activities, as well as through financial transactions with counterparties including interbank money market activities, derivative instruments used for hedging and debt securities.

The management of credit risk in the Bank is governed by a set of approved credit policies, guidelines and procedures. Approval authorities are delegated to Senior Management and GMLC to implement the credit policies and ensure sound credit granting standards.

An independent GRM function, headed by Group Chief Risk Officer ('GCRO') with direct reporting line to BRMC is in place to ensure adherence to risk standards and discipline.

Lending guidelines and credit strategies are formulated and incorporated in the Annual Credit Plan. New businesses are governed by the risk acceptance criteria and customer qualifying criteria/fitness standards prescribed in the Annual Credit Plan. The Annual Credit Plan is reviewed at least annually and approved by the BRMC.

5 Credit Risk

5.2 Application of Standardised Approach for Credit Risk

The Bank uses the following External Credit Assessment Institutions ('ECAIs') to determine the risk weights for the rated credit exposures:-

- RAM Rating Services Berhad
- Malaysian Rating Corporation Berhad
- Standard & Poor's Rating Services
- Moody's Investors Service
- Fitch Ratings

The external ratings of the ECAIs are used to determine the risk weights of the following types of exposure: sovereigns, banks, public sector entities and corporates.

The mapping of the rating categories of different ECAIs to the risk weights is in accordance with the guidelines provided by BNM. In cases where there is no issuer or issue rating, the exposures are treated as unrated and accorded a risk weight appropriate for unrated exposure in the respective category.

The external ratings are updated in the core banking system, and extracted and matched by the risk system according to the above rules to determine the appropriate risk weights.

Refer to Appendix II and Appendices III (i) to III (ii).

5.3 Credit Risk Measurement

Financing, advances and other financing

Credit evaluation is the process of analysing the creditworthiness of the prospective customer against the Bank's underwriting criteria and the ability of the Bank to make a return commensurate to the level of risk undertaken. A critical element in the evaluation process is the assignment of a credit risk grade to the counterparty. This assists in the risk assessment and decision making process. The Bank has developed internal rating models to support the assessment and quantification of credit risk.

For consumer mass market products, statistically developed application scorecards are used by the Business to assess the risks associated with the credit application. The scorecards are used as a decision support tool at financing origination.

Over-the-Counter ('OTC') Derivatives

The OTC Derivatives credit exposure is computed using the Current Exposure Method. Under the Current Exposure Method, computation of credit equivalent exposure for profit rate and exchange rate related contracts is derived from the summation of the two elements; the replacement costs (obtained by marking-to-market) of all contracts and the potential future exposure of outstanding contracts (Add On charges depending on the specific remaining tenor to maturity).

5 Credit Risk

5.4 Risk Limit Control and Mitigation Policies

The Bank employs various policies and practices to control and mitigate credit risk.

Financing limits

The Bank establishes internal limits and related financing guidelines to manage large exposures and avoid undue concentration of credit risk in its credit portfolio. The limits include single customer groupings, connected parties, and geographical and industry segments. These risks are monitored regularly and the limits reviewed annually or sooner depending on changing market and economic conditions.

The credit risk exposure for derivative and financing books is managed as part of the overall financing limits with customers together with potential exposure from market movements.

Collateral

Credits are established against customer's capacity to pay rather than rely solely on security. However, collateral may be taken to mitigate credit risk. The main collateral types accepted and given value by the Bank are:
- Mortgages over residential properties;
- Charges over commercial real estate or vehicles financed;
- Charges over business assets such as business premises, inventory and account receivables; and
- Charges over financial instruments such as marketable securities

In order to be recognised as security, all items pledged must have value and the Bank must have physical control and/or legal title thereto, together with the necessary documentation to enable the Bank to realise the asset without the co-operation of the asset owner. Other items, such as personal or corporate guarantees, may be taken for comfort but will not be treated as security for approval purposes. Valuations are updated on a regular basis.

Prior to acceptance of any item as security, verification must be done to ensure that the security exists and an accurate and up-to-date valuation can be placed upon it. A pre-facility disbursement site visit must be undertaken in respect of landed security of significant value. Where third parties are used to undertake a valuation they must be taken from a list of approved valuers.

All assets which provide security to the Bank must be adequately covered or insured with a Takaful company or insurer from the approved list.

The security documentation process is centralised in an independent Security Documentation Section at Head Office. The Bank adopts standardised Letter of Offer and Legal Documents. Variations/amendments require the approval from the relevant approving authority in the Bank.

Documentary and commercial letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct financing.

5 Credit Risk

5.4 Risk Limit Control and Mitigation Policies (continued)

Credit related commitments

Commitment to extend credit represents unutilised portion of approved credit in the form of financing, guarantees or letters of credit. In terms of credit risk, the Bank is potentially exposed to loss in an amount equal to the total unutilised commitments. However, the potential amount of loss is less than the total unutilised commitments, as most commitments to extend credit are contingent upon customers maintaining specific minimum credit standards.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than short-term commitments.

Refer to Appendix IV (a) to (b).

5.5 Credit Risk Monitoring

Retail credits are actively monitored and managed on a portfolio basis by product type. A new collection management system has been implemented with a dedicated team in place to promptly identify, monitor and manage delinquent accounts at early stages of delinquency.

Corporate credits and large individual accounts are reviewed by the Business Units at least once a year against updated information. This is to ensure that the credit grades remain appropriate and detect any signs of weaknesses or deterioration in the credit quality. Remedial action is taken where evidence of deterioration exists.

Early Alert Process is in place as part of a means to pro-actively identify, report and manage deteriorating credit quality. Watchlist accounts are closely reviewed and monitored with corrective measures initiated to prevent them from turning impaired. As a rule, watchlist accounts are either worked up or worked out within a period of twelve months.

Active portfolio monitoring enables the Bank to understand the overall risk profile and identify any adverse trends or areas of risk concentrations affecting asset quality so that appropriate actions are adopted to manage and mitigate risks.

5.6 Impairment Provisioning

Individual impairment provisioning

Significant financing, with or without past due status, are subject to individual assessment for impairment when an evidence of impairment surfaces or at the very least once annually during the annual review process.

If impaired, the amount of loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the financial assets original effective profit rate. The level of impairment allowance on significant financing is reviewed regularly, at least quarterly or more often when circumstances require.

Significant financing that are deemed not impaired after individual assessment are included in a group of financing with similar characteristics and collectively assessed for impairment.

5 Credit Risk

5.6 Impairment Provisioning (continued)

Collective impairment provisioning

All financing are grouped in respective business segments according to similar credit risk characteristics and is generally based on industry, asset or collateral type, credit grade and past due status grouped based on business segments.

Portfolio provisioning is determined for each segment based on its respective loss probabilities and other information relevant to estimation of the future cash flows of each segment.

Collective provisioning is applicable to all financing not covered under individual assessment as well as significant financing that are deemed not impaired after individual assessment.

Total financing, advances and other financing-credit quality

All financing, advances and other financing are categorised into “neither past due nor impaired”, “past due but not impaired” and “impaired”. Past due financing refer to financing that are overdue by one day or more. Impaired financing are financing with months-in-arrears more than 90 days or with impaired allowances.

5 Credit Risk

5.6 Impairment Provisioning (continued)

Analysed by economic sectors

Past due financing	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Primary agriculture	666	593
Mining and quarrying	167	87
Manufacturing	1,383	2,779
Electricity, gas and water supply	130	280
Construction	7,522	8,249
Real estate	3,244	336
Wholesale & retail trade and restaurants & hotels	5,017	4,053
Transport, storage and communication	2,280	2,891
Finance, insurance and business services	2,155	58,677
Education, health and others	1,987	1,013
Household	374,799	364,072
	399,350	443,030

Individual impairment	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Manufacturing	5,874	6,439
Construction	26,791	26,762
Wholesale & retail trade and restaurants & hotels	1,812	1,858
Household	107	36
	34,584	35,095

Individual impairment charge	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Manufacturing	184	755
Construction	163	304
Wholesale & retail trade and restaurants & hotels	193	1,411
Finance, insurance and business services	-	39
Household	150	314
	690	2,823

5 Credit Risk

5.6 Impairment Provisioning (continued)

Analysed by economic sectors (continued)

Collective impairment	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Primary agriculture	124	253
Mining and quarrying	6	67
Manufacturing	1,214	1,504
Electricity, gas and water supply	109	90
Construction	1,961	4,756
Real estate	1,002	687
Wholesale & retail trade and restaurants & hotels	731	674
Transport, storage and communication	263	118
Finance, insurance and business services	1,392	1,709
Education, health and others	1,467	1,629
Household	25,450	23,449
	33,719	34,936

Analysed by geographical area

Past due financing	Economic Entity and The Bank 2013 RM'000	2012 RM'000
Perlis	537	351
Kedah	14,641	12,150
Pulau Pinang	11,891	9,359
Perak	47,817	43,596
Selangor	130,237	137,738
Wilayah Persekutuan	37,153	85,119
Negeri Sembilan	14,488	11,175
Melaka	4,944	3,534
Johor	19,607	19,967
Pahang	21,246	22,464
Terengganu	51,186	49,881
Kelantan	36,384	41,298
Sarawak	2,730	2,787
Sabah	6,484	3,605
Labuan	5	6
	399,350	443,030

5 Credit Risk

5.6 Impairment Provisioning (continued)

Analysed by geographical area (continued)

	Economic Entity and The Bank	
	2013	2012
Individual impairment	RM'000	RM'000
Selangor	7,114	1,263
Wilayah Persekutuan	680	682
Pahang	-	6,439
Sabah	82	279
Outside Malaysia	26,708	26,432
	34,584	35,095

	Economic Entity and The Bank	
	2013	2012
Collective impairment	RM'000	RM'000
Perlis	167	37
Kedah	1,149	1,028
Pulau Pinang	821	685
Perak	2,983	1,766
Selangor	12,265	13,825
Wilayah Persekutuan	5,653	8,254
Negeri Sembilan	1,404	1,089
Melaka	332	312
Johor	1,519	1,462
Pahang	1,304	1,230
Terengganu	2,723	2,050
Kelantan	2,619	2,454
Sarawak	308	415
Sabah	472	329
	33,719	34,936

5 Credit Risk

5.7 Credit Risk Culture

The Bank recognises that learning is a continuous journey and is committed to enhance the knowledge and required skills set of its staff. It places strong emphasis in creating and enhancing risk awareness in the organisation.

For effective and efficient staff learning, the Bank has implemented an E–Learning Program with an online Learning Management System ('LMS'). The LMS provides staff with a progressive self-learning alternative at own pace.

GRM implements an Internal Credit Certification ('ICC') Programme for both Business Banking and Consumer Credit.

The aim of the ICCs is to assist the core credit related group of personnel in the Bank achieve a minimum level of knowledge and analytical skills required to make sound corporate and commercial financing to customers.

6 Market Risk

6.1 Market Risk Management Objectives and Policies

Market risk is defined as the risk of losses to the Bank's portfolio positions arising from movements in market factors such as profit rates, foreign exchange rates and changes in volatility. The Bank is exposed to market risks from its trading and investment activities.

The Bank's market risk management objective is to ensure that market risk is appropriately identified, measured, controlled, managed and reported.

The Bank's exposure to market risk stems primarily from profit rate risk and foreign exchange rate risk. Profit rate risk arises mainly from differences in timing between the maturities or repricing of assets, liabilities and derivatives. The Bank is also exposed to basis risk when there is a mismatch between the change in price of a hedge and the change in price of the assets it hedges. Foreign exchange rate risk arises from unhedged positions of customers' requirements and proprietary positions.

6.2 Application of Standardised Approach for Market Risk

The Bank adopts the Standardised Approach for the purpose of calculating the capital requirement for market risk.

Refer Appendix I.

6 Market Risk

6.3 Market Risk Measurement, Control and Monitoring

The Bank's market risk management control strategy is established based on its risk appetite, market liquidity and business strategies as well as macroeconomic conditions. These limits are reviewed at least on an annual basis.

Market risk arising from the Bank's trading book is primarily controlled through the imposition of Cut-loss and Value-at-Risk ('VaR') Limits.

The Bank quantifies profit rate risk by analysing the repricing mismatch between the rate sensitive assets and rate sensitive liabilities. It also conducts Net Profit Income simulations to assess the variation in earnings under various rates scenarios. The potential long term effects of the Bank's overall exposure is also tracked by assessing the impact on economic value of equity ('EVE').

The Bank's profit rate risk is managed through Earnings-at-Risk ('EaR') and Economic Value-at-Risk ('EVaR') limits.

In addition, the Bank conducts periodic stress test of its respective business portfolios to ascertain market risk under abnormal market conditions.

The Bank's Management, ALCO and BRMC are regularly kept informed of its risk profile and positions.

6.4 Value-at-Risk ('VaR')

Value-at-Risk ('VaR') is used to compute the maximum potential loss amount over a specified holding period of a trading portfolio. It measures the risk of losses arising from potential adverse movements in profit rates and foreign exchange rates that could affect values of financial instruments.

The Variance-Covariance Parametric methodology is adopted to compute the potential loss amount. This is a statistically defined, probability-based approach that uses volatilities and correlations to quantify price risks. Under this methodology, a matrix of historical volatilities and correlations is computed from the past 100 business days' market data. VaR is then computed by applying these volatilities and correlations to the outstanding trading portfolio.

Other risk measures include the following:

(i) Mark-to-Market valuation tracks the current market value of the outstanding financial instruments.

(ii) Stress tests are conducted to attempt to quantify market risk arising from low probability, abnormal market movements. Stress tests measure the changes in values arising from extreme movements in profit rates and foreign exchange rates based on past experience and simulated stress scenarios.

(iii) Sensitivity/Dollar Duration is an additional measure of profit rate risk that is computed on a daily basis. It measures the change in value of a portfolio resulting from a 0.01% increase in profit rates. This measure identifies profit rate exposures that are most vulnerable to profit rate changes and it facilitates the implementation of hedging strategies.

6 Market Risk

6.5 Foreign Exchange Risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

7 Liquidity Risk

7.1 Liquidity Risk Management Objectives and Policies

Liquidity risk is the current and prospective risk to earnings or capital arising from a bank's inability to meet its obligations when they fall due. Liquidity risk includes the inability to manage sudden decreases or changes in funding sources. Liquidity risk also arises from the failure to recognise changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

7.2 Liquidity Risk Measurement, Control and Monitoring

To measure and manage net funding requirements, the Bank adopts BNM's New Liquidity Framework ('NLF'). The NLF ascertains the liquidity condition based on the contractual and behavioural cash-flow of assets, liabilities and off-balance sheet commitments, taking into consideration the realisable cash value of the eligible liquefiable assets. The NLF is also supported by indicative ratios on the Bank's funding structure to monitor the reliance on particular funding sources.

The Bank employs liquidity risk indicators as an early alert of any structural change for liquidity risk management. Liquidity risk is tracked using internal and external qualitative and quantitative indicators. The Bank also conducts liquidity stress tests to gauge the Bank's resilience in the event of a liquidity crisis. In addition, the Bank has in place the Contingency Funding Plan, which provides a systematic approach in handling liquidity disruption. The document encompasses strategies, decision-making authorities, and courses of action to be taken in the event of liquidity crisis and emergencies.

The liquidity positions in the major currencies are being closely monitored by tracking the availability of medium to long term foreign currency funding and adhering to the guiding principles for foreign currency assets creations.

Basel III Liquidity Standards
The Basel Committee developed the Liquidity Coverage Ratio ('LCR') and Net Stable Funding Ratio ('NSFR') with the goal of strengthening the resilience of the banking systems. The LCR and NSFR are tracked monthly to assess the short term and long term liquidity risk profile of the Bank.

The BRMC is responsible for the Bank's liquidity policy although the strategic management of liquidity has been delegated to the ALCO. The BRMC is informed regularly of the liquidity situation in the Bank.

8 Operational Risk

8.1 Operational Risk Management Objectives and Policies

Operational risk is the risk of loss arising from inadequate or failed internal processes, action on or by people, infrastructure or technology or events which are beyond the bank's immediate control which have an operational impact, including natural disaster, fraudulent activities and money laundering/financing of terrorism.

The Bank manages operational risk through a control based environment in which policies and procedures are formulated after taking into account individual unit's business activities, the market in which it is operating and regulatory requirement in force.

8.2 Application of Basic Indicator Approach for Operational Risk

The Bank adopts the Basic Indicator Approach for the purpose of calculating the capital requirement for operational risk. The capital requirement is calculated by taking 15% of the Bank's average annual gross income over the previous three years.

8.3 Operational Risk Measurement, Control and Monitoring

Risk is identified through the use of assessment tools and measured using threshold/limits mapped against risk matrix. Monitoring and control procedures include the use of key control standards, independent tracking of risk, back-up procedures and contingency plans, including disaster recovery and business continuity plans. This is supported by periodic reviews undertaken by Group Internal Audit to ensure adequacy and effectiveness of the Group Operational Risk Management process.

The Bank gathers, analyses and reports operational risk loss and 'near miss' events to Group Operational Risk Management Process and Board Risk Management Committee. Appropriate preventive and remedial actions are reviewed for effectiveness and implemented to minimize the recurrence of such events.

8.4 Operational Risk Culture

As a matter of requirement, all Operational Risk Coordinators must satisfy an internal operational risk (including anti-money laundering/counter financing of terrorism and business continuity management) Certification Program. These coordinators will first go through an on-line self learning exercise before attempting on-line assessments to measure their skills and knowledge level. This will enable Group Risk Management to prescribe appropriate training and development activities for the coordinators.

9 Shariah Compliance

Shariah compliance is the fundamental of Islamic banking and finance. It gives legitimacy to the practices and business operations of the Islamic Financial Institutions ('IFIs') concerned. Comprehensive compliance with Shariah principles would also boosts confidence of shareholders and public that all the practices and activities by the IFIs are in compliance with the Shariah principles at all times.

Shariah Governance Framework for Islamic Financial Institutions (the 'Framework') issued by Bank Negara Malaysia becomes the main reference to oversee the Shariah governance process within the Bank. In order to comply with all the requirements in the Framework, Board of Directors of the Bank are very committed to ensure among others all the required Shariah compliance and research functions include Shariah Risk Management, Shariah Review, Shariah Research and Shariah Audit are properly established to effectively perform its respective functions.

Continuous training programs are provided to Shariah Committee members to equip them with better understanding and exposure on banking operations and to Board of Directors, management members and staff for fundamental and advanced knowledge on Shariah and Islamic commercial law matters.

BASEL II PILLAR 3 DISCLOSURES
for the financial year ended 31 December 2013

The Bank has adopted Basel II - Risk Weighted Assets computation under the BNM's Risk-Weighted Capital Adequacy Framework with effect from 1 January 2008. The Bank has adopted the Standardised Approach for credit risk and market risk, and Basic Indicator Approach for operation risk computation.

The following information concerning the Economic Entity and the Bank's risk exposures are disclosed as accompanying information to the annual report, and does not form part of the audited accounts.

Disclosure on Capital Adequacy under the Standardised Approach (RM'000)

Economic Entity and The Bank
2013

	Exposure Class	Gross Exposures / EAD before CRM	Net Exposures / EAD after CRM	Risk Weighted Assets	Total Risk Weighted Assets after Effects of PSIA	Minimum Capital Requirements at 8%
1	**CREDIT RISK**					
	On Balance Sheet Exposures					
	Corporates	2,390,334	2,316,288	1,869,029	1,869,029	149,523
	Regulatory Retail	1,947,267	1,941,537	1,456,361	1,456,361	116,509
	Other Assets	308,198	308,198	28,746	28,746	2,300
	Sovereigns/Central Banks	5,015,942	5,015,942	-	-	-
	Banks, Development Financial Institutions & MDBs	385,870	385,870	73,342	73,342	5,867
	Insurance Companies, Securities Firms & Fund Managers	110,249	110,249	95,210	95,210	7,617
	Residential Mortgages	1,578,649	1,571,093	677,007	677,007	54,161
	Higher Risk Assets	21,118	21,106	31,660	31,660	2,533
	Defaulted Exposures	77,349	77,338	90,797	90,797	7,262
	Total for On-Balance Sheet Exposures	11,834,976	11,747,621	4,322,152	4,322,152	345,772
	Off Balance Sheet Exposures					
	Off Balance Sheet Exposures other than OTC derivatives or credit derivatives	477,565	461,215	388,876	388,876	31,110
	Defaulted Exposures	694	694	1,040	1,040	83
	Total for Off-Balance Sheet Exposures	478,259	461,909	389,916	389,916	31,193
	Total for On and Off-Balance Sheet Exposures	12,313,235	12,209,530	4,712,068	4,712,068	376,965
2	**MARKET RISK**	**Long Position** / **Short Position**				
	Foreign Currency Risk	3,570 / -	3,570	3,570	-	286
3	**OPERATIONAL RISK**					
	Operational Risk			339,365		27,149
	Total RWA and Capital Requirements			5,055,003	4,712,068	404,400

OTC "Over The Counter"
PSIA "Profit Sharing Investment Account"

BASEL II PILLAR 3 DISCLOSURES
for the financial year ended 31 December 2013

Disclosure on Capital Adequacy under the Standardised Approach (RM'000)

Economic Entity and The Bank
2012

	Exposure Class	Gross Exposures / EAD before CRM	Net Exposures / EAD after CRM	Risk Weighted Assets	Total Risk Weighted Assets after Effects of PSIA	Minimum Capital Requirements at 8%
1	CREDIT RISK					
	On Balance Sheet Exposures					
	Corporates	2,243,072	1,944,118	1,536,425	1,536,425	122,914
	Regulatory Retail	1,799,481	1,792,264	1,346,797	1,346,797	107,744
	Other Assets	297,875	297,875	29,842	29,842	2,387
	Sovereigns/Central Banks	5,021,400	5,021,400	-	-	-
	Banks, Development Financial Institutions & MDBs	574,720	555,004	111,001	111,001	8,880
	Insurance Companies, Securities Firms & Fund Managers	110,286	95,149	95,149	95,149	7,612
	Residential Mortgages	1,115,133	1,112,664	457,488	457,488	36,599
	Higher Risk Assets	31,459	31,443	47,164	47,164	3,773
	Defaulted Exposures	95,029	95,011	113,734	113,734	9,098
	Total for On-Balance Sheet Exposures	11,288,455	10,944,928	3,737,600	3,737,600	299,007
	Off Balance Sheet Exposures					
	Off Balance Sheet Exposures other than OTC derivatives or credit derivatives	474,399	464,636	396,677	396,677	31,734
	Defaulted Exposures	682	682	1,023	1,023	82
	Total for Off-Balance Sheet Exposures	475,081	465,318	397,700	397,700	31,816
	Total for On and Off-Balance Sheet Exposures	11,763,536	11,410,246	4,135,300	4,135,300	330,823
2	MARKET RISK	Long Position / Short Position				
	Foreign Currency Risk	1,782 / -	1,782	1,782	-	143
3	OPERATIONAL RISK					
	Operational Risk			323,284		25,863
	Total RWA and Capital Requirements			4,460,366	4,135,300	356,829

OTC "Over The Counter"
PSIA "Profit Sharing Investment Account"

Appendix I

Disclosure on Capital Adequacy under the Standardised Approach (continued)

Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices. The Bank's Capital-at-Risk ('CaR') is defined as the amount of the Bank's capital that is exposed to the risk of unexpected losses arising particularly from movements in profit rates and foreign exchange rates. A CaR Limit is set as a management trigger to ensure that the Bank's exposure to such movements do not compromise the Bank's capital adequacy. The Bank is currently adopting BNM's Standardised Approach for the computation of market risk capital charges. The market risk capital charges addresses among others, capital requirement for market risk which includes the profit rate risk pertaining to the Bank's exposure in the trading book as well as foreign exchange risk in the trading and banking books.

The computation of market risk capital charge covers the following outstanding financial instruments:

a) Foreign Exchange
b) Islamic Profit Rate Swap
c) Cross Currency Swap ('CCS')
d) Fixed Income Instruments (i.e. Private Debt and Government Securities)

BASEL II PILLAR 3 DISCLOSURES

for the financial year ended 31 December 2013

Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000)

Economic Entity and The Bank
2013

	Exposures after Netting and Credit Risk Mitigation													
Risk Weights	Sovereigns & Central Banks	PSEs	Banks, MDBs and FDIs	Insurance Companies, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing/ Investment	Securitisation	Equity	Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
0%	5,020,813	-	19,161	15,039	193,530	-	-	-	276,134	-	-	-	5,524,677	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	38,677	-	370,195	-	330,674	-	-	-	4,147	-	-	-	743,693	148,739
35%	-	-	-	-	-	-	1,219,206	-	-	-	-	-	1,219,206	426,722
50%	-	-	1,800	-	15,158	-	204,367	-	-	-	-	-	221,325	110,663
70%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	2,000,002	6,118	-	-	-	-	-	2,006,120	1,504,590
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	115,137	2,125,904	2,887	168,765	205	27,917	-	-	-	2,440,815	2,440,815
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	1,601	17,768	12,373	21,951	-	-	-	-	53,693	80,539
250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Average Risk Weight											-		-	-
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-	

PSE "Public Sector Entities"
MDB "Multilateral Development Banks"
FDI "Financial Development Institutions"

BASEL II PILLAR 3 DISCLOSURES
for the financial year ended 31 December 2013

Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000)

Economic Entity and The Bank
2012

	Exposures after Netting and Credit Risk Mitigation													
Risk Weights	Sovereigns & Central Banks	PSEs	Banks, MDBs and FDIs	Insurance Companies, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing/ Investment	Securitisation	Equity	Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
0%	5,024,482	-	-	-	-	-	-	-	265,983	-	-	-	5,290,465	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	44,881	-	558,118	-	475,759	-	-	-	4,590	-	-	-	1,083,348	216,670
35%	-	-	-	-	-	-	839,987	-	-	-	-	-	839,987	293,995
50%	-	-	-	-	75,733	-	215,047	-	-	-	-	-	290,780	145,390
70%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	1,852,388	11,467	-	-	-	-	-	1,863,855	1,397,891
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	134,081	1,718,142	5,517	80,727	204	24,057	-	-	-	1,962,728	1,962,728
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	567	20,659	10,177	44,436	3,245	-	-	-	79,084	118,626
250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Average Risk Weight											-		-	-
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	-	-	-	

PSE "Public Sector Entities"
MDB "Multilateral Development Banks"
FDI "Financial Development Institutions"

BASEL II PILLAR 3 DISCLOSURES
for the financial year ended 31 December 2013

(i) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000)

Economic Entity and The Bank
2013

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moodys	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
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance Sheet Exposures						
Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	130,849
Corporates		22,099	15,000	-	-	2,717,535
Total		22,099	15,000	-	-	2,848,384

BASEL II PILLAR 3 DISCLOSURES
for the financial year ended 31 December 2013

(i) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000)

Economic Entity and The Bank
2012

Exposure Class		Ratings of Corporate by Approved ECAIs				
	Moodys	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
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance Sheet Exposures						
Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	149,884
Corporates		22,016	40,989	-	-	2,513,719
Total		22,016	40,989	-	-	2,663,603

BASEL II PILLAR 3 DISCLOSURES
for the financial year ended 31 December 2013

(ii) **Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000) (continued)**

Economic Entity and The Bank
2013

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	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
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks		-	5,059,490	-	-	-	-
Total		-	5,059,490	-	-	-	-

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moodys	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
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures							
Banks, MDBs and FDIs		63,486	26,709	-	-	-	300,961
Total		63,486	26,709	-	-	-	300,961

BASEL II PILLAR 3 DISCLOSURES
for the financial year ended 31 December 2013

(ii) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000) (continued)

Economic Entity and The Bank
2012

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	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
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks		-	5,069,362	-	-	-	-
Total		-	5,069,362	-	-	-	-

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moodys	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
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off-Balance Sheet Exposures							
Banks, MDBs and FDIs		3,114	-	-	-	-	574,720
Total		3,114	-	-	-	-	574,720

BASEL II PILLAR 3 DISCLOSURES
for the financial year ended 31 December 2013

a) **Disclosures on Credit Risk Mitigation (RM'000)**

Economic Entity and The Bank
2013

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees/ Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	5,015,942	-	-	-
Banks, Development Financial Institutions & MDBs	385,870	-	-	-
Insurance Cos, Securities Firms & Fund Managers	110,249	-	673	-
Corporates	2,390,334	3,200	87,768	-
Regulatory Retail	1,947,267	-	7,684	-
Residential Mortgages	1,578,649	-	7,557	-
Higher Risk Assets	21,118	-	12	-
Other Assets	308,198	-	-	-
Defaulted Exposures	77,349	-	11	-
Total for On-Balance Sheet Exposures	11,834,976	3,200	103,705	-
Off-Balance Sheet Exposures				
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	477,565	-	-	-
Defaulted Exposures	694	-	-	-
Total for Off-Balance Sheet Exposures	478,259	-	-	-
Total On and Off-Balance Sheet Exposures	12,313,235	3,200	103,705	-

BASEL II PILLAR 3 DISCLOSURES
for the financial year ended 31 December 2013

a) Disclosures on Credit Risk Mitigation (RM'000)

Economic Entity and The Bank
2012

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees/ Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	5,021,400	-	-	-
Banks, Development Financial Institutions & MDBs	574,720	-	-	-
Insurance Cos, Securities Firms & Fund Managers	110,286	-	673	-
Corporates	2,243,072	3,200	94,219	-
Regulatory Retail	1,799,481	-	8,744	-
Residential Mortgages	1,115,133	-	2,469	-
Higher Risk Assets	31,459	-	17	-
Other Assets	297,875	-	-	-
Defaulted Exposures	95,029	-	18	-
Total for On-Balance Sheet Exposures	11,288,455	3,200	106,140	-
Off-Balance Sheet Exposures				
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	474,399	-	-	-
Defaulted Exposures	682	-	-	-
Total for Off-Balance Sheet Exposures	475,081	-	-	-
Total On and Off-Balance Sheet Exposures	11,763,536	3,200	106,140	-

BASEL II PILLAR 3 DISCLOSURES
for the financial year ended 31 December 2013

b) Disclosure on Off-Balance Sheet and Counterparty Credit Risk (RM'000)

Counterparty Credit Risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cashflows. An economic loss could occur if the transactions with the counterparty has a positive economic value for the Bank at the time of default.

In contrast to the exposure to credit risk through a financing, where the exposure to credit risk is unilateral and only the financing bank faces the risk of loss, Counterparty Credit Risk creates a bilateral risk of loss where the market value for many types of transactions can be positive or negative to either counterparty.

In respect of off-balance sheet items, the credit risk inherent in each off-balance sheet instrument is translated into an on-balance sheet exposure equivalent (credit equivalent) by multiplying the nominal principal amount with a credit conversion factor ('CCF') as prescribed by the Standardised Approach under the Risk Weighted Capital Adequacy Framework. The resulting amount is then weighted against the risk weight of the counterparty. In addition, counterparty risk weights for over-the-counter ('OTC') derivative transactions will be determined based on the external rating of the counterparty and will not be subject to any specific ceiling.

Economic Entity and The Bank
2013

Description	**Total Principle Amount**	**Positive Fair Value of Derivative Contracts**	**Total Credit Equivalent Amount**	**Total Risk Weighted Amount**
Direct credit substitutes	**8,454**		**8,454**	**6,876**
Transaction related contingent items	**125,567**		**62,784**	**60,717**
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	**334,624**		**167,312**	**151,793**
Short term self liquidating trade related contingencies	**220,392**		**44,078**	**13,104**
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	**978,152**		**195,630**	**157,426**
Total	**1,667,189**	**-**	**478,258**	**389,916**

Economic Entity and The Bank
2012

Description	Total Principle Amount	Positive Fair Value of Derivative Contracts	Total Credit Equivalent Amount	Total Risk Weighted Amount
Direct credit substitutes	9,374		9,374	7,732
Transaction related contingent items	130,067		65,034	63,374
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	381,912		190,955	175,291
Short term self liquidating trade related contingencies	237,199		47,440	11,535
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	811,391		162,278	139,768
Total	1,569,943	-	475,081	397,700

BASEL II PILLAR 3 DISCLOSURES
for the financial year ended 31 December 2013

c) Disclosures on Market Risk - Profit Rate Risk/Rate of Return Risk in the Banking Book

Profit rate risk is the current and prospective impact to the Bank's financial condition due to adverse changes in the profit rates to which the statement of financial position is exposed. The objective is to manage profit rate risk to achieve stable and sustainable net gap income in the long term which impact can be viewed from the perspectives of (1) earnings in the next 12 months, and (2) economic value.

(1) Next 12 months' Earnings - Profit rate risk from the earnings perspective is the impact based on changes to the net gap income over the next 12 months. This risk is measured monthly through sensitivity analysis including the application of an instantaneous 100 basis point parallel shock in profit rates across the yield curve. The prospective change to the net gap income is measured using an Asset Liability Management simulation model which incorporates the assessment of both existing and new business.

(2) Economic Value - Measuring the change in the economic value of equity is an assessment of the long term impact to the earnings potential. This is assessed through the application of relevant duration factors to capture the net economic value impact over the long term or total life of all balance sheet assets and liabilities to adverse changes in profit rates.

The above calculations do not take into account financing prepayments.

Type of Currency (RM million)	Economic Entity and The Bank		Economic Entity and The Bank	
	2013	2013	2012	2012
	Impact on Positions (100 basis points) Parallel Shift		Impact on Positions (100 basis points) Parallel Shift	
	Increase/(Decline) in Earnings	Increase/(Decline) in Economic Value	Increase/(Decline) in Earnings	Increase/(Decline) in Economic Value
Ringgit Malaysia	3.4	101.5	13.5	86.7
US Dollar	(0.4)	-	(0.5)	(0.1)
Total	3.0	101.5	13.0	86.6

AFFIN ISLAMIC BANK BERHAD (709506-V)
17th Floor, Menara AFFIN,
80, Jalan Raja Chulan,
50200 Kuala Lumpur
T : 03 2055 9000
F : 03 2026 1415
www.affinislamic.com.my