AFFIN ISLAMIC BANK BERHAD (709506-V)

ANNUAL REPORT 2018

BUILDING AFFINITY ECOSYSTEM

13th Annual General Meeting

VENUE

The Board Room,
19th Floor, Menara Affin,
80, Jalan Raja Chulan,
50200 Kuala Lumpur

DATE

Wednesday
24
April 2019

TIME

2.30 p.m.

COVER RATIONALE

In 2018, AFFINBANK & AFFIN ISLAMIC embarked on the third phase of its AFFINITY transformation programme which focused on capabilities building and implementation. One of the major initiatives focused on was realigning culture and values towards a Group-wide synergy to deliver an enhanced customer experience; as part of our journey towards greater affinity with our stakeholders.

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OUR VISION

A premier partner for Financial Growth and Innovative Services.

To provide innovative financial solutions and services to target customers in order to generate profits and create value for our shareholders and other stakeholders.

In doing so, we provide opportunities for employees to contribute and excel; and be competitive in providing our solutions and services to our valued customers.

We shall conduct our business with integrity and professionalism in compliance with good corporate governance principles and practices.

OUR MISSION

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman

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

Directors

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

Assoc. Prof. Dr. Said Bouheraoua
Independent Non-Executive Director

Dato' Bakarudin bin Ishak
Independent Non-Executive Director

CHIEF EXECUTIVE OFFICER

Encik Nazlee bin Khalifah

COMPANY SECRETARY

Nimma Safira Khalid
LS0009015
Tel : 603 2055 9019
E-mail : nimma@affinbank.com.my

REGISTERED OFFICE

17th Floor, Menara AFFIN,
80, Jalan Raja Chulan
50200 Kuala Lumpur
Malaysia
Tel : 603-2055 9000
Fax : 603-2026 1415

HEAD OFFICE

Menara AFFIN,
80, Jalan Raja Chulan
50200 Kuala Lumpur
Malaysia
Tel : 603 2055 9000
Fax : 603 2026 1415

AUDITORS

PricewaterhouseCoopers PLT
LLP0014401-LCA & AF 1146
Level 10, 1 Sentral
Jalan Rakyat
Kuala Lumpur Sentral
50706 Kuala Lumpur
Malaysia

WEBSITE

www.affinislamic.com.my

CORPORATE STRUCTURE
as at 28 February 2019

LEMBAGA TABUNG ANGKATAN TENTERA
Lembaga Tabung Angkatan Tentera

59.42%

Boustead Holdings Berhad
Boustead Holdings Berhad
20.73%

BEA 東亞銀行
The Bank of East Asia, Limited
23.56%

OTHERS
20.20%

35.51%

AFFINBANK
Affin Bank Berhad

100%
AFFINISLAMIC
Affin Islamic Bank Berhad

50%
AFFIN-i Nadayu Sdn Bhd

30%
KL South Development Sdn Bhd

16.7%
Raeed Holdings Sdn Bhd

100%
AFFIN HWANG CAPITAL
AFFIN Hwang Investment Bank Berhad

100%
AFFIN Hwang Nominees (Tempatan) Sdn Bhd

100%
AFFIN Hwang Nominees (Asing) Sdn Bhd

100%
AFFIN Hwang Trustee Berhad *

100%
AHC Associates Sdn Bhd

100%
AHC Global Sdn Bhd

70%
AFFIN HWANG CAPITAL
Asset Management
AFFIN Hwang Asset Management Berhad

70%
aiiman
AIIMAN Asset Management Sdn Bhd

70%
Bintang Capital Partners Berhad
(formerly known as AFFIN Capital Services Berhad)

51%
Accel Vantage Academy Sdn Bhd

44%
AFFIN Hwang AIIMAN Global Sukuk Fund

47%
TradePlus Shariah Gold Tracker

100%
AFFIN Moneybrokers Sdn Bhd

100%
PAB Properties Sdn Bhd

100%
ABB Nominee (Tempatan) Sdn Bhd

51%
AXA AFFIN Life Insurance Berhad

49.95%
AXA AFFIN General Insurance Berhad

100%
AFFIN Holdings Berhad

Notes:
- The companies reflected above are operating subsidiaries, associates and joint ventures.
- The full list of companies under the AFFIN Bank Group is set out in Notes 17 to 19 to the Financial Statements on pages 97 to 99 in the Financial Statements section of this Annual Report.

* Held by the following companies with direct shareholdings of 20% each
  i. AFFIN Hwang Investment Bank Berhad
  ii. AFFIN Hwang Nominees (Tempatan) Sdn Bhd
  iii. AFFIN Hwang Nominees (Asing) Sdn Bhd
  iv. AHC Associates Sdn Bhd
  v. AHC Global Sdn Bhd

BOARD OF DIRECTORS

From left to right:

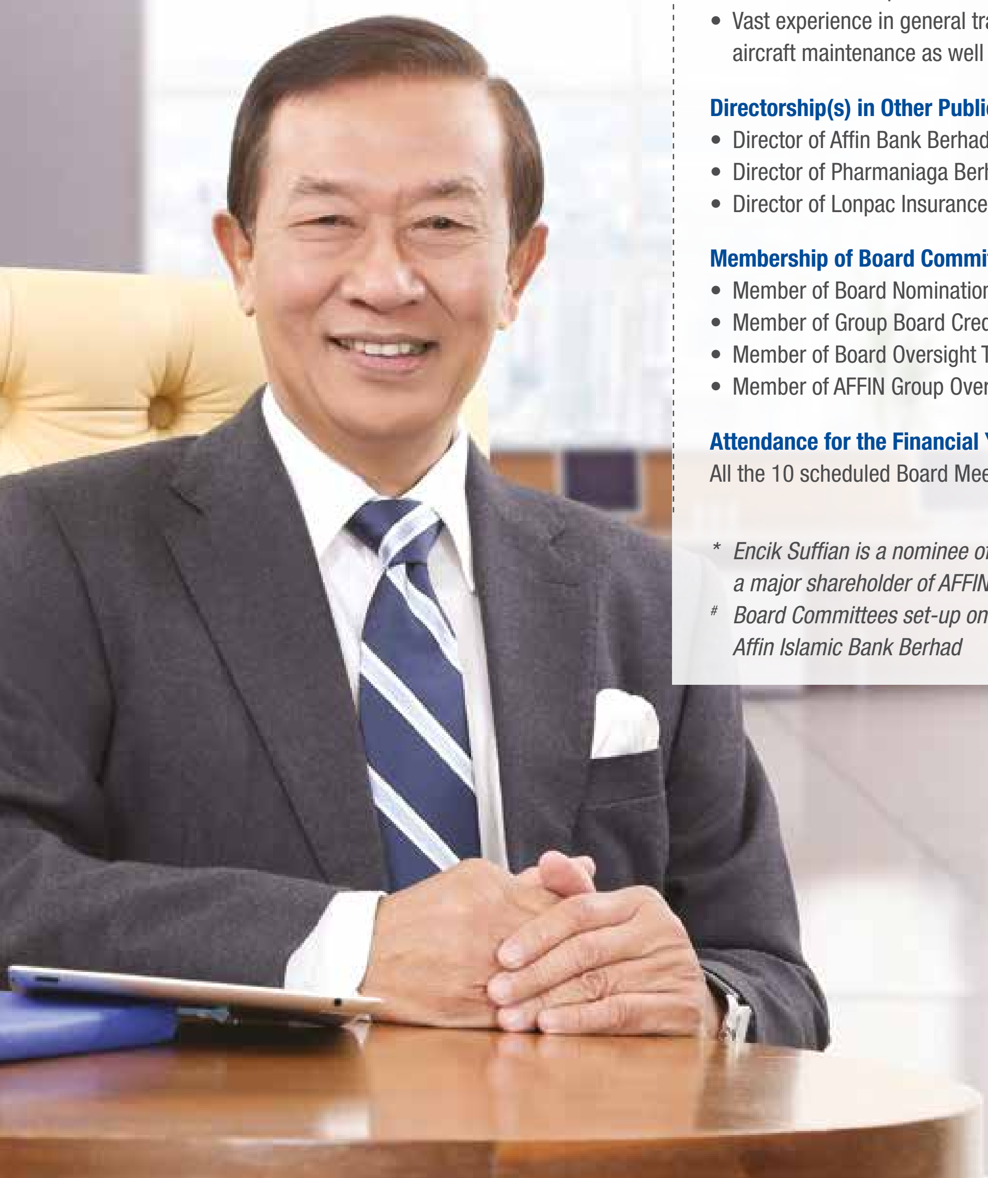
YBhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)	Encik Mohd Suffian Bin Haji Haron	Assoc. Prof. Dr. Said Bouheraoua	Dato' Bakarudin Bin Ishak

PROFILE OF DIRECTORS

Encik Mohd Suffian Bin Haji Haron

Non-Independent Non-Executive Director

Nationality:	Age:	Gender:
Malaysian	73	Male



Date of Appointment

1 July 2006 and appointed as Chairman on 1 June 2017

Academic/Professional Qualification

- Bachelor of Economics, University of Malaya
- Master of Business Administration, University of Oregon, USA

Past Working Experience

- Managing Director of Willis Faber (M) Sdn Bhd (an Insurance Broking Company)
- Director of Far East Computers (India)
- Director of AFFIN Discount Berhad
- Director of Fraser's Hill Development Corporation
- Director of the State Development Corporations of Perak, Pahang and Terengganu
- Director of Bank Pembangunan Malaysia Berhad
- Director of Kompleks Kewangan Malaysia Berhad
- Director of HICOM
- Council Member of Majlis Amanah Rakyat (MARA)
- Diplomatic and Administrative Officer, attached to the Prime Minister's Department and the Ministry of Public Enterprises
- Assistant to the Special Economic Adviser to the Government
- Vast experience in general trading, power generation and transmission, aircraft maintenance as well as the oil and gas services sectors

Directorship(s) in Other Public/Public Listed Companies

- Director of Affin Bank Berhad
- Director of Pharmaniaga Berhad
- Director of Lonpac Insurance Bhd

Membership of Board Committees

- Member of Board Nomination and Remuneration Committee
- Member of Group Board Credit Review and Recovery Committee#
- Member of Board Oversight Transformation Committee#
- Member of AFFIN Group Oversight Committee#

Attendance for the Financial Year Ended 31 December 2018

All the 10 scheduled Board Meetings and 6 special Board Meetings

* *Encik Suffian is a nominee of Lembaga Tabung Angkatan Tentera (LTAT), a major shareholder of AFFIN Bank Berhad*

\# *Board Committees set-up on Group basis - Appointed as representative of Affin Islamic Bank Berhad*

PROFILE OF DIRECTORS

YBhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Bersara)

Non-Independent Non-Executive Director

Nationality:	Age:	Gender:
Malaysian	75	Male

Date of Appointment
1 July 2006

Academic/Professional Qualification
- Graduate of Brittania Royal Naval College Dartmouth, UK
- Graduate of Indonesia Naval Staff College
- Graduate of the United States Naval War College and Naval Post-Graduate School Monterey
- Master's Degree in Public Administration from the Harvard University, USA

Past Working Experience
- Chief of Royal Malaysian Navy
- Director of Affin Bank Berhad
- Director of Comintel Tech Services Sdn Bhd (Formerly known as Comlenia Sdn Bhd)
- Director of IRAT Hotels & Resorts Sdn Bhd
- Director of IRAT Properties Sdn Bhd
- Director of BCM Electronics Corporation Sdn Bhd
- Director of Ibu Kota Ductile Iron Industry Sdn Bhd

Directorship(s) in Other Public/Public Listed Companies
Vice Chairman/Director of Favelle Favco Berhad

External Professional Commitment
Executive Deputy Chairman/Managing Director of Boustead Heavy Industries Corporation Berhad

Membership of Board Committees
- Member of Group Board Credit Review and Recovery Committee[#]
- Member of Group Board Risk Management and Compliance Committee[#]

Attendance for the Financial Year Ended 31 December 2018
All the 10 scheduled Board Meetings and 6 special Board Meetings

[#] *Board Committees set-up on Group basis - Appointed as representative of Affin Islamic Bank Berhad*

PROFILE OF DIRECTORS

Assoc. Prof. Dr. Said Bouheraoua

Independent Non-Executive Director

Nationality:	Age:	Gender:
Algerian	51	Male

Date of Appointment
19 June 2014

Academic/Professional Qualification
Ph.D in Fiqh/UsulFiqh (Shariah) from International Islamic University Malaysia (IIUM)

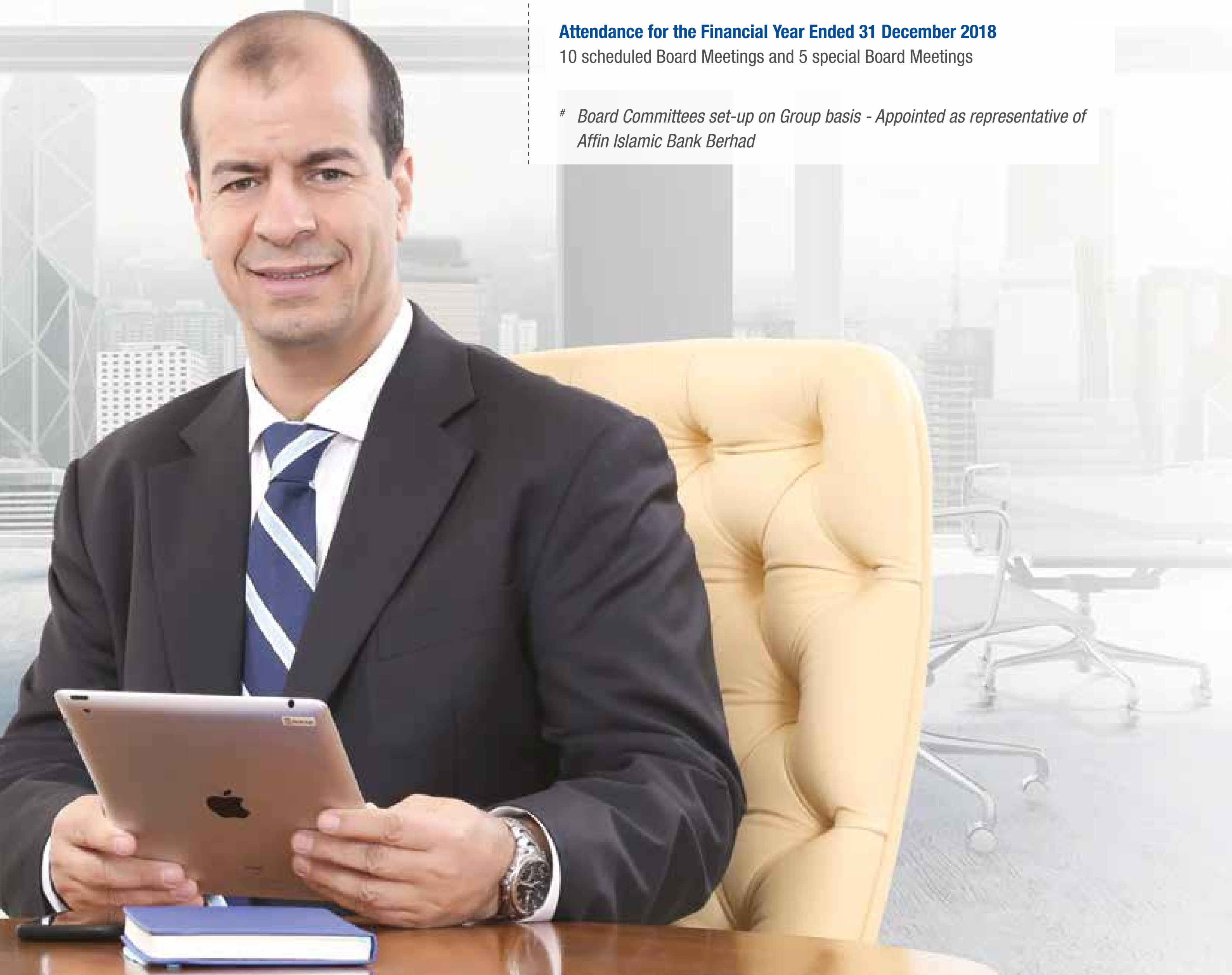
Past Working Experience
- Associate Professor at Department of Islamic Law, Ahmad Ibrahim Kulliyyah of Laws, IIUM
- Editor-in-chief of International Journal of Islamic Finance, International Shariah Research Academy for Islamic Finance (ISRA)

External Professional Commitment
Director of Research Development & Innovation of ISRA

Membership of Board Committees
- Chairman of Shariah Committee
- Member of Board Nomination and Remuneration Committee
- Member of Group Board Audit Committee[#]

Attendance for the Financial Year Ended 31 December 2018
10 scheduled Board Meetings and 5 special Board Meetings

Board Committees set-up on Group basis - Appointed as representative of Affin Islamic Bank Berhad



PROFILE OF DIRECTORS

YBhg. Dato' Bakarudin Bin Ishak

Independent Non-Executive Director

Nationality:	Age:	Gender:
Malaysian	58	Male

Date of Appointment
2 January 2018

Academic/Professional Qualification
Bachelor of Economics (Honours), University of Malaya

Past Working Experience
- Assistant Governor of Bank Negara Malaysia (BNM)
- Director of Foreign Exchange Administration Department, BNM
- Director of the Islamic Banking and Takaful Department, BNM
- Chief Executive Officer of Malaysian Electronic Clearing Corporation Sdn. Bhd. (MyClear)
- Member of BNM Monetary Policy Committee
- Member of the International Centre for Education in Islamic Finance (INCEIF) EXCO and Governing Council
- Member of Investment Panel of the Employees Provident Fund Board

Directorship(s) in Other Public/Public Listed Companies
- Chairman of Cagamas SRP Berhad
- Director of Cagamas Holdings Berhad

Membership of Board Committees
- Chairman of Board Nomination and Remuneration Committee
- Member of Group Board Risk Management and Compliance Committee#
- Member of Board Oversight Transformation Committee#

Attendance for the Financial Year Ended 31 December 2018
All the 10 scheduled Board Meetings and 6 special Board Meetings

Board Committees set-up on Group basis - Appointed as representative of Affin Islamic Bank Berhad

MANAGEMENT TEAM

EN. MOHD FIZAR BIN MOHIDIN

EN. HAZLAN BIN HASAN

EN. NAZLEE BIN KHALIFAH

EN. FERDAUS TOH BIN ABDULLAH

EN. MOHD FAIZ BIN RAHIM

MANAGEMENT TEAM

MRS. THRESA BRIDGET D. VINCENT PAUL

PN. JOZAIMAH BINTI JOHAN ALI

EN. MOHD RUSLEE BIN OMAR

PN. ZURINA AYU BINTI SAMSUDIN

CIK NORAZLINDA BINTI MOHD FADZIL

SHARIAH COMMITTEE PROFILE

Associate Professor Dr. Said Bouheraoua

Nationality:	Age:	Gender:
Algerian	51	Male

Associate Professor Dr. Said Bouheraoua was appointed as a Director of AFFIN ISLAMIC on 19 June 2014. Dr. Said, an Algerian, obtained his Ph.D in Fiqh/Usul Fiqh (Shariah) from the International Islamic University Malaysia (IIUM) in 2002.

He was also an Associate Professor at Department of Islamic Law, Ahmad Ibrahim Kulliyyah of Laws, IIUM. He is currently the Director of Research Affairs Department at the International Shariah Research Academy for Islamic Finance (ISRA), and the editor-in-chief of ISRA International Journal of Islamic Finance. Dr. Said has throughout his career as Lecturer/ Researcher published four books, five chapters in books and several articles in international referred journals. He has also presented several papers in international conferences and conducted several training sessions in Islamic finance in Malaysia and abroad.

Associate Professor Dr. Ahmad Azam Othman

Nationality:	Age:	Gender:
Malaysian	49	Male

Dr. Ahmad Azam Othman is currently an Associate 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, Obligations, 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 PhD Theses and Master Dissertation in various areas including Islamic Banking, Islamic Microfinance, Islamic Capital Market, Takaful and Waqf. Dr. Ahmad Azam Othman holds a PhD 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.

SHARIAH COMMITTEE PROFILE

Associate Professor Dr. Zulkifli Hasan

Nationality:	Age:	Gender:
Malaysian	41	Male

Associate Professor 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 PhD 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. Mohammad Mahbubi Ali

Nationality:	Age:	Gender:
Indonesian	35	Male

Dr. Mohammad Mahbubi Ali is Head of Economics, Finance, Awqaf and Zakat unit cum research fellow at the International Institute of Advanced Islamic Studies (IAIS) Malaysia. Previously, he was a researcher at the International Shari'ah Research Academy for Islamic Finance (ISRA). During his stint at ISRA, he had contributed to numerous ISRA's research publications, mainly involving in the drafting of BNM Shari'ah Standards. He also served as Shariah consultant for various advisory and consultancy services including ZICO Shariah Advisory Bhd and Roosdiono & Partners, Jakarta. He was a lecturer at the University of Kuala Lumpur and UNITAR International University.

In his young age, he has managed to contribute extensively to Islamic finance through his regular writings featured in the Islamic Finance News (IFN), Business Islamica, The General Council for Islamic Banks and Financial Institutions (CIBAFI), New Straits Times and many others. He has published numerous articles in international and local referred academic journals, written several book chapters and presented a number of papers in various international conferences. His paper entitled: "A Framework of Income Purification for Islamic Financial Institutions," co-authored with Dato' Dr. Asyraf Wajdi Dusuki and Lokmanulhakim Hussain, was conferred best paper presentation in Sharia Economics Conference, University of Hannover, Germany, 2013.

He received a PhD in Islamic Banking and Finance from the Institute of Islamic Banking and Finance (IIiBF), International Islamic University Malaysia (IIUM). He holds a Bachelor's degree in Shari'ah Business and Financial Management from the Islamic Business School, Tazkia Indonesia and Chartered Islamic Finance Professional (CIFP) from INCEIF, The Global University in Islamic Finance, Malaysia.

SHARIAH COMMITTEE PROFILE

Dr. Nor Fahimah Mohd Razif

Nationality:	Age:	Gender:
Malaysian	32	Female

Dr. Nor Fahimah Mohd Razif is currently a lecturer at Department of Fiqh and Usul, University of Malaya (UM). She was previously attached to the International Shari'ah Research Academy for Islamic Finance (ISRA) as a Research Assistant to conduct research on hedging mechanism through option product in Islamic finance.

She also has written numbers of articles in the field of Islamic economics, Islamic finance, sukuk and debt from the Islamic perspective, presented papers in conference at international and local level, and has published articles regarding Islamic banking and finance in proceedings, books and journals. Her specialised area are transactional law (Fiqh al-Muamalat), Islamic Capital Market as well as Islamic Finance.

Dr. Nor Fahimah holds a Bachelor's Degree in Fiqh and Usul from University of Malaya. She also has completed her PhD (Fiqh al-Muamalat) from the same university which her thesis is related to Islamic hedging and derivatives instruments.

Associate Professor Datin Dr. Nurdianawati Irwani Abdullah

Nationality:	Age:	Gender:
Malaysian	44	Female

Datin Dr. Nurdianawati Irwani Abdullah is an Associate Professor in laws and Shari'ah at Department of Finance, Kuliyyah of Economics and Management Sciences (KENMS), International Islamic University Malaysia (IIUM). She is also the member of the Shari'ah Advisory Board of AmMetlife Takaful Berhad, and a Shari'ah consultant to Khairul Anuar & Associates. Previously, she was the Chairman of the Shari'ah Advisory Board of Standard Chartered Saadiq Bank Malaysia (2008-2017), Research Fellow at the International Shari'ah Research Academy in Islamic Finance (ISRA) focussing in Takaful research, Visiting Professor at the Malaysia University Kelantan, Shariah Consultant for ARSA Shariah Advisory Services Sdn Bhd and AFTAAS Shariah Advisory Services Sdn Bhd. She had served the Association of Shari'ah Advisors in Islamic Finance Malaysia (ASAS) and IIUM Institute of Islamic banking and Finance as a Board member since the establishment. She is currently a member to the International Council of Islamic Finance Educators (ICIFE).

She has vast experience in teaching postgraduate as well as undergraduate courses particularly Qawaid Fiqhiyyah for Banking and Finance, Legal Aspects of Islamic Banking and Finance, Principle and Practices of Takaful, Commercial Law and Business Law courses. She has produced many journal articles in the field of Islamic economics and Islamic finance, presented papers in conference at international and local level, and has published articles regarding Islamic banking and finance in proceedings, books and journals; and been supervising a number of PhD Theses and Master Dissertations in such areas as Islamic Banking and Finance, Shariah Governance, comparative laws, Islamic Microfinance, Takaful and Waqf.

Dr. Irwani holds an LL.B, LL.B (Shari'ah) and Master of Comparative Laws (MCL) from the International Islamic University Malaysia, and a Ph.D in Islamic Banking and Finance from Loughborough University, United Kingdom. She has been committed in conducting training in areas related to legal and Shari'ah issues in Islamic financial products, Shariah Governance. Regulatory Framework of Islamic Finance and Takaful. Apart from that, she is directly involved in the legal working committee for the Ministry of Domestic Trade, Cooperatives and Consumerism together with the Association of Islamic Banks of Malaysia (AIBIM) in respect to the legal reforms. Given her involvement and contribution to the Islamic finance education, research and consultancy, she was listed as among the World 50 influential women in Islamic Business and Finance 2017 by the Islamic Finance Review Special Report (ISFIRE).

MANAGEMENT DISCUSSION & ANALYSIS

AFFIN Bank Group Marks a Breakthrough in IUTA Distribution Segment as the First Bank to Ink MoU with PMB Investment Berhad

The year in review proved to be a commendable year for the Bank as we grew our topline business segments in financing and deposits portfolios. We continued to enhance our offerings to our customers and grow both our retail and business banking segments and delivered on the expectations of our shareholders. However, it was not without its challenges as we operated in an economic and market environment that continued to be challenging.

The Bank stayed focused on maintaining profitability through sound adherence to the Group's (AFFIN Bank Group) initiatives under the five-year Affinity Programme (AFFINITY) which aims to achieve profitable growth and operating efficiencies. This includes strengthening our offerings on both the Retail and Corporate banking segments, especially in the small-and-medium enterprises (SME) and focusing on high yield financing offerings to targeted segments. We also looked to accelerate infrastructure development for our digital banking capabilities.

For the year in review, we strengthened our client relationships by developing an innovative suite of products and strategic solutions that fulfilled their needs. Greater focus was placed on growing our fee-based income via relevant products and services such as Bancatakaful and Ar-Rahnu.

Through our Priority Islamic Policy (PIP) that has been adopted across the Group, we look to elevating and enhancing the Group's Islamic financing portfolio to 40% by the year 2020, in line with Bank Negara Malaysia's 10-year Financial Sector Blueprint. Through the PIP, all accounts of AFFINBANK and AFFIN ISLAMIC are encouraged to be booked under Islamic banking on best effort basis. As at the end of 2018, our Islamic financing portfolio grew to 39% lending strength to our strategy of augmenting this segment.

Underscoring our achievements for the year is our sound compliance to corporate governance standards and risk management considerations. AFFIN ISLAMIC demonstrated its resilience for the year in review based on the solid fundamentals that we have in place.

MANAGEMENT DISCUSSION & ANALYSIS

In January 2018, a reorganisation of the companies under the Group was undertaken for better streamlining and synergy. AFFIN Bank Group is now the bank holding company of Affin Islamic Bank Berhad, and the other subsidiaries namely AFFIN Hwang Investment Bank Berhad, AFFIN Moneybrokers Sdn Bhd and AXA AFFIN Life Insurance Berhad, whereas AXA AFFIN General Insurance Berhad is an associate company of AFFINBANK. This new reorganisation opens up many synergistic possibilities for AFFIN ISLAMIC to expand our product and service offerings.

We are also humbled to achieve a 5-star rating for *Sistem Penarafan Bintang Bahasa Kebangsaan Sektor Kewangan* from Bank Negara Malaysia. We achieved the highest score among all Islamic banks in Malaysia, for the good effort and extensive use of the national language in our dealings.

OPERATING IN A CHALLENGING ECONOMIC ENVIRONMENT

On the global front, slowing economic growth, increasing China-US trade tensions, as well as fluctuating currencies and commodity prices have set a challenging stage for the year in review. Moving forward, as the external sector is likely to soften with moderating global demand, Malaysia's open trade policies might be a crucial key to support Malaysia's economic growth by widening its trade relationships.

On the local front, we ushered in a new ruling government against a domestic environment that charted a lower-than expected gross domestic product (GDP) growth at 4.7%. Headline inflation moderated to 0.3% while the combined outcome of zerorisation of the goods and services tax (GST) and the implementation of the sales and services tax (SST) continued to exert an overall downward impact to headline inflation during the year. Moving ahead, private sector demand is expected to remain the main driver of growth amid continuing fiscal rationalisation.

The overall banking sector in Malaysia performed well for 2018, recording a 5.6% year-on-year growth. The slower global growth expectation as well as enhanced regulations on the financial sector has heightened competition for deposits and better management of facilities due to compressed margins.

ISLAMIC BANKING IN MALAYSIA CONTINUES TO SHOW PROMISING GROWTH. THE DEMAND TO DO BUSINESSES AND SERVICES WITH ISLAMIC BANKING IS ON THE RISE AS IT ATTRACTS A LARGER GLOBAL COMMUNITY DUE TO THE VALUE THAT IT BRINGS.

On the other hand, Islamic banking in Malaysia continues to show promising growth. The demand to do businesses and services with Islamic Banking is on the rise as it attracts a larger global community due to the value that it brings. Established global best practices and international standards also have been adopted and adapted in Islamic finance. BNM reported that Islamic banking assets stood at RM874 billion as at end of September 2018, accounting for 30.4% of total banking assets with an annual growth of 10% over the past 30 years.

The resilient growth and development of Islamic finance in Malaysia is also due to the strong foundation and regulatory infrastructure that have been instituted and strengthened over the years. With the Financial Sector Blueprint 2011-2020 underway in its implementation, we have seen Malaysia continuing to be the main driver for the sukuk market. In 2017, Malaysia took 51% share of the US$396 billion of total global outstanding sukuk while continuing to lead in the Islamic wealth management industry with 36.5% of the global share.

BNM finalised paper on Value-based Intermediation (VBI) in 2018 which articulated strategies to strengthen the roles and impact of Islamic banks towards a sustainable financial ecosystem. To this end, we have looked at playing our role in providing socially-responsible financing in support of initiatives to pursue greater energy-sustainability projects.

Governor of Bank Negara Malaysia YBhg. Datuk Nor Shamsiah Mohd Yunus, and Encik Ferdaus Toh Abdullah, Deputy CEO of AFFIN ISLAMIC during Global Islamic Finance Forum (GIFF 2018)

MANAGEMENT DISCUSSION & ANALYSIS

TOTAL INCOME
+ 32.3%
2018: RM1,159 MILLION
2017: RM876 MILLION

NET FINANCING, ADVANCES & OTHER FINANCING
+21.1%
2018: RM18.6 BILLION
2017: RM15.4 BILLION

DEPOSITS FROM CUSTOMERS
+38.7%
2018: RM19.7 BILLION
2017: RM14.2 BILLION

We believe all these initiatives will strengthen our offerings and infrastructure in Islamic finance, and further strengthen Malaysia's leadership position and generate positive, sustainable impact to the economy, community and environment. We are in the right position to capitalise on the increasing demands for Islamic banking facilities and are poised to continuously offer innovative solutions to meet our customers' requirements.

FINANCIAL REVIEW 2018

Total assets for the Bank remained strong with an increase of 26.5% to RM25.4 billion in 2018, compared to the previous year, showing greater strength to our financial position. This was contributed by the growth in net financing, advances and other financing by 21.1% to RM18.6 billion, supported by increment in cash and short-term funds by 125.5% to RM3.2 billion.

Funding remains core to our sustainable strategy and we placed focus on low cost deposits. We increased customer deposits by 38.7% to RM19.7 billion on a year-on-year basis. Our term deposits grew encouragingly by 56.2% as a result of innovative campaigns launched throughout the year despite the ongoing intense competition for deposits within the industry.

We have seen great traction from the implementation of the PIP, with an increase in revenue contribution by 32.3% to RM1,159 million compared to RM876 million in the previous year. This was mainly due to our enlarged financing and treasury portfolios.

Corporate Banking as well as SME and Commercial Banking posted exponential revenue growth of 18.7% and 63.1% respectively, supported an overall growth in revenue of 28.3% for AFFIN ISLAMIC.

For 2018, strong demand for financing resulted in the Bank's gross financing expanded by 21.1% mainly from the Consumer Banking segment for mortgage (an increase of 46.3%) and auto financing (an increase of 9.9%). Business term financing also grew commendably by 4.7%.

We charted a 31.0% increase to RM158.5 million in our Profit before Zakat and Taxation for the financial year ended 31 December 2018 compared to the previous year at RM121.0 million. Net Profit after Zakat and Taxation for the year in review was RM112.4 million, an increase of 25.3% compared to the previous year.

We are diligent in our discipline towards efficient cost-management. Our cost-to-income ratio (CIR) was 54.9%, up by 4.0% from the previous year in review. Operating expenses increased by 29.3% arising from talent acquisitions and investments made into strengthening our digital capabilities.

With our prudent approach to financial management, we maintained sufficient liquidity, capital levels and our asset quality remained strong.

The Bank's total Capital ratio is at 19.438%, while Common Equity Tier 1 and Tier 1 ratios stood at 10.869% and 12.882% respectively.

OPERATIONS REVIEW

Driving excellence through innovation and collaboration in our operations

We take a customer-first approach in understanding our customers requirements and ensure we structure our products in line with market needs. As customer behaviours change, we looked towards innovation and collaboration to offer our customers relevant and suitable solutions for their financial needs, while building stronger client relationships.

For the year in review, we looked at leveraging on opportunities within the SME and education areas as these provided better margin prospects, and explore on collaborations with strategic partners to expand our offerings. We also focused our efforts towards enhancing customer experience and building infrastructure capability through our digital banking platform.

MANAGEMENT DISCUSSION & ANALYSIS

AFFIN ISLAMIC launched its very first AFFIN ISLAMIC Credit Card-i, poised to strengthen its commitment to provide world class services

Driving product innovation, focusing on high-yield offerings

For the year in review, we further strengthened our product offerings, through building relevant mechanisms and innovative products to fulfill our customers' requirements and enable us to generate high yield returns.

We launched several innovative products such as the AFFIN ISLAMIC Credit Card-i with new and exciting reward programmes to customers such as the 'Scoot Vaganza' campaign and the 'Apply, Swipe & Win' campaign for Umrah packages. The AFFIN ISLAMIC Credit Card-i, which was launched in February, charted an outstanding balance of RM11.4 million as at 31 December 2018.

We also bundled the Mortgage-level Term Takaful (MLTT) into our mortgage facility at an attractive rate for protection against unfortunate events. This product was well received and contribute to the growth of our mortgage financing facilities by 46.2%.

We introduced the Tawarruq Term Financing Secured by Securities (TTF-i), which is a financing facility for various Shariah compliant purposes, secured by Amanah Saham Bumiputra (ASB), Amanah Saham Bumiputra 2 (ASB2) and AFFIN ISLAMIC Term Deposit-i (AITD-i) certificates.

WE TAKE A CUSTOMER-FIRST APPROACH IN UNDERSTANDING OUR CUSTOMERS' REQUIREMENTS AND ENSURE WE STRUCTURE OUR PRODUCTS IN LINE WITH MARKET NEEDS.

As 2018 proved to be a challenging year in terms of the economic outlook, the trend was for investors to move into safer assets such as gold. In October, we launched the AFFIN Emas-i which allows customers to participate in the precious metals market in a convenient and secured way. This new facility allows us to position AFFIN ISLAMIC as a gold agent with the most affordable gold investment products in Malaysia.

PRODUCTS LAUNCHED AND INNOVATION

- AFFIN ISLAMIC Credit Card-i launched on 7 Feb 18 with new and exciting rewards programme to the customers
- Mortgage Level Term Takaful (MLTT) launched on 17 May 18
- Tawarruq Term Financing Secured by Securities (TTF-i), ASB/ASB 2/AITD-i completed on 21 May 18
- i-Great Golden underwritten by Great Eastern Takaful Berhad launched on 6 Jun 18
- Portfolio Guarantee-i – launched on 1 Aug 18
- AFFIN Emas-i launched on October 18 which encourage customers to participate in precious metal market through purchase gold bar in a secured way.

The launch of AFFIN Emas-i was held on 25 October 2018 in Menara AFFIN in the presence of AFFIN Bank Group's senior management

Encik Nazlee Khalifah, CEO of AFFIN ISLAMIC with all the winners of AFFIN ISLAMIC's "Apply, Swipe & Win Umrah" campaign

MANAGEMENT DISCUSSION & ANALYSIS

MAJOR CAMPAIGNS

- AFFIN ISLAMIC VISA Debit Card utilisation (Dec-17 until April-18)
- Term Deposit-i Special Promotion (Aug-17 until Feb-18)
- OMG Term-i Smart Value (Feb-18 Until Aug-18)
- OMG Car, Cruise & Cash Buster Deals (Jul-18)

Strengthening Collaborations

As part of our efforts to generate positive and sustainable impact to the economy, community and environment, we are committed in adopting value-based intermediation (VBI) in order to build sustainable and long term returns.

We strengthened our collaboration efforts with higher learning institutions to ease the financial burden of students while keeping pace with the Bank's social responsibilities. We increased penetration of our AFFIN Education Financing-i portfolio by extending the financing limit to RM400,000. The AFFIN Education Financing-i is designed to assist students in their education plans at selected Malaysian higher learning institutions and is structured based on the concept of Ijarah. The Education Financing-i portfolio grew by RM3.8million in 2018, AFFIN ISLAMIC has signed Memorandum of Understanding (MoU) with three universities which are the Management & Science University (MSU), SEGi University & Colleges ("SEGi") and MAHSA University, which add to more than 50 panelled universities for AFFIN ISLAMIC.

In supporting to nation building initiatives and in line with VBI, we participated in promoting of green technology and renewable energy as financial provider. We collaborated with Gading Kencana Development Sdn. Bhd. by providing 16 years financing facility of RM130.34 million for a large scale solar photovoltaic project in Perak.

For the year in review, we also demonstrated our interest to pursue productive collaborations through Memorandum of Understanding (MoU) such as with Jurus Positif Sdn Bhd and Exsim Development Sdn Bhd.

Our aim is to grow fee-based income, particularly on Bancatakaful and Ar-Rahnu. For Bancatakaful, we have collaborated with few Takaful operators to expand our business in wealth management and Bancatakaful products. Moving forward, our focus will be also in expanding Ar-Rahnu business within the coverage of our Ar-Rahnu hub at selected branches.

GROWING THE SME SEGMENT

Currently, SMEs contribute near half of the country's GDP and the industry represents 65% of total employment. Therefore, the development of a vibrant and active SME sector is a priority on the national agenda towards generating sustainable and balanced economic growth. As financial institutions are the major source of financing for SMEs, an increased focus on SMEs is the main strategic growth driver for AFFIN ISLAMIC.

To help expand our presence in the SME segment, we partnered with the Credit Guarantee Corporation (CGC) to help provide financing to deserving SMEs who may otherwise not have the relevant collateral or sufficient track record to secure funding. As a result, the Bank's SMEs financing grew by 58.5% or RM328.9 million to RM891.3 million for the year.

The AFFIN ISLAMIC team buzzed with energy during the recent AFFIN ISLAMIC Business Convention 2018 which took place at Awana Resorts World Genting in February

STRENGTHENING OUR BRAND

We engaged with our industry partners to fortify our relationships among regulators, industry practitioners, business leaders, Shariah scholars and those who are interested in unlocking and enhancing the potential of Islamic finance and its offering, not only to the Malaysian market but also to the international market. These engagements served to elevate the Bank's brand position as a dynamic player in Islamic banking.

Some of the industry events that the Bank participated in for furtherance of these objectives were the Malaysia International Halal Showcase (MIHAS), the Kuala Lumpur Islamic Finance Forum (KLIFF), the Halal Fest 2018 (HalFest) and the Global Islamic Finance Forum 2018 (GIFF).

To further extend our reach in growing our brand awareness, we sponsored the ASTRO Tazkirah Malam Jumaat (TMJ) TV programme aired on ASTRO Oasis – a programme that helped further greater knowledge and inspiration of Islamic values.

We also reached out to the millennial segment by participating in education fairs. At the MSU Homecoming Fiesta and Facon Education Fair, we extending information as well as offered AFFIN Education Financing-i facilities to potential students.

MANAGEMENT DISCUSSION & ANALYSIS

GIVING BACK TO THE COMMUNITY

For year under review, we organised several initiatives to reach out the deserving communities. We helped towards building two homes for the underprivileged in Kelantan.

Our collaboration with New Straits Times Press (NSTP) on its Harian Metro Kotak Rezeki charity box programme is one of the platform to reach the underserved communities. Kotak Rezeki consists of basic necessities and cash amounting to RM4,000 per home. Through this programme, we sent out 11,000 aid packs to deserving individuals and welfare homes in 72 locations across 12 states in Peninsular Malaysia.

The Association of Islamic Banking and Financial Institutions Malaysia (AIBIM) is also one of our strategic partner in executing our corporate social responsibilities through Program Sekampit Beras. This program provide basic food necessities to the underprivileged communities.

In 2018, we contributed zakat amounting to RM3.88 million to various organisations such as Tabung Zakat Angkatan Tentera Malaysia (RM500,000). For deserving individuals, our zakat was distributed through State Islamic Religious Council namely Zakat Majlis Agama Islam dan Adat Melayu Perak (RM364,800), Majlis Ugama Islam dan Adat Resam Melayu Pahang (RM100,000) including needy in Semporna, Sabah (RM20,000).

AT THE HEART OF OUR BUSINESS IS BUILDING RELATIONSHIPS WITH OUR CUSTOMERS AND SUPPORTING THE NEEDS OF OUR COMMUNITY. IT IS IMPORTANT TO US TO GIVE BACK SO THAT WE CAN HELP TOWARDS IMPROVING QUALITY OF LIFE AND ERADICATING POVERTY FOR OUR COMMUNITIES IN MALAYSIA.

AFFIN ISLAMIC looks forward for an exciting 2019 and will continue to leverage on the expertise within the Group and strengthen the Group synergies

ROBUST CAPITAL AND LIQUIDITY MANAGEMENT

In ensuring preservation of capital and efficient liquidity management, the Bank participated in a Sukuk programme to raise funds via the issuance of Senior Sukuk Murabahah (RM800million) and additional Tier One (AT1) Sukuk Wakalah (RM300 million) in 2018.

The issuance is part of the Bank's Sukuk programme which gives AFFIN ISLAMIC the flexibility to raise funds as necessary from time to time in which the proceeds would be utilised for general banking working capital requirements and business purposes.

We are also looking into growing low-cost deposits particularly on stable funding such as longer-term deposits to enhance liquidity requirements for the Bank.

MANAGING RISKS AND OPPORTUNITIES FOR SUSTAINABLE GROWTH

While the Islamic financial landscape will continue to adapt and change, we are committed to take measured approaches in consistently assessing, evaluating and addressing potential risks as well as capitalising on opportunities for the sustainable growth of the Bank.

Operating in competitive funding and compressed profit margin, we need to ensure our products are attractive and meet the financial needs of our customers.
By providing a desired customer experience will strengthened customer relationship as technology and digital advances moving at a rapid pace, we also need to be adaptive to fulfil the gaps to remain competitive in the market.

We continuously elevate and strengthen our corporate governance and risk management framework to be adaptive in managing the risks of the evolving market landscape.

Together with the Group, we embarked on the journey with Moody's Analytics as its risk technology partner for Asset Liability Management (ALM) system since 2014. The implemented ALM system facilitates and articulates risk management across various business units, resulting in more robust risk management, improved integrated strategic planning and promote better risk-reward decision making across the Group.

MANAGEMENT DISCUSSION & ANALYSIS

AFFIN Bank Group collaborated with The New Straits Times Press (Malaysia) Berhad as the main sponsor for its "Harian Metro Kotak Rezeki" programme which distributes 11,000 boxes of food to orphans, single mothers, poor families, homeless, and security forces all over Malaysia

LOOKING AHEAD TO 2019

We believe that the Malaysian economy will remain fundamentally strong and resilient despite the external headwinds such as China-US trade war which may continue to pose downside risk on growth. Domestic demand and sustained trade are expected to remain stable, while private sector activity will support consumption and investment, pointing to a stable economic growth for Malaysia in 2019 at 4.9%.

For the Islamic banking sector in Malaysia, the sector is well-supported by comprehensive market infrastructure and robust regulatory framework.

Moving forward, we will continue to focus on preservation of capital and regulatory compliance as our priority. Collaboration has proven to be beneficial to us in expanding our offering to targeted customers. This initiatives will enable us to penetrate SME market and strengthen our strategic partnerships with established and reputable corporations such as CGC.

SMEs segment will remain our core business drivers to enhance our profitability and sustainability. We will focus on growing our fee-based income particularly on SME Remittance, Ar-Rahnu and Bancatakaful.

On the retail front, we will continuously expand our portfolio through education financing and growing high yield products particularly in Credit Card-i and Personal Financing.

For greater customer experience, we will continuously improve our offering in digital platform and internet capabilities to expedite our service delivery.

In strengthening our liquidity and funding profile, the Bank will continue to grow our retail deposits and focusing on longer term deposit. This approach will enable us to protect our capital position and deliver sustainable returns to the shareholders.

AFFIN ISLAMIC will continuously strive to maximise synergistic value within the Group and put in place more differentiated strategies to drive us to the next phase of growth and meet the ever-changing requirements of our customers.

MANAGEMENT DISCUSSION & ANALYSIS

We are set for an exciting 2019 and will continue to leverage on the expertise within AFFIN Bank Group and strengthen the Group synergies. Our priorities will continue to focus on sustainable business growth and operating efficiencies as guided in the AFFINITY. We are aligned in our aim for a balanced growth strategy, with focus on high yield products and embed responsible financing mechanisms for better capital efficiency.

We will continue to build our asset quality while managing our resources with effective operational costs, adhering to high standards of governance and compliance in everything that we do.

AFFIN ISLAMIC IS SET FOR AN EXCITING 2019 AND WILL CONTINUE TO LEVERAGE ON THE EXPERTISE WITHIN AFFIN BANK GROUP AND STRENGTHEN THE GROUP SYNERGIES. OUR PRIORITIES WILL CONTINUE TO FOCUS ON SUSTAINABLE BUSINESS GROWTH AND OPERATING EFFICIENCIES AS GUIDED IN THE AFFINITY.

AFFIN ISLAMIC signed a memorandum of understanding (MoU) on AFFIN Education Financing-i with MAHSA University to help ease some of the students' financial burden

CORPORATE DIARY

22
January 2018

MoU SIGNING FOR AFFIN EDUCATION FINANCING-i PARTNERSHIP WITH MSU

AFFIN ISLAMIC and MSU signed a partnership on AFFIN Education Financing-i. The launching of this product was timely as it helps to offer students financial support for their studies. The signing was done by Chief Executive Officer of AFFIN ISLAMIC, Encik Nazlee Khalifah and President of MSU, Tan Sri Dato' Wira Dr. Mohd Shukri Ab Yajid. Also present at the launch was Chairman of AFFIN ISLAMIC, En. Mohd Suffian Haji Haron.

22
January 2018

AFFIN ISLAMIC ZAKAT CONTRIBUTION TO MANAGEMENT AND SCIENCE UNIVERSITY

AFFIN ISLAMIC presented its Zakat contribution to Management and Science University (MSU) to assist students under the poor and Asnaf category and the contribution were channeled to Yayasan MSU, MSU's Ramadan Contribution and also to Sekolah Bina Insan.

7
February 2018

MoU SIGNING CEREMONY: AFFIN ISLAMIC AND GADING KENCANA

AFFIN ISLAMIC provides financing to support Gading Kencana Development Sdn Bhd Large Scale Solar Photovoltaic project in Bidor, Perak. The financing facility was inked by AFFIN ISLAMIC's Chief Executive Officer, En. Nazlee Khalifah and Gading Kencana's Chief Executive Officer, Dato' Ir. Guntor Mansor Tobeng at Menara AFFIN, witnessed by AFFINBANK Chairman, Y. A. Bhg. General Dato' Seri DiRaja Tan Sri (Dr.) Mohd Zahidi bin Haji Zainuddin.

CORPORATE DIARY

23
March 2018

ZAKAT CONTRIBUTION TO MAJLIS UGAMA ISLAM DAN ADAT RESAM MELAYU PAHANG

AFFIN ISLAMIC contributed business zakat for 2017 to the Majlis Ugama Islam dan Adat Resam Melayu Pahang. The Sultan of Pahang, Al-Sultan Abdullah Ri'ayatuddin Al-Mustafa Billah Shah, who was then the Tengku Mahkota of Pahang accepted the zakat on behalf of the Majlis.

4-7
April 2018

MALAYSIA INTERNATIONAL HALAL SHOWCASE (MIHAS 2018)

AFFIN ISLAMIC participated in the world's largest halal trade expo, Malaysia International Halal Showcase (MIHAS) from 4 to 7 April 2018 held in Malaysia International Trade and Exhibition Centre (MITEC). AFFIN ISLAMIC together with other exhibitors leverage on MIHAS as the premier platform to promote our Shariah compliant products and services.

21
April 2018

LAUNCHING OF AFFIN ISLAMIC CREDIT CARD-i

Affin Islamic Bank Berhad unveiled its very first AFFIN ISLAMIC Credit Card-i; a joint collaboration with Mastercard, a technology company in the global payments industry that offer customers with world-class payment solutions of Shariah compliant products.

CORPORATE DIARY

12
May 2018

KOTAK REZEKI PRESS CONFERENCE AND FLAG OFF

AFFIN ISLAMIC flagged off its Harian Metro Kotak Rezeki programme, delivered a total of 11,000 aid packs to individuals and welfare homes in the Peninsular. The programme, in collaboration with News Straits Times Press (NSTP) saw the boxes delivered to 72 homes across Peninsular Malaysia. Kotak Rezeki consists of basic necessities and cash amounting to RM4,000 per home were distributed to 72 welfare homes, orphanages, and religious schools and tahfiz schools in 12 states.

12
May 2018

CHARITY FUN RUN FOR SYRIA

AFFIN ISLAMIC participated in a fund raising event, Charity Run For Syria 2018. This initiative in collaboration with Malaysian Life Line For Syria (MLL4S) to collect funding for their Ramadan Humanitarian Mission (RHM). AFFIN ISLAMIC was represented by Head of Shariah Supervisory, Ustaz Mohd Faiz Rahim and handed the Zakat contribution to MLL4S in supporting their mission to Syria.

22
May 2018

COMMUNITY OUTREACH PROGRAMME WITH TEACH FOR THE NEEDS (TFTN)

AFFIN ISLAMIC organised a community outreach program with Teach for the Needs (TFTN) in Semporna, Sabah. The programme was intended to help TFTN to provide adequate access to education for the less-fortunate children in Sabah.

CORPORATE DIARY

31
May 2018

'PROGRAM SEORANG SEKAMPIT BERAS'

AFFIN ISLAMIC continued to aid worthy causes in a programme called "Program Seorang Sekampit Beras", a joint collaboration with Association of Islamic Banking and Financial Institutions Malaysia (AIBIM). AFFIN ISLAMIC's Head of Shariah Supervisory, Ustaz Mohd Faiz Rahim presented basic necessities consists of 150 packs of rice, cooking oil and flour to deserving recipients at Surau Al-Istiqomah, Bandar Baru Bangi.

31
May 2018

ZAKAT CONTRIBUTION TO MINDEF

AFFIN ISLAMIC contributed zakat funds to '*Tabung Zakat Angkatan Tentera Malaysia'*. The zakat contribution was presented by Group Chief Executive Officer of AFFIN Bank Group, En. Kamarul Ariffin Mohd Jamil to Minister of Defence, YB Mohamad Sabu during *'Majlis Penyampaian Sumbangan Zakat dan Bungkusan Hari Raya Aidilfitri'* held at Ministry of Defence, Kuala Lumpur.

6
June 2018

AFFIN ISLAMIC DONATES RAYA CLOTHES TO CHILDREN IN NEED

100 children from Rumah Titian Kaseh Tasik Titiwangsa received Hari Raya clothes contributed by AFFIN ISLAMIC during the month of Ramadan.

CORPORATE DIARY

4
July 2018

MoU SIGNING FOR EDUCATION FINANCING-i PARTNERSHIP AT SEGI UNIVERSITY

AFFIN ISLAMIC signed a memorandum of understanding (MoU) on AFFIN Education Financing-i with SEGi University & Colleges ("SEGi") to provide financial assistance to students. The MoU was signed by En. Nazlee Khalifah, Chief Executive Officer of AFFIN ISLAMIC and Mr. Daniel Teng, Group Senior Executive Director of SEGi University & Colleges at SEGi Kota Damansara.

10
July 2018

LAUNCHING OF DA'WAH NEWS STAND WITH MULTIRACIAL REVERTED MUSLIMS

AFFIN ISLAMIC launched the Islamic Information Kiosk (IIK) project, a collaborative effort with Federal Territory Zakat Collection Center and Multiracial Reverted Muslims (MRM). One hundred IIKs containing the Quran with English and Chinese translations has been placed in strategic locations to facilitate the public to obtain accurate information regarding Islam.

28
August 2018

RECORDING OF ASTRO TMJ AT MINDEF, MSU, UPNM AND MENARA AFFIN

AFFIN Bank Group had the privilege of hosting the recording of two (2) TMJ episodes at Menara AFFIN. Three prominent Islamic panel speakers consists of Ustaz Elyas Ismail, Datuk Dr. Ustazah Norhazah Musa and Ustaz Muhammad Abdullah Al Amin together with host Amin Idris had a captivating discussion on interesting topics which revolved around business and finance in Islam. AFFIN Bank Group also had the opportunity to host the recording of six more TMJ episodes at the Ministry of Defence (MINDEF), Management and Science University (MSU) and Universiti Pertahanan Nasional Malaysia (UPNM).

CORPORATE DIARY

5
September 2018

ZAKAT CONTRIBUTION TO MAJLIS AGAMA ISLAM WILAYAH PERSEKUTUAN

AFFIN ISLAMIC presented zakat contribution to Pusat Pungutan Zakat Majlis Agama Islam Wilayah Persekutuan. At the ceremony, Deputy Chief Executive Officer of AFFIN ISLAMIC En. Ferdaus Toh Abdullah handed over a Zakat mock up cheque to Datuk Dr. Mujahid Yusof, Minister in the Prime Minister's Department.

13
September 2018

MoU SIGNING CEREMONY WITH JURUS POSITIF AND EXSIM DEVELOPMENT

AFFIN ISLAMIC formalised a Memorandum of Understanding (MoU) with Jurus Positif Sdn Bhd as a vendor and Exsim Development Sdn Bhd as a purchaser in a signing ceremony held at Menara AFFIN, Kuala Lumpur. The MoU was signed by En. Nazlee Khalifah, Chief Executive Officer of AFFIN ISLAMIC, En. Hamidon bin Abdullah, Director of Jurus Positif Sdn Bhd, and Mr. Lim Aik Hoe, Director of Exsim Development Sdn Bhd. The signing ceremony was witnessed by En. Mohd Suffian Haron, Chairman of AFFIN ISLAMIC, Ms. Ong Tsuey Yun, Director of Jurus Positif Sdn Bhd, and Mr. Lim Aik Kiat, Director of Exsim Development Sdn Bhd.

3 – 4
October 2018

GLOBAL ISLAMIC FINANCE FORUM (GIFF 2018)

AFFIN ISLAMIC joined local and foreign Islamic banks in the Global Islamic Finance Forum 2018 which was officiated by Governor of Bank Negara Malaysia YBhg. Datuk Nor Shamsiah Mohd Yunus, with the theme of 'Value-Based Intermediation: Beyond Profit'.

CORPORATE DIARY

16 October 2018

MoU WITH PMB INVESTMENT BERHAD

AFFIN Bank Group marked a breakthrough in the Institutional Unit Trust Adviser (IUTA) distribution segment as the first bank to ink a Memorandum of Understanding (MoU) with PMB Investment Berhad, an Islamic fund management company (IFMC). The signing signifies AFFIN Bank Group's commitment to distribute, promote and market six of its trust funds through AFFIN Bank Group's branches nationwide. With the introduction of these funds, existing and potential customers of AFFIN Bank Group will benefit from a more diverse range of products encompassing a larger investment universe to maximise their returns.

19 October 2018

UPNM ASNAF STUDENTS RECEIVED ZAKAT

Universiti Pertahanan Nasional Malaysia (UPNM) received zakat contribution from AFFIN ISLAMIC held at UPNM. A mock cheque presentation by Chief Executive Officer of AFFIN ISLAMIC, En. Nazlee Khalifah was presented to UPNM's Vice Chancellor, Lt Jen Dato' Abdul Halim Jalal.

23 October 2018

MoU SIGNING FOR EDUCATION FINANCING-i BETWEEN AFFIN ISLAMIC AND MAHSA UNIVERSITY

AFFIN ISLAMIC signed another MoU on AFFIN Education Financing-i with MAHSA University. The MoU was signed by En. Nazlee Khalifah, Chief Executive Officer of AFFIN ISLAMIC, and Prof. Tan Sri Datuk Dr. Hj Mohamed Haniffa Hj Abdullah, Pro-Chancellor and Executive Chairman of MAHSA University. The signing ceremony took place at MAHSA University's Bandar Saujana Putra campus.

CORPORATE DIARY

25 October 2018

AFFIN EMAS-i

The launch of AFFIN Emas-i was held in Menara AFFIN in the presence of AFFINBANK's Chief Executive Officer En. Kamarul Ariffin Mohd Jamil, AFFINBANK's Chief Operating Officer En. Zulkarnain Kassim, AFFIN ISLAMIC's Chief Executive Officer En. Nazlee Khalifah, AFFINBANK's Director of Consumer Banking En. Idris Abd Hamid, and AFFIN ISLAMIC's Deputy Chief Executive Officer En. Ferdaus Toh Abdullah. AFFIN Emas-i is a Shariah compliant gold product which offers customers the opportunity to participate in the precious metal market in a convenient and secured way.

29 November 2018

PRIZE PRESENTATION CEREMONY OF "APPLY, SWIPE, & WIN" UMRAH CAMPAIGN

AFFIN ISLAMIC presented prizes for winners of its "Apply, Swipe & Win Umrah" campaign which was held in April 2018 until August 2018 with five lucky card members awarded with various holiday and Umrah trip packages.

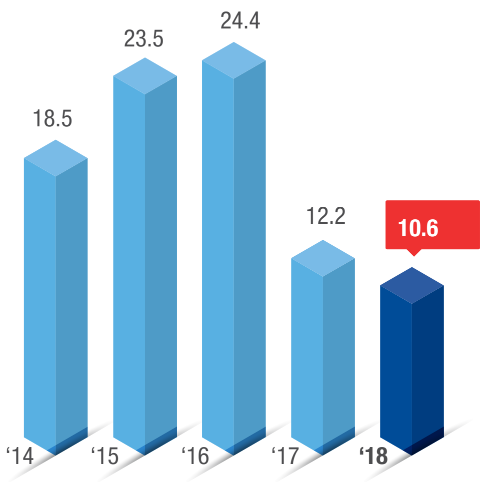
15-16 December 2018

FACON EDUCATION FAIR 2018

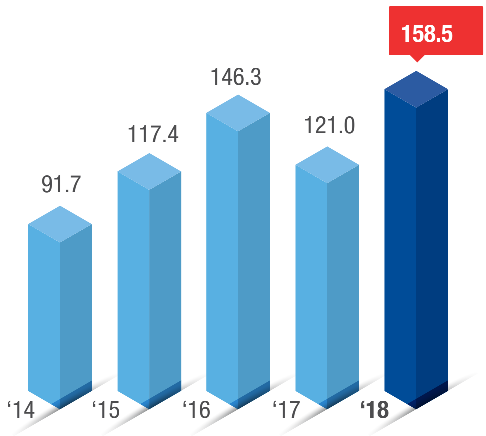
AFFIN ISLAMIC participated in FACON Education Fair 2018 in collaboration with Ministry of Higher Education. The event acts a platform for the public and students to explore and gain knowledge on AFFIN Education Financing-i.

FINANCIAL HIGHLIGHTS

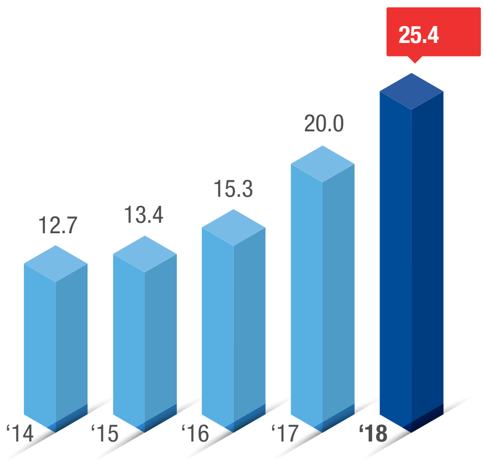
EARNINGS PER SHARE (EPS)
(Sen)



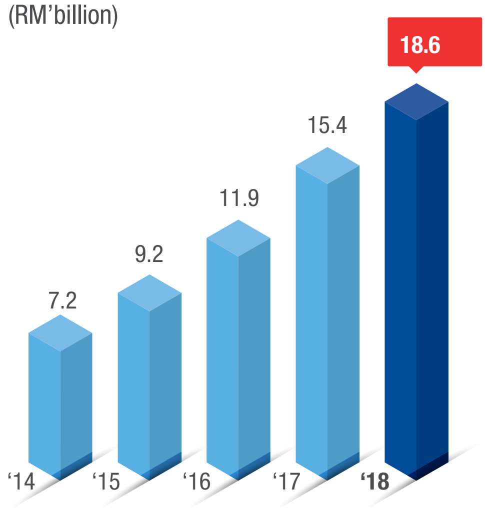
PROFIT BEFORE ZAKAT AND TAXATION
(RM'million)



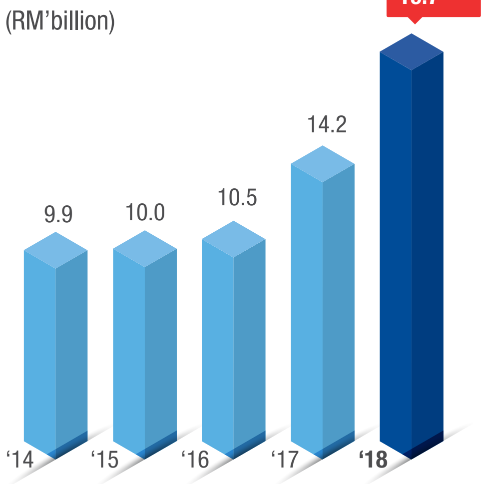
TOTAL ASSETS
(RM'billion)



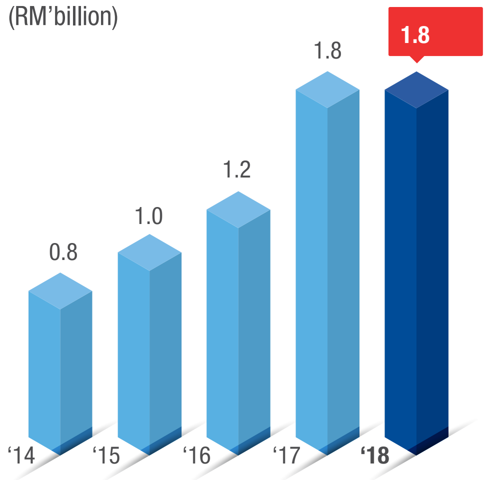
NET FINANCING, ADVANCES & FINANCING
(RM'billion)



DEPOSITS FROM CUSTOMERS
(RM'billion)



SHAREHOLDERS' EQUITY
(RM'billion)



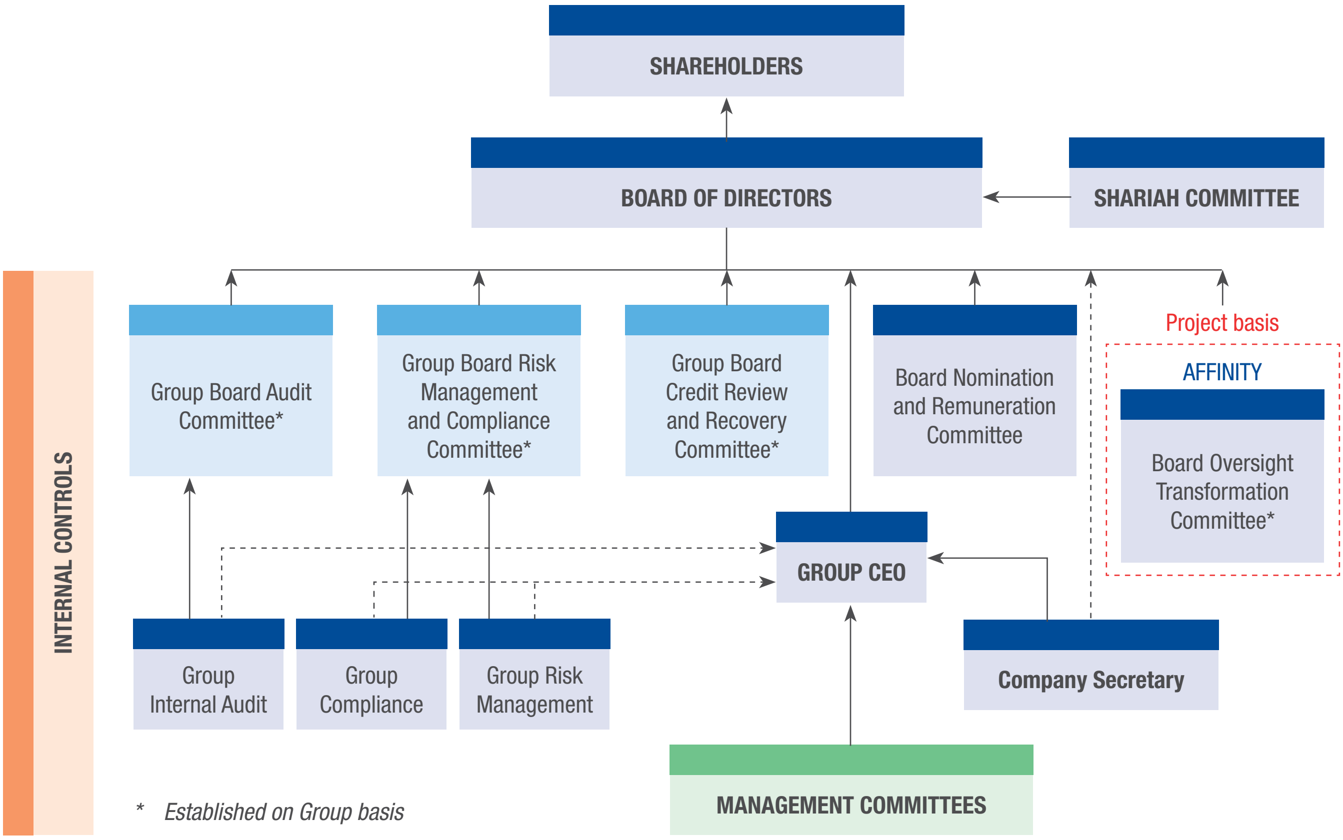
CORPORATE GOVERNANCE
OVERVIEW STATEMENT

The Board of Directors ("Board") of Affin Islamic Bank Berhad ("Bank" or the "Company") views that adoption of sound corporate governance standards and practices by the Bank will ensure that the Bank is managed in a sound and prudent manner to conduct the business and affairs of the Bank towards promoting business prosperity and corporate accountability with due regards to the interests of depositors, policy owners and stakeholders.

The Bank adopts corporate governance practices that conform to the Bank Negara Malaysia ("BNM") Policy Document on Corporate Governance; Malaysian Code on Corporate Governance issued by Securities Commission and Shariah Governance Framework issued by BNM.

CORPORATE GOVERNANCE FRAMEWORK

Affin Bank Berhad (ABB) (the parent Company) has established a set of Corporate Governance Framework for ABB and the Bank to set out broad principles, minimum standards and requirements for sound corporate governance and practices to be adopted by the Bank.



The Corporate Governance Framework is premised upon the following:

1. Companies Act, 2016
2. Main Market Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Malaysia) (MMLR) (applicable to ABB)
3. Policy Document on Corporate Governance issued by BNM (BNM CG)
4. Malaysian Code on Corporate Governance issued by Securities Commission (MCCG)
5. Shariah Governance Framework issued by BNM (SGF)
6. Other relevant guidelines/circulars/Practice Notes issued by relevant regulatory authorities.

The Corporate Governance Framework was reviewed in 2018 to ensure that it remains relevant and aligned with the Companies Act, 2016, MMLR, MCCG and SGF and will continue to be refined based on best practices and guidelines.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

An overview of the Bank's application of corporate governance practices are described as follows:

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS

I. Board Responsibilities

1. Clear roles and responsibilities

The Board, led by the Chairman, establishes the vision and strategic objectives of the Bank and is entrusted with the responsibility in leading and directing the Bank towards achieving its strategic goals. The Board and Management hold an annual strategic meeting to set the Bank's strategies as well as to review the strategic direction of the Bank.

The Board exercises overall responsibilities in promoting good corporate governance and ensuring sound framework of internal controls, risk management and compliance practices are maintained throughout the Bank. The Board ensures that the system of internal control is sound and sufficient to safeguard customers' interest as well as the Bank's assets. Notwithstanding this, there are ongoing reviews to ensure the effectiveness, adequacy and integrity of the systems.

In order to promote a culture of integrity and transparency throughout the Bank, all Directors are required to maintain the highest standards of transparency, integrity and honesty. This standard serves as the basis for the principles that govern Directors' conduct and their relationship with the Bank's stakeholders.

The Board has established a Board Charter which is available on the Bank's website at www.affinislamic.com.my. The Board Charter sets out the demarcation of the mandate, roles and responsibilities, and procedures of the Board and Board Committees (both individually and collectively), in setting the direction, management and control of the Bank in accordance with the principles of good corporate governance set out in the policy documents and guidelines issued by BNM and relevant regulatory authorities. The Board Charter also charts the issues and decisions reserved for the Board.

The Board Charter was last reviewed in 2018 to ensure its relevance and effectiveness in the light of the ever changing environment in which the Bank operates.

The Board in discharging the duties, has an obligation to exercise unfettered judgement, in good faith with due care and skills so as to ensure compliance with regulatory requirements and in the best interest of the Bank.

The key responsibilities of the Board are as follows:

(i) Approving the Bank's risk appetite, annual business plan and other initiatives which would have material impact on the Bank's risk profile;

(ii) Overseeing the selection, performance, remuneration and succession plans of the Chief Executive Officer (CEO), control function heads and other members of the Senior Management, such that the Board is satisfied with the collective competence of Senior Management to effectively lead the operations of the Bank;

(iii) Overseeing the implementation of the Bank's governance framework and internal control framework, and periodically ascertaining whether they remain appropriate in light of material changes to the size, nature and complexity of the Bank's operations;

(iv) Ensuring regulatory compliance within the Bank;

(v) Promoting, together with Senior Management, a sound corporate culture within the Bank which reinforces ethical, prudent and professional behaviour;

(vi) Promoting sustainability through appropriate environmental, social and governance considerations in the Bank's business strategies;

(vii) Overseeing and approving the recovery and resolution as well as business continuity plans of the Bank to restore its financial strength and maintain or preserve critical operations and critical services when it comes under stress;

(viii) Promoting timely and effective communication between the Bank and BNM on matters affecting, or that may affect, the safety and soundness of the Bank;

(ix) Undertaking various functions and responsibilities as specified in the policy documents and directives issued by BNM and other relevant laws from time to time; and

(x) Ensuring the establishment and implementation of group-wide policies and procedures to ensure Group's compliance with the regulatory requirements.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

2. Separation of Positions of the Chairman and Chief Executive Officer

The Bank is headed by the Chairman, whose roles are strictly separated and distinct from the CEO. The respective roles of the Chairman and the CEO are clearly defined, so as to promote accountability and facilitate division of responsibilities between them and to further ensure a balance of power and authority.

The Chairman is responsible for leading the Board in its collective oversight of management, while the CEO focuses on the business and day-to-day management of the Bank.

The balance of responsibilities between the Chairman and the CEO will be regularly reviewed to ensure the division of functions remains appropriate to the needs of the Bank.

The Chairman, in leading the Board, is responsible for the effective overall functioning of the Board. The key role of the Non-Executive Chairman includes the following:

(i) The smooth functioning of the Board, the governance structure and inculcating positive culture in the Board;

(ii) Guidelines and procedures are in place to govern the Board's operation and conduct;

(iii) All relevant issues are on agenda for Board meeting and all Directors are able to participate fully in the Board's activities;

(iv) Board debates strategic and critical issues;

(v) Board receives the necessary information on a timely basis from the Management;

(vi) Provides avenues for all Directors to participate openly in the discussion; and

(vii) Provides leadership to the Board and responsible for the developmental needs of the Board.

On the other hand, the key role of CEO includes the following:

(i) Developing the strategic direction of the Bank;

(ii) Ensuring that the Bank's strategies and corporate policies are effectively implemented;

(iii) Ensuring that Board decisions are implemented and Board directions are responded to;

(iv) Providing directions in the implementation of short and long-term business plans;

(v) Providing strong leadership that effectively communicates sound and viable vision, management philosophy and business strategy to the employees;

(vi) Keeping the Board fully informed of all important aspects of the Bank's operations and ensuring sufficient information is distributed to Board members; and

(vii) Ensuring the day-to-day business affairs of the Bank are effectively managed.

3. Supported by Competent Company Secretary

The Board is supported by a suitably qualified and competent Company Secretary in discharging their functions. The Company Secretary plays an advisory role to the Board and is qualified under Section 235(2) of the Companies Act, 2016, experienced and competent in performing her duties.

The Board has direct access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that all governance matters and Board procedures are followed and that applicable laws and regulations are complied with.

The Company Secretary attends the Board and certain Board Committees' meetings which she is the appointed Secretary, and is responsible for supporting the effective functioning of the Board. In discharging this role, the Company Secretary provides counsel to the Board on governance matters and facilitates the communication of key decisions and policies between the Board, Board Committees and Management. The Board is also regularly updated and kept informed of the latest developments in the legislation and regulatory framework affecting the Group and are advised on the proposed contents and timing of material announcements to be made to regulatory authorities.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

4. Code of Ethics/Conduct

The Bank has put in place a Code of Ethics and Code of Conduct. The Code of Ethics is to ensure that staff is to consistently adhere to a high standard of professionalism and ethics in the conduct of business and professional activities to serve the legitimate interest of Bank's customers and clients with the highest standards of professional and ethical behavior.

The Code of Conduct is to ensure that staff is fully committed to uphold, maintain and demonstrate a high level of integrity and professionalism at all times. The Bank prescribes certain values and principles which staff is expected to uphold and abide. The Code of Conduct specifies the minimum standards of conduct expected of staff of the Bank.

All Directors and employees of the Bank are expected to exercise caution and due care to safeguard confidential and price-sensitive information of the Bank and its business associates from being misused including for personal benefits, at all times. In managing the exposure of such misuse of price-sensitive information to trading of shares or other securities, the Directors and Senior Management are reminded periodically of the prohibition of insider trading and the dealings in securities during closed periods in accordance with the relevant provisions of the MMLR.

5. Whistleblowing

Whistleblowing Policy is developed to promote whistleblowing in a positive manner that provides an avenue to escalate concerns on improper conduct and to handle such concerns appropriately, in line with the fundamental objectives of Whistleblower Protection Act 2010. This includes the following:

(i) Safeguard the Bank's reputation by minimising unfavorable surprise events;

(ii) Encourage Whistleblower to divulge pertinent and unknown information on improper activity occurring within the Bank and subsequently to curtail the possible detrimental impact; and

(iii) Exhibit better corporate governance on managing whistleblowing issue, which is to be managed in a transparent manner by creating awareness on the protection, confidentiality and enforceability.

The Whistleblowing Policy is available on the Bank's website at www.affinislamic.com.my.

II. BOARD COMPOSITION

1. Board Composition and Balance

The composition of the Board reflects a good measure of objectivity and impartiality in order to ensure that the interest of the minority shareholders is not compromised. The influence of the nominees from the major shareholders of the Bank is balanced by the presence of the Independent Directors on the Board whose collective views carry significant weight in the Board's deliberation and decision-making process. Senior Management do not sit on the Board or Board Committees.

The Board comprises four (4) Directors, two (2) of whom are Non-Independent Non-Executive Directors and the remaining two (2) are Independent Non-Executive Directors. Board prospective candidate has been identified, pending BNM's approval.

The Directors fulfill the fit and proper criteria as specified in the Islamic Financial Services Act 2013 and the BNM Policy Document on Fit and Proper Criteria.

The size and composition of the Board are reviewed from time to time in order to ensure that the Board comprises of strong and dynamic individuals with relevant skills and competencies necessary to drive the Bank towards achieving sustainability and viability. The broad range of experience, skills and knowledge of the Directors effectively facilitate the discharge of the Board's stewardship.

Board Independence

To ensure the independence of the Board as well as to encourage fresh views and ideas at the Board level, the Board had set the maximum tenure of an Independent Director which shall not exceed nine (9) years of service as Independent Director in the AFFIN Bank Group.

The Independent Director shall, upon reaching the maximum tenure and subject to the approval of BNM for his re-appointment as Director, remain as a Director but shall be re-designated as Non-Independent Non-Executive Director.

Represented on the Board are two (2) Independent Non-Executive Directors who bring their independent advice, views and judgement to bear on the decision-making process of the Bank to ensure that a balanced, robust and unbiased deliberation process is in place to safeguard the interests of other stakeholders.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Board Diversity

The Bank promotes diversity in Board as it recognises the values and the unique contribution from Directors with diversed individual background, skills, experiences, perspectives and nationality. They possess the skills, knowledge, experience and competencies to address risks and other major issues relating to the Bank's business, policies and strategies. Currently, there is one (1) foreign national on the Board, namely Associate Professor Dr. Said Bouheraoua who is an Algerian and possesses depth knowledge and experience on Shariah matters.

In promoting diversity, gender and opportunities, the Board in its appointments and composition pays due recognition and weightage to the skills, experience and business acumen of the Directors. The Board reviews the appropriate mix of skills, experience, age, gender, cultural background and knowledge required of its members, in the context of the needs of the Bank's businesses and strategies.

The Board acknowledges the recommendation of the MCCG pertaining to the establishment of boardroom gender diversity policy. The Board had identified a lady candidate for appointment as Independent Non-Executive Director of the Bank, pending approval from BNM.

BOARD SKILLS & EXPERIENCES

Banking/Islamic Banking	Risk Management
Shariah	Finance/Economic
Business Administration	Strategic Leadership

Appointments, Removals and Re-Election of Directors

New Appointment of Directors

All appointments of Directors are subject to the approval of BNM and the BNM approval will be for a specific term of appointment.

The BNRC is responsible for assessing the candidate(s)' qualifications and experiences and whether he/she fulfills the minimum requirements as set out in the BNM Policy Document on Corporate Governance, Fit and Proper Criteria and any other relevant regulations. The BNRC thereafter submits its recommendation to the Board for decision on submission of application to BNM for the proposed new appointment as Director.

In identifying candidates for appointment of Directors, the BNRC does not solely rely on recommendations from existing Board members, management or major shareholders. The BNRC has the right to utilize independent sources at the cost of the Company to identify suitable qualified candidates.

Besides the above, BNRC may also consider utilising the following sources:

- Director's registry (e.g. Institute of Corporate Directors Malaysia and NAM Institute for the Empowerment of Women);
- Industry and professional associations; or
- Independent search firm.

The Bank shall not make an application to BNM to appoint a Director unless the Board is wholly satisfied, based on its objective assessment, that the candidate meets the minimum requirements of the BNM CG, understands the expectation of the roles and is able to meaningfully contribute to the Board.

Re-Appointment of Directors

The proposed re-appointment of a Director, upon expiry of his/her current term of appointment as approved by BNM, is subject to the approval of BNM.

The BNRC is responsible for assessing the performance of Directors whose current term of appointment as approved by BNM are due to expire, and submitting its recommendation to the Board for decision on the submission of application to BNM for the proposed re-appointment of the Directors concerned.

Removal of Directors

The BNRC will conduct an annual review to assess the Fit & Proper Criteria, performance and effectiveness of each Director. Corrective measures will be taken by BNRC if the Director is no longer Fit & Proper or non-performing as and when BNRC becomes aware of such circumstances.

Re-Election of Directors

The Constitution of the Bank provides that at every Annual General Meeting, at least one-third of the Directors are subject to retirement by rotation or, if their number is not three (3) or a multiple of three (3), the number nearest to one-third shall retire from office, but shall be eligible for re-election.

The Constitution of the Bank further provides that all Directors shall retire from office once at least in each three (3) years but shall be eligible for re-election.

2. Board Evaluation

In line with MCCG's recommendation, the BNRC will be engaging an external consultant on a periodical basis to conduct the Board and Board Committee's evaluation on the overall effectiveness of the Board, Board Committee and individual Directors.

3. Delegation by the Board

The Board delegates certain functions to several committees, namely Board Nomination and Remuneration Committee and various Board Committees established at Group level such as Group Board Audit Committee, Group Board Credit Review and Recovery Committee and Group Board Risk Management and Compliance Committee to support and assist in discharging its fiduciary duties and responsibilities. Apart from the above Board Committees, the Board Oversight Transformation Committee was established at Group level to oversee the progress of the AFFINITY Programme for AFFIN Bank Group. The respective Committees report to the Board on matters considered and their recommendations thereon. The ultimate responsibility for the final decision on all matters, however, lies with the Board.

These Board Committees operate under the approved terms of reference or guidelines set by the Board which are in accordance with the BNM CG and consistent with the recommendations of the MCCG.

The deliberations and decisions at the Board Committees meetings are escalated to the Board via minutes which are tabled to the Board meeting and reports from the respective Chairman of the committees.

(a) Group Board Credit Review and Recovery Committee ("GBCRRC")

GBCRRC was established to assist the functions of the Board in respect of its inherent authority over approval on financing application/proposals which are considered by the Group Management Credit Committee ("GMCC").

The GBCRRC operates in accordance with the powers and authorities delegated under the terms of reference. Generally, the GBCRRC provides assistance to the Board as follows:

(i) To critically review financing and other credit facilities upon recommendation by the Group Credit Management Division;

(ii) To provide an independent oversight of credits by ensuring that there are adequate financing policies, procedures and operating strategies are adhered to;

(iii) Generally to ensure that the GMCC has discharged its responsibilities in a proper manner; and

(iv) To monitor the progress of recovery efforts.

(b) Board Nomination and Remuneration Committee ("BNRC")

BNRC is chaired by an Independent Non-Executive Director, with the objective of providing a formal and transparent procedure in respect of the following:

(i) The selection and appointment of all new Directors, members of Shariah Committee and CEO as well as assessment of effectiveness of individual Directors, Board as a whole, Board Committees and performance of CEO and key Senior Management officers; and

(ii) Develop remuneration policy for Directors, members of Shariah Committee, CEO and key Senior Management officers and ensuring that compensation is competitive and consistent with the Bank's culture, objectives and strategies.

The BNRC carries out its roles and responsibilities as stipulated in the terms of reference. The BNRC is not delegated with decision-making powers but reports its recommendations to the Board for decision.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The main activities of the BNRC in 2018 included the following:

- Assessment of fitness and propriety of Directors for re-appointment.
- Assessment of fitness and propriety of new candidates for proposed appointment as new Directors.
- Review the remuneration of Directors and Senior Management.
- Recommendation to the Board on promotion and appointment of key responsible persons.

(c) Shariah Committee (SC)

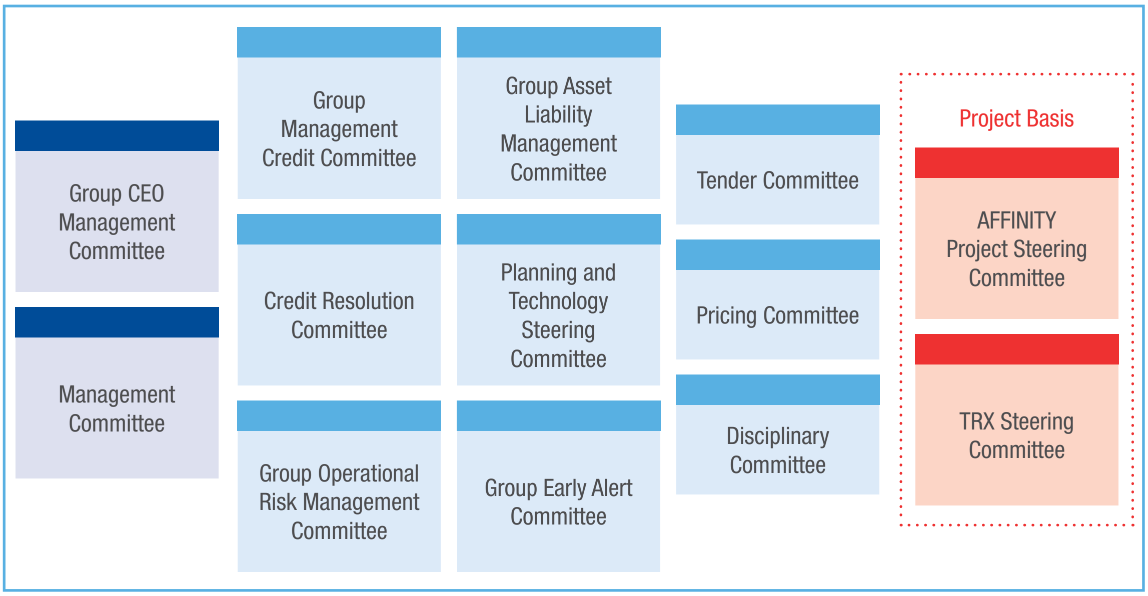
The key responsibilities of the Shariah Committee are to advise the Board on Shariah matters pertaining to the Islamic operations and to deliberate and endorse Shariah related matters. The Shariah Committee is supported by the Shariah compliance and research functions.

(d) Board Oversight Transformation Committee ("BOTC")

BOTC is established at Group level in view of the Transformation Blueprint and Implementation Masterplan – AFFINITY Programme.

Its main purpose is to oversee the transformation plan (AFFINITY Programme), secure the consistency of strategic decision and ensure that the transformation plan is implemented effectively in a timely manner.

(e) Management Committees



4. Board Meetings Supply of Information to Board

Board meetings for the ensuing financial year are scheduled in advance before the year end of the current year in order for the Directors to be able to plan ahead and ensure their full attendance at Board meetings.

The Board holds regular monthly meeting (except in December). Special Board meetings may be convened as and when necessary to consider urgent proposals that require the Board's expeditious review or consideration.

The Bank ensures that attendance at a board meeting, by way other than physical presence, remains the exception rather than the norm, and is subject to appropriate safeguards to preserve the confidentiality of deliberations. Circular Resolution is not a perfect substitute for board meetings since it does not offer the opportunity for board members to actively debate the issues circulated and to raise immediate questions or resolutions, which may lead to inappropriate decisions being made.

The Board has full and timely access to information on Board matters via materials distributed in advance at least 5 business days from the date of meetings to enable the Directors to obtain further explanation, where necessary, in order to be properly briefed prior to the meetings. All Board members are required to devote sufficient time to prepare for and attend Board meetings.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

5. Access to Third Party Experts

In discharging Directors' duties, each Director is entitled to obtain independent professional advice from third party experts at the cost of the Bank.

Independent professional advice shall include legal, accounting or other professional financial advice. Independent professional advice shall exclude any advice concerning the personal interests of the Directors, unless these are matters affecting the Board as a whole and have the unanimous agreement of the Board.

6. Time Commitment

A Director shall notify the Chairman of the Board of his acceptance of any new directorship in public listed companies. In any event the maximum number of appointments in public listed companies shall be limited to five (5) pursuant to the MMLR.

The notification shall include an assurance of his continued time commitment to serve the existing Board and that his other appointments shall not be in conflict or compete with the existing appointment with the Bank.

The Board is satisfied that each Director has committed sufficient time to the Bank as evident from the Directors' record of attendance at Board meetings held in the financial year ended 31 December 2018. The details of Board and Board Committee meetings attended are as as follows:

Directors/Board and Board Committee	Board	BNRC	GBCRRC	GBAC	GBRMC	BOTC
En Mohd Suffian bin Haji Haron	16/16	7/7	22/22		1/1*	6/6
YBhg. Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Noor (Bersara)	16/16	2/2	21/22		5/5	5/5
Assoc. Prof Dr. Said Bouheraoua	15/16	7/7		14/14		2/2
Dato' Bakarudin bin Ishak	16/16	5/5			4/5**	3/4**

* *Relinquished as member of GBRMC w.e.f 2 April 2018.*
** *Appointed as member of GBRMC and BOTC w.e.f 2 April 2018.*

7. Continuing Education and Development

The BNRC oversees the training needs of the Directors and ensures that the Directors spend sufficient time to update their knowledge and enhance their skills through appropriate continuing education programmes and life-long learning in order to keep the Directors abreast with the dynamic and complex business environment as well as new statutory and regulatory requirements.

All new Directors are required to attend the Financial Institutions Directors' Education Programme (FIDE) organised by BNM within one (1) year from the date of appointment.

Further, all Directors of licensed Islamic banks are required to attend the Islamic Finance for Board Programme organised by BNM in collaboration with ISRA by 2020 (existing Director) and within 2 years of date of appointment (new Director).

Directors Orientation Programme is organised to familiarise themselves with the Bank's organisation structure, business and the financial industry. The relevant Heads of Departments/Divisions will brief the new members of the Board on the functions and areas of responsibility of their respective department/divisions.

This serves to provide them with a platform in establishing effective channel of communication and interaction with Senior Management as well as to ensure that the Directors understand:

(i) their roles and responsibilities;

(ii) the nature of the Bank's business;

(iii) overview of risks on the Bank's business and the risk management strategy; and

(iv) legal requirements and compliance controls.

The Board will via BNRC, on a continuing basis, evaluate and determine the training needs of each Director, particularly on relevant new laws and regulations, and essential practices for effective corporate governance and risk management to enable the Directors to sustain their active participation in board deliberations and effectively discharge their duties.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

During the financial year ended 31 December 2018, the Directors have attended the following courses/training programmes:

ENCIK MOHD SUFFIAN BIN HAJI HARON		
Trainer/Organiser	**Course Title**	**Date**
KPMG	Audit Committee Institute Breakfast Roundtable 2018	19 March 2018
Affin Bank Berhad	Board Induction Session	23 March 2018
FIDE Forum	5th BNM-FIDE Forum Annual Dialogue	19 April 2018
Malaysian Institute of Corporate Governance (MICG)	Official Launch of the Pathway to a Governance Practitioner Programme	26 July 2018
MICG	Half-day Seminar on Introduction to Corporate Liability Provision	6 September 2018
Institute of Corporate Directors Malaysia (ICDM)	Invitation to the Launch of ICDM	1 October 2018
Association of Islamic Banking Institutions Malaysia (AIBIM)	Invitation to Global Islamic Finance Forum (GIFF 2018)	3 & 4 October 2018
MICG	PowerTalk "Effective Boards in a VUCA World"	31 October 2018
International Centre for Leadership in Finance (ICLIF)	Breakfast Series: Non-Financials (Does It Matter)	5 December 2018

LAKSAMANA MADYA TAN SRI DATO' SERI AHMAD RAMLI BIN MOHD NOR (BERSARA)		
Trainer/Organiser	**Course Title**	**Date**
FIDE Forum	1st Distinguished Board Leadership Series – Navigating the VUCA World	1 March 2018
Affin Bank Berhad	Board Induction Session	23 March 2018
Bursatra Sdn Bhd	Disclosure Framework & Key Activities	13 April 2018
FIDE Forum	Blockchain in Financial Services Industry	17 July 2018
Affin Bank Berhad	Risk, Challenges & Vulnerabilities Towards Regulatory Compliance	9 November 2018

ASSOCIATE PROF. DR. SAID BOUHERAOUA		
Trainer/Organiser	**Course Title**	**Date**
Affin Bank Berhad	Board Induction Session	23 March 2018
MICG	Official Launch of the Pathway to a Governance Practitioner Programme	26 July 2018
Affin Bank Berhad	Risk, Challenges & Vulnerabilities Towards Regulatory Compliance	9 November 2018

DATO' BAKARUDIN BIN ISHAK		
Trainer/Organiser	**Course Title**	**Date**
Affin Bank Berhad	Board Induction Session	23 March 2018
Bursatra Sdn Bhd	Disclosure Framework & Key Activities	13 April 2018
ICLIF	FIDE Core Programme – Banks	Module A (9 – 12 July 2018) Module B (22 – 25 October 2018)
AIBIM	Invitation to Global Islamic Finance Forum (GIFF 2018)	3 & 4 October 2018
Khazanah Nasional	Khazanah Megatrends Forum 2018	8 & 9 October 2018

III. REMUNERATION

1. Board Remuneration

The BNRC recommends specific remuneration packages for non-executive Directors, and is structured such that it is competitive and consistent with the Bank's culture, objectives and strategies as well as ensuring that it commensurates with the level of responsibilities undertaken and contributions made by the Directors to the effective functioning of the Board and drive the Bank's long-term objectives.

The remuneration package for the Directors of the Bank comprise the following in accordance with the Remuneration Policy of Directors:

Directors' Fees	The Directors are entitled to annual Directors' fees
Board Committees Fees	Directors who sit on Board Committees are entitled to receive Board Committee fees
Meeting Allowances	Directors are also entitled to Meeting allowances when they attend any Board/Board Committee meetings

The Directors' fees and benefits-in-kind payable to Directors are subject to shareholders' approval at the Annual General Meeting.

In determining the level of remuneration for Directors, the Board may commission a survey of the remuneration levels of Directors, to be carried out either by external consultants or Senior Management. The survey should cover the remuneration levels of Directors of an organisation in a similar industry, size and location. This report shall be tabled to the BNRC and the Board for deliberation.

The Board may from time to time, review the Remuneration Policy of Directors to ensure it continues to support the strategies and long-term vision of the Bank and yet at the same time, is able to attract talent, nurture and retain high caliber Directors, whilst taking into account the interest of other stakeholders, including employees.

The details of the Directors' remuneration are set out in the Financial Statements in this Annual Report 2018.

2. Senior Management Appointments and Removals

Senior Management is responsible and accountable for the sound and prudent day-to-day management of the Bank, in accordance with the direction of the Board. They are appointed to key positions of the Bank to provide strategic leadership which influences the financial position and future direction of the Bank.

Persons in these key positions must have the necessary qualities, competencies and experience that will allow them to perform their duties and carry out the responsibilities required of their position in the most effective manner.

The Bank shall submit to the Board for deliberation/approval on new appointment, re-appointment and removal of CEO and Senior Management.

Senior Management appointments and removals are governed by the standards in BNM CG which stipulates that members of Senior Management must fulfill the minimum requirements at the time of appointment and on a continuing basis. Individual Senior Management is assessed to have met all the fit and proper criteria based on BNM Policy Document on Fit and Proper Criteria.

3. Senior Management Remuneration

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent staff. The Bank's variable remuneration policy will be driven primarily by a performance-based culture that aligns staff interests with those of the shareholder of the Bank.

The Bank's remuneration policy considers the role of each staff, and has set guidance on whether they are under Senior Management, Other Material Risk Taker (OMRT) or employees category.

The objectives of this Remuneration Policy is to ensure that the remuneration system of the Bank:

(i) Rewards individuals for the achievement of the Bank's objectives and motivates high levels of performance;

(ii) Rewards exceptional performance by individual through the Performance Management System;

(iii) Allows the Bank to compete effectively in the labour market and to recruit and retain high calibre staff; and

(iv) Achieves fairness and equity in remuneration and reward.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Bank's remuneration is made up to two main components namely "fixed pay" and "variable pay":

(i) Fixed pay consists of base salary and fixed allowances that are pegged to the market value of the job; and

(ii) Variable pay rewards employees based on the performance of the Division, Department and Bank; and the employee's individual performance.

The Bank implemented the Deferred Discretionary Performance Bonus for the CEO and Senior Management. The objective of the deferred bonus is to align short-term compensation payment with the time-based risk, and to encourage employees to deliver sustainable long-term performance.

PRINCIPLE B : EFFECTIVE AUDIT AND RISK MANAGEMENT

1. Group Board Audit Committee ("GBAC")

The GBAC is established at Group level and comprises of three (3) members all of whom are Independent Non-Executive Directors. The GBAC members have the relevant accounting or related financial management experience or expertise. The Chairman of GBAC, En Abd Malik bin A Rahman is a Chartered Accountant member of the Malaysian Institute of Accountants and also a member of other local and international accounting bodies.

With the wide range of skills, knowledge and experience, the GBAC members are able to understand, analyse and challenge the financial reporting process and discharge their duties effectively. The members had attended relevant professional trainings during the year and will continue to keep themselves abreast of the relevant developments in accounting and auditing standards, practices and rules.

2. Group Board Risk Management and Compliance Committee ("GBRMCC")

The GBRMCC, which is established at Group level, is responsible for overseeing management activities in managing credit, market, liquidity, operational, legal, reputational and other material risks as well as ensuring that the risk management process and compliance framework are in place and functioning effectively.

It is responsible for setting the overall tone of the Group and the Bank's strategy and ensuring effective communication and integration of risk appetite and compliance within the business strategy, operations and culture.

The Committee also assists the Board in oversight responsibilities on internal controls, and risk management and compliance strategies, policies, processes, frameworks and other risk related matters. It has the responsibility of reviewing and/or approving risk management and compliance policies, guidelines and reports.

3. Independence of External Auditors

The Bank's External Auditors play an essential role to the shareholders by enhancing the reliability of the Group's financial statements and giving assurance of that reliability to users of these financial statements. The GBAC which is set-up at Group level manages the relationship with the External Auditors on behalf of the Board. The GBAC reviews and considers the re-appointment, remuneration and terms of engagement of the External Auditors annually.

The GBAC meets with the External Auditors at least twice a year to discuss their audit plans and audit findings in relation to the Group's financial statements. Prior to some GBAC meetings, private sessions between the GBAC and the External Auditors were held without the presence of the CEO and the Management to discuss the audit findings and any other observations they may have had during the audit process.

The External Auditors have confirmed their independence and that there were no circumstances and relationship that create threats to their independence and that the ethical requirements have been complied with. The GBAC has also reviewed the nature and extent of non-audit services rendered by the External Auditors and ascertained that there is no conflict of interest.

4. Risk Management and Internal Control Framework

The Bank recognises the importance of maintaining a sound system of internal controls and risk management practices. The Board affirms its overall responsibility for the effectiveness of the Bank's internal controls and risk management framework.

5. Internal Audit Function

The Bank has an Internal Audit function that is supported by the Group Internal Audit Division. The Bank's internal audit provides independent and objective assurance of the adequacy and effectiveness of the internal controls framework. The Internal Audit reports to the GBAC.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

PRINCIPLE C : INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIPS WITH STAKEHOLDERS

1. Effective Communication with Stakeholders

The Board and Management recognised the importance of maintaining good relationship with stakeholders and is committed to providing effective and open two-way communication to improve disclosure and transparency.

The Bank continuously ensure that timely, complete, transparent and accurate disclosures are made to the stakeholders in accordance with the requirements of BNM CG.

2. Focus Areas on Corporate Governance

The Board had in 2018 directed its focus on the core duties of the Board which is grounded on the creation of long-term value for stakeholders. Corporate governance areas which gained heightened attention from the Board during the financial year ended 31 December 2018 are as follows:

Board Composition

The current composition of Directors provides the appropriate balance and size in the Board necessary to promote stakeholders' interests and to govern the Bank effectively. It also fairly represents the ownership structure of the Bank, with appropriate representations of minority interests through the Independent Non-Executive Directors. The Independent Directors fulfills a pivotal role in providing unbiased and independent views, advice and judgement, taking into account the interest not only of the Bank but also employees, customers and communities in which the Bank conducts business.

The Board believes that having objectivity in the boardroom extends beyond quantitative measures such as number of Independent Directors. Private sessions were held between Independent Directors, Management and key gatekeepers of the Group such as external and internal auditors. These sessions provided Independent Directors with the opportunity to candidly share concerns about the Group and exchange views on potential improvements in governance. The Independent Directors who are of high caliber and wide experience ensure that there are robust discussions during the Board or Board Committee meetings. They exercise strong independent judgement and do not shy away from asking hard and uncomfortable questions during deliberations and willing to challenge Management if answers provided are not satisfactory.

Sustainability Report

A sustainability report was established for AFFIN Bank Group in accordance with the Sustainability Guide issued by Bursa Securities and other guidance in identifying, evaluating and managing Economic, Environmental and Social (ESS) risks and opportunity of the Bank.

The Board views that the sustainability report is significant as stakeholders which include investors, customers, employees, suppliers, NGOs, local communities, etc. are now more aware of the impact that businesses have on the economy, environment and society.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

CORPORATE GOVERNANCE PRIORITIES

Moving forward, the Bank will continue to refine and work towards achieving high quality outcomes in the realm of corporate governance. The Board has identified the following forward-looking action items that will help to achieve its corporate governance objectives:

Board Diversity

The Board will escalate its efforts to establish a diverse Board which bears a variety in the dimensions of skills, experience, age, cultural background and gender. In the near future, the Board will undertake to formalise policies on gender diversity, along with specific targets and measures to meet the target.

Integrated Reporting

The Bank has yet to adopt an integrated reporting. The Board acknowledges that integrated reporting goes beyond a mere combination of the reports in the Annual Report into a single document. Nevertheless, there are coordination efforts among cross-functional departments in preparing the various statements and reports in the Annual Report. The Board may consider adopting integrated reporting in future.

Disclosure of Directors and Senior Management's Remuneration

The Board wishes to give assurance that the remuneration of Directors and Senior Management commensurate with their individual performance, taking into consideration of the Bank's performance as it is benchmarked against the market. The remuneration packages of Senior Management are based on experience, expertise, skills and industry benchmark. Total remuneration of its employees are also set out in the Audited Financial Statements for financial year ended 31 December 2018 which allow stakeholders to assess whether the remuneration of Directors and Senior Management commensurate with their performance taking into consideration of the Bank's performance. The Board may consider disclosing the aggregate of the top 5 Senior Management's remuneration component including salary, bonus, benefits in-kinds and other emoluments.

FINANCIAL STATEMENTS

DIRECTORS' REPORT
for the financial year ended 31 December 2018

The Directors hereby submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2018.

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 and The Bank RM'000
Profit before zakat and taxation	158,492
Zakat	(3,061)
Profit before taxation	155,431
Taxation	(42,989)
Net profit for the financial year	**112,442**

RESERVES AND PROVISIONS

All material transfers to or from reserves or provisions during the financial year are shown in the financial statements and notes to the financial statements.

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' REPORT
for the financial year ended 31 December 2018

DIRECTORS

The Directors of the Bank who have held office since the date of the last report and at the date of this report are:

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

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

Associate Professor Dr. Said Bouheraoua
Independent Non-Executive Director

Dato' Bakarudin Ishak
Independent Non-Executive Director
(Appointed as Director w.e.f. 2.1.2018)

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 2016 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 2018 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 251(2) of the Companies Act 2016 is set out on page 157 of the financial statements.

DIRECTORS' REPORT
for the financial year ended 31 December 2018

DIRECTORS' INTERESTS

According to the register of Directors' shareholdings, the interest of Directors in office at end of the financial year in shares of related companies is as follows:

	Number of ordinary shares			
	As at 1.1.2018	**Bought**	**Sold**	**As at 31.12.2018**
AFFIN Bank Berhad				
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Retired)*	-	25,000	-	25,000

* *Indirect shares*

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

DIRECTORS' BENEFITS

Neither at the end of the financial year, 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 end of the previous financial year, no Director of the Bank has received or become entitled to receive a benefit (other than the fees and other emoluments shown in Note 32 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 the Director is a member or with a company in which the Director has a substantial financial interest.

OTHER STATUTORY INFORMATION

Statutory information regarding the Bank

(a) As at the end of the financial year

Before the financial statements of the Bank were prepared, the Directors took reasonable steps:

- to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and

- to ensure that any current assets, which were unlikely to be realised in the ordinary course of business including the values of current assets as shown in the accounting records of the Bank had been written down to an amount which the current assets might be expected so to realise.

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DIRECTORS' REPORT
for the financial year ended 31 December 2018

OTHER STATUTORY INFORMATION

(b) From the end of the financial year to the date of this report

(i) The Directors are not aware of any circumstances:

- which would render the amounts written off for bad debts and financing or the amount of the allowance for doubtful debts and financing inadequate to any substantial extent;
- which would render the values attributed to current assets in the financial statements of the Bank misleading; or
- which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate

(c) As at the date of this report:

(i) there are no charges on the assets of the Bank which have arisen since the end of the financial year which secures the liabilities of any other person; and

(ii) there are no contingent liabilities in the Bank which have arisen since the end of the financial year.

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

(e) 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 which would render any amount stated in the respective financial statements misleading.

(f) In the opinion of the Directors:

(i) the results of the operations of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

(ii) 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 to affect substantially the results of the operations of the Bank for the financial year in which this report is made.

BUSINESS PLAN AND STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 AND FUTURE OUTLOOK

The Bank is set for exciting 2019 and continue to leverage on expertise within the AFFIN Bank Group and strengthen the group synergies. The Bank's priorities will continue to focus on sustainable business growth and operating efficiencies.

In response to the current economic environment and rapid improvement in technologies, the Bank's key initiatives will be on enhancing digital capabilities to provide convenient access such as online banking as well as to expedite our service delivery.

The Bank will also continuously strengthen its collaboration with learning institution to increase our Education Financing-i portfolio and continue to grow fee-based income particularly on Ar-Rahnu and Bancatakaful. While for Business segment, the Bank is partnering with Credit Guarantee Corporation (CGC) to further expand our SMEs customer segment business.

For 2018, the Bank gross financing expanded by 21.3% mainly in Retail segment namely mortgage and auto financing. Moving forward, the Bank will also be focusing on product with better capital efficiency.

The Bank will also be focusing on its liquidity requirement by growing deposits particularly on retail segment and longer term deposits. Another area of focus will be on risk-based pricing that commensurate with the underlying risk undertaken. This approach will enable the Bank to protect its capital position and deliver sustainable returns to the shareholders.

Overall, for 2019 the Bank is committed in upgrading its go-to-market capability and operating efficiencies specifically on digital front in enriching customer experience. The Bank will continuously strive to maximize synergistic value within Affin Bank Group and put in place more differentiated strategies to drive us to the next phase of growth and meet the ever-changing requirements.

DIRECTORS' REPORT
for the financial year ended 31 December 2018

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.

HOLDING COMPANY, PENULTIMATE AND ULTIMATE HOLDING CORPORATE BODY

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

DIRECTORS' REMUNERATION

Details of Directors' remuneration and the total amount of indemnity given are set out in Note 32 to the financial statements.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 31 to the financial statements.

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors:

Mohd Suffian Bin Haji Haron
Chairman

Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Retired)
Director

Kuala Lumpur, Malaysia
18 March 2019

STATEMENTS OF FINANCIAL POSITION
as at 31 December 2018

	Note	Economic Entity 2018 RM'000	Economic Entity 2017 RM'000	The Bank 2018 RM'000	The Bank 2017 RM'000
ASSETS					
Cash and short-term funds	2	**3,210,533**	1,423,594	**3,210,533**	1,423,594
Derivative financial assets	3	**2,042**	2,623	**2,042**	2,623
Financial investments at fair value through other comprehensive income ("FVOCI")	4(a)	**2,804,257**	-	**2,804,257**	-
Financial investments available-for-sale	4(b)	**-**	2,377,724	**-**	2,377,724
Financing, advances and other financing	5	**18,617,860**	15,369,747	**18,617,860**	15,369,747
Other assets	6	**43,194**	17,833	**43,194**	17,833
Amount due from holding company	7	**107,722**	406,523	**107,722**	406,523
Amount due from joint ventures	8	**31,295**	32,849	**31,295**	32,849
Amount due from an associate	9	**500**	500	**500**	500
Deferred tax assets	10	**17,993**	5,020	**17,993**	5,020
Statutory deposits with Bank Negara Malaysia	11	**512,000**	400,640	**512,000**	400,640
Investment in joint ventures	12	**-**	-	**650**	650
Investment in an associate	13	**750**	750	**750**	750
Property and equipment	14	**2,677**	2,411	**2,677**	2,411
Intangible assets	15	**670**	-	**670**	-
TOTAL ASSETS		**25,351,493**	20,040,214	**25,352,143**	20,040,864
LIABILITIES AND EQUITY					
Deposits from customers	16	**19,687,388**	14,199,332	**19,687,388**	14,199,332
Investment accounts of customers	17	**875**	449	**875**	449
Deposits and placements of banks and other financial institutions	18	**245,582**	1,261,400	**245,582**	1,261,400
Investment accounts due to designated financial institutions	19	**2,368,295**	2,749,016	**2,368,295**	2,749,016
Derivative financial liabilities	20	**4,289**	3,258	**4,289**	3,258
Other liabilities	21	**89,863**	67,456	**89,863**	67,456
Provision for taxation		**8,743**	1,150	**8,743**	1,150
Subordinated term financing and medium term notes	22	**1,111,231**	-	**1,111,231**	-
TOTAL LIABILITIES		**23,516,266**	18,282,061	**23,516,266**	18,282,061
Share capital	23	**1,060,000**	1,060,000	**1,060,000**	1,060,000
Reserves	24	**775,227**	698,153	**775,877**	698,803
TOTAL EQUITY		**1,835,227**	1,758,153	**1,835,877**	1,758,803
TOTAL LIABILITIES AND EQUITY		**25,351,493**	20,040,214	**25,352,143**	20,040,864
COMMITMENTS AND CONTINGENCIES	36	**5,543,823**	4,734,028	**5,543,823**	4,734,028

The accounting policies and notes form an integral part of these financial statements.

INCOME STATEMENTS
for the financial year ended 31 December 2018

		Economic Entity		The Bank	
		2018	2017	2018	2017
	Note	RM'000	RM'000	RM'000	RM'000
Income derived from investment of depositors' funds and others	25	**945,482**	694,666	**945,482**	694,666
Income derived from investment of investment accounts	26	**122,023**	110,519	**122,023**	110,519
Income derived from investment of shareholders' funds	27	**91,315**	71,254	**91,315**	71,254
Allowances for impairment losses on financing, advances and other financing	28	**(19,403)**	(27,099)	**(19,403)**	(27,099)
Allowance for impairment losses on other assets	29	**(5,719)**	(18,329)	**(5,719)**	(18,329)
Total distributable income		**1,133,698**	831,011	**1,133,698**	831,011
Income attributable to the depositors and others	30	**(751,947)**	(537,379)	**(751,947)**	(537,379)
Total net income		**381,751**	293,632	**381,751**	293,632
Other operating expenses	31	**(223,259)**	(172,630)	**(223,259)**	(172,630)
Profit before zakat and taxation		**158,492**	121,002	**158,492**	121,002
Zakat		**(3,061)**	(3,000)	**(3,061)**	(3,000)
Profit before taxation		**155,431**	118,002	**155,431**	118,002
Taxation	33	**(42,989)**	(28,255)	**(42,989)**	(28,255)
Net profit after zakat and taxation		**112,442**	89,747	**112,442**	89,747
Attributable to:					
Equity holder of the Bank		**112,442**	89,747	**112,442**	89,747
Earnings per share (sen):					
- Basic	34	**10.6**	12.2	**10.6**	12.2

The accounting policies and notes form an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME
for the financial year ended 31 December 2018

		Economic Entity		The Bank	
		2018	**2017**	**2018**	**2017**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Profit after zakat and taxation		**112,442**	89,747	**112,442**	89,747
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Net fair value change in					
- financial investments at FVOCI		**12,934**	-	**12,934**	-
- financial investments available-for-sale		-	14,670	-	14,670
Net credit impairment loss change in financial investments at FVOCI		**42**	-	**42**	-
Deferred tax on					
- financial investments at FVOCI	10	**(3,104)**	-	**(3,104)**	-
- financial investments available-for-sale	10	-	(3,521)	-	(3,521)
Other comprehensive income for the financial year, net of tax		**9,872**	11,149	**9,872**	11,149
Total comprehensive income for the financial year		**122,314**	100,896	**122,314**	100,896
Attributable to equity holder of the Bank:					
- Total comprehensive income		**122,314**	100,896	**122,314**	100,896

The accounting policies and notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 31 December 2018

Economic Entity	Note	Share capital RM'000	Statutory reserves RM'000	FVOCI revaluation reserves RM'000	AFS revaluation reserves RM'000	Regulatory reserves RM'000	Retained profits RM'000	Total equity RM'000
		Attributable to Equity Holder of the Bank						
At 1 January 2018								
As previously reported		**1,060,000**	**-**	**-**	**(6,915)**	**94,866**	**610,202**	**1,758,153**
Adjustment arising from adoption of MFRS 9	(A)(i)	**-**	**-**	**(6,700)**	**6,915**	**(27,810)**	**(17,645)**	**(45,240)**
At 1 January 2018, as restated		**1,060,000**	**-**	**(6,700)**	**-**	**67,056**	**592,557**	**1,712,913**
Net profit for the financial year		**-**	**-**	**-**	**-**	**-**	**112,442**	**112,442**
Other comprehensive income (net of tax)								
- Financial investments at FVOCI		**-**	**-**	**9,872**	**-**	**-**	**-**	**9,872**
Total comprehensive income		**-**	**-**	**9,872**	**-**	**-**	**112,442**	**122,314**
Transfer to regulatory reserves	24(c)	**-**	**-**	**-**	**-**	**127,328**	**(127,328)**	**-**
At 31 December 2018		**1,060,000**	**-**	**3,172**	**-**	**194,384**	**577,671**	**1,835,227**
Economic Entity								
At 1 January 2017		560,000	305,016	-	(18,064)	73,178	237,127	1,157,257
Net profit for the financial year		-	-	-	-	-	89,747	89,747
Other comprehensive income (net of tax)								
- Financial investments available-for-sale		-	-	-	11,149	-	-	11,149
Total comprehensive income		-	-	-	11,149	-	89,747	100,896
Issued during the financial year		500,000	-	-	-	-	-	500,000
Transfer from statutory reserves		-	(305,016)	-	-	-	305,016	-
Transfer to regulatory reserves	24(c)	-	-	-	-	21,688	(21,688)	-
At 31 December 2017		1,060,000	-	-	(6,915)	94,866	610,202	1,758,153

The accounting policies and notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 31 December 2018

			Non-Distributable				Distributable	
The Bank	**Note**	**Share capital RM'000**	**Statutory reserves RM'000**	**FVOCI revaluation reserves RM'000**	**AFS revaluation reserves RM'000**	**Regulatory reserves RM'000**	**Retained profits RM'000**	**Total equity RM'000**
At 1 January 2018								
As previously reported		**1,060,000**	**-**	**-**	**(6,915)**	**94,866**	**610,852**	**1,758,803**
Adjustment arising from adoption of MFRS 9	(A)(i)	**-**	**-**	**(6,700)**	**6,915**	**(27,810)**	**(17,645)**	**(45,240)**
At 1 January 2018, as restated		**1,060,000**	**-**	**(6,700)**	**-**	**67,056**	**593,207**	**1,713,563**
Net profit for the financial year		**-**	**-**	**-**	**-**	**-**	**112,442**	**112,442**
Other comprehensive income (net of tax)								
- Financial investments at FVOCI		**-**	**-**	**9,872**	**-**	**-**	**-**	**9,872**
Total comprehensive income		**-**	**-**	**9,872**	**-**	**-**	**112,442**	**122,314**
Transfer to regulatory reserves	24(c)	**-**	**-**	**-**	**-**	**127,328**	**(127,328)**	**-**
At 31 December 2018		**1,060,000**	**-**	**3,172**	**-**	**194,384**	**578,321**	**1,835,877**
The Bank								
At 1 January 2017		560,000	305,016	-	(18,064)	73,178	237,777	1,157,907
Net profit for the financial year		-	-	-	-	-	89,747	89,747
Other comprehensive income (net of tax)								
- Financial investments available-for-sale		-	-	-	11,149	-	-	11,149
Total comprehensive income		-	-	-	11,149	-	89,747	100,896
Issued during the financial year		500,000	-	-	-	-	-	500,000
Transfer from statutory reserves		-	(305,016)	-	-	-	305,016	-
Transfer to regulatory reserves	24(c)	-	-	-	-	21,688	(21,688)	-
At 31 December 2017		1,060,000	-	-	(6,915)	94,866	610,852	1,758,803

The accounting policies and notes form an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

for the financial year ended 31 December 2018

		Economic Entity		The Bank	
		2018	2017	2018	2017
	Note	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		**155,431**	118,002	**155,431**	118,002
Adjustments for items not involving the movement of cash and cash equivalents:					
Finance income and hibah from:					
- financial investments at FVOCI		**(99,432)**	-	**(99,432)**	-
- financial investments available-for-sale		**-**	(78,896)	**-**	(78,896)
- financial investments held-to-maturity		**-**	(4,495)	**-**	(4,495)
Accretion of discount less amortisation of premium					
- financial investments at FVOCI		**(7,578)**	-	**(7,578)**	-
- financial investments available-for-sale		**-**	(5,101)	**-**	(5,101)
Gain on sale/redemption:					
- financial investments at FVOCI		**(3,457)**	-	**(3,457)**	-
- financial investments available-for-sale		**-**	(4,333)	**-**	(4,333)
Loss on unrealised foreign exchange		**1,613**	8,209	**1,613**	8,209
Depreciation of property and equipment		**777**	839	**777**	839
Property and equipment written-off		**3**	6	**3**	6
Amortisation of intangible assets		**93**	-	**93**	-
Net individual impairment		**-**	8,308	**-**	8,308
Net collective impairment		**-**	20,595	**-**	20,595
Expected credit losses ('ECL') made/(written-back) on:					
- financing, advances and other financing		**24,457**	-	**24,457**	-
- securities		**42**	-	**42**	-
- financing commitments and financial guarantees		**(4,331)**	-	**(4,331)**	-
Bad debt on financing written-off		**592**	1	**592**	1
Allowance for impairment losses on other assets		**5,719**	18,329	**5,719**	18,329
Finance expense - Subordinated term financing and medium term notes		**11,231**	-	**11,231**	-
Zakat		**3,061**	3,000	**3,061**	3,000
Operating profit before changes in working capital		**88,221**	84,464	**88,221**	84,464
(Increase)/decrease in operating assets:					
Financing, advances and other financing		**(3,316,293)**	(3,483,708)	**(3,316,293)**	(3,483,708)
Other assets		**(25,778)**	(10,009)	**(25,778)**	(10,009)
Statutory deposits with Bank Negara Malaysia		**(111,360)**	(68,640)	**(111,360)**	(68,640)
Amount due from holding company		**298,801**	(406,523)	**298,801**	(406,523)
Amount due from joint ventures		**(4,165)**	(4,453)	**(4,165)**	(4,453)
Derivative financial instruments		**1,612**	8,210	**1,612**	8,210

The accounting policies and notes form an integral part of these financial statements.

STATEMENTS OF CASH FLOWS
for the financial year ended 31 December 2018

		Economic Entity		The Bank	
		2018	**2017**	**2018**	**2017**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Increase/(decrease) in operating liabilities:					
Deposits from customers		**5,488,056**	3,670,634	**5,488,056**	3,670,634
Investment accounts of customers		**426**	449	**426**	449
Deposits and placements of banks and other financial institutions		**(1,015,818)**	12,407	**(1,015,818)**	12,407
Investment accounts due to designated financial institutions		**(380,721)**	638,967	**(380,721)**	638,967
Amount due to holding company		-	(196,828)	**-**	(196,828)
Other liabilities		**11,109**	31,711	**11,109**	31,711
Cash generated from operations		**1,034,090**	276,681	**1,034,090**	276,681
Zakat paid		**(3,897)**	(3,587)	**(3,897)**	(3,587)
Tax paid		**(37,120)**	(33,604)	**(37,120)**	(33,604)
Net cash generated from operating activities		**993,073**	239,490	**993,073**	239,490
CASH FLOWS FROM INVESTING ACTIVITIES					
Finance income and hibah received from:					
- financial investments at FVOCI		**107,010**	-	**107,010**	-
- financial investments available-for-sale		**-**	83,997	**-**	83,997
- financial investments held-to-maturity		**-**	4,495	**-**	4,495
Redemption of financial investments held-to-maturity		**-**	72,122	**-**	72,122
Net purchase of					
- financial investments at FVOCI		**(410,140)**	-	**(410,140)**	-
- financial investments available-for-sale		**-**	(525,313)	**-**	(525,313)
Purchase of property and equipment		**(1,392)**	(832)	**(1,392)**	(832)
Net cash used in investing activities		**(304,522)**	(365,531)	**(304,522)**	(365,531)
CASH FLOWS FROM FINANCING ACTIVITIES					
Issuance of subordinated term financing and medium term notes		**1,100,000**	-	**1,100,000**	-
Issuance of new shares		**-**	500,000	**-**	500,000
Net cash generated from financing activities		**1,100,000**	500,000	**1,100,000**	500,000
Net increase in cash and cash equivalents		**1,788,551**	373,959	**1,788,551**	373,959
Effects of foreign exchange		**(1,612)**	(8,209)	**(1,612)**	(8,209)
Cash and cash equivalents at beginning of the financial year		**1,423,594**	1,057,844	**1,423,594**	1,057,844
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR		**3,210,533**	1,423,594	**3,210,533**	1,423,594
CASH AND CASH EQUIVALENTS COMPRISE:					
Cash and short-term funds	2	**3,210,533**	1,423,594	**3,210,533**	1,423,594

The accounting policies and notes form an integral part of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 31 December 2018

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 Malaysian Financial Reporting Standards ('MFRS'), International Financial Reporting Standards and the requirements of the Companies Act, 2016 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 AA.

Standards, amendments to published standards and interpretations that are effective

The Bank has applied the following standards and amendments for the first time for the financial year beginning on 1 January 2018:

- MFRS 9 "Financial Instruments"
- MFRS 15 "Revenue from Contract with Customers"
- IC interpretation 22 "Foreign Currency Transaction and Advance Consideration"
- Annual Improvements to MFRSs 2014 - 2016 Cycle: MFRS 128 "Investment in Associates and Joint Ventures"

The Bank has adopted MFRS 9 for the first time in the 2018 financial statements, which resulted in changes in accounting policies. The detailed impact of change in accounting policies are set out in Note (A)(i).

Other than that, the adoption of other amendments noted above did not have any impact on the current period or any prior period and is not likely to affect future period.

(i) Change in accounting policies - adoption of MFRS 9 "Financial Instruments"

The Bank has adopted MFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amount previously recognised in the financial statements. The Bank did not early adopt any of MFRS 9 in previous period.

As permitted by the transitional provisions of MFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to MFRS 7 disclosures have also only been applied to the current period. The comparative period noted disclosures repeat those disclosures made in prior year.

The adoption of MFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. MFRS 9 also significantly amends other standards dealing with financial instruments such as MFRS 7 "Financial Instruments: Disclosures".

Set out below are disclosures relating to the impact of the adoption of MFRS 9 on the Bank. Further details of the specific MFRS 9 accounting policies applied in the current period (as well as the previous MFRS 139 accounting policies applied in the comparative period) as described in more details in Note H and I.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2018

(A) BASIS OF PREPARATION

Standards, amendments to published standards and interpretations that are effective (continued)

(i) Change in accounting policies - adoption of MFRS 9 "Financial Instruments" (continued)

The following table shows the original measurement categories in accordance with MFRS 139 and the new measurement categories under MFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018:

	MFRS 139		MFRS 9	
Economic Entity and The Bank **Financial assets**	**Measurement category**	**Carrying amount RM'000**	**Measurement category**	**Carrying amount RM'000**
Cash and short-term funds	Amortised cost (financing and receivables)	1,423,594	Amortised cost	1,423,594
Derivative financial assets	FVTPL (Trading)	2,623	FVTPL	2,623
Financial investments (a)	FVOCI (Available for Sale - AFS)	2,377,724	FVOCI (debt)	2,377,724
Financing, advances and other financing	Amortised cost (financing and receivables)	15,369,747	Amortised cost	15,326,616
Other assets	Amortised cost (financing and receivables)	17,833	Amortised cost	17,833
Amount due from holding company	Amortised cost (financing and receivables)	406,523	Amortised cost	406,523
Amount due from joint ventures	Amortised cost (financing and receivables)	32,849	Amortised cost	32,849
Amount due from an associate	Amortised cost (financing and receivables)	500	Amortised cost	500
Financial liabilities				
Other liabilities	Amortised cost	67,456	Amortised cost	83,919

There were no changes to the classification and measurement of the other financial liabilities of the Bank under MFRS9.

The new classification requirements of MFRS 9 has led to changes in classification of certain financial assets held by the Bank.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2018

(A) BASIS OF PREPARATION

Standards, amendments to published standards and interpretations that are effective (continued)

(i) Change in accounting policies - adoption of MFRS 9 "Financial Instruments" (continued)

a. Reclassification from retired categories with no change in measurement

Certain debt instruments previously classified as available-for-sale and now classified as measured at FVOCI with no changes to its measurement basis.

The following table shows the original measurement categories in accordance with MFRS 139 and the new measurement categories under MFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018.

	MFRS 139 carrying amount 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 carrying amount 1 January 2018 RM'000
Economic Entity and The Bank				
Financing, advances and other financing				
Opening balance	15,369,747	-	-	**15,369,747**
Remeasurement - unwinding of discount	-	-	(594)	**(594)**
Remeasurement - expected credit losses ("ECL")	-	-	(42,537)	**(42,537)**
Adjusted opening balance	15,369,747	-	(43,131)	**15,326,616**
Financial investments available-for-sale				
Opening balance	2,377,724	-	-	**2,377,724**
To financial investments at FVOCI - debt	-	(2,377,724)	-	**(2,377,724)**
Adjusted opening balance	2,377,724	(2,377,724)	-	**-**
Financial investments at FVOCI - debt				
From financial investments AFS	-	2,377,724	-	**2,377,724**
Adjusted opening balance	-	2,377,724	-	**2,377,724**
Other liabilities				
Opening balance	67,456	-	-	**67,456**
Remeasurement - ECL	-	-	16,463	**16,463**
Closing balance	67,456	-	16,463	**83,919**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 31 December 2018

(A) BASIS OF PREPARATION

Standards, amendments to published standards and interpretations that are effective (continued)

(i) Change in accounting policies - adoption of MFRS 9 "Financial Instruments" (continued)

The following table analyses the impact, net of tax, of transition to MFRS 9 on reserves and retained earnings. The impact relates to the FVOCI revaluation reserve, regulatory reserve and retained earnings. There is no impact on other components of equity.

		Impact of 1 January 2018 RM'000
Economic Entity and The Bank		
FVOCI Revaluation Reserves		
Closing balance under MFRS 139 (31 December 2017)		(6,915)
Recognition of expected credit losses under MFRS 9 for debt financial investments at FVOCI		215
Opening balance under MFRS 9 (1 January 2018)		(6,700)
Regulatory Reserves ("RR")		
Closing balance under MFRS 139 (31 December 2017)		94,866
Transfer to retained profits		(27,810)
Opening balance under MFRS 9 (1 January 2018)		67,056
Retained profits		
Closing balance under MFRS 139 (31 December 2017)		610,202
Other remeasurement	(594)	
Recognition of expected credit losses under MFRS 9 (financing and advances including financing commitments)	(140,300)	
Recognition of expected credit losses under MFRS 9 (financial assets at FVOCI)	(215)	
Transfer from Regulatory Reserve	27,810	
Reversal of Collective Allowance and Individual Allowance under MFRS 139	81,300	
Tax effect arising from MFRS 9	14,354	(17,645)
Opening balance under MFRS 9 (1 January 2018)		592,557

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2018

(A) BASIS OF PREPARATION

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

- MFRS 16 has an effective date for annual periods beginning on or after 1 January 2019. MFRS 16 results in lessees accounting for most lease within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under MFRS 117 – 'Leases'. Lessees will recognise a right of use (ROU) asset and corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under MFRS 117.

  At 1 January 2019, the Bank expects to adopt the standard using a modified retrospective approach where the cumulative effect of initially applying the standard is recognized an adjustment to the opening balance of retained profits and comparatives are not restated. The implementation is expected to increase assets (ROU) and increase financial liabilities with no significant effect on net assets or retained profits.

- IC Interpretation 23 'Uncertainty over Income Tax Treatments' (effective 1 January 2019) provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

  If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

  IC Interpretation 23 will be applied retrospectively.

- Amendments to MFRS 128 'Long-term Interests in Associates and Joint Ventures' (effective from 1 January 2019) clarify that an entity should apply MFRS 9 'Financial Instruments' (including the impairment requirements) to long-term interests in an associate or joint venture, which are in substance form part of the entity's net investment, for which settlement is neither planned nor likely to occur in the foreseeable future.

  In addition, such long-term interest are subject to loss allocation and impairment requirements in MFRS 128.

  The amendments shall be applied retrospectively.

- Amendments to MFRS 9 'Prepayment features with negative compensation' (effective 1 January 2019) allow companies to measure some prepayable financial assets with negative compensation at amortised cost. Negative compensation arises where the contractual terms permit the customer to prepay the instrument before its contractual maturity, but the prepayment amount could be less than the unpaid amounts of principal and profit. To qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract, and the asset must be held within a 'held to collect' business model.

  The amendments will be applied retrospectively.

- Annual Improvements to MFRSs 2015 – 2017 Cycle:

  - Amendments to MFRS 3 'Business Combinations' (effective from 1 January 2019) clarify that when a party obtains control of a business that is a joint operation, the acquirer should account the transaction as a business combination achieved in stages. Accordingly it should remeasure its previously held interest in the joint operation (rights to the assets and obligations for the liabilities) at fair value on the acquisition date.

  - Amendments to MFRS 11 'Joint Arrangements' (effective from 1 January 2019) clarify that when a party obtains joint control of a business that is a joint operation, the party should not remeasure its previously held interest in the joint operation.

  - Amendments to MFRS 112 'Income Taxes' (effective from 1 January 2019) clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in profit or loss, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in profit or loss when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.

  - Amendments to MFRS 123 'Borrowing Costs' (effective from 1 January 2019) clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general financings

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 31 December 2018

(B) JOINT ARRANGEMENTS

A joint arrangement is an arrangement of which there is contractually agreed sharing of control by the Group with one or more parties, where decisions about the relevant activities relating to the joint arrangement require unanimous consent of the parties sharing control. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. A joint venture is a joint arrangement whereby the joint venturers have rights to the net assets of the arrangement. A joint operation is a joint arrangement whereby the joint operators have rights to the assets and obligations for the liabilities, relating to the arrangement.

Profit in joint ventures are accounted for using the equity method, after initially being recognised at cost in the Economic Entity statement of financial position. Under the equity method, the investment in a joint venture is initially recognised at cost, and adjusted thereafter to recognise the Economic Entity's share of the post-acquisition profits or losses of the joint venture in profit or loss, and the Economic Entity's share of movements in other comprehensive income of the joint venture in other comprehensive income. Dividends received or receivable from a joint venture are recognised as a reduction in the carrying amount of the investment. When the Economic Entity's share of losses in a joint venture equals or exceeds its profit in the joint venture, including any long-term profit that, in substance, form part of the Economic Entity's net investment in the joint venture, the Economic Entity does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

The Economic Entity determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. An impairment loss is recognised for the amount by which the carrying amount of the joint venture exceeds its recoverable amount.

Unrealised gains on transactions between the Economic Entity and its joint ventures are eliminated to the extent of the Economic Entity's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Economic Entity.

When the Economic Entity ceases to equity account its joint venture because of a loss of joint control, any retained profit in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained profit as an associate or financial asset. In addition, any amount previously recognised in other comprehensive income in respect of the entity is accounted for as if the Economic Entity had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

(C) ASSOCIATES

Associates are all entities over which the Economic Entity has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment in an associate is initially recognised at cost, and adjusted thereafter to recognise the Economic Entity's share of the post-acquisition profits or losses of the associate in profit or loss, and the Economic Entity's share of movements in other comprehensive income of the associate in other comprehensive income. Dividends received or receivable from an associate are recognised as a reduction in the carrying amount of the investment. When the Economic Entity's share of losses in an associate equals or exceeds its profit in the associate, including any long-term profit that, in substance, form part of the Economic Entity's net investment in the associate, the Economic Entity does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. The Economic Entity's investment in associates includes goodwill identified on acquisition.

The Economic Entity determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. An impairment loss is recognised for the amount by which the carrying amount of the associate exceeds its recoverable amount.

Profits and losses resulting from upstream and downstream transactions between the Economic Entity and its associate are recognised in the Economic Entity's financial statements only to the extent of unrelated investor's profit in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Economic Entity.

When the Economic Entity ceases to equity account its associate because of a loss of significant influence, any retained profit in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as a financial asset. In addition, any amount previously recognised in other comprehensive income in respect of the entity is accounted for as if the Economic Entity had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

Dilution gains or losses arising in investments in associates are recognised in the profit or loss.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 31 December 2018

(D) INTANGIBLE ASSETS

Computer Software

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

(i) it is technically feasible to complete the software product so that it will be available for use;

(ii) management intends to complete the software product and use or sell it;

(iii) there is an ability to use or sell the software product;

(iv) it can be demonstrated how the software product will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and

(vi) the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised from the point at which the asset is ready for use over their estimated useful lives of five years.

(E) 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 of disposal 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 which are largely independent of the cash inflows from other assets or group of assets (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. Impairment losses on goodwill are not reversed. In respect of other assets, 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 reserve.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2018

(F) RECOGNITION OF FINANCING INCOME AND EXPENSE

Financing income and expense for all profit-bearing financial instruments are recognised within 'profit derived from investment from depositors' funds', 'income derived from investment from shareholders' funds' and 'income attributable to depositors' respectively. Profit income from financial assets at FVTPL is recognised as part of net gains and losses on financial instruments.

Accounting policies applied from 1 January 2018
Profit income is calculated by applying effective profit rate to the gross carrying amount of a financial assets except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective profit rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance).

Accounting policies applied until 31 December 2017
When a financing receivable is impaired, the Bank reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective profit rate of the instrument, and continues unwinding the discount as profit income. Profit income on impaired loans/financing and receivables are recognised using the original effective profit rate.

Al-Bai' Bithaman Ajil
A contract of sale of an asset where the payment of price is deferred either be paid in lump-sum or instalment basis within an agreed period of time. Income is recognised on effective profit rate basis over the expected life of the contract based on outstanding financing amounts.

Ijarah Muntahiah bil Tamleek/Al-Ijarah Thumma Al-Bai'
A contract of lease ending with transfer of ownership from the lessor to the lessee either in the form of gift or sale transaction based on agreed terms and conditions. Two contracts are involved in this arrangement with the first contract is Ijarah where the lessee enjoys the usufruct of the assets at an agreed rental during an agreed period while the ownership remains with the lessor. The second contract is to transfer the ownership of the assets which may takes place at the end of the Ijarah tenure or at any point of time during the tenure subject to the terms and conditions that are agreed between the contracting parties. Income is recognised on effective Ijarah profit rate basis over the lease term.

Murabahah
A contract of sale where the assets cost and profit margin shall be made transparent and agreed upon between buyer and seller. Income is recognised on effective profit rate basis over the expected life of the contract based on outstanding financing amount.

Musyarakah Mutanaqisah
A contract of partnership with a declining ownership (diminishing partnership), which one of the partners promises (wa'd) to buy the equity share of the other partner gradually until the ownership of the asset is completely transferred to him. It is a hybrid of three contracts known as shirkah (partnerhsip), ijarah (lease) and bay' (sale).

Tawarruq
An arrangement that involves a purchase of an asset based on musawamah or murabahah contract on deferred term and a subsequent sale of the same asset to a third party in order to obtain cash. Income is recognised on effective profit rate basis over the expected life of the contract based on the outstanding financing amount.

Istisna'
An arrangement where contract of construction or manufacturing or request to build or renovation (refurbishment), and bridging or project financing. Financing income is recognised using effective profit rate through the expected life of the financing based on the principal amount outstanding.

(G) 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. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

Net profit from financial assets held at fair value through profit or loss and financial instruments available-for-sale are recognised upon disposal of the assets, as the difference between net disposal proceeds and the carrying amount of the assets.

Accounting policies applied from 1 January 2018
From 1 January 2018 onwards, dividends that clearly represent a recovery of part of the cost of investment is recognised in other comprehensive income if it relate to an investment in equity instruments measured at FVOCI.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 31 December 2018

(H) FINANCIAL ASSETS

Accounting policies applied from 1 January 2018

(a) Classifications

From 1 January 2018, the Bank classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ('OCI') or through profit or loss), and
- those to be measured at amortised cost

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on settlement-date, the date on which the Bank settles the commitment to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest ("SPPI").

Debt instruments

Subsequent measurement of debt instruments depends on the Bank's business model for managing the asset and the cash flow characteristics of the asset. The Bank reclassifies debt investments when and only when its business model for managing those assets changes.

There are three measurement categories into which the Bank classifies its debt instruments:

(i) Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent SPPI are measured at amortised cost. Profit income from these financial assets is included in "profit income" and "income from Islamic banking business" using the effective profit rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "net gains and losses on financial instruments" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the income statement.

(ii) Fair value through other comprehensive income ("FVOCI")

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent SPPI, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, profit income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "net gains and losses on financial instruments". Interest/profit income from these financial assets is included in "profit income" and "income from Islamic banking business" using the effective profit rate method. Foreign exchange gains and losses are presented in "net gains and losses on financial instruments" and impairment expenses are presented as separate line item in the income statement.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 31 December 2018

(H) FINANCIAL ASSETS

Accounting policies applied from 1 January 2018 (continued)

Debt instruments (continued)

(iii) Fair value through profit or loss ("FVTPL")

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. The Bank may also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. Fair value changes is recognised in profit or loss and presented net within "net gains and losses on financial instruments" in the period which it arises.

Business model

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objectives are solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Bank's business model for the mortgage financing book is to hold to collect contractual cash flows. Another example is the liquidity portfolio of assets, which is held by the Bank as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the "other" business model and measured at FVTPL.

SPPI

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic financing arrangement i.e. profit includes only consideration for the time value of money, credit risk, other basic financing risks and a profit margin that is consistent with a basic financing arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic financing arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Equity instruments

The Bank subsequently measures all equity investments at fair value. Where the Bank's management has elected to present fair value gains and losses on equity investments in FVOCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in 'net gains and losses on financial instruments' in the income statement.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2018

(H) FINANCIAL ASSETS

Accounting policies applied from 1 January 2018 (continued)

(d) Subsequent measurement – Impairment

Impairment for debt instruments and financial guarantee contracts

The Bank assesses on a forward looking basis the expected credit loss ("ECL") associated with its debt instruments carried at amortised cost and at FVOCI and financial guarantee contracts issued. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

ECL represents a probability-weighted estimate of the difference between present value of cash flows according to contract and present value of cash flows the Bank expects to receive, over the remaining life of the financial instrument. For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(i) General 3-stage approach

At each reporting date, the Bank measures ECL through loss allowance at an amount equal to 12 month ECL if credit risk on a financial instrument or a group of financial instruments has not increased significantly since initial recognition. For all other financial instruments, a loss allowance at an amount equal to lifetime ECL is required. Note 37 sets out the measurement details of ECL. The Bank applies 3-stage approach on debt instruments measured at amortised cost and FVOCI, except for those that are under simplified approach, as explained below.

(ii) Simplified approach

The Bank applies MFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables and other assets.

Significant increase in credit risk

The Bank considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Bank compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportable forward-looking information.

The following indicators are incorporated:

- internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or
- actual or expected significant changes in the operating results of the customer
- significant increases in credit risk on other financial instruments of the same debtor
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtor in the group and changes in the operating results of the debtor.

Regardless of the analysis above, a significant increase in credit risk is presumed if a customer/issuer is more than 30 days or 1 month past due in making a contractual payment.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2018

(H) FINANCIAL ASSETS

Accounting policies applied from 1 January 2018 (continued)

(d) Subsequent measurement – Impairment (continued)

Definition of default and credit-impaired financial assets

The Bank defines a financial instrument as default, which is fully aligned with the definition of credit-impaired, when it meets one or more of mandatory and/or judgmental indicators, which include amongst others, the following criteria:

(i) Mandatory indicators

- failure to make contractual payment within 90 days or 3 months of when they fall due.
- bankruptcy or winding up order issued;
- account turns fraud;
- rescheduled and/or restructured due to credit deterioration or weakness in payment capacity of customer;
- internal rating deteriorated to default credit grade or worse;
- financial cashflow problems, classify as stressed company with evidence of business failure by Bursa;
- collateral coverage ratio falls below 100% (for share margin financing).

(ii) Judgmental indicators

- evidence of three or more judgmental events;
- account is past due or in excess of approved limit but less than or equal to 30 days;
- non compliance with financial covenants imposed and evidence of misuse and diversion of funds or monies;
- weakening in financial statements with sign of over-leveraging, erosion in capital base, deterioration in profitability and cash flows;
- credit deterioration such as adverse change in payment pattern and default in other related accounts;
- legal proceedings that have negative impact to the credit profile;
- sign of operational weakness or disruptions arising from change in company's operations and management activities;
- company/director/management involved in fraudulent activities;
- consistently require margin call or unable to meet margin call (for share margin financing).

The Bank first assesses whether objective evidence of impairment exists for financial assets which are individually significant. If the Bank determines that objective evidence of impairment exists, i.e. credit impaired, for an individually assessed financial asset, a lifetime ECL will be recognised.

Financial assets which are individually significant but non-impaired and not individually significant are grouped on the basis of similar credit risk characteristics (such as credit quality, instrument type, credit risk ratings, credit utilisation, customer types and other relevant factors) for collective assessment.

Write-off policy

The Bank write off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

Indicators that there is no reasonable expectation of recovery include

- ceasing enforcement activity; and
- where the Bank's recoveries method are foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 31 December 2018

(H) FINANCIAL ASSETS

Accounting policies applied from 1 January 2018 (continued)

(d) Subsequent measurement – Impairment (continued)

Modification of financing

The Bank sometime renegotiates or otherwise modifies the contractual cash flows of financing to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the customer is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the customer is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the financing.
- Significant extension of the financing term when the customer is not in financial difficulty.
- Significant change in the profit rate.
- Change in the currency the financing is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the financing.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective profit rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assess whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective profit rate (or credit-adjusted effective profit rate for purchased or originated credit-impaired financial assets).

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfer nor retain substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition if the Bank:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Are prohibited from selling or pledging the assets; and

(iii) Have obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Bank under standard purchase agreements and securities financing transactions are not derecognised because the Bank retain substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retain a subordinated residual profit.

(e) Regulatory reserve requirements

Pursuant to BNM letter dated 1 November 2017, effective 1 January 2018, the banking subsidiaries shall maintain, in aggregate, stage 1 and 2 provisions regulatory reserve of no less than 1% of all credit exposures (on and off balance sheet that are subject to MFRS 9 impairment requirement, excluding exposures to and with an explicit guarantee from Malaysian Government), net of Stage 3 provision.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2018

(H) FINANCIAL ASSETS

Accounting policies applied until 31 December 2017

(a) Classifications

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, financing/advances and receivables, available-for-sale and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluate this designation at the end of each reporting period.

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

Financial assets at fair value through profit or loss are financial assets held-for-trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling it in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges.

The Bank has not elected to designate any financial assets at fair value through profit or loss.

(ii) Financing/advances and receivables

Financing/advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(iii) Financial investments available-for-sale

Financial investments available-for-sale are non-derivatives that are either designated in this category or not classified in any of the other categories.

(iv) Financial investments held-to-maturity

Financial investments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management have the positive intention and ability to hold to maturity. If the Bank was to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale.

(b) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the settlement date, the date that an asset is delivered to or by the Bank.

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

(c) Subsequent measurement – gains and losses

Financial investments available-for-sale and financial assets at fair value through profit or loss are subsequently carried at fair value. Financing/advances and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective profit method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, profit and dividend income are recognised in income statement in the period in which the changes arise.

Changes in the fair value financial investments at FVOCI are recognised in other comprehensive income, except for impairment losses (Note H) and foreign exchange gains and losses on monetary assets (Note N).

Profit and dividend income on financial investments available-for-sale are recognised separately in income statements. Profit on financial investments available-for-sale calculated using the effective profit method is recognised in income statements. Dividend income on available-for-sale equity instruments are recognised in income statements when the Bank's right to receive payments is established.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 31 December 2018

(H) FINANCIAL ASSETS

Accounting policies applied until 31 December 2017 (continued)

(d) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

Financing/advances and receivables that are factored out to banks and other financial institutions with recourse to the Bank are not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as financing.

When financial investments available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

(e) Reclassification of financial assets

The Bank may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than financing/advances and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of financing/advances and receivables out of the held-for-trading or available-for-sale categories if the Bank have the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective profit rates for financial assets reclassified to financing/advances and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust the effective profit rates prospectively.

(f) Impairment of financial assets

Assets carried at amortised cost

The Bank assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets 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 asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank use to determine that there is objective evidence of an impairment loss include among others:

- past due contractual payments;
- significant financial difficulties of the customer;
- probability of bankruptcy or other financial re-organisation;
- default of related customer;
- breach of trading accounts terms and conditions;
- contract of dealer;
- measurable decrease in estimated future cash flows than was originally envisaged; and
- significant deterioration in issuer's credit rating.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2018

(H) FINANCIAL ASSETS

Accounting policies applied until 31 December 2017 (continued)

(f) Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in income statements. If "financing/advances and receivables" or a "held-to-maturity investment" has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in income statements.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

For financing, advances and other financing, the Bank first assesses whether objective evidence of impairment exists individually for financing, advances and other financing that are individually significant, and individually or collectively for financing, advances and other financing that are not individually significant. If the Bank determines that no objective evidence of impairment exists for individually assessed financing, advances and other financing, whether significant or not, it includes the asset in a group of financing, advances and other financing with similar credit risk characteristics and collectively assesses them for impairment.

Individual impairment allowance

Financing, advances and other 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/advances that are individually assessed for impairment and for which no impairment loss is required (over-collateralised financing/advances) are collectively assessed as a separate segment.

The amount of the loss is measured as the difference between the financing/advances' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financing/advances' original effective profit rate. The carrying amount of the financing/advances is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a financing/advances 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/advances reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collective impairment allowance

For the purposes of a collective evaluation of impairment, financing, advances and other 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, advances and other financing by being indicative of the customers' ability to pay all amounts due according to the contractual terms of the financing/advances being evaluated.

Future cash flows in a group of financing/advances that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the financing/advances in the Bank and historical loss experience for financing/advances 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/advances 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 31 December 2018

(H) FINANCIAL ASSETS

Accounting policies applied until 31 December 2017 (continued)

(f) Impairment of financial assets (continued)

Collective impairment allowance (continued)

Based on the Guideline on Classification and Impairment Provisions for Financing/Advances, banking institutions are required to maintain, in aggregate, collective impairment provisions and regulatory reserves of no less than 1.2% of total outstanding financing/advances (excluding financing/advances with an explicit guarantee from the Federal Government of Malaysia), net of individual impairment provisions. Banking institutions are required to comply with the requirement by 31 December 2015.

As at reporting date, the Bank has maintained the collective impairment provisions and regulatory reserves of no less than 1.2% in the books.

Assets classified as available-for-sale

The Bank assesses at the end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, the Bank assesses at each date of the statement of financial position whether there is any objective evidence that a financial investment or group of financial investments is impaired. The criteria the Bank used to determine whether there is objective evidence of impairment include non-payment of coupon or principal redemption, significant financial difficulty of issuer or obligor and significant drop in rating.

In the case of equity securities classified as available-for-sale, in addition to the criteria above, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in income statements. The amount of cumulative loss reclassified to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statements. Impairment losses recognised in income statements on equity instruments classified as available-for-sale are not reversed through income statements.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statements, the impairment loss is reversed through income statements in subsequent periods.

(I) FINANCIAL LIABILITIES

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial guarantee contracts and financing commitments (see Note J).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 31 December 2018

(I) FINANCIAL LIABILITIES

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Accounting policies applied until 31 December 2017

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 initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss.

Financial liabilities at fair value through profit or loss

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. The Bank does not have any non- derivative financial liabilities designated at fair value through profit or loss.

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.

Financial liabilities classified as held-for-trading are initially recognised at fair value, and transaction costs are expensed in profit or loss. 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.

De-recognition

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

(J) FINANCIAL GUARANTEE CONTRACTS AND FINANCING COMMITMENTS

Financial guarantee contracts are contracts that require the issuer 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 banks, financial institutions and others on behalf of customers to secure financing, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance
- The premium received on initial recognition less income recognised in accordance with the principles of MFRS 15.

Financing commitments provided by the Bank are measured as the amount of the loss allowance. The Bank has not provided any commitment to provide financing/advances at a below-market profit rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For financing/advances commitments and financial guarantee contracts, the loss allowance is recognised as provision. However, for contracts that include both a financing/advances and unutilized portion and the Bank cannot separately identify the expected credit losses on the unutilized portion component from those on the financing/advances component, the expected credit losses on the unutilized portion are recognised together with the loss allowance for the financing/advances. To the extent that the combined expected credit losses exceed the gross carrying amount of the financing/advances, the expected credit losses are recognised as a provision.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 31 December 2018

(J) FINANCIAL GUARANTEE CONTRACTS AND FINANCING COMMITMENTS

Accounting policies applied from 1 January 2018

Financial guarantee contracts are subsequently measured at the higher of the amount determined in accordance with the expected credit loss model under MFRS 9 'Financial instruments' and the amount initially recognised less cumulative amount of income recognised in accordance with the principles of MFRS 15 'Revenue from Contracts with Customers', where appropriate.

Accounting policies applied until 31 December 2017

Financial guarantee contracts are subsequently measured 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.

(K) 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.

The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

(L) PROPERTY AND EQUIPMENT AND DEPRECIATION

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an item of property and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost also include funding costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

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 recognised as expenses in profit or loss during the financial period in which they are incurred.

Property and equipment are depreciated on the straight-line basis to allocate the cost, 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 the end of each reporting period.

At the end of the reporting period, the Bank assesses whether there is any indication of impairment or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. A write-down is made if the carrying amount exceeds the recoverable amount (Note E).

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2018

(M) OPERATING LEASES

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on the straight-line basis over the lease period.

Initial direct costs incurred by the Bank in negotiating and arranging operating leases are recognised in income statement when incurred.

(N) FOREIGN CURRENCY TRANSLATIONS

Functional and presentation 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 or valuation where items are remeasured. 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. However, exchange differences are deferred in other comprehensive income when they arose from qualifying cash flow or net investment hedge or are attributable to items that form part of the net investment in a foreign operation.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. 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.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. 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 other comprehensive income.

(O) DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are initially recognised at fair values on the date on which derivative contracts are entered into and are subsequently remeasured at their fair values at the end of each reporting period. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair values are positive and as liabilities when fair values are negative.

The best evidence of fair value of a derivative at initial recognition is the transaction price (i.e the fair value of the consideration given or received) unless fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

As at reporting date, the Bank has not designated any derivative as hedging instruments.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 31 December 2018

(P) CURRENT AND DEFERRED INCOME TAXES

Current tax

Tax expense for the period comprises current and deferred income tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. 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 in the countries 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.

Deferred tax

Deferred tax is provided 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 liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is also 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, unused tax losses or unused tax credits can be utilised.

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

Deferred tax liability is recognised for all temporary differences associated with investment in joint venture and associate where the timing of the reversal of the temporary difference can be controlled by the Economic Entity and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the investor or joint venturer is unable to control the reversal of the temporary difference for joint ventures. Only where there is an agreement in place that gives the investor or joint venturer the ability to control the reversal of the temporary difference, a deferred tax liability is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investment in joint arrangements only to the extent that it is probable the temporary difference will reverse in future and there is sufficient taxable profit available against which the deductible temporary difference can be utilised.

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.

(Q) ZAKAT

The Bank pays zakat based on 2.5775% of the prior year's asset growth 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.

(R) 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 known amount of cash without significant risk of changes in value.

For the purpose of statement of cash flows, cash and cash equivalents comprise cash and short-term funds with original maturity 3 months or less.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2018

(S) FORECLOSED PROPERTIES

Foreclosed properties are stated at the lower of their carrying amount and fair value less cost to sell.

(T) CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The Bank does not recognise contingent assets and liabilities other than those arising from business combination, but disclose 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.

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.

(U) BILLS AND ACCEPTANCES PAYABLE

Bills and acceptances payable, which are financial liabilities, represent the Bank's own bills and acceptances rediscounted and outstanding in the market.

(V) 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 management's best estimate 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.

(W) EMPLOYEE BENEFITS

Short-term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

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. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2018

(W) 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.

(X) RESTRICTED INVESTMENT ACCOUNTS ('RIA')

These deposits are used to fund specific financing. The RIA is a contract based on Shariah concept of Mudarabah between two parties, i.e. investor and entrepreneur to finance a business venture where the investor provides capital and the business venture is managed solely by the entrepreneur. The profit of the business venture will be shared based on pre-agreed ratios with the Bank as Mudarib (manager or manager of funds), and losses shall be borne solely by capital provider.

(Y) SHARE CAPITAL

Classification

Ordinary shares are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument.

Share issue costs

Incremental costs directly attributable to the issue of new shares or options are deducted against share premium account.

Dividend distribution

Liability is recognised for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Bank, on or before the end of the reporting period but not distributed at the end of the reporting period.

Distributions to holders of an equity instrument are recognised directly in equity.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Bank, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures in the determination of basic earnings per share to take into account:

- the after income tax effect of financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares

(Z) FINANCING

Financing are recognised initially at fair value, net of transaction costs incurred.

Financing are subsequently carried at amortised cost; any difference between initial recognised amount and the redemption value is recognised in profit or loss over the period of the financing using the effective profit method.

All financing costs are recognised in profit or loss in the period in which they are incurred.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for the financial year ended 31 December 2018

(AA) CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies.

This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

Measurement of the expected credit losses allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 37, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Bank in the above areas is set out in Note 42.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

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.

There have been no significant changes in the nature of these activities during the financial year.

The holding company of the Bank is AFFIN Bank Berhad. The 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	
	2018	**2017**
	RM'000	**RM'000**
Cash and bank balances with banks and other financial institutions	**5,223**	1,331
Money at call and interbank placements with remaining maturity not exceeding one month	**3,205,310**	1,422,263
	3,210,533	1,423,594

3 DERIVATIVE FINANCIAL ASSETS

	Economic Entity and The Bank			
	2018		**2017**	
	Contract/ notional amount RM'000	**Assets RM'000**	**Contract/ notional amount RM'000**	**Assets RM'000**
At fair value				
Foreign exchange derivatives				
- Currency forwards	**436,525**	**2,042**	360,254	2,623
	436,525	**2,042**	360,254	2,623

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018

4 (a) FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI")

	Economic Entity and The Bank	
	2018	**2017**
	RM'000	**RM'000**
At fair value		
Malaysian Government treasury bills	**79,728**	-
Malaysian Government investment issues	**861,677**	-
Sukuk Perumahan Kerajaan	**90,749**	-
Khazanah Sukuk	**163,172**	-
Cagamas Sukuk	**5,161**	-
	1,200,487	-
Unquoted securities:		
Corporate Sukuk in Malaysia	**1,603,770**	-
	2,804,257	-

Upon adoption of MFRS9, the expected credit losses in relation to financial instruments at FVOCI are recorded in FVOCI reserves. Movement in allowances for impairment which reflect the expected credit losses ("ECL") model on impairment are as follows:

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Economic Entity and The Bank				
2018				
At beginning of the financial year	-	-	-	-
Effects on adoption of MFRS9	215	-	-	215
At beginning of the financial year, as restated	215	-	-	215
Financial assets derecognised during the period (other than write-offs)	(114)	-	-	(114)
New financial assets originated or purchased	13	-	-	13
Changes due to change in credit risk	143	-	-	143
At end of the financial year	**257**	-	-	**257**

Movement in the carrying amount of financial investments at FVOCI that contributed to changes in the expected credit losses:

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Economic Entity and The Bank				
2018				
At beginning of the financial year	2,377,724	-	-	2,377,724
Financial assets derecognised during the period (other than write-offs)	(596,645)	-	-	(596,645)
New financial assets originated or purchased	1,010,735	-	-	1,010,735
Other adjustments				
- others	12,443	-	-	12,443
At end of the financial year	**2,804,257**	-	-	**2,804,257**

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

4 (b) FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	Economic Entity and The Bank 2018 RM'000	2017 RM'000
At fair value		
Malaysian Government treasury bills	-	12,517
Malaysian Government investment issues	-	820,816
Sukuk Perumahan Kerajaan	-	90,231
Khazanah Sukuk	-	156,249
Cagamas Sukuk	-	5,227
	-	1,085,040
Unquoted securities:		
Corporate Sukuk in Malaysia	-	1,292,684
	-	2,377,724

5 FINANCING, ADVANCES AND OTHER FINANCING

	Economic Entity and The Bank 2018 RM'000	2017 RM'000
(i) By type		
Cash line	**374,079**	312,995
Term financing		
- House financing	**6,434,202**	4,399,777
- Hire purchase receivables	**4,243,662**	3,864,507
- Syndicated financing	**700,118**	1,065,164
- Business term financing	**5,591,252**	4,300,524
Bills receivables	**5,150**	8,228
Trust receipts	**16,329**	14,717
Claims on customers under acceptance credits	**352,435**	250,246
Staff financing (of which RM Nil to Directors)	**42,224**	28,931
Credit/charge cards	**11,408**	12
Revolving credit	**976,018**	1,205,946
Gross financing, advances and other financing	**18,746,877**	15,451,047
Less:		
Allowance for impairment losses		
- Individual	-	(24,039)
- Collective	-	(57,261)
- Expected credit losses ("ECL")	**(129,017)**	-
Total net financing, advances and other financing	**18,617,860**	15,369,747

Included in business term financing as at reporting date is RM53.7 million (2017: RM53.7 million) and NIL million (2017: RM51.1 million) of term financing disbursed by the Bank to joint ventures with AFFIN-i Nadayu Sdn Bhd and KL South Development Sdn Bhd respectively.

(ii) By maturity structure

	Economic Entity and The Bank 2018 RM'000	2017 RM'000
Maturing within one year	**2,227,193**	1,945,574
One year to three years	**694,582**	823,365
Three years to five years	**1,425,456**	1,613,049
Over five years	**14,399,646**	11,069,059
	18,746,877	15,451,047

5 FINANCING, ADVANCES AND OTHER FINANCING

(iii) By contract

Economic Entity and The Bank
2018
RM'000

	Al- Bai Bithaman Ajil	Ijarah	Al-Ijarah Thumma Al-Bai	Murabahah	Musyarakah	Istisna'	Others	Total
Cash line	-	-	-	317,431	-	-	56,648	374,079
Term financing								
House financing	770,496	-	-	55,368	5,608,338	-	-	6,434,202
Hire purchase receivables	-	-	4,243,662	-	-	-	-	4,243,662
Syndicated financing	-	274,002	-	426,116	-	-	-	700,118
Business term financing	130,802	905,212	-	2,859,871	808,590	881,602	5,175	5,591,252
Bills receivables	-	-	-	-	-	-	5,150	5,150
Trust receipts	-	-	-	16,329	-	-	-	16,329
Claims on customers under acceptance credits	-	-	-	352,435	-	-	-	352,435
Staff financing	5,126	-	-	29,155	7,943	-	-	42,224
Credit/charge cards	-	-	-	-	-	-	11,408	11,408
Revolving credit	-	-	-	976,018	-	-	-	976,018
Total Financing	906,424	1,179,214	4,243,662	5,032,723	6,424,871	881,602	78,381	18,746,877

5 FINANCING, ADVANCES AND OTHER FINANCING

(iii) By contract (continued)

Economic Entity and The Bank
2017
RM'000

	Al- Bai Bithaman Ajil	Ijarah	Al-Ijarah Thumma Al-Bai	Murabahah	Musyarakah	Istisna'	Others	Total
Cash line	-	-	-	257,161	-	-	55,834	312,995
Term financing								
House financing	844,197	-	-	14,115	3,541,465	-	-	4,399,777
Hire purchase receivables	-	-	3,864,507	-	-	-	-	3,864,507
Syndicated financing	-	303,351	-	761,813	-	-	-	1,065,164
Business term financing	168,226	1,067,632	-	1,890,373	516,047	652,139	6,107	4,300,524
Bills receivables	-	-	-	-	-	-	8,228	8,228
Trust receipts	-	-	-	14,717	-	-	-	14,717
Claims on customers under acceptance credits	-	-	-	250,246	-	-	-	250,246
Staff financing	5,993	-	-	18,862	4,076	-	-	28,931
Credit/charge cards	-	-	-	-	-	-	12	12
Revolving credit	-	-	-	1,205,946	-	-	-	1,205,946
Total Financing	1,018,416	1,370,983	3,864,507	4,413,233	4,061,588	652,139	70,181	15,451,047

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

5 FINANCING, ADVANCES AND OTHER FINANCING

(iv) By type of customer

	Economic Entity and The Bank	
	2018	**2017**
	RM'000	**RM'000**
Domestic non-banking institutions		
- Others	**155,406**	176,557
Domestic business enterprises		
- Small medium enterprises	**2,009,531**	2,456,690
- Others	**4,297,466**	3,173,314
Government and statutory bodies	**1,064,147**	1,046,324
Individuals	**10,812,205**	8,188,648
Other domestic entities	**1,220**	9,029
Foreign entities	**406,902**	400,485
	18,746,877	15,451,047

(v) By profit rate sensitivity

	Economic Entity and The Bank	
	2018	**2017**
	RM'000	**RM'000**
Fixed rate		
- House financing	**45,349**	43,942
- Hire purchase receivables	**4,243,662**	3,864,507
- Other fixed rate financing	**1,493,163**	1,393,439
Variable rate		
- BFR plus	**10,029,219**	7,643,601
- Cost plus	**2,863,008**	2,412,770
- Other variable rate	**72,476**	92,788
	18,746,877	15,451,047

(vi) By economic sectors

	Economic Entity and The Bank	
	2018	**2017**
	RM'000	**RM'000**
Primary agriculture	**924,391**	333,688
Mining and quarrying	**318,505**	367,769
Manufacturing	**567,021**	414,541
Electricity, gas and water supply	**509,080**	112,394
Construction	**546,984**	859,226
Real estate	**1,956,198**	1,770,326
Wholesale & retail trade and restaurants & hotels	**590,747**	436,965
Transport, storage and communication	**316,339**	767,956
Finance, takaful/insurance and business services	**464,736**	587,765
Education, health & others	**1,682,738**	1,561,385
Household	**10,869,949**	8,238,798
Others	**189**	234
	18,746,877	15,451,047

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018

5 FINANCING, ADVANCES AND OTHER FINANCING

(vii) By economic purpose

	Economic Entity and The Bank	
	2018	2017
	RM'000	RM'000
Purchase of securities	**325,481**	282,565
Purchase of transport vehicles	**4,300,093**	3,934,879
Purchase of landed property of which:		
- Residential	**6,570,340**	4,527,444
- Non-residential	**2,191,771**	1,543,054
Fixed assets other than land and building	**135,413**	99,983
Personal use	**64,577**	41,200
Credit/charge card	**11,408**	12
Consumer durable	**47**	5
Construction	**1,233,103**	1,084,579
Working capital	**3,455,407**	3,544,790
Others	**459,237**	392,536
	18,746,877	15,451,047

(viii) By geographical distribution

	Economic Entity and The Bank	
	2018	2017
	RM'000	RM'000
Perlis	**192,981**	202,748
Kedah	**781,062**	677,730
Pulau Pinang	**798,332**	555,878
Perak	**728,637**	605,837
Selangor	**5,899,212**	4,267,771
Wilayah Persekutuan	**4,422,583**	4,861,075
Negeri Sembilan	**900,252**	660,077
Melaka	**286,179**	247,677
Johor	**2,190,243**	1,682,220
Pahang	**600,886**	383,081
Terengganu	**476,001**	379,608
Kelantan	**185,228**	167,256
Sarawak	**477,656**	306,013
Sabah	**695,052**	315,865
Labuan	**41,996**	68,994
Outside Malaysia	**70,577**	69,217
	18,746,877	15,451,047

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

5 FINANCING, ADVANCES AND OTHER FINANCING

(ix) Movements of impaired financing

	Economic Entity and The Bank	
	2018	**2017**
	RM'000	**RM'000**
At beginning of the financial year	**142,310**	97,498
Effects on adoption of MFRS9	**(594)**	-
At beginning of the financial year, as restated	**141,716**	97,498
Classified as impaired	**551,758**	419,647
Reclassified as non-impaired	**(117,229)**	(337,769)
Amount recovered	**(27,139)**	(28,700)
Amount written-off	**(18,277)**	(8,366)
At end of the financial year	**530,829**	142,310
Ratio of gross impaired financing, advances and other financing to gross financing, advances and other financing (exclude restricted investment accounts)	**2.05%**	1.12%

The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 for the Bank is RM18,277,000. The Bank still seek to recover the amounts that is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

(x) Movements in allowance for impairment on financing

	Economic Entity and The Bank	
	2018	**2017**
	RM'000	**RM'000**
Individual impairment		
At beginning of the financial year	**24,039**	18,003
Effects on adoption of MFRS9	**(24,039)**	-
At beginning of the financial year, as restated	-	18,003
Allowance made during the financial year	**-**	16,404
Amount recovered	**-**	(8,096)
Unwinding of income	**-**	(881)
Exchange differences	**-**	(1,391)
At end of the financial year	**-**	24,039
Collective impairment		
At beginning of the financial year	**57,261**	44,995
Effects on adoption of MFRS9	**(57,261)**	-
At beginning of the financial year, as restated	-	44,995
Net allowance made during the financial year	**-**	20,595
Amount written-off	**-**	(8,329)
At end of the financial year	**-**	57,261

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018

5 FINANCING, ADVANCES AND OTHER FINANCING

(xi) Impaired financing by economic sectors

	Economic Entity and The Bank 2018 RM'000	2017 RM'000
Primary agriculture	**-**	75
Mining and quarrying	**-**	63
Manufacturing	**62,739**	1,092
Electricity, gas and water supply	**-**	235
Construction	**11,946**	19,609
Real estate	**315,973**	30,279
Wholesale & retail trade and restaurants & hotels	**5,775**	4,974
Transport, storage and communication	**415**	180
Finance, takaful/insurance and business services	**1,217**	956
Education, health & others	**92**	125
Household	**132,672**	84,722
	530,829	142,310

(xii) Impaired financing by economic purpose

	Economic Entity and The Bank 2018 RM'000	2017 RM'000
Purchase of securities	**6**	-
Purchase of transport vehicles	**23,213**	21,928
Purchase of landed property of which:		
- Residential	**115,070**	70,355
- Non-residential	**210,649**	5,347
Fixed assets other than land and building	**62**	235
Personal use	**983**	805
Credit card	**13**	-
Construction	**107,642**	7,975
Working capital	**73,108**	35,583
Others	**83**	82
	530,829	142,310

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

5 FINANCING, ADVANCES AND OTHER FINANCING

(xiii) Impaired financing by geographical distribution

	Economic Entity and The Bank 2018 RM'000	Economic Entity and The Bank 2017 RM'000
Perlis	**2,135**	2,122
Kedah	**6,920**	13,422
Pulau Pinang	**3,274**	1,612
Perak	**6,604**	5,771
Selangor	**80,494**	58,077
Wilayah Persekutuan	**315,896**	9,671
Negeri Sembilan	**13,683**	6,308
Melaka	**2,184**	2,077
Johor	**12,982**	3,824
Pahang	**1,155**	1,100
Terengganu	**5,338**	6,005
Kelantan	**2,568**	3,488
Sarawak	**170**	172
Sabah	**6,860**	396
Outside Malaysia	**70,566**	28,265
	530,829	142,310

(xiv) Movement in expected credit losses for financing, advances and other financing

Economic Entity and The Bank 2018	**12-month ECL Stage 1 RM'000**	**Lifetime ECL not credit impaired Stage 2 RM'000**	**Lifetime ECL credit impaired Stage 3 RM'000**	**Individual/ Collective impairment RM'000**	**Total RM'000**
At beginning of the financial year	**-**	**-**	**-**	**81,300**	**81,300**
Effect of adoption of MFRS 9	**54,528**	**10,975**	**58,334**	**(81,300)**	**42,537**
At beginning of the financial year, as restated	**54,528**	**10,975**	**58,334**	**-**	**123,837**
Total transfer between stages	**8,431**	**4,517**	**(12,948)**	**-**	**-**
Changes due to change in credit risk:-					
- Transfer to 12-month ECL (Stage 1)	**13,357**	**(13,195)**	**(162)**	**-**	**-**
- Transfer to Lifetime ECL not credit impaired (Stage 2)	**(4,091)**	**33,102**	**(29,011)**	**-**	**-**
- Transfer to Lifetime ECL credit impaired (Stage 3)	**(835)**	**(15,390)**	**16,225**	**-**	**-**
Financing, advances and other financing derecognised during the period (other than write-offs)	**(32,808)**	**(2,871)**	**(221)**	**-**	**(35,900)**
New financing, advances and other financing originated or purchased	**40,327**	**1,130**	**7**	**-**	**41,464**
Changes due to change in credit risk	**(20,186)**	**(2,887)**	**41,966**	**-**	**18,893**
Write-offs	**-**	**-**	**(18,225)**	**-**	**(18,225)**
Other adjustments	**-**	**-**	**(1,052)**	**-**	**(1,052)**
At the end of financial year	**50,292**	**10,864**	**67,861**	**-**	**129,017**

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

5 FINANCING, ADVANCES AND OTHER FINANCING

(xv) Movement in the gross carrying amount of financial assets that contributed to changes in the expected credit losses

Economic Entity and The Bank 2018	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Financing, advances and other financing RM'000	Total RM'000
At beginning of the financial year	-	-	-	15,451,047	15,451,047
Effect of adoption of MFRS 9	14,610,901	697,836	141,716	(15,451,047)	(594)
At beginning of the financial year, as restated	14,610,901	697,836	141,716	-	15,450,453
Total transfer between stages	(544,967)	123,672	421,295	-	-
Changes due to change in credit risk:-					
- Transfer to 12-month ECL (Stage 1)	964,015	(943,794)	(20,221)	-	-
- Transfer to Lifetime ECL not credit impaired (Stage 2)	(1,419,177)	1,517,144	(97,967)	-	-
- Transfer to Lifetime ECL credit impaired (Stage 3)	(89,805)	(449,678)	539,483	-	-
Financing, advances and other financing derecognised during the period (other than write-offs)	(7,627,952)	(166,246)	(797)	-	(7,794,995)
New financing, advances and other financing originated or purchased	10,795,632	127,752	16	-	10,923,400
Changes due to change in credit risk	256,491	(54,657)	(18,825)	-	183,009
Write-offs	-	-	(18,277)	-	(18,277)
Other adjustments	(3)	(2,411)	5,701	-	3,287
At the end of financial year	17,490,102	725,946	530,829	-	18,746,877

6 OTHER ASSETS

	Economic Entity and The Bank 2018 RM'000	2017 RM'000
Other debtors	2,872	6,477
Deposits and prepayments	657	779
Cheque clearing accounts	34,792	8,042
Foreclosed properties (a)	4,873	2,445
Others	-	90
	43,194	17,833

(a) Foreclosed properties

	2018 RM'000	2017 RM'000
At beginning of the financial year	2,445	2,445
Purchased during the financial year	2,428	-
At end of the financial year	4,873	2,445

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

7 AMOUNT DUE FROM HOLDING COMPANY

	Economic Entity and The Bank	
	2018	**2017**
	RM'000	**RM'000**
Intersystem balances due to holding company	**107,722**	406,523

The balance due from holding company are relating to intercompany transactions which are unsecured, bear no profit rate (2017: Nil) and payable on demand.

8 AMOUNT DUE FROM JOINT VENTURES

	Economic Entity and The Bank	
	2018	**2017**
	RM'000	**RM'000**
Advances to joint ventures	**55,343**	51,178
Less: Expected credit losses ("ECL")	**(24,048)**	-
Allowance for impairment loss	**-**	(18,329)
	31,295	32,849

	Lifetime ECL credit impaired Stage 3 RM'000	**Allowance for impaired loss RM'000**
Movement of expected credit losses		
At beginning of the financial year	**18,329**	-
Charge for the year	**5,719**	18,329
At end of the financial year	**24,048**	18,329

The advances to joint ventures are unsecured, bear no profit rate and payable on demand.

9 AMOUNT DUE FROM AN ASSOCIATE

	Economic Entity and The Bank	
	2018	**2017**
	RM'000	**RM'000**
Advances to an associate	**500**	500

The advances to associate are unsecured, bear no profit rate and payable on demand.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

10 DEFERRED TAX ASSETS

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 2018 RM'000	2017 RM'000
Deferred tax assets	**17,993**	5,020
Deferred tax assets:		
- settled more than 12 months	**(316)**	(86)
- settled within 12 months	**18,309**	5,106
Deferred tax assets	**17,993**	5,020
At beginning of the financial year	**5,020**	8,056
Credited to income statements (Note 33)	**16,077**	485
Credited to equity	**(3,104)**	(3,521)
At end of the financial year	**17,993**	5,020

The movement in deferred tax assets and liabilities during the financial year are as follow:

Economic Entity and The Bank 2018	**Property and equipment RM'000**	**Intangible assets RM'000**	**Other liabilities RM'000**	**Financial advances and other financing RM'000**	**Financial investments FVOCI RM'000**	**Total RM'000**
At beginning of the financial year	**(128)**	**-**	**2,965**	**-**	**2,183**	**5,020**
Credited to income statements	**(204)**	**(51)**	**2,897**	**13,374**	**61**	**16,077**
Credited to equity	**-**	**-**	**-**	**-**	**(3,104)**	**(3,104)**
At end of the financial year	**(332)**	**(51)**	**5,862**	**13,374**	**(860)**	**17,993**

Economic Entity and The Bank 2017	Property and equipment RM'000	Intangible assets RM'000	Other liabilities RM'000	Financial advances and other financing RM'000	Financial investments FVOCI RM'000	Total RM'000
At beginning of the financial year	(252)	-	2,604	-	5,704	8,056
Credited to income statements	124	-	361	-	-	485
Credited to equity	-	-	-	-	(3,521)	(3,521)
At end of the financial year	(128)	-	2,965	-	2,183	5,020

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

11 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 2016, the amounts of which are determined at set percentages of total eligible liabilities.

12 INVESTMENT IN JOINT VENTURES

	Economic Entity		The Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Unquoted shares at cost	**650**	650	**650**	650
Economic Entity's share of post acquisition retained losses	**(650)**	(650)	**-**	-
	-	-	**650**	650

	2018	2017
	RM'000	**RM'000**
The summarised financial information of joint ventures are as follows:		
Revenue	**55,080**	52,336
Loss after tax	**(11,032)**	(10,822)
Total assets	**200,432**	240,988
Total liabilities	**257,809**	280,814

	Affin-i Nadayu Sdn Bhd		KL South Development Sdn Bhd	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Net liabilities				
At beginning of the financial year	**(4,592)**	(4,483)	**(17,721)**	(7,008)
Loss for the financial year	**(1,877)**	(109)	**(9,155)**	(10,713)
At end of the financial year	**6,469**	(4,592)	**(26,876)**	(17,721)
Issued and paid up share capital	**1,000**	1,000	**500**	500
Investment in joint venture (%)	**50**	50	**30**	30
Share of loss in joint venture (RM'000)	**(3,235)**	(2,296)	**(8,063)**	(5,316)

Both the joint ventures' principal activities are property development.

As the Bank's share of cumulative losses of RM11.0 million (2017: RM10.8 million) as at 31 December 2018 has exceeded its investment in the joint ventures, the Bank does not recognise further losses in its Economic Entity financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018

13 INVESTMENT IN AN ASSOCIATE

Raeed Holdings Sdn Bhd

Raeed Holdings Sdn Bhd ('Raeed') is a consortium formed by six Islamic banking institutions in Malaysia namely Affin Islamic Bank Berhad, Bank Islam Malaysia Berhad, Bank Muamalat Malaysia Berhad, Maybank Islamic Berhad, Bank Kerjasama Rakyat Malaysia and Bank Simpanan Nasional. Raeed has set up a wholly-owned subsidiary, IAP Integrated Sdn Bhd to develop and operate a multi-bank platform known as the Investment Account Platform ('IAP').

IAP Integrated started its business in 2015 as an internet based multibank investment portal. The portal will facilitate efficient intermediation by the Sponsoring Banks to match financing requirement of ventures with investment from retail and institutional investors via Investment Account (IA). IAP Integrated aims to be the leading multibank platform for Shariah compliant capital mobilisation, supported by a conducive ecosystem.

	Economic Entity and The Bank	
	2018 RM'000	**2017 RM'000**
Unquoted share at cost	**750**	750

The summarised financial information of associate is as follows:

	2018 RM'000	**2017 RM'000**
Revenue	**196**	217
Loss after tax	**(1,592)**	(1,908)
Total assets	**2,363**	4,673
Total liabilities	**1,252**	4,470
Net liabilities		
At beginning of the financial year	**(4,297)**	(2,308)
Loss for the financial year	**(1,592)**	(1,989)
At end of the financial year	**(5,889)**	(4,297)
Issued and paid up share capital	**4,500**	4,500
Investment in associate (%)	**17**	17
Share of loss in associate (RM'000)	**(1,027)**	(762)

As the Bank's share of cumulative losses of RM1.0 million as at 31 December 2018 is not material, the Bank does not recognise losses in its current financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

14 PROPERTY AND EQUIPMENT

Economic Entity and The Bank 2018	**Renovation RM'000**	**Office equipment and furniture RM'000**	**Computer equipment and software RM'000**	**Motor vehicles RM'000**	**Capital work-in progress RM'000**	**Total RM'000**
Cost						
At beginning of the financial year	**3,635**	**2,470**	**2,969**	**5**	**328**	**9,407**
Additions	**141**	**56**	**111**	**831**	**253**	**1,392**
Write-off	**-**	**(115)**	**-**	**-**	**-**	**(115)**
Reclassification	**3**	**(4)**	**118**	**-**	**(463)**	**(346)**
At end of the financial year	**3,779**	**2,407**	**3,198**	**836**	**118**	**10,338**
Accumulated depreciation						
At beginning of the financial year	**3,310**	**1,729**	**1,952**	**5**	**-**	**6,996**
Charge for the financial year	**188**	**162**	**346**	**81**	**-**	**777**
Write-off	**-**	**(112)**	**-**	**-**	**-**	**(112)**
At end of the financial year	**3,498**	**1,779**	**2,298**	**86**	**-**	**7,661**
Net book value at end of the financial year	**281**	**628**	**900**	**750**	**118**	**2,677**

Economic Entity and The Bank 2017	Renovation RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital work-in progress RM'000	Total RM'000
Cost						
At beginning of the financial year	3,540	2,382	2,800	496	-	9,218
Additions	96	99	316	-	321	832
Write-off	(1)	(12)	(273)	-	-	(286)
Reclassification from/(to) holding company	-	1	126	(491)	7	(357)
At end of the financial year	3,635	2,470	2,969	5	328	9,407
Accumulated depreciation						
At beginning of the financial year	3,116	1,499	1,909	347	-	6,871
Charge for the financial year	195	236	316	92	-	839
Write-off	(1)	(6)	(273)	-	-	(280)
Reclassification from/(to) holding company	-	-	-	(434)	-	(434)
At end of the financial year	3,310	1,729	1,952	5	-	6,996
Net book value at end of the financial year	325	741	1,017	-	328	2,411

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

15 INTANGIBLE ASSETS

Computer Software

	Economic Entity and The Bank 2018 RM'000	2017 RM'000
Cost		
At beginning of the financial year	**6,402**	6,402
Reclassification from holding	**417**	-
Reclassification from property and equipment (Note 14)	**346**	-
At end of the financial year	**7,165**	6,402
Less: Accumulated amortisation		
At beginning of the financial year	**6,402**	6,402
Charge for the financial year	**93**	-
At end of the financial year	**6,495**	6,402
Net book value at end of the financial year	**670**	-

16 DEPOSITS FROM CUSTOMERS

(i) By type of deposit

	Economic Entity and The Bank 2018 RM'000	2017 RM'000
Qard		
Demand deposits	**2,598,371**	3,071,743
Savings deposits	**600,701**	539,826
	3,199,072	3,611,569
Mudharabah		
General investment deposits	**68,476**	76,332
Tawarruq		
Murabahah term deposits	**16,024,673**	9,925,402
Commodity Murabahah	**395,167**	586,029
	16,419,840	10,511,431
	19,687,388	14,199,332

(ii) Maturity structure of Murabahah term deposits, general investment deposits and NIDC

	Economic Entity and The Bank 2018 RM'000	2017 RM'000
Due within six months	**8,707,686**	6,995,629
Six months to one year	**6,247,341**	2,529,053
One year to three years	**760,535**	215,241
Three years to five years	**377,587**	261,811
	16,093,149	10,001,734

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

16 DEPOSITS FROM CUSTOMERS

(iii) By type of customer

	Economic Entity and The Bank	
	2018	**2017**
	RM'000	**RM'000**
Government and statutory bodies	**9,628,596**	5,237,179
Business enterprises	**5,204,019**	4,071,527
Individuals	**1,887,907**	1,580,143
Domestic banking institutions	**5,360**	4,452
Domestic non-banking financial institutions	**2,633,437**	2,995,415
Foreign entities	**98,822**	84,191
Others entities	**229,247**	226,425
	19,687,388	14,199,332

17 INVESTMENT ACCOUNTS OF CUSTOMERS

	Economic Entity and The Bank	
	2018	**2017**
	RM'000	**RM'000**
Movement in investment accounts		
At beginning of the financial year	**449**	-
New placement during the year	**1,135**	870
Redemption during the year	**(712)**	(423)
Finance expense on RIA	**69**	35
Profit distributed	**(66)**	(33)
At end of the financial year	**875**	449

Profit Sharing Ratio ("PSR") and Rate of Return ("ROR")	Economic Entity and The Bank			
	2018		**2017**	
	Average profit sharing ratio (PSR) %	**Average rates of return (ROR) %**	**Average profit sharing ratio (PSR) %**	**Average rate of return (ROR) %**
Investment accounts:				
Due within:				
Six months to one year	**-**	**-**	80	6.12
One year to three years	**85**	**7.19**	-	-

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

18 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Economic Entity and The Bank	
	2018 RM'000	2017 RM'000
Qard		
Licensed banks	**70,708**	69,258
	70,708	69,258
Tawarruq		
Licensed banks	**-**	452,280
Licensed investment banks	**-**	101,330
Bank Negara Malaysia	**-**	112
Other financial institutions	**174,874**	638,420
	174,874	1,192,142
	245,582	1,261,400
Maturity structure of deposits		
Due within six months	**245,582**	1,261,400
Six months to one year	**-**	-
	245,582	1,261,400

19 INVESTMENT ACCOUNTS DUE TO DESIGNATED FINANCIAL INSTITUTIONS

	Economic Entity and The Bank	
	2018 RM'000	2017 RM'000
Mudharabah		
Licensed banks	**2,368,295**	2,749,016
Movement in investment accounts		
At beginning of the financial year	**2,749,016**	2,110,049
New placement during the year	**1,296,030**	1,841,284
Redemption during the year	**(1,676,765)**	(1,211,167)
Finance expense on RIA	**116,662**	108,040
Profit distributed	**(118,577)**	(99,190)
Exchange differences	**1,929**	-
At end of the financial year	**2,368,295**	2,749,016

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

19 INVESTMENT ACCOUNTS DUE TO DESIGNATED FINANCIAL INSTITUTIONS

Profit Sharing Ratio ("PSR") and Rate of Return ("ROR")	Economic Entity and The Bank			
	2018		2017	
	Average profit sharing ratio (PSR) %	Average rates of return (ROR) %	Average profit sharing ratio (PSR) %	Average rate of return (ROR) %
Investment accounts:				
Due within:				
One month	**95**	**5.20**	95	4.40
One to three months	**95**	**5.11**	95	5.08
Three to six months	**98**	**4.41**	95	5.10
Six months to one year	**-**	**-**	80	6.12
One year to three years	**89**	**6.82**	97	5.09
Three years to five years	**83**	**4.78**	86	4.11
Five years and above	**93**	**5.13**	86	4.83

The above table provides analysis of PSR & ROR as at reporting date into relevant maturity tenures based on remaining contractual maturities.

Inclusive of RIA placed by the holding company amounting to RM2,368.3 million. These investments are used to fund certain specific financing. The RIA is a contract based on the Mudarabah principle between two parties to finance a financing where the investor (i.e.'AFFIN Bank Berhad') solely provides capital and the business venture is managed solely by the enterpreneur (i.e. 'the Bank'). The profit of the business venture is shared between both parties based on pre-agreed ratio. Losses shall be borned by the investor.

20 DERIVATIVE FINANCIAL LIABILITIES

	Economic Entity and The Bank			
	2018		2017	
	Contract/ notional amount RM'000	Liabilities RM'000	Contract/ notional amount RM'000	Liabilities RM'000
At fair value				
Foreign exchange derivatives				
- Currency forwards	**591,701**	**4,289**	442,334	3,258
	591,701	**4,289**	442,334	3,258

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

21 OTHER LIABILITIES

	Economic Entity and The Bank 2018 RM'000	2017 RM'000
Bank Negara Malaysia and Credit Guarantee Corporation Funding programmes	**1,000**	-
Margin and collateral deposits	**13,828**	17,092
Other creditors and accruals	**8,740**	3,800
Sundry creditors	**32,831**	19,876
Provision for zakat	**910**	1,745
Defined contribution plan (a)	**1,337**	1,257
Accrued employee benefits	**3,065**	2,866
Charity funds (b)	**23**	63
Unearned income	**15,997**	20,757
Financing commitments (c)	**12,132**	-
	89,863	67,456

(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) Charity funds

	Economic Entity and The Bank 2018 RM'000	2017 RM'000
Sources and uses of charity funds		
At beginning of the financial year	**63**	90
Uses of charity funds		
- Contribution to medical aid	**-**	10
- Contribution to education	**10**	-
- Contribution to non profit organisation	**-**	13
- Contribution to program/event	**30**	4
	40	27
At end of the financial year	**23**	63

The source of charity fund comes from Shariah non-compliant events that involve mixed of Shariah compliant and non-Shariah compliant products and services. The charity fund was channeled to a number of charitable or public purposes for example centre of disabled children, association for less fortunate ex-government servants and module development for Islamic financial learning program.

The Bank does not charge gharamah for its financing facilities.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

21 OTHER LIABILITIES

(c) Movement in expected credit losses ("ECL")

	Economic Entity and The Bank 2018 RM'000	2017 RM'000
At beginning of the financial year	-	-
Effects on adoption of MFRS9	16,463	-
At beginning of the financial year, as restated	16,463	-
Net remeasurement of loss allowance	(9,293)	-
New financing commitments and financial guarantees issued during the financial year	4,962	-
At end of the financial year	**12,132**	-

22 SUBORDINATED TERM FINANCING AND MEDIUM TERM NOTES

		Economic Entity and The Bank 2018 RM'000	2017 RM'000
(a)	Medium Term Notes Tier-2 Sukuk Murabahah ('MTN')	807,748	-
(b)	Additional Tier-1 Sukuk Wakalah ('AT1S')	303,483	-
		1,111,231	-

	At 1 January 2018 RM'000	Cash flow RM'000	Profit expense RM'000	At 31 December 2018 RM'000
Medium Term Notes Tier-2 Sukuk Murabahah ('MTN')	-	800,000	-	800,000
Additional Tier-1 Sukuk Wakalah ('AT1S')	-	300,000	-	300,000
Profit payable	-	-	11,231	11,231
	-	1,100,000	11,231	1,111,231

(a) The Bank had on 23 October 2018 issued MTN Tier-2 Sukuk Murabahah of RM800.0 million each out of its approved BASEL III Compliant MTN programme of up to RM800.0 million in nominal value. The Sukuk is issued for a tenure of 10 years from the issue date on a 10-year non-callable 5-year basis, at a profit rate of 5.05%. The Sukuk is issued for the purpose of general banking business and working capital requirements of the Bank.

(b) The Bank had on 18 October 2018 issued AT1S of RM300 million out of its approved BASEL III Compliant AT1S programme of up to RM300 million in nominal value. The AT1S was on perpetual non-callable 5-year basis, at a profit rate of 5.65%. The AT1S was issued for the purpose of general banking business and working capital requirements of the Bank.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

23 SHARE CAPITAL

	Economic Entity and The Bank			
	2018		2017	
	Number of ordinary shares	RM'000	Number of ordinary shares	RM'000
Ordinary share issued and fully paid:				
At beginning of the financial year	**1,060,000**	**1,060,000**	560,000	560,000
Issued during the financial year	**-**	**-**	500,000	500,000
At end of the financial year	**1,060,000**	**1,060,000**	1,060,000	1,060,000

24 RESERVES

	Economic Entity		The Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Retained profits (a)	**577,671**	610,202	**578,321**	610,852
FVOCI revaluation reserves (b)(i)	**3,172**	-	**3,172**	-
AFS revaluation reserves (b)(ii)	**-**	(6,915)	**-**	(6,915)
Regulatory reserves (c)	**194,384**	94,866	**194,384**	94,866
	775,227	698,153	**775,877**	698,803

(a) As at 31 December 2018, the Bank has tax exempt account balance of RM38,018,355 (2017: RM38,018,355) under Section 12 of the Income Tax (Amendment) Act 1999, subject to agreement by the Inland Revenue Board.

(b) (i) Fair value reserves represent the unrealised gains or losses arising from the change in fair value of investments classified as financial investment at FVOCI. Losses are transferred in the income statement upon disposal or when the securities become impaired. The depositors' portion of net unrealised gains or losses on financial investments at FVOCI at the end of financial year is net unrealised gain of RM3,130,253 in 2018.

(ii) 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 to the income statement upon disposal or when the securities become impaired. The depositors' portion of net unrealised gains or losses on 'Available-for-sale' at the end of financial year is net unrealised loss of RM9,512,705 in 2017.

(c) Pursuant to BNM letter dated 1 November 2017 effective 1 January 2018, the Bank shall maintain, in aggregate, Stage 1 and Stage 2 provisions regulatory reserve of no less than 1% of all credit exposures (on and off balance sheet that are subject to MFRS9 impairment requirement, excluding exposures to and with an explicit guarantee from Malaysia Government), net of Stage 3 provision.

Prior to MRFS 9 implementation, the Bank is required to maintain in aggregate collective impairment allowances and regulatory reserves of no less than 1.2% of the total outstanding financing, advances and other financing, net of individual impairment allowances.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

25 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Economic Entity and The Bank 2018 RM'000	2017 RM'000
Income derived from investment of:		
- General investment deposits (a)	**641,793**	401,451
- Other deposits (b)	**303,689**	293,215
	945,482	694,666

(a) Income derived from investment of general investment deposits

	Economic Entity and The Bank 2018 RM'000	2017 RM'000
Finance income and hibah		
Financing, advances and other financing	**503,511**	312,778
Financial investments at FVOCI	**55,069**	-
Financial investments available-for-sale	**-**	36,135
Financial investments held-to-maturity	**-**	2,058
Money at call and deposits with financial institutions	**47,018**	23,471
	605,598	374,442
Accretion of discount less amortisation of premium	**4,197**	2,336
Total finance income and hibah	**609,795**	376,778
Other operating income		
Fee income:		
Commission	**1,714**	1,186
Service charges and fees	**7,676**	8,178
Guarantee fees	**2,262**	1,925
	11,652	11,289
Commission paid on will/wasiat	**(10)**	-
Income from financial instruments:		
Gain on sale of financial investments at FVOCI	**1,915**	-
Gain on sale of financial investments available-for-sale	**-**	1,988
	1,915	1,988
Other income:		
Foreign exchange profit/(loss)		
- realised	**10,180**	10,586
- unrealised	**(893)**	(3,766)
Other non-operating income	**9,154**	4,576
	18,441	11,396
Total income derived from investment of general investment deposits	**641,793**	401,451

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018

25 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

(b) Income derived from investment of other deposits

	Economic Entity and The Bank	
	2018	2017
	RM'000	RM'000
Finance income and hibah		
Financing, advances and other financing	**238,256**	228,504
Financial investments at FVOCI	**26,058**	-
Financial investments available-for-sale	**-**	26,398
Financial investments held-to-maturity	**-**	1,504
Money at call and deposits with financial institution	**22,248**	17,147
	286,562	273,553
Accretion of discount less amortisation of premium	**1,986**	1,707
Total finance income and hibah	**288,548**	275,260
Other operating income		
Fee income:		
Commission	**811**	863
Service charges and fees	**3,632**	5,951
Guarantee fees	**1,070**	1,401
	5,513	8,215
Commission paid on will/wasiat	**(5)**	-
Income from financial instruments:		
Gain on sale of financial investments at FVOCI	**906**	-
Gain on sale of financial investments available-for-sale	**-**	1,447
	906	1,447
Other income:		
Foreign exchange profit/(loss)		
- realised	**4,818**	7,704
- unrealised	**(423)**	(2,741)
Other non-operating income	**4,332**	3,330
	8,727	8,293
Total income derived from investment of other deposits	**303,689**	293,215

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

26 INCOME DERIVED FROM INVESTMENT OF INVESTMENT ACCOUNTS

	Economic Entity and The Bank	
	2018	**2017**
	RM'000	**RM'000**
Finance income and hibah		
Financing, advances and other financing	**95,732**	86,116
Financial investments at FVOCI	**10,470**	-
Financial investments available-for-sale	**-**	9,949
Financial investments held-to-maturity	**-**	567
Money at call and deposits with other financial institutions	**8,940**	6,462
	115,142	103,094
Accretion of discount less amortisation of premium	**798**	643
Total finance income and hibah	**115,940**	103,737
Other operating income		
Fee income:		
Commission	**326**	326
Service charges and fees	**1,459**	2,248
Guarantee fees	**430**	529
	2,215	3,103
Commission paid on will/wasiat	**(2)**	-
Income from financial instruments:		
Gain on sale of financial investments at FVOCI	**364**	-
Gain on sale of financial investments available-for-sale	**-**	546
	364	546
Other income:		
Foreign exchange profit/(loss)		
- realised	**1,936**	2,910
- unrealised	**(170)**	(1,035)
Other non-operating income	**1,740**	1,258
	3,506	3,133
Total income derived from investment of investment accounts	**122,023**	110,519

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018

27 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	Economic Entity and The Bank	
	2018 RM'000	2017 RM'000
Finance income and hibah		
Financing, advances and other financing	**71,640**	55,521
Financial investments at FVOCI	**7,835**	-
Financial investments available-for-sale	**-**	6,414
Financial investments held-to-maturity	**-**	366
Money at call and deposits with financial institutions	**6,690**	4,166
	86,165	66,467
Accretion of discount less amortisation of premium	**597**	415
Total finance income and hibah	**86,762**	66,882
Other operating income		
Fee income:		
Commission	**244**	210
Service charges and fees	**1,092**	1,449
Guarantee fees	**322**	341
	1,658	2,000
Commission paid on will/wasiat	**(1)**	-
Income from financial instruments:		
Gain on sale of financial investments at FVOCI	**272**	-
Gain on sale of financial investments available-for-sale	**-**	352
	272	352
Other income:		
Foreign exchange profit/(loss)		
- realised	**1,448**	1,876
- unrealised	**(127)**	(667)
Other non-operating income	**1,303**	811
	2,624	2,020
Total income derived from investment of shareholders' funds	**91,315**	71,254

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

28 ALLOWANCES FOR IMPAIRMENT LOSSES ON FINANCING, ADVANCES AND OTHER FINANCING

	Economic Entity and The Bank 2018 RM'000	Economic Entity and The Bank 2017 RM'000
Individual impairment		
- made during the financial year	-	16,404
- written-back	-	(8,096)
Collective impairment		
- net allowance made during the financial year	-	20,595
Expected credit losses ('ECL') made/(written-back) on:		
- financing, advances and other financing	**24,457**	-
- securities	**42**	-
- financing commitments and financial guarantees	**(4,331)**	-
Bad debts on financing:		
- recovered	**(1,357)**	(1,805)
- written-off	**592**	1
	19,403	27,099

29 ALLOWANCE FOR IMPAIRMENT LOSSES ON OTHER ASSETS

	Economic Entity and The Bank 2018 RM'000	Economic Entity and The Bank 2017 RM'000
Allowance for impairment for amount due from joint ventures	**5,719**	18,329

30 INCOME ATTRIBUTABLE TO THE DEPOSITORS AND OTHERS

	Economic Entity and The Bank 2018 RM'000	Economic Entity and The Bank 2017 RM'000
Deposits from customers		
- mudharabah	**1,987**	2,076
- non-mudharabah	**565,705**	363,809
Deposits and placement of banks and other financial institutions		
- mudharabah	**56,075**	63,418
Finance expense - Subordinated term financing and medium term notes	**11,231**	-
Restricted investment account - Mudharabah	**116,936**	108,076
Others	**13**	-
	751,947	537,379

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

31 OTHER OPERATING EXPENSES

	Economic Entity and The Bank	
	2018 RM'000	2017 RM'000
Personnel costs (a)	**149,819**	111,239
Establishment costs (b)	**48,671**	42,336
Marketing expenses (c)	**7,030**	6,080
Administrative and general expenses (d)	**17,739**	12,975
	223,259	172,630

(a) Personnel costs

	Economic Entity and The Bank	
	2018 RM'000	2017 RM'000
Wages, salaries and bonuses	**118,160**	83,573
Defined contribution plan ('EPF')	**20,022**	14,043
Voluntary separation scheme	**-**	2,247
Other personnel costs	**11,637**	11,376
	149,819	111,239

(b) Establishment costs

	Economic Entity and The Bank	
	2018 RM'000	2017 RM'000
Rental of premises	**8,318**	6,502
Equipment rental	**128**	99
Repair and maintenance	**8,423**	8,142
Depreciation of property and equipment	**777**	839
Amortisation of intangible assets	**93**	-
IT consultancy fees	**10,236**	11,339
Dataline rental	**4,235**	1,735
Security services	**5,207**	4,604
Electricity, water and sewerage	**3,115**	2,112
Licence fees	**400**	348
Insurance/takaful and indemnities	**2,088**	1,653
Other establishment costs	**5,651**	4,963
	48,671	42,336

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

31 OTHER OPERATING EXPENSES

(c) Marketing expenses

	Economic Entity and The Bank 2018 RM'000	Economic Entity and The Bank 2017 RM'000
Business promotion and advertisement	**1,438**	1,313
Entertainment	**277**	378
Traveling and accommodation	**1,729**	1,328
Commissions expenses	**1,365**	1,355
Brokerage expenses	**1,163**	1,037
Other marketing expenses	**1,058**	669
	7,030	6,080

(d) Administration and general expenses

	Economic Entity and The Bank 2018 RM'000	Economic Entity and The Bank 2017 RM'000
Telecommunication expenses	**1,176**	991
Auditors' remuneration	**1,075**	462
Professional fees	**2,754**	98
Property and equipment written-off	**3**	6
Mail and courier charges	**966**	726
Stationery and consumables	**3,948**	2,812
Directors' fees and allowances	**1,055**	1,786
Shariah Fees	**389**	366
Donations	**439**	225
Settlement, clearing and bank charges	**2,408**	571
Stamp duties	**2**	5
Operational and litigation write-off expenses	**-**	73
GST Input tax-non recoverable	**2,867**	4,752
Other administration and general expenses	**657**	102
	17,739	12,975

The expenditure includes the following statutory disclosures:

	Economic Entity and The Bank 2018 RM'000	Economic Entity and The Bank 2017 RM'000
Directors' remuneration (Note 32)	**2,616**	3,387
Auditors' remuneration (a)		
- statutory audit fees	**503**	327
- over provision prior year	**-**	(57)
- regulatory related fees	**180**	174
Tax fees	**17**	18
Non audit fees	**375**	-

(a) There was no indemnity given to or takaful/insurance effected for the Bank during the financial year.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

32 CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION

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

CEO
Nazlee Bin Khalifah

Non-Executive Directors
En. Mohd Suffian Bin Haji Haron (Chairman)
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Retired)
Associate Professor Dr. Said Bouheraoua
Dato' Bakarudin Bin Ishak (appointed w.e.f 2.1.2018)

The aggregate amount of remuneration for the CEOs, Directors and Shariah Committee members of the Bank for the financial year are as follows:

	Economic Entity and The Bank	
	2018 RM'000	2017 RM'000
CEO		
Salaries	**625**	519
Bonuses	**607**	712
Defined contribution plan ('EPF')	**208**	212
Other employee benefits	**74**	117
Benefits-in-kind	**47**	41
	1,561	1,601
Non-executive Directors		
Fees	**1,053**	1,432
Benefits-in-kind	**2**	9
Other emoluments	**-**	345
	1,055	1,786
Directors' remuneration (Note 31)	**2,616**	3,387
Shariah committee remuneration		
Fees	**389**	366
	3,005	3,753

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

32 CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION

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

Economic Entity and The Bank 2018	**Salaries RM'000**	**Bonuses RM'000**	**Fees RM'000**	**Other emoluments* RM'000**	**Benefits-in-kind RM'000**	**Total RM'000**
CEO						
Nazlee Bin Khalifah	**625**	**607**	**-**	**282**	**47**	**1,561**
Total	**625**	**607**	**-**	**282**	**47**	**1,561**
Non-executive Directors						
En. Mohd Suffian Bin Haji Haron (Chairman)	**-**	**-**	**245**	**-**	**2**	**247**
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Retired)	**-**	**-**	**288**	**-**	**-**	**288**
Associate Professor Dr. Said Bouheraoua	**-**	**-**	**272**	**-**	**-**	**272**
Dato' Bakaruddin Ishak	**-**	**-**	**248**	**-**	**-**	**248**
Total	**-**	**-**	**1,053**	**-**	**2**	**1,055**
Shariah Committee						
Associate Professor Dr. Said Bouheraoua	**-**	**-**	**80**	**-**	**-**	**80**
Associate Professor Dr. Ahmad Azam bin Othman	**-**	**-**	**68**	**-**	**-**	**68**
Associate Professor Dr. Zulkifli bin Hasan	**-**	**-**	**67**	**-**		**67**
Associate Professor Datin Dr. Nurdianawati Irwani Abdullah	**-**	**-**	**38**	**-**	**-**	**38**
Dr. Mohammad Mahbubi Ali	**-**	**-**	**68**	**-**	**-**	**68**
Dr. Nor Fahimah Mohd Razif	**-**	**-**	**68**	**-**	**-**	**68**
Total	**-**	**-**	**389**	**-**	**-**	**389**
Grand total	**625**	**607**	**1,442**	**282**	**49**	**3,005**

Economic Entity and The Bank 2017	Salaries RM'000	Bonuses RM'000	Fees RM'000	Other emoluments* RM'000	Benefits-in-kind RM'000	Total RM'000
CEO						
Nazlee Bin Khalifah	519	712	-	329	41	1,601
Total	519	712	-	329	41	1,601
Non-executive Directors						
En. Mohd Suffian Bin Haji Haron (Chairman)	-	-	230	-	9	239
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli Bin Mohd Nor (Retired)	-	-	261	-	-	261
Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman	-	-	269	-	-	269
Associate Professor Dr. Said Bouheraoua	-	-	297	-	-	297
Jen Tan Sri Dato' Seri Ismail Bin Haji Omar (Retired)	-	-	55	165	-	220
Tan Sri Dato' Seri Mohamed Jawhar	-	-	103	165	-	268
Dr. Rosnah Binti Omar	-	-	134	15	-	149
Total	-	-	1,349	345	9	1,703
Shariah Committee						
Associate Professor Dr. Said Bouheraoua	-	-	83	-	-	83
Associate Professor Dr. Ahmad Azam bin Othman	-	-	71	-	-	71
Associate Professor Dr. Zulkifli bin Hasan	-	-	70	-	-	70
Dr. Mohammad Mahbubi Ali	-	-	71	-	-	71
Dr. Nor Fahimah Mohd Razif	-	-	71	-	-	71
Total	-	-	366	-	-	366
Grand total	519	712	1,715	674	50	3,670

* Includes allowances and EPF

During the financial year, Directors and Officers of the Bank are covered under the Directors' & Officers' Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors and Officers of Bank subject to the terms of the policy. The total amount of Directors' & Officers' Liability Insurance effected for the Directors & Officers of the Bank was RM40 million. The total amount of takaful contribution paid for the Directors' & Officers' Liability Insurance paid by the Company was RM55,018 (2017: RM57,913).

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

33 TAXATION

	Economic Entity and The Bank	
	2018 RM'000	2017 RM'000
Malaysian income tax		
Current tax	**58,096**	28,650
Under provision in prior year	**970**	90
Deferred tax (Note 10)	**(16,077)**	(485)
	42,989	28,255

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

	%	%
Statutory tax rate in Malaysia	**24.00**	24.00
Tax effect in respect of:		
Non-allowable expenses	**3.03**	0.64
Tax savings arising from income exempt from tax for International Currency Business Unit (ICBU)	**-**	(0.78)
Under provision in prior years	**0.62**	0.08
Average effective tax rate	**27.65**	23.94

34 EARNINGS PER SHARE

The basic 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 RM112,442,022 (2017: RM89,746,864). The weighted average number of shares in issue during the financial year of 1,060,000,002 (2017: 737,534,249) is used for the computation.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

35 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 Bank Berhad ('ABB')	Holding company
Subsidiaries and associates of LTAT	Subsidiary and associate companies of the ultimate holding corporate body
Subsidiaries and associates of ABB as disclosed in its financial statements	Subsidiary and associate companies of the holding company
Joint ventures as disclosed in Note 12	Joint ventures with AFFIN Islamic Bank Berhad
Associate as disclosed in Note 13	Associate of AFFIN Islamic Bank Berhad
Key management personnel	The key management personnel of the Bank consist of: - Directors - 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 does 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.

35 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related parties transactions and balances

Economic Entity and The Bank	Ultimate holding corporate body 2018 RM'000	Ultimate holding corporate body 2017 RM'000	Holding company 2018 RM'000	Holding company 2017 RM'000
Expenditure				
Profit paid on Commodity murabahah	**12**	132	**-**	-
Profit paid on deposits and placement of banks and other financial institutions	**-**	-	**1,429**	3,214
Profit paid on Restricted Invesment Account (RIA)	**-**	-	**115,603**	106,516
Finance expense-Subordinated term financing and medium term notes			**7,748**	-
Other expenditure	**-**	-	**157,935**	111,458
	12	132	**282,715**	221,188

Economic Entity and The Bank	Other related companies 2018 RM'000	Other related companies 2017 RM'000	Companies in which certain Directors have substantial interest 2018 RM'000	Companies in which certain Directors have substantial interest 2017 RM'000	Key management personnel 2018 RM'000	Key management personnel 2017 RM'000
Income						
Income on financing, advances and other financing	**21,381**	10,647	**3,509**	4,577	**164**	28
	21,381	10,647	**3,509**	4,577	**164**	28
Expenditure						
Profit paid on Murabahah term deposit	**2,983**	3,053	**1,593**	53	**145**	157
Profit paid on general investment deposits	**8**	7	**-**	-	**-**	-
Profit paid on Commodity murabahah	**690**	1,573	**-**	-	**-**	-
Other expenditure	**133**	114	**-**	-	**-**	-
	3,814	4,747	**1,593**	53	**145**	157

35 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related parties transactions and balances (continued)

Economic Entity and The Bank	Ultimate holding corporate body 2018 RM'000	Ultimate holding corporate body 2017 RM'000	Holding company 2018 RM'000	Holding company 2017 RM'000
Amount due from				
Intercompany balances	-	-	**107,722**	406,523
	-	-	**107,722**	406,523
Amount due to				
Demand and saving deposits	**657**	985	-	-
Commodity Murabahah	-	5,002	-	-
Deposits and placement of banks and other financial institutions	-	-	**70,708**	69,258
Restricted Invesment Account (RIA)	-	-	**2,368,275**	2,749,016
Subordinated term financing and medium term notes	-	-	**600,000**	-
	657	5,987	**3,038,983**	2,818,274

Economic Entity and The Bank	Other related companies 2018 RM'000	Other related companies 2017 RM'000	Companies in which certain Directors have substantial interest 2018 RM'000	Companies in which certain Directors have substantial interest 2017 RM'000	Key management personnel 2018 RM'000	Key management personnel 2017 RM'000
Amount due from						
Financing, advances and other financing	**742,456**	286,592	**57,127**	78,320	**4,492**	1,442
Intercompany balances	**31,795**	33,349	**-**	-	**-**	-
	774,251	319,941	**57,127**	78,320	**4,492**	1,442
Amount due to						
Demand and saving deposits	**74,888**	136,784	**4,848**	4,707	**4,028**	3,816
Murabahah term deposit	**72,431**	108,999	**49,409**	-	**3,567**	3,414
General investment deposits	**284**	276	**-**	-	**-**	-
Commodity Murabahah	**-**	4,215	**-**	-	**-**	-
	147,603	250,274	**54,257**	4,707	**7,595**	7,230
Commitments and contingencies	**65,306**	403,575	**46**	13	**-**	-

No impairment allowances were made in 2018 and 2017 for financing, advances and other financing made to key management personnel.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

35 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(b) Key management personnel compensation

	Economic Entity and The Bank 2018 RM'000	Economic Entity and The Bank 2017 RM'000
Directors' fees and allowances		
Fees	**1,053**	1,349
Benefits-in-kind	**2**	9
Shariah committee fees	**80**	83
Other emoluments	**-**	345
	1,135	1,786
Short-term employment benefits		
Salaries	**1,109**	935
Bonuses	**896**	1,120
Defined contribution plan ('EPF')	**345**	356
Other employee benefits	**180**	207
Benefits-in-kind	**78**	67
	2,608	2,685
	3,743	4,471

Included in the above table are CEO and directors' remuneration as disclosed in Note 32.

36 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. These commitments and contingencies are not secured over the assets of the Bank.

The commitments and contingencies consist of:

	Economic Entity and The Bank Principal amount 2018 RM'000	Economic Entity and The Bank Principal amount 2017 RM'000
Direct credit substitutes (*)	**101,288**	92,241
Transaction-related contingent items	**281,206**	293,354
Short-term self-liquidating trade related contingencies	**318,969**	279,532
Irrevocable commitments to extend credit:		
- maturity less than one year	**1,605,783**	1,583,496
- maturity more than one year	**1,998,265**	1,656,826
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	**14,139**	25,654
Unutilised credit card lines	**195,947**	337
Foreign exchange related contracts (#):		
- less than one year	**1,028,226**	802,588
	5,543,823	4,734,028

* Included in direct credit substitutes as above are financial guarantee contracts of RM101.3 million at the Bank (2017:RM92.2 million), of which fair value at the time of issuance is zero.

The fair value of these derivatives have been recognised as "derivative financial assets" and "derivative financial liabilities" in the statement of financial position and disclosed in Note 3 and Note 20 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

37 FINANCIAL RISK MANAGEMENT

(i) Credit risk

Credit risk is the potential financial loss resulting from the failure of the customer to settle financial and contractual obligations through financing, hedging, trading and investing activities. It includes both pre-settlement and settlement risks of trading counterparties. Credit risk emanates mainly from financing, advances and other financing, financing commitments arising from such financing activities, as well as through financial transaction with counterparties including interbank money market activities as well as derivative instruments used for hedging and debt securities.

The management of credit risk in the Bank is governed by the Credit Risk Management Framework which is supported by a set of approved credit policies, guidelines and procedures. New and existing businesses are governed by Credit Plan which is developed as part of the annual business planning and budgeting process. The Credit Plan is reviewed at least annually to ensure the guidelines and criteria reflect portfolio strategy and market environment. Approval authorities are delegated to Senior Management and Group Management and Group Management Credit Committee ('GMCC') to implement the credit policies and ensure sound credit granting standards. Board Credit Review and Recovery Committee ('BCRRC') has review/veto power.

An independent Group Credit Management function is headed by Group Chief Credit Officer ('GCCO') with direct reporting line to Managing Director ('MD')/Chief Executive Officer ('CEO') to ensure sound credit appraisal and approval process. Group Risk Management ('GRM') with direct reporting line to Group Board Risk Management Committee ('GBRMC') has functional responsibilities for the management of credit risk, to ensure adherence to risk standards and discipline.

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 with the level of risk undertaken. Assessment and quantification of credit risk are supported by the use of internal rating models, scorecards and decision support tools.

A critical element in the evaluation process for business financing, advances and other financing is the assignment of a credit risk grade to the counterparty. The Bank adopts a credit risk grading methodology encompassing probability of default ('PD') driven scorecards for business financing, advances and other financing to assist in the risk assessment and decision making process.

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

Stress Testing supplements the overall assessment of credit risk across the Bank.

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 rate of return 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 to maturity).

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

37 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, connected parties 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, advances and other 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 securities.

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

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

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

An Early Alert Process is adopted to pro-actively identify, report, and manage warning signs of potential credit deterioration. 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.

The Bank has established MFRS 9 - Stage Transfer Policy to provide guidance in determining significant increases in credit risk of financial assets. There are 3 stages to differentiate the credit risk of the financial assets in conjunction with MFRS 9 standards: Performing Accounts (Stage 1), Underperforming Accounts (Stage 2) and Impaired Accounts (Stage 3).

Active portfolio monitoring as well as exceptions reporting is in place to manage the overall risk profile, identify, analyse and mitigate adverse trends or specific areas of risk concerns.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

37 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

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 guarantee was 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.

All financial assets of the Group and the Bank are subject to credit risk except for cash in hand, equity securities held as financial assets at FVTPL or financial assets at FVOCI, as well as non-financial assets.

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	
	2018 Maximum Credit Exposure RM'000	**2017 Maximum Credit Exposure RM'000**
Credit risk exposures of on-balance sheet assets:		
Short-term funds *	**3,210,533**	1,423,594
Fianacial investment at FVOCI	**2,804,257**	-
Financial investments avaible for sale	**-**	1,833,408
Other assets ^	**37,988**	14,934
Credit risk exposure of off-balance sheet items:		
Financial guarantees	**101,288**	92,241
Financing commitments and other credit related commitments	**4,515,598**	3,839,199
Total maximum credit risk exposure	**10,669,664**	7,203,376

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.

* Excluded cash

^ Excluded prepayment and foreclosed properties

37 FINANCIAL RISK MANAGEMENT

(i) Credit risk

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 2018	Short-term funds RM'000	Derivative financial assets RM'000	Financial investments at FVOCI 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	-	-	-	921,231	-	921,231	118,710
Mining and quarrying	-	-	-	318,390	-	318,390	4,448
Manufacturing	-	-	25,233	563,901	-	589,134	234,999
Electricity, gas and water supply	-	-	50,755	508,104	-	558,859	119,616
Construction	-	-	20,894	542,913	-	563,807	785,116
Real estate	-	-	103,490	1,920,592	-	2,024,082	348,874
Transport, storage and communication	-	-	30,410	314,500	-	344,910	74,116
Finance, takaful/insurance and business services	5,223	997	258,684	459,776	-	724,680	171,082
Government and government agencies	3,205,310	-	2,279,527	1,063,117	-	6,547,954	663,498
Wholesale & retail trade and restaurants & hotels	-	1,045	-	587,094	-	588,139	180,338
Others	-	-	35,264	11,418,242	^177,505	11,631,011	1,814,801
Total assets	3,210,533	2,042	2,804,257	18,617,860	177,505	24,812,197	4,515,598

^ Others include amount due from associate, joint ventures, holding company and other assets.

37 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Credit risk concentration (continued)

Economic Entity and The Bank 2017	Short-term funds RM'000	Derivative financial assets RM'000	Financial investments available for-sale 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	-	-	-	333,011	-	333,011	424,033
Mining and quarrying	-	-	-	367,694	-	367,694	5,003
Manufacturing	-	-	5,083	413,784	-	418,867	111,832
Electricity, gas and water supply	-	-	50,353	111,959	-	162,312	120,304
Construction	-	-	20,638	846,927	-	867,565	394,404
Real estate	-	-	93,425	1,754,881	-	1,848,306	302,024
Transport, storage and communication	-	-	30,417	766,937	-	797,354	59,343
Finance, takaful/insurance and business services	1,331	2,421	273,855	586,388	-	863,995	346,378
Government and government agencies	1,422,263	-	1,878,720	1,045,098	-	4,346,081	532,824
Wholesale & retail trade and restaurants & hotels	-	202	-	433,544	-	433,746	39,901
Others	-	-	25,233	8,709,524	^454,806	9,189,563	1,595,394
Total assets	1,423,594	2,623	2,377,724	15,369,747	454,806	19,628,494	3,931,440

^ Others include amount due from associate, joint ventures, holding company and other assets.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

37 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Collaterals

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

Longer-term financing to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than financing, advances and other financing depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments. Derivatives are also collateralised.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

Economic Entity and The Bank 2018	Gross financing, advances and financing RM'000	Expected credit losses RM'000	Net financing, advances and financing RM'000	Fair value of collateral held RM'000
Consumer Banking				
- Cash-Line i	127	68	59	280
- Credit cards	13	9	4	-
- Term loans/financing	4,893	1,652	3,241	7,355
- Mortgages	108,562	20,405	88,157	124,902
- Hire purchase	23,212	17,019	6,193	55,034
Corporate & Public Sector	375,513	26,121	349,392	946,521
Small medium enterprise	18,509	2,587	15,922	448,334
Total credit-impaired assets	530,829	67,861	462,968	1,582,426

The financial effect of collateral held for financing, advances and financing of the Bank is 80.6% (2017: 79.2%). The financial effects of collateral for the other financial assets are insignificant.

Collateral and other credit enhancements obtained

The Bank obtained assets by taking possession of collateral held as security or calling upon other credit enhancements.

	Economic Entity and The Bank 2018 RM'000	 2017 RM'000
Nature of assets		
Industrial and residential properties	4,873	2,445

Foreclosed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. The carrying amount of foreclosed properties held by the Bank as at reporting date has been classified as Other assets as disclosed in Note 6.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

37 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Amounts arising from Expected Credit Losses ('ECL')

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of customer.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the customer. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically takes into consideration a number of relevant factors when identifying and analysing of counterparty credit risk. These factors determines the credit rating under the Credit Risk Grading Policy, which considers factors such as competitive position, operating performance, cash flow strength and management strength.

Generating the term structure of Probability of Default ("PD")

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and customer as well as by credit risk grading. For some portfolios, information from external credit reference agencies are also used.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the financing. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime Exposures at Default ("EADs") are determined based on the expected payment profile, which varies by product type.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark profit rates, unemployment rates and others.

The Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Bank then use these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modelling, the remaining lifetime PD is determined to have increased by more than a predetermined percentage/range.

Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than one month in arrers ("MIA"). Due dates are determined without considering any grace period that might be available to the customer.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018

37 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Modified financial assets

The contractual terms of a financing/advances may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing financing/advances whose terms have been modified may be derecognised and the renegotiated financing/advances recognised as a new financing/advances at fair value.

The Bank renegotiates financing/advances to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Financing/advances forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the customer or issuer made all reasonable efforts to pay under the original contractual terms and the customer or issuer is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of financing/ advances covenants.

For financial assets modified, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect profit and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the customer's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Definition of default

The Bank consider a financial asset to be in default when:

- the customer is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the customer is past due more than 3 months on any material credit obligation to the Bank.

In assessing whether a customer is in default, the Bank consider indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

37 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 3 to 5 years.

The economic screnarios used for the expected credit losses ('ECL') estimate and the effect to the ECL estimate due to the changes in the economic variables by % as at 31 December 2018 are set out as below:

Macroeconomic variables change (%)	2018 + / - (%)
Overnight Policy Rate ("OPR")	**0.8**
USD/MYR exchange rate	**2.8**
Kuala Lumpur Composite Index ("KLCI")	**0.5**
3-months KLIBOR	**0.3**
Housing price index	**2.3**
Unemployment rate	**4.4**
GDP	**1.0**

The impact based on 5 years historical MEV as below:

	Economic Entity and The Bank 2018	
	+ RM'000	- RM'000
Impact on expected credit losses	**139**	**530**

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018

37 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Measurement of expected credit losses ('ECL')

The Bank use three categories for financial instruments at amortised cost for recognising ECL.

Category	Definition	Basis for recognising
Performing accounts	- Financial assets that do not have significant increase in credit risk since initial recognition of the asset and therefore, less likely to default; - Performing accounts with credit grade 13 or better; - Accounts past due less than or equal to 1 month or; - For early control acounts where on that has risk or potential weakness which if left unchecked, my result in significant deterioration of payment prospect and transfer to underperforming status (stage 2) or worse.	12 months ECL (Stage 1)
Underperforming accounts	- An account with significant increase in credit risk since initial recognition and if left uncorrected, may result in impairment of the account within the next 12 months; - Accounts past due more than 1 month but less than 3 months or; - Account demonstrates critical level of risk and therefore, credit graded to 14 and place under watchlist.	Lifetime ECL - not credit impaired (Stage 2)
Impaired accounts	- Impaired credit; - Credit grade 15 or worse; - Accounts past due more than 3 months or; - All restructure and rescheduling (R&R) accounts due to credit deterioration are to be classified as impaired.	Lifetime ECL - credit impaired (Stage 3)
Write-off	- Evidence indicating that there is no reasonable expectation of recovery based on unavailability of debtor's sources of income or; - Assets unable to generate sufficient future cash flow to pay the amount.	Asset is written off

The Bank has not used the low credit risk exemption for any financial instrument for the year ended 31 December 2018.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default ("PD");
- loss given default ("LGD"); and
- exposure at default ("EAD").

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018

37 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Measurement of expected credit losses ('ECL') (continued)

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

ECL is determined by projecting the PD, LGD and EAD at each future point on a yearly basis individual exposure, or collective segment, and discounting these monthly expected losses back to the reporting date. The discount rate used in the ECL calculation is the original interest/profit rate or an approximation thereof.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any customer's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require payment of an advance or terminate a loan/financing commitment or guarantee.

Forward looking economic information is also included in determining the 12 month and lifetime PD, EAD and LGD.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- product/instrument type;
- credit risk grading;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the customer.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018

37 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

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 refers to financing, advances and other financing that are overdue by one day or more.

Financing, advances and other financing are classified impaired when they fulfill any of the following criteria:

(i) the principal or profit or both is past due more than 3 months from the first day of default;

(ii) where the account is in arrears for less than 3 months, there is evidence of impairment to indicate that the customer/customer is 'unlikely to pay' its credit obligations; or

(iii) the financing is classified as rescheduled and restructured in Central Credit Reference Information System (CCRIS).

Distribution of financing, advances and other financing by credit quality

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Economic Entity and The Bank	RM'000	RM'000	RM'000	RM'000	RM'000
Neither past due nor impaired	16,780,613	320,904	-	17,101,517	14,385,496
Past due but not impaired	709,489	405,042	-	1,114,531	923,241
Impaired	-	-	530,829	530,829	142,310
Gross financing, advances and other financing	17,490,102	725,946	530,829	18,746,877	15,451,047
less: Allowance for impairment					
-Individual	-	-	-	-	(24,039)
-Collective	-	-	-	-	(57,261)
-Expected credit losses ("ECL")	(50,292)	(10,864)	(67,861)	(129,017)	-
Net financing, advances and other financing	17,439,810	715,082	462,968	18,617,860	15,369,747

37 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

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

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's and the Bank's maximum exposure to credit risk on these assets.

Economic Entity and The Bank 2018	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Credit grade				
Satisfactory	6,269,152	47,952	405	6,317,509
Special mention	498,629	181,184	237,111	916,924
Default/impaired	-	-	156,921	156,921
Unrated	10,722,321	496,810	136,392	11,355,523
	17,490,102	725,946	530,829	18,746,877
Gross financing, advances and other financing				
Expected credit losses ("ECL")	(50,292)	(10,864)	(67,861)	(129,017)
Total net financing, advances and other financing	17,439,810	715,082	462,968	18,617,860

Until 31 December 2017, 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 2017 RM'000
Quality classification	
Satisfactory	14,180,416
Special mention	205,080
	14,385,496

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 which are under the monitoring of Group Early Alert Committee ('GEAC').

Deposits and short-term funds, corporate sukuk, treasury bills and derivatives - credit quality

Corporate sukuk, treasury bills and other eligible bills included in financial assets FVTPL and financial investments available-for-sale / FVOCI 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.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

37 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

The table below presents the deposits and short-term funds, corporate bonds/sukuk, treasury bills and other eligible bills that neither past due nor impaired and impaired, analysed by rating:

		2018			2017
Economic Entity and The Bank	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**	**Total RM'000**
Short-term funds, deposits and placements with banks and other financial institutions					
Sovereigns	**3,205,310**	-	-	**3,205,310**	1,422,263
AAA	-	-	-	-	-
AA- to AA+	**104**	-	-	**104**	525
A- to A+	**5,119**	-	-	**5,119**	697
Lower than A-	-	-	-	-	109
Unrated	-	-	-	-	-
	3,210,533	-	-	**3,210,533**	1,423,594
Derivative financial assets					
AAA	**45**	-	-	**45**	-
AA- to AA+	**942**	-	-	**942**	2,402
A- to A+	-	-	-	-	-
Lower than A-	-	-	-	-	-
Unrated	**1,055**	-	-	**1,055**	221
	2,042	-	-	**2,042**	2,623
Financial assets at FVOCI					
Sovereigns	**2,279,527**	-	-	**2,279,527**	1,878,720
AAA	**313,930**	-	-	**313,930**	303,273
AA- to AA+	**153,086**	-	-	**153,086**	140,631
A- to A+	-	-	-	-	697
Lower than A-	-	-	-	-	109
Unrated	**57,714**	-	-	**57,714**	58,027
	2,804,257	-	-	**2,804,257**	2,381,457

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

37 FINANCIAL RISK MANAGEMENT

(i) Credit risk (continued)

Other financial assets - credit quality

Other financial assets of the Bank is neither past due nor impaired are summarised as below:

	Economic Entity and The Bank				
	2018				2017
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Neither past due nor impaired					
Other assets	**37,988**	-	-	**37,988**	14,934
Amount due from holding company	**107,722**	-	-	**107,722**	406,523
Amount due from associate	**500**	-	-	**500**	500
Impaired					
Amount due from joint ventures	**55,343**	-	-	**55,343**	51,178
Allowance for impairment	**(24,048)**	-	-	**(24,048)**	(18,329)
	31,295	-	-	**31,295**	32,849

Other financial assets that are past due but not impaired or impaired are not significant.

Financing commitments and financial guarantees below represent the expected credit losses ('ECL') being recognised.

	Economic Entity and The Bank				
	2018				2017
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000	Total RM'000
Financing commitments and financial guarantees					
Satisfactory	**9,553**	**1,709**	-	**11,262**	-
Special mention	-	-	-	-	-
Default/impaired	-	-	**870**	**870**	-
	9,553	**1,709**	**870**	**12,132**	-

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

37 FINANCIAL RISK MANAGEMENT

(ii) Market risk

Market risk defined as changes in the market value of financial instrument position arising from movements in market factors such as profit rate, foreign exchange rates and implied volatility rates. The Bank's exposure to market risk results largely from profit rate and foreign exchange rate risks.

The Market Risk Management Framework governs the market risk activities of the Bank which is supported by a set of approved market risk management policies, guidelines and procedures.

Risk parameters are established based on risk appetite, market liquidity and business strategies as well as macroeconomic conditions. These parameters are reviewed at least annually.

Profit rate risk is quantified by analysing the mismatches in timing repricing of the rate sensitive assets and rate sensitive liabilities. Earnings-at-Risk ('EaR') or Net Profit Income simulation is conducted to assess the variation in short term earnings under various rates scenarios. The potential long term effect of the overall exposure is tracked by assessing the impact on Economic Value of Equity ('EVE'), also known as Economic Value-at-Risk ('EVaR'). Thresholds are set for EaR and EVaR as management triggers.

Periodic stress tests are conducted to quantify market risk arising from probability of abnormal market movements.

Risk Management Policies and Procedures

Risk management policies and procedures are reviewed and updated to ensure relevance to current business needs as well as current/ applicable regulatory requirements such as BNM's policy documents on:

(a) Managing Unauthorised Trading & Market Manipulation;

(b) Code of Conduct for Malaysia Wholesale Financial Markets; and

(c) Principles for a Fair and Effective Financial Market for Malaysian Financial Market.

Risk measures

(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 abnormal market movements. Stress tests measure the changes in values arising from extreme movements in profit rates and foreign exchange rates based on past experiences and simulated stress scenarios.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

37 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate sensitivity

The table below shows the sensitivity for the financial assets and financial liabilities held as at reporting date.

Impact on profit after tax is measured using Repricing Gap Simulation methodology based on 100 basis point parallel shifts in profit rate.

Impact in equity represents the changes in fair value of fixed income instruments held at FVOCI/available-for sale portfolio arising from the shift in the profit rate.

Economic Entity and The Bank 2018	**+100 basis point RM million**	**-100 basis point RM million**
Impact on profit after tax	**34.4**	**(34.4)**
Impact on equity	**(100.5)**	**108.3**

Economic Entity and The Bank 2017	+100 basis point RM million	-100 basis point RM million
Impact on profit after tax	(9.0)	9.0
Impact on equity	(93.2)	100.9

Foreign exchange risk sensitivity analysis

An analysis of the exposure to assess the impact of a one per cent change in exchange rate to the profit after tax are as follows:

	Economic Entity and The Bank	
	2018 RM'000	**2017 RM'000**
+1%		
Euro	**1,061**	1,584
United States Dollar	**8,049**	4,011
Great Britain Pound	**2**	1
Australian Dollar	**-**	3
Japanese Yen	**91**	91
Others	**10**	69
	9,213	5,759
-1%		
Euro	**(1,061)**	(1,584)
United States Dollar	**(8,049)**	(4,011)
Great Britain Pound	**(2)**	(1)
Australian Dollar	**-**	(3)
Japanese Yen	**(91)**	(91)
Others	**(10)**	(69)
	(9,213)	(5,759)

37 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Foreign exchange risk

The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cashnflows. The risk of fluctuations in foreign currency exchange rates is managed via setting of thresholds on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

The following table summarises the Bank's exposure to foreign currency exchange rate risk at reporting date. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

Economic Entity and The Bank 2018	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	481	4,036	257	104	179	167	5,224
Derivative financial assets	448	15	-	-	-	-	463
Financing, advances and other financing	-	323,658	-	-	-	-	323,658
Total financial assets	929	327,709	257	104	179	167	329,345
Liabilities							
Deposits from customers	38,904	26,569	19	55	5	119	65,671
Deposits and placements of banks and other financial institutions	-	70,708	-	-	-	-	70,708
Derivative financial liabilities	25	4,255	-	-	-	-	4,280
Total financial liabilities	38,929	101,532	19	55	5	119	140,659
Net on-balance sheet financial position	(38,000)	226,177	238	49	174	48	188,686
Off balance sheet commitments	177,619	832,940	-	-	11,837	1,315	1,023,711

37 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Foreign exchange risk (continued)

Economic Entity and The Bank 2017	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	371	156	(245)	478	302	269	1,331
Derivative financial assets	1,146	-	-	-	-	8	1,154
Financing, advances and other financing	-	418,573	-	-	-	-	418,573
Total financial assets	1,517	418,729	(245)	478	302	277	421,058
Liabilities							
Deposits from customers	61,683	426,592	87	112	5	12	488,491
Deposits and placements of banks and other financial institutions	-	69,258	-	-	-	-	69,258
Derivative financial liabilities	-	3,191	1	-	-	-	3,192
Total financial liabilities	61,683	499,041	88	112	5	12	560,941
Net on-balance sheet financial position	(60,166)	(80,312)	(333)	366	297	265	(139,883)
Off balance sheet commitments	268,644	608,085	437	-	11,662	8,833	897,661

37 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk

Profit rate risk is the risk to earnings and capital arising from exposure to adverse movements in profit rates mainly due to mismatches in timing repricing of assets and liabilities. These mismatches are actively managed from an earnings and economic value perspective. Profit rate risk thresholds are established in line with the Group's strategy and risk appetite. These thresholds are reviewed regularly to ensure relevance in the context of prevailing market conditions.

	Non-trading book							
Economic Entity and The Bank 2018	**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**
Assets								
Cash and short-term funds	3,200,000	-	-	-	-	10,533	-	3,210,533
Derivative financial assets	-	-	-	-	-	-	2,042	2,042
Financial investments at FVOCI	5,001	139,704	138,990	881,264	1,611,892	27,406	-	2,804,257
Financing, advances and other financing								
- non-impaired	9,760,826	865,553	916,150	3,782,019	2,891,500	(61,156)	-	18,154,892
- impaired	-	-	-	-	-	462,968 #	-	462,968
Others (1)	-	-	-	-	-	70,116	-	70,116
Amount due from holding company	-	-	-	-	-	107,722	-	107,722
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	512,000	-	512,000
Total assets	12,965,827	1,005,257	1,055,140	4,663,283	4,503,392	1,129,589	2,042	25,324,530

\# Net of individual impairment allowance.

(1) Others include other assets, amount due from joint ventures and amount due from associate.

37 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

	Non-trading book							
Economic Entity and The Bank 2018	**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**
Liabilities								
Deposits from customers	5,577,784	3,169,330	9,612,128	1,128,608	-	199,538	-	19,687,388
Investment accounts of customers	-	-	-	870	-	5	-	875
Deposits and placements of banks and other financial institutions	197,895	47,317	-	-	-	370	-	245,582
Investment accounts due to designated financial institutions	21,846	302,456	100,375	281,896	1,661,711	11	-	2,368,295
Derivative financial liabilities	-	-	-	-	-	-	4,289	4,289
Other liabilities	-	-	-	-	-	89,863	-	89,863
Subordinated term financing and medium term notes	-	-	-	-	1,100,000	11,231	-	1,111,231
Total liabilities	5,797,525	3,519,103	9,712,503	1,411,374	2,761,711	301,018	4,289	23,507,523
Net profit sensitivity gap	7,168,302	(2,513,846)	(8,657,363)	(3,251,909)	1,741, 681			

37 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

	Non-trading book							
Economic Entity and The Bank 2017	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
Assets								
Cash and short-term funds	1,420,000	-	-	-	-	3,594	-	1,423,594
Derivative financial assets	-	-	-	-	-	-	2,623	2,623
Financial investments available-for-sale	5,000	12,517	45,083	738,463	1,551,957	24,704	-	2,377,724
Financing, advances and other financing								
- non-impaired	7,533,121	1,155,018	963,767	3,333,915	2,322,916	(33,324)	-	15,275,413
- impaired	-	-	-	-	-	94,334 #	-	94,334
Others (1)	-	-	-	-	-	48,737	-	48,737
Amount due from holding company	-	-	-	-	-	406,523	-	406,523
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	400,640	-	400,640
Total assets	8,958,121	1,167,535	1,008,850	4,072,378	3,874,873	945,208	2,623	20,029,588

\# Net of individual impairment allowance.

(1) Others include other assets, amount due from joint ventures and amount due from associate.

37 FINANCIAL RISK MANAGEMENT

(ii) Market risk (continued)

Profit rate risk (continued)

Economic Entity and The Bank 2017	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
Liabilities								
Deposits from customers	5,666,482	2,692,924	5,246,053	472,842	-	121,031	-	14,199,332
Investment accounts of customers	-	-	449	-	-	-	-	449
Deposits and placements of banks and other financial institutions	770,859	437,954	48,822	-	-	3,765	-	1,261,400
Investment accounts due to designated financial institutions	301,121	166,716	135,358	725,915	1,419,906	-	-	2,749,016
Derivative financial liabilities	-	-	-	-	-	-	3,258	3,258
Other liabilities	-	-	-	-	-	67,456	-	67,456
Total liabilities	6,738,462	3,297,594	5,430,682	1,198,757	1,419,906	192,252	3,258	18,280,911
Net profit sensitivity gap	2,219,659	(2,130,059)	(4,421,832)	2,873,621	2,454,967			

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37 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk

Liquidity risk is the risk of inability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. 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.

The Liquidity Risk Management Framework governs the liquidity risk management activities of the Bank. The objective of liquidity risk management is to ensure that there are sufficient funds to meet contractual and regulatory obligations without incurring unacceptable losses as well as to undertake new transactions. The Bank's liquidity management process involves establishing liquidity risk management policies and prudential thresholds, liquidity risk threshold monitoring, stress testing and establishing contingency funding plans. These building blocks of liquidity risk management are subject to regular reviews to ensure relevance in the context of prevailing market conditions and regulatory landscape.

The Bank's short term liquidity risk management is premised on BNM's Liquidity Coverage Ratio ('LCR') final standards. The LCR is a quantitative requirement which seeks to ensure that the Bank holds sufficient high-quality liquid assets ('HQLA') to withstand a significant liquidity stress scenario over a 30-day horizon.

Long term liquidity risk profile is assessed via the Net Stable Funding Ratio ('NSFR') which promotes resilience over a longer time horizon for the Bank to fund its activities with more stable sources of funding on an ongoing basis.

The Bank also employs a set of liquidity risk indicators as an early alert of any structural change for liquidity risk management. The liquidity risk indicators include internal and external qualitative as well as quantitative indicators.

Liquidity stress tests are conducted periodically and on ad-hoc basis to gauge the Bank's resilience in the event of a liquidity disruption.

The Contingency Funding Plan 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, enabling the Bank to respond to an unexpected liquidity disruption in an effective and efficient manner.

The Group Board Risk Management Committee ('GBRMC') is responsible for the Bank's liquidity policy and the strategic management of liquidity has been delegated to the Group Asset Liability Management Committee ('GALCO'). The Liquidity Management Committee ('LMC'), which is a sub-committee of GALCO, augments the functions of GALCO by directing its focus specifically to liquidity issues. The GBRMC is informed regularly on the liquidity position of the Bank.

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for the financial year ended 31 December 2018

37 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 basic. 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 2018	**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	**5,607,972**	**3,250,226**	**9,989,794**	**1,286,471**	**-**	**20,134,463**
Invesment accounts of customers	**5**	**10**	**47**	**922**	**-**	**984**
Deposits and placements of banks and other financial institutions	**198,509**	**47,647**	**-**	**-**	**-**	**246,156**
Investment accounts due to designated financial institutions	**31,745**	**319,615**	**172,272**	**638,402**	**2,030,891**	**3,192,925**
Other liabilities	**89,863**	**-**	**-**	**-**	**-**	**89,863**
Subordinated term financing and medium term notes	**-**	**-**	**57,350**	**229,604**	**1,302,332**	**1,589,286**
	5,928,094	**3,617,498**	**10,219,463**	**2,155,399**	**3,333,223**	**25,253,677**

Economic Entity and The Bank 2017	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	5,679,470	2,749,467	5,429,904	545,875	-	14,404,716
Invesment accounts of customers	10	20	509	-	-	539
Deposits and placements of banks and other financial institutions	773,694	441,379	49,828	-	-	1,264,901
Investment accounts due to designated financial institutions	312,110	186,361	222,833	1,066,799	1,672,056	3,460,159
Other liabilities	67,456	-	-	-	-	67,456
	6,832,740	3,377,227	5,703,074	1,612,674	1,672,056	19,197,771

Derivative financial liabilities

Derivative financial liabilities based on contractual undiscounted cash flow:

Economic Entity and The Bank 2018	**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**
Derivatives settled on gross basis						
Foreign exchange derivatives:						
Outflow	**(351,727)**	**(239,749)**	**-**	**-**	**-**	**(591,476)**
Inflow	**351,950**	**239,749**	**-**	**-**	**-**	**591,699**
	223	**-**	**-**	**-**	**-**	**223**

Economic Entity and The Bank 2017	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
Derivatives settled on gross basis						
Foreign exchange derivatives:						
Outflow	(171,705)	(270,208)	-	-	-	(441,913)
Inflow	171,703	270,630	-	-	-	442,333
	(2)	422	-	-	-	420

37 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 2018	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	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	3,210,533	-	-	-	-	-	3,210,533
Derivative financial assets	507	1,095	440	-	-	-	2,042
Financial assets at FVOCI	13,767	151,171	146,163	881,264	1,611,892	-	2,804,257
Financing, advances and other financing	988,021	728,292	296,562	1,032,630	15,572,355	-	18,617,860
Other assets	37,691	(27)	330	300	27	4,873	43,194
Amount due from holding company	107,722	-	-	-	-	-	107,722
Amount due from joint ventures	31,295	-	-	-	-	-	31,295
Amount due from associate	500	-	-	-	-	-	500
Statutory deposits with Bank Negara Malaysia	512,000	-	-	-	-	-	512,000
Other assets (1)	-	-	-	-	-	22,090	22,090
	4,902,036	880,531	443,495	1,914,194	17,184,274	26,963	25,351,493
Liabilities							
Deposits from customers	5,601,957	3,225,701	9,721,608	1,138,122	-	-	19,687,388
Investment accounts of customers	-	-	-	875	-	-	875
Deposits and placements of banks and other financial institutions	198,260	47,322	-	-	-	-	245,582
Investment accounts due to designated financial institutions	21,846	302,456	100,375	281,907	1,661,711	-	2,368,295
Derivative financial liabilities	3,245	1,044	-	-	-	-	4,289
Other liabilities	89,863	-	-	-	-	-	89,863
Provision for taxation	-	-	-	-	-	8,743	8,743
Subordinated term financing and medium term notes	-	-	11,231	-	800,000	300,000	1,111,231
	5,915,171	3,576,523	9,833,214	1,420,904	2,461,711	308,743	23,516,266
Net liquidity gap	(1,013,135)	(2,695,992)	(9,389,719)	493,290	14,722,563	(281,780)	

(1) Other assets include deferred tax assets, property and equipment and intangible assets.

37 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

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

Economic Entity 2017	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	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	1,423,594	-	-	-	-	-	1,423,594
Derivative financial assets	1,477	1,146	-	-	-	-	2,623
Financial assets at FVOCI	14,605	21,868	50,831	738,463	1,551,957	-	2,377,724
Financing, advances and other financing	592,061	639,754	347,828	2,401,442	11,388,662	-	15,369,747
Other assets	13,885	724	450	300	29	2,445	17,833
Amount due from holding company	406,523	-	-	-	-	-	406,523
Amount due from joint ventures	32,849	-	-	-	-	-	32,849
Amount due from associate	500	-	-	-	-	-	500
Statutory deposits with Bank Negara Malaysia	400,640	-	-	-	-	-	400,640
Other assets (1)	-	-	-	-	-	8,181	8,181
	2,886,134	663,492	399,109	3,140,205	12,940,648	10,626	20,040,214
Liabilities							
Deposits from customers	5,676,158	2,732,074	5,314,048	477,052	-	-	14,199,332
Investment accounts of customers	-	-	449	-	-	-	449
Deposits and placements of banks and other financial institutions	773,153	439,009	49,238	-	-	-	1,261,400
Investment accounts due to designated financial institutions	301,121	166,716	135,358	725,915	1,419,906	-	2,749,016
Derivative financial liabilities	1,028	2,230	-	-	-	-	3,258
Other liabilities	67,456	-	-	-	-	-	67,456
Provision for taxation	-	-	-	-	-	1,150	1,150
	6,818,916	3,340,029	5,499,093	1,202,967	1,419,906	1,150	18,282,061
Net liquidity gap	(3,932,782)	(2,676,537)	(5,099,984)	1,937,238	11,520,742	9,476	

(1) Other assets include deferred tax assets, property and equipment and intangible assets.

37 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

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

The Bank 2018	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	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	3,210,533	-	-	-	-	-	3,210,533
Derivative financial assets	507	1,095	440	-	-	-	2,042
Financial assets at FVOCI	13,767	151,171	146,163	881,264	1,611,892	-	2,804,257
Financing, advances and other financing	988,021	728,292	296,562	1,032,630	15,572,355	-	18,617,860
Other assets	37,691	(27)	330	300	27	4,873	43,194
Amount due from holding company	107,722	-	-	-	-	-	107,722
Amount due from joint ventures	31,295	-	-	-	-	-	31,295
Amount due from associate	500	-	-	-	-	-	500
Statutory deposits with Bank Negara Malaysia	512,000	-	-	-	-	-	512,000
Other assets (1)	-	-	-	-	-	22,740	22,740
	4,902,036	880,531	443,495	1,914,194	17,184,274	27,613	25,352,143
Liabilities							
Deposits from customers	5,601,957	3,225,701	9,721,608	1,138,122	-	-	19,687,388
Investment accounts of customers	-	-	-	875	-	-	875
Deposits and placements of banks and other financial institutions	198,260	47,322	-	-	-	-	245,582
Investment accounts due to designated financial institutions	21,846	302,456	100,375	281,907	1,661,711	-	2,368,295
Derivative financial liabilities	3,245	1,044	-	-	-	-	4,289
Other liabilities	89,863	-	-	-	-	-	89,863
Provision for taxation	-	-	-	-	-	8,743	8,743
Subordinated term financing and medium term notes	-	-	11,231	-	800,000	300,000	1,111,231
	5,915,171	3,576,523	9,833,214	1,420,904	2,461,711	308,743	23,516,266
Net liquidity gap	(1,013,135)	(2,695,992)	(9,389,719)	493,290	14,722,563	(281,130)	

(1) Other assets include deferred tax assets, property and equipment and intangible assets.

37 FINANCIAL RISK MANAGEMENT

(iii) Liquidity risk (continued)

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

The Bank 2017	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	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	1,423,594	-	-	-	-	-	1,423,594
Derivative financial assets	1,477	1,146	-	-	-	-	2,623
Financial assets at FVOCI	14,605	21,868	50,831	738,463	1,551,957	-	2,377,724
Financing, advances and other financing	592,061	639,754	347,828	2,401,442	11,388,662	-	15,369,747
Other assets	13,885	724	450	300	29	2,445	17,833
Amount due from holding company	406,523	-	-	-	-	-	406,523
Amount due from joint ventures	32,849	-	-	-	-	-	32,849
Amount due from associate	500	-	-	-	-	-	500
Statutory deposits with Bank Negara Malaysia	400,640	-	-	-	-	-	400,640
Other assets (1)	-	-	-	-	-	8,831	8,831
	2,886,134	663,492	399,109	3,140,205	12,940,648	11,276	20,040,864
Liabilities							
Deposits from customers	5,676,158	2,732,074	5,314,048	477,052	-	-	14,199,332
Investment accounts of customers	-	-	449	-	-	-	449
Deposits and placements of banks and other financial institutions	773,153	439,009	49,238	-	-	-	1,261,400
Investment accounts due to designated financial institutions	301,121	166,716	135,358	725,915	1,419,906	-	2,749,016
Derivative financial liabilities	1,028	2,230	-	-	-	-	3,258
Other liabilities	67,456	-	-	-	-	-	67,456
Amount due to holding company	-	-	-	-	-	-	-
Provision for taxation	-	-	-	-	-	1,150	1,150
	6,818,916	3,340,029	5,499,093	1,202,967	1,419,906	1,150	18,282,061
Net liquidity gap	(3,932,782)	(2,676,537)	(5,099,984)	1,937,238	11,520,742	10,126	

(1) Other assets include deferred tax assets, property and equipment and intangible assets.

37 FINANCIAL RISK MANAGEMENT

(iv) Operational risk management

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or external events. The definition includes legal risk, and exposure to litigation from all aspects of the Bank's activities, but excludes strategic business, reputational and systemic risks.

The Group Operational Risk Management Framework governs the management of operational risk across the Group.

Group Board Risk Management Committee ('GBRMC') approves all policies / policy changes relating to operational risk. Group Operational Risk Management Committee ('GORMC') supports GBRMC in the review and monitoring of operational risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

The operational risk management ('ORM') function within Group Risk Management ('GRM') operates in independent capacity to manage the risks in activities associated with the operational function of the Bank.

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 average annual gross income over the previous three years.

Operational risks are managed daily through established systems and processes to ensure compliance with policies, guidelines and control procedures.

The Bank employs the following standard operational risk tools for risk and control identification and assessment:

- Risk Control Self Assessment ('RCSA')
- Key Control Standards ('KCS')
- Key Risk Indicator ('KRI')
- Loss Event Database ('LED')

Scenario analysis is an extension of the risk assessment process whereby business/support unit identify potential operational risk events in a given scenario, assess the potential outcomes and the need for additional risk management controls or mitigation solutions for each of the potential outcome.

Information Technology ('IT') and cyber risks are managed as part of the operational risk activities. The IT systems and processes are assessed and tested regularly for resilience and continuity, and that they are secure from internal and external threats.

Introduction of new products or services are evaluated to assess suitability, potential risks and operational readiness.

Operational Risk Coordinators ('ORC') are appointed at business and support units as champions of ORM activities within respective units. The ORC is responsible for the reporting of ORM activities and to liaise with Group Operational Risk Management on all operational defects and results. As an internal requirement, all Operational Risk Coordinators must satisfy an Internal Operational Risk (including 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.

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37 FINANCIAL RISK MANAGEMENT

(v) Shariah Non-Compliance Risk

Shariah non-compliance ("SNC") is the risk of legal or regulatory sanctions, financial loss or non-financial implications including reputational damage, which the Bank may suffer arising from the failure to comply with the rulings of the Shariah Advisory Council of Bank Negara Malaysia ("SAC"), standards on Shariah matters issued by BNM pursuant to section 29(1) of the IFSA or decisions or advice of the Shariah Committee that are consistent with the rulings of the SAC.

The Shariah Governance Framework for Islamic Financial Institutions (BNM/RH/GL_012_3) issued by BNM and the Bank's Shariah Risk Management Framework are the main reference for the Shariah governance and Shariah risk management process within Affin Islamic Bank Berhad.

A Shariah Committee ('SC') is established to deliberate on Shariah issues presented to them and provide resolution as well as guidance. GORMC together with BRMC and GBRMC assist the Board in the overall oversight of Shariah risk management of the Group.

Shariah Risk Management is part of an integrated risk management control function to identify all possible risks of SNC and where appropriate, to provide mitigating measures that need to be taken to reduce the risk. The scope covers overall business activities and operations, commencing from Islamic product origination until maturity.

SNC risk is proactively managed via the following tools and methodologies:

1. SNC Event Reporting to BNM to collect, evaluate, monitor and report Shariah loss data;

2. Shariah Risk and Control Self-Assessment (RCSA) / Risk Profiling to assist business/functional unit to identify and assess risks and controls. RCSA will be performed annnually or as and when there is occurrence of significant events either internal or external;

3. Key Risk Indicator (KRI) to predict and highlight any potential high risk area. These indicators will be reviewed on a periodic basis (monthly or quarterly) to alert Management to changes that may have risk concerns; and

4. Key Control Standard (KCS) to validate the effectiveness of control measures.

(vi) Business Continuity Risk

Business continuity risk is the risk of losses in assets, revenue, reputation and stakeholder/customer confidence due to the discontinuation of services in both business and technology operations.

The Business Continuity Management Framework governs the management of business continuity issues, in line with BNM Guidelines on Business Continuity Management ('BCM').

BRMC approves all policies and its changes relating to business continuity management. It also reviews, monitors and discusses business continuity management reports tabled at its meetings. GORMC supports BRMC in the review and monitoring of Business Continuity Risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

The BCM function is an independent body overseeing the management of the overall business continuity risk.

Annual Risk Assessment and Business Impact Analysis are made compulsory for each business and support unit in the Bank to undertake. The outcome of this assessment will translate into a risks listing that require business and support units to derive action plans to address the risks.

Risk control is established through adherence with established BCM guidelines and standards throughout the implementation of BCM programs. Rigorous testing on business continuity and disaster recovery plans are diligently performed to ensure effective and smooth execution of the plan for resumption and recovery of disrupted business.

Policies and processes are in place to support the monitoring and reporting of business continuity risks.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018

37 FINANCIAL RISK MANAGEMENT

(vii) Fair value financial assets and liabilities

Fair value is defined as the price that would be received to sell as an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Bank measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities and actively exchange-traded derivatives.

Where fair value is determined using unquoted market 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 determines 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.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or other analytical techniques.

This category includes unquoted shares held for socio economic reasons. Fair values for shares held for socio economic reasons are based on the net tangible assets of the affected companies. The Bank's exposures to financial instruments classified as Level 3 comprised a small number of financial instruments which constitute an insignificant component of the Bank's portfolio of financial instruments. Hence, changing one or more of the inputs to reasonable alternative assumptions would not change the value significantly for the financial assets in Level 3 of the fair value hierarchy.

The Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. Transfers between fair value hierarchy primarily due to change in the level of trading activity, change in observable market activity related to an input, reassessment of available pricing information and change in the significance of the unobservable input. There were no transfers between Level 1, 2 and 3 of the fair value hierarchy during the financial year (2017: Nil).

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

37 FINANCIAL RISK MANAGEMENT

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

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

Economic Entity and The Bank 2018	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Assets				
Derivative financial assets	-	**2,042**	-	**2,042**
Financial investments at FVOCI				
- Money market instruments	-	**1,200,487**	-	**1,200,487**
- Corporate Sukuk	-	**1,603,770**	-	**1,603,770**
	-	**2,804,257**	-	**2,804,257**
		2,806,299		**2,806,299**
Liabilities				
Derivative financial liabilities	-	**4,289**	-	**4,289**
	-	**4,289**	-	**4,289**

Economic Entity and The Bank 2017	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Assets				
Derivative financial assets	-	2,623	-	2,623
Financial investments available for sale *				
- Money market instruments	-	1,085,040	-	1,085,040
- Corporate Sukuk	-	1,292,684	-	1,292,684
	-	2,377,724	-	2,377,724
	-	2,380,347	-	2,380,347
Liabilities				
Derivative financial liabilities	-	3,258	-	3,258
	-	3,258	-	3,258

* Net of allowance for impairment.

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

	Economic Entity and The Bank 2018 RM'000	**2017 RM'000**
At beginning of the financial year	-	-
Purchases	-	-
Sales	-	-
Reclassify to investment in associate	-	-
At end of the financial year	-	-

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

37 FINANCIAL RISK MANAGEMENT

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

Effect of changes in significant unobservable assumptions to reasonably possible alternative

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.

Qualitative information about the fair value measurements using significant unobservable inputs (Level 3):

Description	2018 RM'000	2017 RM'000	Valuation techniques	Unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Economic Entity and The Bank					
Financial investments available-for-sale					
Unquoted shares	-	-	Net tangible assets	Net tangible assets	Higher net tangible assets results in higher fair value

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 estimate 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.

Economic Entity and The Bank 2018	**Carrying value RM'000**	**Fair value Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Financial assets					
Financing, advances and other financing	**18,617,860**	**-**	**18,513,589**	**-**	**18,513,589**
	18,617,860	**-**	**18,513,589**	**-**	**18,513,589**
Financial liabilities					
Deposits from customers	**19,687,388**	**-**	**19,649,331**	**-**	**19,649,331**
Subordinated term financing and medium term notes	**1,111,231**	**-**	**1,116,256**	**-**	**1,116,256**
	20,798,619	**-**	**20,765,587**	**-**	**20,765,587**

Economic Entity and The Bank 2017	Carrying value RM'000	Fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets					
Financing, advances and other financing	15,369,747	-	15,005,506	-	15,005,506
	15,369,747	-	15,005,506	-	15,005,506
Financial liabilities					
Deposits from customers	14,199,332	-	14,208,578	-	14,208,578
	14,199,332	-	14,208,578	-	14,208,578

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2018

37 FINANCIAL RISK MANAGEMENT

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

Other than as disclosed above, the total fair value of each financial assets and liabilities presented on the statements of financial position as at reporting date of the Bank approximates the total carrying amount.

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 assets at amortised cost

The fair values of financial assets at amortised cost 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, advances and other financing whether fixed or floating are represented by their carrying values, net of expected credit losses, being the reasonable estimate of recoverable amount.

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.

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 payable on demand.

38 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In accordance with MFRS 132 'Financial Instruments: Presentation', the Bank reports financial assets and financial liabilities on a net basis on the statements of financial position only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The following table shows the impact of netting arrangement on:

- All financial assets and liabilities that are reported net on statements of financial position; and
- All derivative financial instruments and other similar secured financing and funding agreements that are subject to enforceable master netting arrangements or similar agreements, but do not qualify for statements of financial position netting.

The table identifies the amounts that have been offset in the statements of financial position and also those amounts that are covered by enforeable netting arrangements (offsetting arrangements and financial collateral) but do not qualify for netting under the requirements of MFRS 132 described above.

The "Net amounts" presented below are not intended to represent the Bank's actual exposure to credit risk, as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements.

Related amount not offset

Derivative financial assets and liabilities

The 'Financial instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as the ISDA Master Agreement or derivative exchange or clearing counterparty agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transaction covered by the agreements if an event of default or other predetermined events occur.

Financial collateral refers to cash and non-cash collateral obtained, typically daily or weekly, to cover the net exposure between counterparties by enabling the collateral to be realised in an event of default or if other predetermined events occur.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

38 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Derivative financial assets and liabilities (continued)

Economic Entity and The Bank 2018	Effects of offsetting on the statements of financial position Gross amount RM'000	Amount offset RM'000	Net amount reported on statement of financial position RM'000	Related amounts not offset Financial instruments RM'000	Financial collateral RM'000	Net amount RM'000
Financial assets						
Derivative financial assets	**2,042**	**-**	**2,042**	**(831)**	**-**	**1,211**
Total assets	**2,042**	**-**	**2,042**	**(831)**	**-**	**1,211**
Financial liabilities						
Derivative financial liabilities	**4,289**	**-**	**4,289**	**(831)**	**-**	**3,458**
Total liabilities	**4,289**	**-**	**4,289**	**(831)**	**-**	**3,458**

Economic Entity and The Bank 2017	Effects of offsetting on the statements of financial position Gross amount RM'000	Amount offset RM'000	Net amount reported on statement of financial position RM'000	Related amounts not offset Financial instruments RM'000	Financial collateral RM'000	Net amount RM'000
Financial assets						
Derivative financial assets	2,623	-	2,623	(2,187)	-	436
Total assets	2,623	-	2,623	(2,187)	-	436
Financial liabilities						
Derivative financial liabilities	3,258	-	3,258	(2,187)	-	1,071
Total liabilities	3,258	-	3,258	(2,187)	-	1,071

39 LEASE COMMITMENTS

The Bank has lease commitments in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the future minimum lease payments under non-cancellable operating leases commitments are as follows:

	Economic Entity and The Bank 2018 RM'000	2017 RM'000
Within one year	**636**	915
One year to five years	**94**	730

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

40 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 for Islamic Banks (Capital Components) dated 2 February 2018.

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 for Islamic Banks (Capital Components), the minimum capital adequacy requirement for Common Equity Tier 1 Capital Ratio ('CET 1') and Tier 1 Capital Ratio are 6.375% (2017: 5.750%) and 7.875% (2017: 7.250%) respectively for year 2018. The minimum regulatory capital adequacy requirement has increased to 9.875% (2017 : 9.250%) 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 41 below summarises the composition of regulatory capital and the ratios of the Bank for the financial year ended 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

41 CAPITAL ADEQUACY

The capital adequacy ratios are as follows:

	Economic Entity		The Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Paid-up share capital	**1,060,000**	1,060,000	**1,060,000**	1,060,000
Retained profits	**577,671**	610,202	**578,321**	610,852
FVOCI/AFS revaluation reserves	**3,172**	(6,915)	**3,172**	(6,915)
	1,640,843	1,663,287	**1,641,493**	1,663,937
Less:				
Goodwill and other intangibles	**(670)**	-	**(670)**	-
Deferred tax assets	**(17,993)**	(5,020)	**(17,993)**	(5,020)
55% of cumulative unrealised gains of FVOCI	**(1,745)**	-	**(1,745)**	-
Investment in associate/joint ventures	**(750)**	(600)	**(1,400)**	(1,120)
CET1 capital	**1,619,685**	1,657,667	**1,619,685**	1,657,797
Additional Tier 1 capital				
Qualifying capital instruments held by third parties	**300,000**	-	**300,000**	-
	300,000	-	**300,000**	-
Total Tier 1 capital	**1,919,685**	1,657,667	**1,919,685**	1,657,797
Subordinated medium term financing	**800,000**	-	**800,000**	-
Loss provisions	**177,100**	128,190	**177,100**	128,190
Less:				
Investment in associate/joint ventures	**-**	(150)	**-**	(280)
Tier II capital	**977,100**	128,040	**977,100**	127,910
Total capital	**2,896,785**	1,785,707	**2,896,785**	1,785,707
CET1 capital ratio	**10.869%**	15.086%	**10.869%**	15.087%
Tier 1 capital ratio	**12.882%**	15.086%	**12.882%**	15.087%
Total capital ratio	**19.438%**	16.251%	**19.438%**	16.251%
CET1 capital ratio (net of prosed dividends)	**10.869%**	15.086%	**10.869%**	15.087%
Tier 1 capital ratio (net of prosed dividends)	**12.882%**	15.086%	**12.882%**	15.087%
Total capital ratio (net of prosed dividends)	**19.438%**	16.251%	**19.438%**	16.251%
Risk-weighted assets for:				
Credit risk	**14,167,963**	10,438,538	**14,167,963**	10,438,538
Market risk	**98,198**	19,266	**98,198**	19,266
Operational risk	**636,209**	530,574	**636,209**	530,574
Total risk-weighted assets	**14,902,370**	10,988,378	**14,902,370**	10,988,378

In accordance with BNM's Guidelines on Investment Account, the credit and market risk weighted on the assets funded by the RIA are excluded from calculation of capital adequacy. As at 31 December 2018, RIA assets excluded from Total Capital Ratio calculation amounted to RM2,369,729,422 (2017: RM2,749,016,284)

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2018

42 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.

Measurement of the expected credit losses allowance

The measurement of the expected credit losses allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 38, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note38.

43 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.

		The Bank	
		2018	**2017**
		RM'000	**RM'000**
(i)	The aggregate value of outstanding credit exposures with connected parties (RM'000)	**2,122,197**	625,349
(ii)	The percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	**8%**	3%
(iii)	The percentage of outstanding credit exposures with connected parties which is impairedor in default	**Nil**	Nil

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, MOHD SUFFIAN BIN HAJI HARON and LAKSAMANA MADYA TAN SRI DATO' SERI AHMAD RAMLI BIN MOHD NOR (RETIRED), 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 49 to 156 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 2018 and of the results and cash flows of the Economic Entity and the Bank for the financial year ended on the date in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016, in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

MOHD SUFFIAN BIN HAJI HARON
Chairman

LAKSAMANA MADYA TAN SRI DATO' SERI AHMAD RAMLI BIN MOHD NOR (RETIRED)
Director

Kuala Lumpur, Malaysia
18 March 2019

STATUTORY DECLARATION
PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT 2016

I, RAMANATHAN RAJOO, 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 49 to 156 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.

RAMANATHAN RAJOO

Subscribed and solemnly declared by the abovenamed RAMANATHAN RAJOO at Kuala Lumpur in Malaysia on 18 March 2019, before me.

Commissioner for Oaths

SHARIAH COMMITTEE'S REPORT

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

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

In compliance with the Shariah Governance Framework, Financial Reporting for Islamic Banking Institutions and other relevant guidelines issued by Bank Negara Malaysia, we affirm the following:

We have reviewed the principles and contracts relating to the transactions and applications offered by AFFIN Islamic Bank Berhad ('the Bank') during the period ended 31 December 2018. We have also conducted our review to form an opinion as to whether the Bank has complied with the Shariah principles and 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 the 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 sample testing 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 obtain with sufficient evidence to give reasonable assurance that the Bank has not violated the Shariah principles.

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

We have performed an oversight function over the management and distribution of the Bank's charity fund.

In our opinion:

1. the contracts, transactions and dealings entered into by the Bank during the year ended 31 December 2018 that we have reviewed are in compliance with the Shariah principles;
2. the allocation of profit and incurrence of losses relating to investment accounts conform to the basis that we have approved in accordance with Shariah principles;
3. no earning and purification was recorded from sources or by means prohibited by the Shariah principles for the financial year end 31 December 2018.
4. no Shariah non-compliant events discovered for the financial year end 31 December 2018;
5. the calculation of zakat is in compliance with Shariah principles. The zakat fund is distributed through various channels i.e. States Zakat Collection Centre, non-govermental organization and individuals under *asnaf* categories.

During the financial year ended 31 December 2018, a total of 8 meetings were held. The Shariah Committee comprises the following members and the details of 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
Associate Professor Dr. Said Bouheraoua	8/8
Associate Professor Dr. Ahmad Azam bin Othman	8/8
Associate Professor Dr. Zulkifli bin Hasan	7/8
Dr. Mohammad Mahbubi Ali	8/8
Dr. Nor Fahimah binti Mohd Razif	8/8
Associate Professor Datin Dr. Nurdianawati Irwani Abdullah	3/4

SHARIAH COMMITTEE'S REPORT

We, the members of the Shariah Committee of AFFIN Islamic Bank Berhad, do hereby confirm that the operations of the Bank for the year ended 31 December 2018 have been conducted in conformity with the Shariah principles.

Chairman of the Shariah Committee: **Associate Professor Dr. Said Bouheraoua**

Shariah Committee: **Associate Professor Dr. Ahmad Azam Bin Othman**

Shariah Committee: **Associate Professor Dr. Zulkifli Hasan**

Shariah Committee: **Dr. Mohammad Mahbubi Ali**

Shariah Committee: **Dr. Nor Fahimah Binti Mohd Razif**

Shariah Committee: **Associate Professor Datin Dr. Nurdianawati Irwani Abdullah**

Kuala Lumpur, Malaysia
18 March 2019

INDEPENDENT AUDITORS' REPORT

to the Member of AFFIN ISLAMIC Bank Berhad (Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of AFFIN Islamic Bank Berhad ("the Bank") and the Economic Entity give a true and fair view of the financial position of the Economic Entity and of the Bank as at 31 December 2018, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Economic Entity and of the Bank, which comprise the statements of financial position as at 31 December 2018 of the Economic Entity and of the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Economic Entity and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 49 to 156.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

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

Independence and other ethical responsibilities

We are independent of the Economic Entity and of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ('By-Laws') and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditors' report thereon

The Directors of the Bank are responsible for the other information. The other information comprises the information included in Directors' Report, but does not include the financial statements of the Economic Entity and of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Economic Entity and of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Economic Entity and of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Economic Entity and of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors of the Bank are responsible for the preparation of the financial statements of the Economic Entity and of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Economic Entity and of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Economic Entity and of the Bank, the Directors are responsible for assessing the Economic Entity's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Economic Entity or the Bank or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITORS' REPORT

to the Member of AFFIN ISLAMIC Bank Berhad (Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Economic Entity and of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Economic Entity and of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit 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 Economic Entity's and the Bank's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Economic Entity's or the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Economic Entity and of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Economic Entity or the Bank to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Economic Entity and of the Bank, including the disclosures, and whether the financial statements of the Economic Entity and of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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INDEPENDENT AUDITORS' REPORT

to the Member of AFFIN ISLAMIC Bank Berhad (Incorporated in Malaysia)

OTHER MATTERS

This report is made solely to the member of the Bank, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

NG YEE LING
03032/01/2021 J
Chartered Accountant

Kuala Lumpur, Malaysia
18 March 2019

BASEL II PILLAR 3 DISCLOSURES

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2018

1 INTRODUCTION

1.1 Background

The Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets) issued by Bank Negara Malaysia ('BNM'), which is the equivalent of the Basel II issued by the Basel Committee of Banking Supervision and the Islamic Financial Services Board 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.

Pillar 3 disclosure is required under the BNM Capital Adequacy Framework for Islamic Banks (CAFIB) - Disclosure Requirements (Pillar 3).

Affin Islamic Bank Berhad ('the Bank') adopts 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 2018. 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 2018 Annual Report for the year ended 31 December 2018.

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 are congruent with 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. 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.

The terms of reference of the Board Committees as disclosed in the Annual Report provide an outline of respective roles 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.

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2018

2 RISK GOVERNANCE STRUCTURE

2.2 Board Committees

Board Nomination and Remuneration Committee ('BNRC')

The BNRC is responsible for providing a formal and transparent procedure for the appointment of Directors, Chief Executive Officer and Senior Management. The BNRC develops the remuneration policy for Directors, Chief Executive Officer, Senior Management and other material risk takers, whereby, it assesses the effectiveness of individual Director, the Board as a whole and the performance of the Chief Executive Officer as well as Senior Management.

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

Group Board Risk Management Committee ('GBRMC')

The GBRMC is responsible for overseeing management activities in managing credit, market, liquidity, operational, legal, reputational and other material risks as well as ensuring that the risk management process is in place and functioning effectively.

It is responsible for setting the overall tone of the Bank's strategy and ensuring effective communication and integration of risk appetite within the business strategy, operations and culture.

The Committee also assists the Board in oversight responsibilities on internal controls, and risk management strategies, policies, processes, frameworks and other risk related matters. It has the responsibility of reviewing and/or approving risk management policies, guidelines and reports.

Board Credit Review and Recovery Committee ('BCRRC')

The BCRRC is responsible for providing critical review of financing and other credit facilities with high risk implications and vetoing financing applications that have been approved by the Group Management Credit Committee as appropriate.

Board Audit Committee ('BAC')

The BAC is responsible for providing oversight and reviewing the adequacy and integrity of the internal control systems as well as 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 BAC 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 BAC and administratively to the Managing Director/Chief Executive Officer ('MD/CEO') of AFFIN Bank Berhad.

Board Oversight Transformation Committee ('BOTC')

The BOTC is responsible for overseeing the transformation plan (Affinity Program), secure the consistency of strategic decision and ensure that the transformation plan is implemented effectively in a timely manner.

Shariah Committee ('SC')

The SC is formed as legislated under the Islamic Financial Services Act 2013 and as per the Shariah Governance Framework for Islamic Financial Institutions.

The roles and responsibilities of the SC include advising the Board on Shariah matters to ensure that the business operations of the Bank comply with Shariah principles at all times. SC is also responsible for endorsing and validating relevant documentations of the Bank's products to ensure that the products comply with Shariah principles, and advising the Bank on matters to be referred to the Shariah Advisory Council.

BASEL II PILLAR 3 DISCLOSURES

as at 31 December 2018

2 RISK GOVERNANCE STRUCTURE

2.3 Management Committees

Management Committee ('MCM')

The MCM comprises the senior management team chaired by MD/CEO. MCM is responsible for assisting the Board in managing the day-to-day operations, formulating tactical plans and business strategies while monitoring the banking entities' overall performance, and ensuring all business activities conducted are in accordance with the Bank's corporate objectives, strategies, policies as well as Annual Business Plan and Budget.

The MCM is supported by the following sub-committees:

– Governance, Risk and Compliance

– Branch Performance

– IT, Operations, Digital and Customer Experience

Group Management Credit Committee ('GMCC')

The GMCC is established within senior management to approve complex and large financing and workout/recovery proposals beyond the delegated authority of the individual approvers.

Group Asset and Liability Management Committee ('GALCO')

The GALCO comprising the senior management team chaired by the MD/CEO, manages the Bank's asset and liability position by identifying, managing and controlling balance sheet risks and capital management in the execution of the business strategy, while implementing asset liability strategy and policy for the balance sheet of the respective subsidiary.

Liquidity Management Committee ('LMC')

The LMC is a sub-committee of the GALCO. The role of LMC is to augment the functions of GALCO by directing its focus specifically to liquidity issues.

Group Operational Risk Management Committee ('GORMC')

The GORMC is a senior management committee chaired by the Group Chief Risk Officer ('GCRO'), established to oversee the management of operational risks issues and control lapses while supporting BRMC in its review and monitoring of operational risk. It is also responsible for reviewing and ensuring that the operational risk programme, process and framework are implemented in accordance with regulatory requirement and manage loss incidents to an acceptable level.

Group Early Alert Committee ('GEAC')

The GEAC is a senior management committee, established to monitor credit quality through monthly reviews of the Early Control (MFRS 9 Stage 1) and Underperforming (MFRS 9 Stage 2) Accounts as well as to review the actions taken to address the emerging risks and issues in these accounts.

2.4 Group Risk Management Function

Group Risk Management ('GRM'), headed by the GCRO is segregated from the lines of business, with direct reporting line to GBRMC to ensure independence of risk management function.

The independence of risk function is critical towards controlling and managing the Bank's risk taking activities to achieve an optimum return in line with the subsidiaries' risk appetite, with consideration to variations required due to differences in each subsidiary's business model.

Committees namely BCRRC, SC, MCM, GMCC, GALCO, LMC, GORMC and GEAC assist GBRMC in managing credit, market, liquidity, operational and other material risks in the Bank. The responsibilities of these Committees include risk identification, risk assessment and measurement, risk control and mitigation and risk monitoring and reporting.

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2018

2 RISK GOVERNANCE STRUCTURE

2.5 Internal Audit and Internal Control Activities

In accordance with BNM's Guidelines on Corporate Governance for Licensed Islamic Banks, GIA conducts continuous reviews on auditable areas within the Bank. The reviews by GIA are focused on areas of significant risks and effectiveness of internal control in accordance with the audit plan approved by the BAC.

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 BAC and Management meetings on bi-monthly basis. The BAC also conducts 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 that 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

The total capital and capital adequacy ratios of the Bank is computed in accordance with BNM's CAFIB (Capital Components).

The Bank is currently adopting the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk. In line with the transitional arrangements under the BNM CAFIB (Capital Components), the minimum capital adequacy requirement for Common Equity Tier 1 Capital Ratio ('CET 1') and Tier 1 Capital Ratio are 6.375% (2017: 5.750%) and 7.875% (2017: 7.250%) respectively for year 2018. The minimum regulatory capital adequacy requirement is 9.875% (2017: 9.250%) for total capital ratio.

The following table sets forth further details on the capital resources and capital adequacy ratios for the Bank as at 31 December 2018.

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2018

3 CAPITAL MANAGEMENT

3.2 Capital Structure (continued)

	Economic Entity		The Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Paid-up share capital	**1,060,000**	1,060,000	**1,060,000**	1,060,000
Retained profits	**577,671**	610,202	**578,321**	610,852
Unrealised gains and losses on FVOCI/AFS instruments	**3,172**	(6,915)	**3,172**	(6,915)
	1,640,843	1,663,287	**1,641,493**	1,663,937
Goodwill and other intangibles	**(670)**	-	**(670)**	-
Deferred tax assets	**(17,993)**	(5,020)	**(17,993)**	(5,020)
55% of cumulative gains on FVOCI/AFS instruments	**(1,745)**	-	**(1,745)**	-
Investment in associate/joint ventures	**(750)**	(600)	**(1,400)**	(1,120)
CET1 capital	**1,619,685**	1,657,667	**1,619,685**	1,657,797
Additional Tier 1 Capital				
Qualifying capital instruments held by third parties	**300,000**	-	**300,000**	-
	300,000	-	**300,000**	-
Total Tier 1 Capital	**1,919,685**	1,657,667	**1,919,685**	1,657,797
Subordinated term financing and medium term notes (MTNs)	**800,000**	-	**800,000**	-
Collective impairment	**-**	33,324	**-**	33,324
Regulatory adjustments	**177,100**	94,866	**177,100**	94,866
Less: Investment in associate/joint ventures	**-**	(150)	**-**	(280)
Tier II capital	**977,100**	128,040	**977,100**	127,910
Total capital	**2,896,785**	1,785,707	**2,896,785**	1,785,707
CET1 capital ratio	**10.869%**	15.086%	**10.869%**	15.087%
Tier 1 capital ratio	**12.882%**	15.086%	**12.882%**	15.087%
Total capital ratio	**19.438%**	16.251%	**19.438%**	16.251%
CET1 capital ratio (net of proposed dividends)	**10.869%**	15.086%	**10.869%**	15.087%
Tier 1 capital ratio (net of proposed dividends)	**12.882%**	15.086%	**12.882%**	15.087%
Total capital ratio (net of proposed dividends)	**19.438%**	16.251%	**19.438%**	16.251%
Risk-weighted assets for:				
Credit risk	**14,167,963**	10,438,538	**14,167,963**	10,438,538
Market risk	**98,198**	19,266	**98,198**	19,266
Operational risk	**636,209**	530,574	**636,209**	530,574
Total risk-weighted assets	**14,902,370**	10,988,378	**14,902,370**	10,988,378

3.3 Capital Adequacy

The Bank 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.

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2018

4 RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is principally engaged in all aspects of Islamic 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, management of risks and which 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, assess, measure, control and mitigate all key risks as well as manage and monitor the risk positions. The risk measurement tools employed are commonly used in market practices and commensurate with the size and complexity of the Bank's business operations.

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 as well as minimise any potential adverse effects.

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 to settle financial and contractual obligations through financing, hedging, trading and investing activities. It includes both pre-settlement and settlement risks of trading counterparties. Credit risk emanates mainly from financing, advances and other financing, financing commitments arising from such financing activities, as well as through financial transaction with counterparties including interbank money market activities as well as derivative instruments used for hedging and debt securities.

The management of credit risk in the Bank is governed by the Credit Risk Management Framework which is supported by a set of approved credit policies, guidelines and procedures. New and existing businesses are governed by Credit Plan which is developed as part of the annual business planning and budgeting process. The Credit Plan is reviewed at least annually to ensure the guidelines and criteria reflect portfolio strategy and market environment. Approval authorities are delegated to Senior Management and GMCC to implement the credit policies and ensure sound credit granting standards. BCRRC has review/veto power.

An independent Group Credit Management function is headed by Group Chief Credit Officer ('GCCO') with direct reporting line to MD/CEO to ensure sound credit appraisal and approval process. GRM with direct reporting line to GBRMC has functional responsibilities for the management of credit risk, to ensure adherence to risk standards and discipline.

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 BNM guidelines. 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.

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

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2018

5 CREDIT RISK

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 with the level of risk undertaken. Assessment and quantification of credit risk are supported by the use of internal rating models, scorecards and decision support tools.

A critical element in the evaluation process for business financing advances and other financing is the assignment of a credit risk grade to the counterparty. The Bank adopts a credit risk grading methodology encompassing probability of default ('PD') driven scorecards to assist in the risk assessment and decision making process.

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

Stress Testing supplements the overall assessment of credit risk across the Bank.

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 rate of return 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 tenure to maturity).

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, 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, advances and other 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.

Credit related commitments

Commitment to extend credit represents unutilised portion of approved credit in the form of financing, advances and other 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).

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2018

5 CREDIT RISK

5.5 Credit Risk Monitoring

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

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

An Early Alert Process is adopted to pro-actively identify, report, and manage warning signs of potential credit deterioration. 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.

The Bank has established MFRS 9 - Stage Transfer Policy to provide guidance in determining significant increases in credit risk of financial assets. There are 3 stages to differentiate the credit risk of the financial assets in conjunction with MFRS 9 standards : Performing Accounts (Stage 1), Underperforming Accounts (Stage 2) and Impaired Accounts (Stage 3).

Active portfolio monitoring as well as exceptions reporting is in place to manage the overall risk profile, identify, analyse and mitigate adverse trends or specific areas of risk concerns.

5.6 Expected Credit Losses ('ECL')

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default ('PD') as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of customer.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the customer. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically takes into consideration a number of relevant factors when identifying and analysing of counterparty credit risk. These factors determines the credit rating under the Credit Risk Grading Policy, which considers factors such as competitive position, operating performance, cash flow strength and management strength.

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2018

5 CREDIT RISK

5.6 Expected Credit Losses ('ECL') (continued)

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and customer as well as by credit risk grading. For some portfolios, information from external credit reference agencies are also used.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile lokks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the financing, advances and other financing. The maturity profile is based on historical observed data and is assomed to be the same across all assets within a porfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime Exposures of Default ('CADs') are determined based on the expected payment profile, which varies by product type.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark profit rates and unemployment.

The Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modelling, the remaining lifetime PD is determined to have increased by more than a predetermined percentage/range.

Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the customer.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2018

5 CREDIT RISK

5.6 Expected Credit Losses ('ECL') (continued)

Modified financial assets

The contractual terms of a financing may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing financing whose terms have been modified may be derecognised and the renegotiated financing recognised as a new financing at fair value.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Bank renegotiates financing to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Financing forbearance is granted on a selective basis if the customer is currently in default on its debt or if there is a high risk of default, there is evidence that the customer made all reasonable efforts to pay under the original contractual terms and the customer is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of financing covenants.

For financial assets modified, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect profit and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the customer's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Definition of default

The Bank considers a financial asset to be in default when:

- the customer is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the customer is past due more than 90 days on any material credit obligation to the Bank.

In assessing whether a customer is in default, the Bank considers indicators that are:

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

5 CREDIT RISK

5.6 Expected Credit Losses (‘ECL’) (continued)

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Bank formulates a ‘base case’ view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 3 to 5 years.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (‘PD’);
- loss given default (‘LGD’); and
- exposure at default (‘EAD’).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any customer’s extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require payment of an advance or terminate a financing commitment or guarantee.

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as at 31 December 2018

5 CREDIT RISK

5.6 Expected Credit Losses ('ECL') (continued)

Measurement of ECL (continued)

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- product/instrument type;
- credit risk grading;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the customer.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

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 refers to financing, advances and other financing that are overdue by one day or more.

(i) the principal or profit or both is past due more than 90 days or 3 months from the first day of default

(ii) where the account is in arrears for less than 90 days or 3 months, there is evidence of impairment to indicate that the customer/customer is 'unlikely to pay' its credit obligations

(iii) the financing is classified as rescheduled and restructured in Central Credit Reference Information System ('CCRIS')

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5 CREDIT RISK

5.6 Expected Credit Losses ('ECL') (continued)

Analysed by economic sectors
Past due financing

Economic Entity and The Bank	2018 Stage 1 RM'000	2018 Stage 2 RM'000	2018 Stage 3 RM'000	2018 Total RM'000	2017 Total RM'000
Primary agriculture	1,082	456	-	1,538	72,417
Mining and quarrying	-	-	-	-	145
Manufacturing	1,993	967	-	2,960	2,132
Electricity, gas and water supply	468	333	-	801	523
Construction	15,709	4,538	-	20,247	13,416
Real estate	27,321	2,733	-	30,054	31,815
Wholesale & retail trade and restaurants & hotels	8,329	6,631	-	14,960	13,060
Transport, storage and communication	19,844	3,404	-	23,248	6,268
Finance, takaful/insurance and business services	5,593	8,684	-	14,277	10,480
Education, health and others	4,100	774	-	4,874	3,411
Household	625,050	376,522	-	1,001,572	769,574
	709,489	405,042	-	1,114,531	923,241

Expected credit losses

Economic Entity and The Bank	2018 12-month ECL Stage 1 RM'000	Lifetime ECL Not credit impaired Stage 2 RM'000	Lifetime ECL credit impaired Stage 3 RM'000	Total RM'000
Primary agriculture	3,145	4	-	3,149
Mining and quarrying	115	-	-	115
Manufacturing	2,219	320	581	3,120
Electricity, gas and water supply	975	1	-	976
Construction	1,982	326	1,763	4,071
Real estate	7,332	1,927	26,347	35,606
Wholesale & retail trade and restaurants & hotels	1,781	63	1,809	3,653
Transport, storage and communication	795	784	260	1,839
Finance, takaful/insurance and business services	868	3,247	844	4,959
Education, health and others	5,372	9	92	5,473
Household	24,678	4,183	36,165	65,026
Government	1,030	-	-	1,030
	50,292	10,864	67,861	129,017

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2018

5 CREDIT RISK

5.6 Expected Credit Losses ('ECL') (continued)

Analysed by economic sectors (continued)
Expected credit losses (continued)

Economic Entity and The Bank	2017 Individual impairment RM'000	Collective impairment RM'000	Total RM'000
Primary agriculture	-	677	677
Mining and quarrying	-	75	75
Manufacturing	5	753	758
Electricity, gas and water supply	-	435	435
Construction	9,411	2,888	12,299
Real estate	13,017	2,428	15,445
Wholesale & retail trade and restaurants & hotels	1,334	2,087	3,421
Transport, storage and communication	-	1,019	1,019
Finance, takaful/insurance and business services	-	1,493	1,493
Education, health and others	-	1,321	1,321
Household	272	44,085	44,357
	24,039	57,261	81,300

Expected credit losses written-off

Economic Entity and The Bank	**2018** **Lifetime ECL credit impaired Stage 3** **RM'000**	2017 Individual impairment RM'000	Collective impairment RM'000	Total RM'000
Primary agriculture	**-**	-	45	45
Mining and quarrying	**67**	-	-	-
Manufacturing	**4**	-	62	62
Electricity, gas and water supply	**82**	-	-	-
Construction	**7,533**	-	702	702
Real estate	**-**	-	4	4
Wholesale & retail trade and restaurants & hotels	**617**	-	132	132
Transport, storage and communication	**89**	-	210	210
Finance, takaful/insurance and business services	**97**	-	-	-
Education, health and others	**64**	-	102	102
Household	**9,724**	-	7,072	7,072
	18,277	-	8,329	8,329

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2018

5 CREDIT RISK

5.6 Expected Credit Losses ('ECL') (continued)

Analysed by geographical area
Past due financing

	2018				2017
	Lifetime ECL 12-month ECL	Lifetime ECL Not credit impaired	Lifetime ECL credit impaired		
	Stage 1	Stage 2	Stage 3	Total	Total
Economic Entity and The Bank	RM'000	RM'000	RM'000	RM'000	RM'000
Perlis	815	1,304	-	2,119	1,263
Kedah	39,660	30,553	-	70,213	64,922
Pulau Pinang	35,916	18,281	-	54,197	30,402
Perak	32,201	28,623	-	60,824	64,459
Selangor	275,986	141,552	-	417,538	275,378
Wilayah Persekutuan	99,944	42,275	-	142,219	193,286
Negeri Sembilan	53,754	34,634	-	88,388	67,706
Melaka	14,836	13,601	-	28,437	28,275
Johor	88,689	37,307	-	125,996	76,784
Pahang	22,408	11,052	-	33,460	28,236
Terengganu	20,941	27,123	-	48,064	57,438
Kelantan	11,354	11,568	-	22,922	24,603
Sarawak	4,502	3,435	-	7,937	4,374
Sabah	8,483	3,734	-	12,217	6,104
Outside Malaysia	-	-	-	-	11
	709,489	405,042	-	1,114,531	923,241

Expected credit losses

	2018			
	12-month ECL	Lifetime ECL Not credit impaired	Lifetime ECL credit impaired	
	Stage 1	Stage 2	Stage 3	Total
Economic Entity and The Bank	RM'000	RM'000	RM'000	RM'000
Perlis	3,016	15	337	3,368
Kedah	2,462	636	3,246	6,344
Pulau Pinang	1,898	765	1,116	3,779
Perak	1,669	913	3,238	5,820
Selangor	16,432	4,166	17,499	38,097
Wilayah Persekutuan	8,374	944	3,916	13,234
Negeri Sembilan	2,059	382	3,879	6,320
Melaka	760	1,156	685	2,601
Johor	5,441	1,222	3,282	9,945
Pahang	1,991	100	737	2,828
Terengganu	1,234	241	2,275	3,750
Kelantan	446	132	1,242	1,820
Sarawak	1,876	37	27	1,940
Sabah	2,634	155	883	3,672
Outside Malaysia	-	-	25,499	25,499
	50,292	10,864	67,861	129,017

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2018

5 CREDIT RISK

5.6 Expected Credit Losses ('ECL') (continued)

Analysed by geographical area (continued)
Expected credit losses (continued)

Economic Entity and The Bank	2017 Individual impairment RM'000	Collective impairment RM'000	Total RM'000
Perlis	-	458	458
Kedah	7,983	4,343	12,326
Pulau Pinang	-	1,853	1,853
Perak	-	5,087	5,087
Selangor	2,854	17,422	20,276
Wilayah Persekutuan	12,672	7,602	20,274
Negeri Sembilan	-	3,330	3,330
Melaka	3	1,269	1,272
Johor	-	4,960	4,960
Pahang	-	1,524	1,524
Terengganu	182	4,818	5,000
Kelantan	-	2,797	2,797
Sarawak	345	763	1,108
Sabah	-	734	734
Labuan	-	163	163
Outside Malaysia	-	138	138
	24,039	57,261	81,300

6 MARKET RISK

6.1 Market Risk Management Objectives and Policies

Market risk is defined as changes in the market value of financial instrument position arising from movements in market factors such as profit rate, foreign exchange rates and implied volatility rates. The Bank's exposure to market risk results largely from profit rate and foreign exchange rate risks.

The Market Risk Management Framework governs the market risk activities of the Bank which is supported by a set of approved market risk management policies, guidelines and procedures.

Risk management policies and procedures are reviewed and updated to ensure relevance to current business needs as well as current/ applicable regulatory requirements such as BNM's policy documents on:

(a) Managing Unauthorised Trading & Market Manipulation,

(b) Code of Conduct for Malaysia Wholesale Financial Markets, and

(c) Principles for a Fair and Effective Financial Market for Malaysian Financial Market.

6.2 Application of Standardised Approach for Market Risk Capital Charge Computation

The Bank adopts the Standardised Approach for the purpose of calculating the capital requirement for market risk.

Refer Appendix I.

6.3 Market Risk Measurement, Control and Monitoring

The Bank's market risks are measured primarily using mark-to-market revaluation methodology. Market risk parameters are the tolerance level of risk acceptance set by the Bank to confine losses arising from adverse rate or price movements. Market risk parameters are established based on its risk appetite, market liquidity and business strategies as well as macroeconomic conditions. These parameters are reviewed at least on an annual basis.

The Bank quantifies profit rate risk by analysing the mismatches in timing repricing of the rate sensitive assets and rate sensitive liabilities. Earnings-at-Risk ('EaR') or Net Profit Income simulation is conducted to assess the variation in short term earnings under various rates scenarios. The potential long term effect of the overall exposure is tracked by assessing the impact on Economic Value of Equity ('EVE'), also known as Economic Value-at-Risk ('EVaR'). Thresholds are set for EaR and EVaR as management triggers.

In addition, periodic stress tests are conducted to quantify market risk arising from probability of abnormal market movements.

The GALCO and GBRMC are regularly kept informed of the Bank's risk profile and positions.

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 abnormal market movements. Stress tests measure the changes in values arising from extreme movements in profit rates and foreign exchange rates based on past experiences and simulated stress scenarios.

6.4 Foreign Exchange Risk

The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The risk of fluctuations in foreign currency exchange rates is managed via setting of thresholds on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

BASEL II PILLAR 3 DISCLOSURES
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7 LIQUIDITY RISK

7.1 Liquidity Risk Management Objectives and Policies

Liquidity risk is the risk of inability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. 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.

The Liquidity Risk Management Framework governs the liquidity risk management activities of the Bank. The objective of liquidity risk management is to ensure that there are sufficient funds to meet contractual and regulatory obligations without incurring unacceptable losses as well as to undertake new transactions. The Bank's liquidity management process involves establishing liquidity risk management policies and prudential thresholds, liquidity risk threshold monitoring, stress testing and establishing contingency funding plans. These building blocks of liquidity risk management are subject to regular reviews to ensure relevance in the context of prevailing market conditions and regulatory landscape.

7.2 Liquidity Risk Measurement, Control and Monitoring

The Bank's short term liquidity risk management is premised on BNM's Liquidity Coverage Ratio ('LCR') final standards. The LCR is a quantitative requirement which seeks to ensure that the Bank holds sufficient high-quality liquid assets ('HQLA') to withstand a significant liquidity stress scenario over a 30-day horizon. Long term liquidity risk profile is assessed via the Net Stable Funding Ratio ('NSFR') which promotes resilience over a longer time horizon for the Bank to fund its activities with more stable sources of funding on an ongoing basis.

The Bank also employs a set of liquidity risk indicators as an early alert of any structural change for liquidity risk management. The liquidity risk indicators include internal and external qualitative as well as quantitative indicators.

Liquidity stress tests are conducted periodically and on ad-hoc basis to gauge the Bank's resilience in the event of a liquidity disruption.

The Contingency Funding Plan 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, enabling the Bank to respond to an unexpected liquidity disruption in an effective and efficient manner.

The GBRMC is responsible for the Bank's liquidity policy and the strategic management of liquidity has been delegated to the GALCO. The LMC, which is a sub-committee of GALCO, augments the functions of GALCO by directing its focus specifically to liquidity issues. The GBRMC is informed regularly on the liquidity position of the Bank.

8 OPERATIONAL RISK

8.1 Operational Risk Management Objectives and Policies

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or external events. The definition includes legal risk, and exposure to litigation from all aspects of the Bank's activities, but excludes strategic business, reputational and systemic risks.

Information Technology ('IT') and cyber risks are managed as part of the operational risk activities. IT and cyber risk span a range of business critical areas, such as security, availability, performance and compliance.

The Group Operational Risk Management Framework governs the management of operational risk across the Group and the Bank. IT Risk Management Framework is an extended framework that defines the control objectives and minimum standards to guide the IT Department / relevant personnel in managing the IT & cyber risks involved in the daily operations. The scope of IT Risk Management Framework covers risk governance, risk management approaches, risk management process, risk management tool and exception handling.

GBRMC approves all policies/policy changes relating to operational risk. GORMC supports GBRMC in the review and monitoring of operational risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

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 average annual gross income over the previous three years.

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2018

8 OPERATIONAL RISK

8.3 Operational Risk Measurement, Control and Monitoring

Operational risks are managed daily through established systems and processes to ensure compliance with policies, guidelines and control procedures.

The Bank employs the following standard operational risk tools for risk and control identification and assessment:

- Risk Control Self Assessment ('RCSA')
- Key Control Standards ('KCS')
- Key Risk Indicator ('KRI')
- Loss Event Database ('LED')

Scenario analysis is an extension of the risk assessment process whereby business/support unit identify potential operational risk events in a given scenario, assess the potential outcomes and the need for additional risk management controls or mitigation solutions for each of the potential outcome.

The IT systems and processes are assessed and tested regularly for resilience and continuity, and that they are secure from internal and external threats. IT risk appetite have been formally determined as part of a risk assessment and monitoring scope. It enables the Board and senior management to more deeply understand exposure to specific IT & cyber risks, establish clarity on the IT & cyber imperatives for the organization, work out tradeoffs, and determine priorities.

Introduction of new products or services are evaluated to assess suitability, potential risks and operational readiness. Operational Risk Coordinators ('ORC') are appointed at business and support units as champions of ORM activities within respective units. The ORC is responsible for the reporting of ORM activities and to liaise with Group Operational Risk Management on all operational defects and results.

8.4 Certification

As an internal requirement, all Operational Risk Coordinators must satisfy an Internal Operational Risk (including 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 NON-COMPLIANCE RISK

9.1 Shariah non-compliance risk objectives and policies

Shariah non-compliance ('SNC') is the risk of legal or regulatory sanctions, financial loss or non-financial implications including reputational damage, which the Bank may suffer arising from the failure to comply with the rulings of the Shariah Advisory Council of Bank Negara Malaysia ('SAC'), standards on Shariah matters issued by BNM pursuant to section 29(1) of the IFSA or decisions or advice of the Shariah Committee that are consistent with the rulings of the SAC.

The Shariah Risk Management Framework governs the management of SNC risk within the Bank.

The Shariah Committee deliberates on Shariah issues presented to them, and provide resolution and guidance. GORMC together with GBRMC assist the Board in the overall oversight of Shariah Risk Management of the Group.

Shariah Risk Management is part of an integrated risk management control function. It assists business units and functional lines to identify all possible SNC risk and its mitigating measures.

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2018

9 SHARIAH NON-COMPLIANCE RISK

9.2 Shariah non-compliance risk measurement, control and monitoring

SNC risk is proactively managed with the following tools:

1. SNC Event Reporting to BNM
   Shariah loss data are collected for evaluation, monitoring and reporting.

2. Shariah Risk and Control Self-Assessment ('RCSA')
   To systematically assist business units and functional lines to identify and assess SNC risks and controls. RCSA is performed annually or when there is occurrence of significant events either internal or external.

3. Key Risk Indicator ('KRI')
   By monitoring key SNC risk exposures over time, it provides the management early alert of changes in the risk and control environment.

4. Key Control Standard ('KCS')
   To validate the effectiveness of control measures.

10 BUSINESS CONTINUITY RISK

10.1 Business continuity risk management objectives and policies

Business continuity risk is the risk of losses in assets, revenue, reputation and stakeholder/customer confidence due to the discontinuation of services in both business and technology operations.

The Business Continuity Management Framework governs the management of business continuity issues, in line with BNM Guidelines on Business Continuity Management ('BCM').

GBRMC approves all policies and its changes relating to business continuity management. It also review, monitor and discuss business continuity management reports tabled at its meetings. GORMC supports GBRMC in the review and monitoring of Business Continuity Risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

The BCM function is an independent body overseeing the management of the overall business continuity risk.

10.2 Business continuity risk measurement, control and monitoring

Annual Risk Assessment and Business Impact Analysis are made compulsory for each business and support unit in the Bank to undertake. The outcome of this assessment will translate into a risks listing that require business and support units to derive action plans to address the risks.

Risk control is established through adherence with established BCM guidelines and standards throughout the implementation of BCM programs. Rigorous testing on business continuity and disaster recovery plans are diligently performed to ensure effective and smooth execution of the plan for resumption and recovery of disrupted business.

Policies and processes are in place to support the monitoring and reporting of business continuity risks.

BASEL II PILLAR 3 DISCLOSURES
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Appendix I

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
2018

	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		6,005,482	5,924,186	4,695,414	4,695,414	375,633
	Regulatory Retail		4,882,294	4,814,294	3,614,382	3,614,382	289,150
	Other Assets		956,388	956,388	279,715	279,715	22,377
	Sovereigns/Central Banks		4,592,433	4,592,433	-	-	-
	Banks, Development Financial Institutions & MDBs		29,755	29,755	1,983	1,983	159
	Takaful/Insurance Companies, Securities Firms & Fund Managers		149	149	149	149	12
	Residential Mortgages		6,293,631	6,279,260	3,885,032	3,885,032	310,803
	Higher Risk Assets		147,330	143,464	210,057	210,057	16,804
	Defaulted Exposures		267,217	265,546	366,890	366,890	29,351
	Total for On-Balance Sheet Exposures		23,174,679	23,005,475	13,053,622	13,053,622	1,044,289
	Off Balance Sheet Exposures						
	Off Balance Sheet Exposures other than OTC derivatives or credit derivatives		1,678,218	1,678,218	1,108,885	1,108,885	88,711
	Defaulted Exposures		4,405	4,405	5,456	5,456	437
	Total for Off-Balance Sheet Exposures		1,682,623	1,682,623	1,114,341	1,114,341	89,148
	Total for On and Off-Balance Sheet Exposures		24,857,302	24,688,098	14,167,963	14,167,963	1,133,437
		Long Position	**Short Position**				
2	**MARKET RISK**						
	Profit Rate Risk	1,018,775	1,021,008	(2,233)	7,008	-	561
	Foreign Currency Risk	169,762	78,577	91,185	91,190	-	7,295
3	**OPERATIONAL RISK**						
	Operational Risk				636,209		50,897
	Total RWA and Capital Requirements				14,902,370	14,167,963	1,192,190

OTC "Over The Counter"
PSIA "Profit Sharing Investment Account"

Disclosure on Capital Adequacy under the Standardised Approach (RM'000) (continued)

Appendix I

Economic Entity and The Bank
2017

	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	4,937,875		4,884,094	3,750,233	3,750,233	300,019
	Regulatory Retail	4,233,282		4,217,538	3,163,123	3,163,123	253,050
	Other Assets	931,548		931,548	159,073	159,073	12,726
	Sovereigns/Central Banks	2,634,063		2,634,063	-	-	-
	Banks, Development Financial Institutions & MDBs	29,706		29,706	1,984	1,984	159
	Takaful/Insurance Companies, Securities Firms & Fund Managers	49		49	49	49	4
	Residential Mortgages	4,285,488		4,273,551	2,003,369	2,003,369	160,269
	Higher Risk Assets	149,313		145,698	210,214	210,214	16,817
	Defaulted Exposures	157,592		157,530	216,302	216,302	17,304
	Total for On-Balance Sheet Exposures	17,358,916		17,273,777	9,504,347	9,504,347	760,348
	Off Balance Sheet Exposures						
	Off Balance Sheet Exposures other than OTC derivatives or credit derivatives	1,447,524		1,433,041	930,581	930,581	74,446
	Defaulted Exposures	2,748		2,748	3,610	3,610	289
	Total for Off-Balance Sheet Exposures	1,450,272		1,435,789	934,191	934,191	74,735
	Total for On and Off-Balance Sheet Exposures	18,809,188		18,709,566	10,438,538	10,438,538	835,083
		Long Position	Short Position				
2	MARKET RISK						
	Profit Rate Risk	771,686	772,194	(509)	8,626	-	690
	Foreign Currency Risk	10,640	-	10,640	10,640	-	851
3	OPERATIONAL RISK						
	Operational Risk				530,574		42,446
	Total RWA and Capital Requirements				10,988,378	10,438,538	879,070

OTC "Over The Counter"
PSIA "Profit Sharing Investment Account"

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2018

Disclosure on Capital Adequacy under the Standardised Approach (continued) Appendix I

Market risk is defined as changes in the market value of financial instrument position arising from movements in market factors such as profit rate, foreign exchange rates and implied volatility rates. 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 and foreign exchange rates. A CaR reference threshold is set as a management trigger to ensure that the Bank's capital adequacy is not impinged upon in the event of adverse market movements. The Bank currently adopts BNM's Standardised Approach for the computation of market risk capital charges. The market risk capital charge addresses among others, capital requirement for market risk which includes the profit rate risk in the Bank's 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 ('FX')

(b) Profit Rate Swap ('IRS')

(c) Cross Currency Swap ('CCS')

(d) Fixed Income Instruments (i.e. Corporate Sukuk and Government Securities)

The Bank's Trading Book Policy Statement stipulates the policies and procedures for including or excluding exposures from the Trading Book for the purpose of calculating regulatory market risk capital.

Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000)

Appendix II

Economic Entity and The Bank
2018

	Exposures after Netting and Credit Risk Mitigation													
Risk Weights	Sovereigns & Central Banks	PSEs	Banks, MDBs and FDIs	Takaful/ 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%	4,647,062	-	19,840	-	849,472	-	-	-	586,370	-	-	-	6,102,744	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	60,715	-	23,874	-	488,963	-	-	-	112,879	-	-	-	686,431	137,286
35%	-	-	-	-	-	-	3,505,856	-	-	-	-	-	3,505,856	1,227,050
50%	-	-	3,002	-	105,395	1,277	937,392	7,538	-	-	-	-	1,054,604	527,302
70%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	4,977,721	4,052	-	-	-	-	-	4,981,773	3,736,330
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	150	5,322,790	7,980	2,402,021	-	257,140	-	-	-	7,990,081	7,990,081
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	135,787	10,451	78,652	141,719	-	-	-	-	366,609	549,914
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"

Appendix II

Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000) (continued)

Economic Entity and The Bank
2017

	Exposures after Netting and Credit Risk Mitigation													
Risk Weights	Sovereigns & Central Banks	PSEs	Banks, MDBs and FDIs	Takaful/ 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%	2,686,196	-	19,786	-	632,838	-	-	-	445,995	-	-	-	3,784,815	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	47,607	-	23,129	-	630,150	-	-	-	408,100	-	-	-	1,108,986	221,797
35%	-	-	-	-	-	-	3,443,888	-	-	-	-	-	3,443,888	1,205,361
50%	-	-	-	-	95,561	2,555	736,931	7,297	-	-	-	-	842,344	421,172
70%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	4,271,894	145	-	-	-	-	-	4,272,039	3,204,030
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	49	4,283,681	7,057	629,814	2,072	77,453	-	-	-	5,000,126	5,000,126
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	62,121	7,648	50,107	137,492	-	-	-	-	257,368	386,052
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"

Appendix III

(i) **Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000)**

Economic Entity and The Bank
2018

Exposure Class	Ratings of Corporate by Approved ECAI					
	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)		-	-	-	-	-
Takaful/Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	149
Corporates		276,898	27,861	-	-	6,680,486
Total		**276,898**	**27,861**	**-**	**-**	**6,680,635**

Appendix III

(i) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000) (continued)

Economic Entity and The Bank
2017

Exposure Class	Ratings of Corporate by Approved ECAI					
	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)		-	-	-	-	-
Takaful/Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	49
Corporates		329,585	33,696	-	-	5,404,728
Total		329,585	33,696	-	-	5,404,777

Appendix III

(ii) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000) (continued)

Economic Entity and The Bank
2018

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
<u>On and Off-Balance-Sheet Exposures</u> Sovereigns and Central Banks		-	4,707,777	-	-	-	-
Total		-	4,707,777	-	-	-	-

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
<u>On and Off-Balance-Sheet Exposures</u> Banks, MDBs and FDIs		13,928	-	-	-	-	32,788
Total		13,928	-	-	-	-	32,788

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2018

Appendix III

(ii) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000) (continued)

Economic Entity and The Bank
2017

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		-	2,733,803	-	-	-	-
Total		-	2,733,803	-	-	-	-

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		12,092	-	-	-	-	30,823
Total		12,092	-	-	-	-	30,823

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2018

(a) Disclosures on Credit Risk Mitigation (RM'000) Appendix IV

Economic Entity and The Bank
2018

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	4,592,433	-	-	-
Banks, Development Financial Institutions & MDBs	29,755	-	-	-
Takaful/Insurance Cos, Securities Firms & Fund Managers	149	-	-	-
Corporates	6,005,482	66,040	81,289	-
Regulatory Retail	4,882,294	-	68,000	-
Residential Mortgages	6,293,631	-	14,371	-
Higher Risk Assets	147,330	5,315	3,865	-
Other Assets	956,388	-	-	-
Defaulted Exposures	267,217	-	1,677	-
Total for On-Balance Sheet Exposures	**23,174,679**	**71,355**	**169,202**	**-**
Off-Balance Sheet Exposures				
Off-Balance sheet exposures other than	1,678,218	-	-	-
OTC derivatives or credit derivatives	4,405	-	-	-
Defaulted Exposures				
Total for Off-Balance Sheet Exposures	**1,682,623**	**-**	**-**	**-**
Total On and Off-Balance Sheet Exposures	**24,857,302**	**71,355**	**169,202**	**-**

BASEL II PILLAR 3 DISCLOSURES

as at 31 December 2018

(a) Disclosures on Credit Risk Mitigation (RM'000) Appendix IV

Economic Entity and The Bank
2017

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	2,634,063	-	-	-
Banks, Development Financial Institutions & MDBs	29,706	-	-	-
Takaful/Insurance Cos, Securities Firms & Fund Managers	49	-	-	-
Corporates	4,937,875	61,865	63,658	-
Regulatory Retail	4,233,282	-	19,537	-
Residential Mortgages	4,285,488	-	12,750	-
Higher Risk Assets	149,313	7,297	3,615	-
Other Assets	931,548	-	-	-
Defaulted Exposures	157,592	-	61	-
Total for On-Balance Sheet Exposures	17,358,916	69,162	99,621	-
Off-Balance Sheet Exposures				
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	1,447,524	-	-	-
Defaulted Exposures	2,748	-	-	-
Total for Off-Balance Sheet Exposures	1,450,272	-	-	-
Total On and Off-Balance Sheet Exposures	18,809,188	69,162	99,621	-

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2018

(b) Disclosure on Off-Balance Sheet and Counterparty Credit Risk (RM'000) Appendix IV

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
2018

Description	Total Principle Amount	Positive Fair Value of Derivative Contracts	Total Credit Equivalent Amount	Total Risk Weighted Amount
Direct Credit Substitutes	101,288		101,288	93,358
Transaction related contingent Items	281,206		140,603	139,960
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,998,265		999,132	636,220
Short Term Self Liquidating trade related contingencies	318,969		63,794	15,222
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	1,605,783		321,157	194,000
Unutilised credit card lines	195,948		39,190	29,397
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	14,139		-	-
Foreign exchange related contracts				
- less than one year	1,028,225	2,042	17,459	6,184
Total	5,543,823	2,042	1,682,623	1,114,341

BASEL II PILLAR 3 DISCLOSURES

as at 31 December 2018

(b) Disclosure on Off-Balance Sheet and Counterparty Credit Risk (RM'000) (continued) Appendix IV

Economic Entity and The Bank
2017

Description	Total Principle Amount	Positive Fair Value of Derivative Contracts	Total Credit Equivalent Amount	Total Risk Weighted Amount
Direct Credit Substitutes	92,241		92,241	84,311
Transaction related contingent Items	293,354		146,677	144,108
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,656,826		828,413	481,577
Short Term Self Liquidating trade related contingencies	279,532		55,907	14,903
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	1,583,496		316,699	206,972
Unutilised credit card lines	337		68	51
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	25,654		-	-
Foreign exchange related contracts				
- less than one year	802,588	2,623	10,267	2,269
Total	4,734,028	2,623	1,450,272	934,191

BASEL II PILLAR 3 DISCLOSURES
as at 31 December 2018

(c) Disclosures on Market Risk - Profit Rate Risk/Rate of Return Risk in the Banking Book Appendix IV

Profit rate risk is the risk to earnings and capital arising from exposure to adverse movements in profit rates mainly due to mismatches in timing repricing of assets and liabilities. These mismatches are actively managed from an earnings and economic value perspective.

The objective of profit rate risk management is to achieve a stable and sustainable net profit income from the following perspectives:

(1) Next 12 months' Earnings - Profit rate risk from the earnings perspective is the impact based on changes to the net profit income ('NPI') over the next 12 months. This risk is measured through sensitivity analysis including the application of an instantaneous 100 basis point parallel shock in profit rates across the yield curve.

(2) Economic Value - Measuring the change in the economic value of equity ('EVE') is an assessment of the long term impact to the Bank's capital. 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.

Profit rate risk thresholds are established in line with the Group's strategy and risk appetite. These thresholds are reviewed regularly to ensure relevance in the context of prevailing market conditions.

	Economic Entity and The Bank		Economic Entity and The Bank	
	2018	**2018**	2017	2017
Type of Currency (RM million)	**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	**46.5**	**57.2**	(10.1)	125.0
US Dollar	**(0.9)**	**(0.1)**	(1.1)	-
Others (*)	**(0.4)**	**-**	0.6	-
Total	**45.2**	**57.1**	(10.6)	125.0

* Others comprise of SGD, JPY, EUR, AUD and GBP currencies where the amount of each currency is relatively small.

NETWORK OF BRANCHES

	Name & Address	Tel	Fax
1	**AFFIN ISLAMIC Taman Molek Branch** No. 23, 23-01, 23-02, Jalan Molek 1/29, Taman Molek, 81100 Johor Bahru, Johor.	07-351 9522	07-357 9522
2	**AFFIN ISLAMIC Jitra Branch** No. 17, Jalan Tengku Maheran 2, Taman Tengku Maheran Fasa 4, 06000 Jitra Kedah	04-919 0888	04-919 0380
3	**AFFIN ISLAMIC Senawang Branch** No 312-G & 312-1, Jalan Bandar Senawang 17, Pusat Bandar Senawang, 70450 Seremban, Negeri Sembilan.	06-675 7288	06-675 7088
4	**AFFIN ISLAMIC Juru Auto-City Branch** No. 1813A, Jalan Perusahaan, Auto-City, North-South Highway Juru Interchange, 13600 Prai, Pulau Pinang.	04-507 7522	04-507 0522
5	**AFFIN ISLAMIC Bangi Branch** No.175 & 177, Ground Floor, Jalan 8/1, Seksyen 8, 43650 Bandar Baru Bangi, Selangor	03-8927 5881	03-8927 4815
6	**AFFIN ISLAMIC MSU Branch** Management & Science University, 2nd Floor, University Drive, Persiaran Olahraga, Seksyen 13, 40100 Shah Alam, Selangor	03-5510 0425	03-5510 0563
7	**AFFIN ISLAMIC PJ SS2 Branch** 1st Floor, 161-163, Jalan SS 2/24, 47300 Petaling Jaya, Selangor	03-7874 3513	03-7874 3480
8	**AFFIN ISLAMIC Kuala Terengganu Branch** No. 63 & 63 A , Jalan Sultan Ismail, 20200 Kuala Terengganu, Terengganu	09-622 3725	09-623 6496
9	**AFFIN ISLAMIC Fraser Branch** No. 20-G & 20-1, Jalan Metro Pudu, Fraser Business Park, 55100 Kuala Lumpur	03-9222 8877	03-9222 9877

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE **13TH 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 **WEDNESDAY, 24 APRIL 2019** AT **2.30 P.M.** FOR THE FOLLOWING PURPOSES:-

AGENDA

ORDINARY BUSINESS

1. To lay before the meeting the Audited Financial Statements for the financial year ended 31 December 2018 and the Reports of the Directors and Auditors thereon.
2. To re-elect the following Directors who retire by rotation pursuant to Article 74 of the Company's Constitution:-
   - 2.1 Encik Mohd Suffian Bin Haji Haron **Resolution 1**
   - 2.2 Dato' Bakarudin Bin Ishak **Resolution 2**
3. To approve the payment of Directors' Fees, other emoluments and benefits amounting to RM1,055,000 for the financial year ended 31 December 2018. **Resolution 3**
4. To approve the payment of Non-Executive Directors' Remuneration with effect from the 13th Annual General Meeting (AGM) until the next AGM of the Company. **Resolution 4**
5. To re-appoint Messrs PricewaterhouseCoopers as the Company's Auditors for the financial year ending 31 December 2019 and to authorise the Directors to fix the Auditors' remuneration. **Resolution 5**
6. To transact any other ordinary business of the Company.

BY ORDER OF THE BOARD

NIMMA SAFIRA KHALID (LS0009015)
Secretary

Kuala Lumpur
25 March 2019

NOTE:

(1) The Audited Financial Statements are for discussion only as they do not require shareholder's approval pursuant to Section 340(1) of the Companies Act, 2016. Hence, this matter will not be put for voting.

(2) Ordinary Resolution 4
The proposed ordinary resolution 4, if passed, will give authority to the Company to pay the Directors' fees, other emoluments and benefits for a period from 13th AGM to the 14th AGM of the Company.

The details of the fee structure are as follows:

	Fees (RM)	
	Chairman	**Member**
Board		
Director's Fees (per annum)	160,000	130,000
Director's Sitting Fees (per meeting)	3,000	2,000
Board Committee		
Board Committee Fees (per annum)	40,000	35,000
Board Committee Sitting Fees (per meeting)	2,400	2,000

www.affinislamic.com.my

Affin Islamic Bank Berhad (709506-V)
17th Floor, Menara AFFIN,
80, Jalan Raja Chulan,
50200 Kuala Lumpur

T +603 2055 9000
F +603 2026 1415

Affin Islamic Bank Berhad (709506-V)

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