Company No: 709506-V

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF FINANCIAL POSITION *as at 30 June 2019*

		Economic Entity		The Bank	
	Note	**30/6/2019**	31/12/2018	**30/6/2019**	31/12/2018
		RM'000	RM'000	**RM'000**	RM'000
ASSETS					
Cash and short-term funds		**5,558,666**	3,210,533	**5,558,666**	3,210,533
Derivative financial assets	13	**3,631**	2,042	**3,631**	2,042
Financial investments at fair value through other comprehensive income ('FVOCI')	14	**2,501,874**	2,804,257	**2,501,874**	2,804,257
Financing, advances and other financing	15	**18,559,160**	18,617,860	**18,559,160**	18,617,860
Other assets	16	**66,294**	43,194	**66,294**	43,194
Amount due from holding company		**-**	107,722	**-**	107,722
Amount due from joint ventures	17	**32,163**	31,295	**32,163**	31,295
Amount due from associate	18	**500**	500	**500**	500
Deferred tax assets		**6,649**	17,993	**6,649**	17,993
Statutory deposits with Bank Negara Malaysia		**571,000**	512,000	**571,000**	512,000
Investment in joint ventures		**-**	-	**650**	650
Investment in associate		**750**	750	**750**	750
Property and equipment		**2,210**	2,677	**2,210**	2,677
Right-of-use assets		**698**	-	**698**	-
Intangible assets		**728**	670	**728**	670
TOTAL ASSETS		**27,304,323**	25,351,493	**27,304,973**	25,352,143
LIABILITIES AND EQUITY					
Deposits from customers	19	**21,645,508**	19,687,388	**21,645,508**	19,687,388
Investment accounts of customers	20	**1,965**	875	**1,965**	875
Deposits and placements of banks and other financial institutions	21	**283,409**	245,582	**283,409**	245,582
Investment accounts due to designated financial institutions	22	**1,890,739**	2,368,295	**1,890,739**	2,368,295
Derivative financial liabilities	23	**2,252**	4,289	**2,252**	4,289
Other liabilities	24	**93,280**	89,863	**93,280**	89,863
Amount due to holding company		**356,711**	-	**356,711**	-
Provision for taxation		**3,482**	8,743	**3,482**	8,743
Lease liabilities	25	**701**	-	**701**	-
Subordinated term financing and medium term notes	26	**1,111,034**	1,111,231	**1,111,034**	1,111,231
TOTAL LIABILITIES		**25,389,081**	23,516,266	**25,389,081**	23,516,266
Share capital		**1,060,000**	1,060,000	**1,060,000**	1,060,000
Reserves	27	**855,243**	775,227	**855,893**	775,877
TOTAL EQUITY		**1,915,243**	1,835,227	**1,915,893**	1,835,877
TOTAL LIABILITIES AND EQUITY		**27,304,324**	25,351,493	**27,304,974**	25,352,143
COMMITMENTS AND CONTINGENCIES	35	**4,743,994**	5,543,823	**4,743,994**	5,543,823
CAPITAL ADEQUACY RATIOS					
CET1 capital ratio		**10.820%**	10.869%	**10.820%**	10.869%
Tier 1 capital ratio	38	**12.835%**	12.882%	**12.835%**	12.882%
Total capital ratio		**19.381%**	19.438%	**19.381%**	19.438%

The unaudited interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2018.

Company No: 709506-V

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS
UNAUDITED INCOME STATEMENTS *for the financial quarter ended 30 June 2019*

	Note	Economic Entity Individual Quarter Ended 30/6/2019 RM'000	Economic Entity Individual Quarter Ended 30/6/2018 RM'000	Economic Entity Cumulative Quarter Ended 30/6/2019 RM'000	Economic Entity Cumulative Quarter Ended 30/6/2018 RM'000
Income derived from investment of depositors' funds and others	29	**291,629**	234,419	**561,743**	445,034
Income derived from investment of investment account funds	30	**26,671**	22,400	**53,319**	45,949
Income derived from investment of shareholders' funds	31	**25,902**	23,027	**50,589**	44,557
Allowances for impairment losses on financing, advances and other financing	32	**(3,644)**	1,272	**(7,460)**	(13,664)
Total distributable income		**340,558**	281,118	**658,191**	521,876
Income attributable to the depositors and others	33	**(236,081)**	(172,625)	**(460,260)**	(327,173)
Total net income		**104,477**	108,493	**197,931**	194,703
Other operating expenses	34	**(65,293)**	(55,144)	**(126,755)**	(109,082)
Profit before zakat and taxation		**39,184**	53,349	**71,176**	85,621
Zakat		**(3,000)**	-	**(3,000)**	-
Profit before taxation		**36,184**	53,349	**68,176**	85,621
Taxation		**(10,729)**	(12,815)	**(18,285)**	(20,497)
Net profit after zakat and taxation		**25,455**	40,534	**49,891**	65,124
Attributable to:					
Equity holder of the Bank		**25,455**	40,534	**49,891**	65,124
Earnings per share (sen):					
- Basic		**2.4**	3.8	**4.7**	6.1

The unaudited interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2018.

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
for the financial quarter ended 30 June 2019 (continued)

	Economic Entity Individual Quarter Ended		**Economic Entity Cumulative Quarter Ended**	
	30/6/2019	30/6/2018	**30/6/2019**	30/6/2018
	RM'000	RM'000	**RM'000**	RM'000
Profit after zakat and taxation	**25,455**	40,534	**49,891**	65,124
Other comprehensive income:				
Items that may be reclassified subsequently to profit and loss:				
Net fair value change in				
- financial investments at FVOCI	**6,223**	(11,732)	**39,431**	(12,207)
Net credit impairment losses change in financial investments at FVOCI	**175**	(6)	**157**	(6)
Deferred tax on				
- financial investments at FVOCI	**(1,493)**	2,816	**(9,463)**	2,930
Other comprehensive income/(expense) for the financial period, net of tax	**4,905**	(8,922)	**30,125**	(9,283)
Total comprehensive income for the financial period	**30,360**	31,612	**80,016**	55,841
Attributable to equity holder of the Bank:				
- Total comprehensive income	**30,360**	31,612	**80,016**	55,841

The unaudited interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2018.

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS
UNAUDITED INCOME STATEMENTS *for the financial quarter ended 30 June 2019*

(continued)

	Note	**The Bank Individual Quarter Ended 30/6/2019 RM'000**	30/6/2018 RM'000	**The Bank Cumulative Quarter Ended 30/6/2019 RM'000**	30/6/2018 RM'000
Income derived from investment of depositors' funds and others	29	**291,629**	234,419	**561,743**	445,034
Income derived from investment of investment account funds	30	**26,671**	22,400	**53,319**	45,949
Income derived from investment of shareholders' funds	31	**25,902**	23,027	**50,589**	44,557
Allowances for impairment losses on financing, advances and other financing	32	**(3,644)**	1,272	**(7,460)**	(13,664)
Total distributable income		**340,558**	281,118	**658,191**	521,876
Income attributable to the depositors and others	33	**(236,081)**	(172,625)	**(460,260)**	(327,173)
Total net income		**104,477**	108,493	**197,931**	194,703
Other operating expenses	34	**(65,293)**	(55,144)	**(126,755)**	(109,082)
Profit before zakat and taxation		**39,184**	53,349	**71,176**	85,621
Zakat		**(3,000)**	-	**(3,000)**	-
Profit before taxation		**36,184**	53,349	**68,176**	85,621
Taxation		**(10,729)**	(12,815)	**(18,285)**	(20,497)
Net profit after zakat and taxation		**25,455**	40,534	**49,891**	65,124
Attributable to:					
Equity holder of the Bank		**25,455**	40,534	**49,891**	65,124
Earnings per share (sen):					
- Basic		**2.4**	3.8	**4.7**	6.1

The unaudited interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2018.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
for the financial quarter ended 30 June 2019 (continued)

	The Bank		**The Bank**	
	Individual Quarter Ended		**Cumulative Quarter Ended**	
	30/6/2019	30/6/2018	**30/6/2019**	30/6/2018
	RM'000	RM'000	**RM'000**	RM'000
Profit after zakat and taxation	**25,455**	40,534	**49,891**	65,124
Other comprehensive income:				
Items that may be reclassified subsequently to profit and loss:				
Net fair value change in				
- financial investments at FVOCI	**6,223**	(11,732)	**39,431**	(12,207)
Net credit impairment losses change in financial investments at FVOCI	**175**	(6)	**157**	(6)
Deferred tax on				
- financial investments at FVOCI	**(1,493)**	2,816	**(9,463)**	2,930
Other comprehensive income/(expense) for the financial period, net of tax	**4,905**	(8,922)	**30,125**	(9,283)
Total comprehensive income for the financial period	**30,360**	31,612	**80,016**	55,841
Attributable to equity holder of the Bank:				
- Total comprehensive income	**30,360**	31,612	**80,016**	55,841

The unaudited interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2018.

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
for the financial quarter ended 30 June 2019

	Attributable to Equity Holder of the Bank				
Economic Entity	**Share capital RM'000**	**FVOCI revaluation reserves RM'000**	**Regulatory reserves RM'000**	**Retained profits RM'000**	**Total Equity RM'000**
At 1 January 2019	**1,060,000**	**3,172**	**194,384**	**577,671**	**1,835,227**
Net profit for the financial period	**-**	**-**	**-**	**49,891**	**49,891**
Other comprehensive income (net of tax)					
- Financial investments at FVOCI	**-**	**30,125**	**-**	**-**	**30,125**
Total comprehensive income for the financial period	**-**	**30,125**	**-**	**49,891**	**80,016**
Transfer to regulatory reserves	**-**	**-**	**33,150**	**(33,150)**	**-**
At 30 June 2019	**1,060,000**	**33,297**	**227,534**	**594,412**	**1,915,243**

Economic Entity	Share capital 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	1,060,000	-	(6,915)	94,866	610,202	1,758,153
Adjustment arising from adoption of MFRS 9	-	(6,700)	6,915	(19,067)	(26,388)	(45,240)
At 1 January 2018, as restated	1,060,000	(6,700)	-	75,799	583,814	1,712,913
Net profit for the financial period	-	-	-	-	65,124	65,124
Other comprehensive income (net of tax)						
- Financial investments at FVOCI	-	(9,283)	-	-	-	(9,283)
Total comprehensive income for the financial period	-	(9,283)	-	-	65,124	55,841
Transfer to regulatory reserves	-	-	-	25,751	(25,751)	-
At 30 June 2018	1,060,000	(15,983)	-	101,550	623,187	1,768,754

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CHANGES IN EQUITY

for the financial quarter ended 30 June 2019
(continued)

	Non-distributable			Distributable	
The Bank	**Share capital RM'000**	**FVOCI revaluation reserves RM'000**	**Regulatory reserves RM'000**	**Retained profits RM'000**	**Total Equity RM'000**
At 1 January 2019	**1,060,000**	**3,172**	**194,384**	**578,321**	**1,835,877**
Net profit for the financial period	**-**	**-**	**-**	**49,891**	**49,891**
Other comprehensive income (net of tax)					
- Financial investments at FVOCI	**-**	**30,125**	**-**	**-**	**30,125**
Total comprehensive income for the financial period	**-**	**30,125**	**-**	**49,891**	**80,016**
Transfer to regulatory reserves	**-**	**-**	**33,150**	**(33,150)**	**-**
At 30 June 2019	**1,060,000**	**33,297**	**227,534**	**595,062**	**1,915,893**

The Bank	Share capital 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	1,060,000	-	(6,915)	94,866	610,852	1,758,803
Adjustment arising from adoption of MFRS 9	-	(6,700)	6,915	(19,067)	(26,388)	(45,240)
At 1 January 2018, as restated	1,060,000	(6,700)	-	75,799	584,464	1,713,563
Net profit for the financial period	-	-	-	-	65,124	65,124
Other comprehensive income (net of tax)						
- Financial investments at FVOCI	-	(9,283)	-	-	-	(9,283)
Total comprehensive income for the financial period	-	(9,283)	-	-	65,124	55,841
Transfer to regulatory reserves	-	-	-	25,751	(25,751)	-
At 30 June 2018	1,060,000	(15,983)	-	101,550	623,837	1,769,404

Company No: 709506-V

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CASH FLOW *for the financial quarter ended 30 June 2019*

	Economic Entity		The Bank	
	30/6/2019	30/6/2018	**30/6/2019**	30/6/2018
	RM'000	RM'000	**RM'000**	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	**68,176**	85,621	**68,176**	85,621
Adjustments for items not involving the movement of cash and cash equivalents:				
Finance income and hibah from:				
- financial investments at FVOCI	**(53,361)**	(47,994)	**(53,361)**	(47,994)
Accretion of discount less amortisation of premium:				
- financial investments at FVOCI	**(4,093)**	(3,812)	**(4,093)**	(3,812)
Gain on sale/redemption:				
- financial investments at FVOCI	**(32,781)**	(837)	**(32,781)**	(837)
Gain on unrealised foreign exchange	**(3,625)**	(1,623)	**(3,625)**	(1,623)
Depreciation of property and equipment	**402**	361	**402**	361
Property and equipment written-off	**-**	3	**-**	3
Amortisation of intangible assets	**85**	32	**85**	32
Depreciation-Lease Premises Rental	**675**	-	**675**	-
Net collective impairment	**-**	14,000	**-**	14,000
Expected credit losses ('ECL') made on:				
- financing, advances and other financing	**12,275**	17,158	**12,275**	17,158
- securities	**157**	(1,869)	**157**	(1,869)
- financing commitments and financial guarantees	**(3,353)**	-	**(3,353)**	-
Bad debt on financing written-off	**128**	29	**128**	29
Finance expense - Subordinated term financing and medium term notes	**28,479**	-	**28,479**	-
Zakat	**3,000**	-	**3,000**	-
Operating profit before changes in working capital	**16,164**	61,069	**16,164**	61,069
Decrease/(Increase) in operating assets:				
Financing, advances and other financing	**46,297**	(2,108,094)	**46,297**	(2,108,094)
Other assets	**(23,109)**	6,177	**(23,109)**	6,177
Right-of-use assets -Lease Commitment	**(1,373)**	-	**(1,373)**	-
Statutory deposits with Bank Negara Malaysia	**(59,000)**	(120,360)	**(59,000)**	(120,360)
Amount due from holding company	**107,722**	406,523	**107,722**	406,523
Amount due from joint ventures	**(868)**	(3,145)	**(868)**	(3,145)
Derivative financial instruments	**(3,626)**	(1,623)	**(3,626)**	(1,623)
Increase/(Decrease) in operating liabilities:				
Deposits from customers	**1,958,120**	1,745,350	**1,958,120**	1,745,350
Investment accounts of customers	**1,090**	813	**1,090**	813
Deposits and placements of banks and other financial institutions	**37,827**	900,352	**37,827**	900,352
Investment accounts due to designated financial institutions	**(477,556)**	(720,395)	**(477,556)**	(720,395)
Amount due to holding company	**356,711**	181,924	**356,711**	181,924
Other liabilities	**3,693**	31,960	**3,693**	31,960
Lease liabilities	**701**	-	**701**	-
Cash generated from operations	**1,962,793**	380,551	**1,962,793**	380,551
Zakat paid	**76**	(1,834)	**76**	(1,834)
Tax paid	**(21,667)**	(15,000)	**(21,667)**	(15,000)
Net cash generated from operating activities	**1,941,202**	363,717	**1,941,202**	363,717

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS
UNAUDITED STATEMENTS OF CASH FLOW *for the financial quarter ended 30 June 2019 (continued)*

	Economic Entity		The Bank	
	30/6/2019	30/6/2018	**30/6/2019**	30/6/2018
	RM'000	RM'000	**RM'000**	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Finance income and hibah received from:				
- financial investments at FVOCI	**57,454**	47,994	**57,454**	47,994
Net sale /(purchase) of				
- financial investments at FVOCI	**374,595**	(191,728)	**374,595**	(191,728)
Purchase of property and equipment	**(69)**	(680)	**(69)**	(680)
Net cash used in investing activities	**431,980**	(144,414)	**431,980**	(144,414)
CASH FLOWS FROM FINANCING ACTIVITIES				
Interest Expense - Subordinated Debts	**(28,675)**	-	**(28,675)**	-
Net cash generated from financing activities	**(28,675)**	-	**(28,675)**	-
Net increase in cash and cash equivalents	**2,344,507**	219,303	**2,344,507**	219,303
Effects of foreign exchange	**3,626**	1,623	**3,626**	1,623
Cash and cash equivalents at beginning of the financial period	**3,210,533**	1,423,594	**3,210,533**	1,423,594
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	**5,558,666**	1,644,520	**5,558,666**	1,644,520

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

MFRS 134 INTERIM FINANCIAL REPORTING - 30 June 2019

1 BASIS OF PREPARATION

The unaudited interim financial statements for the financial period under review have been prepared under the historical cost convention except for the following assets and liabilities which are stated at fair values :

(i) financial assets at fair value through profit or loss ("FVTPL"),
(ii) financial investments at fair value through other comprehensive income ("FVOCI"), and
(iii) derivative financial instruments.

The unaudited condensed financial statements have been prepared in accordance with MFRS134 Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB") and Policy Document on Financial Reporting issued by Bank Negara Malaysia ("BNM").

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the year ended 31 December 2018. The explanatory notes to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the Bank since the year ended 31 December 2018.

There are no changes to the accounting policies adopted since the last financial year except for the adoption of MFRS 16 "Leases" with effect from 1 January 2019.

2 ACCOUNTING POLICIES

The significant accounting policies and methods of computation applied in the condensed interim financial statements are consistent with those applied in the annual financial statements for the year ended 31 December 2018, except for the adoption of the following amendments to MFRS 16 that are applicable to the Bank effective for the financial year beginning on 1 January 2019.

The Bank has adopted MFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

<u>Adjustments recognised on adoption of MFRS 16</u>

On adoption of MFRS 16, the Bank recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of MFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

MFRS 134 INTERIM FINANCIAL REPORTING - 30 June 2019

3 AUDITOR'S REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the audited annual financial statements for the financial year ended 31 December 2018 was not subjected to any qualification.

4 SEASONAL OR CYCLICAL FACTORS

The business operations of the Bank are not subject to material seasonal or cyclical fluctuation.

5 EXCEPTIONAL ITEMS

There was no exceptional items for the quarter ended 30 June 2019.

6 CHANGES IN ACCOUNTING POLICIES AND ADJUSTMENT

Refer to Note 2.

7 CHANGES IN DEBTS AND EQUITY SECURITIES

There were no purchases or disposal of quoted securities for the quarter ended 30 June 2019 other than in the ordinary course of business.

8 DIVIDENDS

There were no interim dividend declared.

9 SUBSEQUENT MATERIAL EVENT

There is no material subsequent event after the quarter ended 30 June 2019 that have material financial impact.

10 CHANGES IN THE COMPOSITION OF THE BANK

There is no changes in the composition of the Bank between now and 31 December 2018 audited accounts.

11 PURCHASE AND SALE OF QUOTED SECURITIES

There were no purchases or disposals of quoted securities for the quarter ended 30 June 2019 other than in the ordinary course of business.

12 STATUS OF CORPORATE PROPOSAL

There were no corporate proposals announced but not completed during the period ended 30 June 2019.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

MFRS 134 INTERIM FINANCIAL REPORTING - 30 June 2019

13 DERIVATIVE FINANCIAL ASSETS

	Economic Entity and The Bank			
	30/6/2019		31/12/2018	
	Contract/ notional amount RM'000	**Assets RM'000**	Contract/ notional amount RM'000	Assets RM'000
At fair value				
Foreign exchange derivatives				
- Currency forwards	**548,537**	**3,631**	436,525	2,042
	548,537	**3,631**	436,525	2,042

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

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
At fair value		
Money market instruments:		
Malaysian Government treasury bills	**-**	79,728
Malaysian Government investment issues	**582,112**	861,677
Sukuk Perumahan Kerajaan	**92,069**	90,749
Khazanah Sukuk	**121,250**	163,172
Cagamas Sukuk	**5,125**	5,161
	800,556	1,200,487
Unquoted securities:		
Corporate Sukuk in Malaysia	**1,701,318**	1,603,770
	2,501,874	2,804,257

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

MFRS 134 INTERIM FINANCIAL REPORTING - 30 June 2019

15 FINANCING, ADVANCES AND OTHER FINANCING

(i) By type

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Cash line	**385,192**	374,079
Term financing		
- House financing	**7,003,083**	6,434,202
- Hire purchase receivables	**4,102,544**	4,243,662
- Syndicated financing	**682,131**	700,118
- Business term financing	**5,012,191**	5,591,252
Bills receivables	**10,266**	5,150
Trust receipts	**18,732**	16,329
Claims on customers under acceptances credits	**501,205**	352,435
Staff financing (of which RM Nil to Directors)	**49,743**	42,224
Credit/charge card	**22,022**	11,408
Revolving credit	**911,306**	976,018
Gross financing, advances and other financing	**18,698,415**	18,746,877
Less:		
Allowance for impairment losses		
- Expected credit losses ("ECL")	**(139,255)**	(129,017)
Total net financing, advances and other financing	**18,559,160**	18,617,860

Included in business term financing as at reporting date is RM53.7 million (31 December 2018: RM53.7 million) of term financing disbursed by the Bank to joint venture with AFFIN-i Nadayu Sdn Bhd.

(ii) By maturity structure

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Maturing within one year	**1,996,067**	2,227,193
One year to three years	**722,768**	694,582
Three years to five years	**1,550,990**	1,425,456
Over five years	**14,428,590**	14,399,646
	18,698,415	18,746,877

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15 FINANCING, ADVANCES AND OTHER FINANCING

(iii) By contract

Economic Entity and The Bank
30/6/2019
RM'000

	Al- Bai Bithaman Ajil	Ijarah	Al-Ijarah Thumma Al-Bai	Murabahah	Musyarakah	Istisna'	Others	Total
Cash line	-	-	-	337,649	-	-	47,543	385,192
Term financing								
House financing	732,492	-	-	74,716	6,195,875	-	-	7,003,083
Hire purchase receivables	-	-	4,102,544	-	-	-	-	4,102,544
Syndicated financing	-	264,196	-	417,935	-	-	-	682,131
Business term financing	113,177	777,370	-	2,570,339	855,658	690,763	4,884	5,012,191
Bills receivables	-	-	-	2,021	-	-	8,245	10,266
Trust receipts	-	-	-	18,732	-	-	-	18,732
Claims on customers under acceptance credits	-	-	-	501,205	-	-	-	501,205
Staff financing	4,832	-	-	32,106	12,805	-	-	49,743
Credit/charge cards							22,022	22,022
Revolving credit	-	-	-	911,306	-	-	-	911,306
Total Financing	850,501	1,041,566	4,102,544	4,866,009	7,064,338	690,763	82,694	18,698,415

Economic Entity and The Bank
31/12/2018
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

(iv) By type of customer

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Domestic non-banking institutions		
- Others	**52,740**	155,406
Domestic business enterprises		
- Small medium enterprises	**1,909,457**	2,009,531
- Others	**4,195,767**	4,297,466
Government and statutory bodies	**772,226**	1,064,147
Individuals	**11,419,911**	10,812,205
Other domestic entities	**1,028**	1,220
Foreign entities	**347,286**	406,902
	18,698,415	18,746,877

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15 FINANCING, ADVANCES AND OTHER FINANCING

(v) By profit rate sensitivity

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Fixed rate		
- House financing	**44,316**	45,349
- Hire purchase receivables	**4,102,544**	4,243,662
- Other fixed rate financing	**1,329,350**	1,493,163
Variable rate		
- BFR plus	**10,724,065**	10,029,219
- Cost-plus	**2,438,459**	2,863,008
- Other variable rate	**59,681**	72,476
	18,698,415	18,746,877

(vi) By economic sector

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Primary agriculture	**1,063,689**	924,391
Mining and quarrying	**303,266**	318,505
Manufacturing	**583,396**	567,021
Electricity, gas and water supply	**392,857**	509,080
Construction	**496,341**	546,984
Real estate	**1,862,275**	1,956,198
Wholesale & retail trade and restaurants & hotels	**556,593**	590,747
Transport, storage and communication	**298,744**	316,339
Finance, takaful/insurance and business services	**366,316**	464,736
Education, health and others	**1,298,608**	1,682,738
Household	**11,476,330**	10,869,949
Others	**-**	189
	18,698,415	18,746,877

(vii) By economic purpose

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Purchase of securities	**329,294**	325,481
Purchase of transport vehicles	**4,161,990**	4,300,093
Purchase of landed property of which:		
- Residential	**7,139,076**	6,570,340
- Non-residential	**2,183,881**	2,191,771
Fixed assets other than land and building	**93,434**	135,413
Personal use	**76,881**	64,577
Credit/charge card	**22,027**	11,408
Consumer durable	**27**	47
Construction	**1,072,020**	1,233,103
Working capital	**3,170,606**	3,455,407
Others	**449,179**	459,237
	18,698,415	18,746,877

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15 FINANCING, ADVANCES AND OTHER FINANCING (continued)

(viii) By geographical distribution

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Perlis	**234,477**	192,981
Kedah	**817,286**	781,062
Pulau Pinang	**852,806**	798,332
Perak	**581,096**	728,637
Selangor	**6,114,772**	5,899,212
Wilayah Persekutuan	**3,944,622**	4,422,583
Negeri Sembilan	**939,944**	900,252
Melaka	**280,534**	286,179
Johor	**2,357,979**	2,190,243
Pahang	**655,569**	600,886
Terengganu	**496,307**	476,001
Kelantan	**204,008**	185,228
Sarawak	**459,906**	477,656
Sabah	**661,167**	695,052
Labuan	**27,419**	41,996
Outside Malaysia	**70,523**	70,577
	18,698,415	18,746,877

(ix) Movements of impaired financing

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
At beginning of the financial period	**530,829**	142,310
Effect of adoption of MFRS 9	**-**	(594)
At beginning of the financial period, as restated	**530,829**	141,716
Classified as impaired	**122,200**	551,758
Reclassified as non-impaired during the financial period	**(63,256)**	(117,229)
Amount recovered during the financial period	**(19,456)**	(27,139)
Amount written-off during the financial period	**(2,008)**	(18,277)
At end of the financial period	**568,309**	530,829
Ratio of gross impaired financing, advances and other financing to gross financing, advances and other financing (exclude restricted investment accounts)	**2.23%**	2.05%

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15 FINANCING, ADVANCES AND OTHER FINANCING (continued)

(x) Impaired financing by economic sector

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Primary agriculture	**46**	-
Manufacturing	**62,770**	62,739
Electricity, gas and water supply	**17**	-
Construction	**11,491**	11,946
Real estate	**318,300**	315,973
Wholesale & retail trade and restaurants & hotels	**4,562**	5,775
Transport, storage and communication	**772**	415
Finance, takaful/insurance and business services	**3,388**	1,217
Education, health and others	**204**	92
Household	**166,759**	132,672
	568,309	530,829

(xi) Impaired financing by economic purpose

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Purchase of securities	**32**	6
Purchase of transport vehicles	**26,858**	23,213
Purchase of landed property of which:		
- Residential	**143,809**	115,070
- Non-residential	**212,986**	210,649
Fixed assets other than land and building	**63**	62
Personal use	**1,174**	983
Credit/charge card	**109**	13
Construction	**106,613**	107,642
Working capital	**72,793**	73,108
Others	**3,872**	83
	568,309	530,829

(xii) Impaired financing by geographical distribution

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Perlis	**2,146**	2,135
Kedah	**8,550**	6,920
Pulau Pinang	**8,348**	3,274
Perak	**8,378**	6,604
Selangor	**92,175**	80,494
Wilayah Persekutuan	**329,112**	315,896
Negeri Sembilan	**16,478**	13,683
Melaka	**3,299**	2,184
Johor	**15,544**	12,982
Pahang	**2,157**	1,155
Terengganu	**6,426**	5,338
Kelantan	**3,375**	2,568
Sarawak	**391**	170
Sabah	**1,420**	6,860
Outside Malaysia	**70,510**	70,566
	568,309	530,829

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15 FINANCING, ADVANCES AND OTHER FINANCING (continued)

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

Economic Entity and The Bank 30/6/2019	**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**
At beginning of the financial period	50,292	10,864	67,861	**129,017**
Total transfer between stages	2,946	11,841	(14,787)	-
Changes due to change in credit risk :-				
- Transfer to 12-month ECL (Stage 1)	4,354	(3,990)	(364)	-
- Transfer to Lifetime ECL not credit impaired (Stage 2)	(1,399)	17,465	(16,066)	-
- Transfer to Lifetime ECL credit impaired (Stage 3)	(9)	(1,634)	1,643	-
Financing, advances and other financing derecognised during the financial period (other than write-offs)	(17,781)	(1,571)	(1,152)	**(20,504)**
New financing, advances and other financing originated or purchased	17,449	931	8	**18,388**
Changes due to change in credit risk	(3,527)	(10,558)	28,476	**14,391**
Write-offs	-	-	(1,894)	**(1,894)**
Other adjustments	-	-	(143)	**(143)**
At end of the financial period	**49,379**	**11,507**	**78,369**	**139,255**

Economic Entity and The Bank 31/12/2018	12 - Month ECL Stage 1 RM'000	Lifetime ECL not credit Stage 2 RM'000	Lifetime ECL credit impaired Stage 3 RM'000	Total RM'000
At beginning of the financial year	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 financial year (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 end of the financial year	50,292	10,864	67,861	129,017

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15 FINANCING, ADVANCES AND OTHER FINANCING (continued)

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

Economic Entity and The Bank
30/6/2019

	Stage 1 RM'000	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
At beginning of the financial period	17,490,102	725,946	530,829	**18,746,877**
Total transfer between stages	(177,766)	125,892	51,874	-
Changes due to change in credit risk :-				
- Transfer to 12-month ECL (Stage 1)	198,835	(197,120)	(1,715)	-
- Transfer to Lifetime ECL not credit impaired (Stage 2)	(371,747)	433,288	(61,541)	-
- Transfer to Lifetime ECL credit impaired (Stage 3)	(4,854)	(110,276)	115,130	-
Financing, advances and other financing derecognised during the financial period (other than write-offs)	(4,751,250)	(167,061)	(3,685)	**(4,921,996)**
New financing, advances and other financing originated or purchased	4,927,039	174,332	2,988	**5,104,359**
Changes due to change in credit risk	(160,042)	(55,407)	(15,005)	**(230,454)**
Write-offs	-	-	(2,008)	**(2,008)**
Other adjustments	(8)	(1,672)	3,317	**1,637**
At end of the financial period	17,328,075	802,030	568,310	**18,698,415**

Economic Entity and The Bank
31/12/2018

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
At beginning of the financial year	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 financial year (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 end of the financial year	17,490,102	725,946	530,829	18,746,877

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16 OTHER ASSETS

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Other debtors	**1,013**	2,872
Deposits and prepayments	**1,533**	657
Cheque clearing accounts	**58,875**	34,792
Foreclosed properties (a)	**4,873**	4,873
	66,294	43,194

(a) Foreclosed properties

At beginning of the financial period/year	**4,873**	2,445
Amount arising during the financial period/year	**-**	2,428
At end of the financial period/year	**4,873**	4,873

17 AMOUNT DUE FROM JOINT VENTURES

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Advances to joint ventures	**56,211**	55,343
Expected credit losses (a)	**(24,048)**	(24,048)
	32,163	31,295

(a) **Movement in expected credit losses**	**Lifetime ECL credit impaired Stage 3 RM'000**	Lifetime ECL credit impaired Stage 3 RM'000
At beginning of the financial period/year	**24,048**	18,329
Allowance made during the financial period/year	**-**	5,719
At end of the financial period/year	**24,048**	24,048

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

18 AMOUNT DUE FROM ASSOCIATE

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Advances to associate	**500**	500

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

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19 DEPOSITS FROM CUSTOMERS

(i) By type of deposit

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Qard		
Demand deposits	**2,090,666**	2,598,371
Savings deposits	**621,740**	600,701
	2,712,406	3,199,072
Mudharabah		
General investment deposits	**64,358**	68,476
Tawarruq		
Savings deposits	**39**	-
Murabahah term deposits	**18,336,885**	16,024,673
Commodity Murabahah	**531,820**	395,167
	18,868,744	16,419,840
	21,645,508	19,687,388

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

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Due within six months	**10,513,233**	8,707,686
Six months to one year	**5,063,178**	6,247,341
One year to three years	**2,447,199**	760,535
Three years to five years	**377,633**	377,587
	18,401,243	16,093,149

(iii) By type of customer

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Government and statutory bodies	**10,428,576**	9,628,596
Business enterprise	**4,863,809**	5,204,019
Individuals	**3,916,957**	1,887,907
Domestic banking institutions	**218**	5,360
Domestic non-banking financial institutions	**2,125,950**	2,633,437
Foreign entities	**110,736**	98,822
Others entities	**199,262**	229,247
	21,645,508	19,687,388

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20 INVESTMENT ACCOUNTS OF CUSTOMERS

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Mudharabah	**1,965**	875

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Movement in investment accounts		
At beginning of the financial period/year	**875**	449
New placement during the financial period/year	**1,395**	1,135
Redemption during the financial period/year	**(311)**	(712)
Finance expense on RIA	**46**	69
Profit distributed	**(40)**	(66)
At end of the financial period/year	**1,965**	875

Profit Sharing Ratio ("PSR") and Rate of Return ("ROR")

	Economic Entity and The Bank			
	30/6/2019		31/12/2018	
	Average profit sharing ratio (PSR)	Average rate of return (ROR)	Average profit sharing ratio (PSR)	Average rate of return (ROR)
	%	%	%	%
Investment accounts:				
Due within:				
One year to three years	**85**	**6.74**	85	7.19

21 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Qard		
Licensed banks	**70,581**	70,708
	70,581	70,708
Tawarruq		
Other financial institutions	**212,828**	174,874
	212,828	174,874
	283,409	245,582
Maturity structure of deposits are as follows:		
Due within six months	**261,397**	245,582
Six months to one year	**22,012**	-
	283,409	245,582

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22 INVESTMENT ACCOUNTS DUE TO DESIGNATED FINANCIAL INSTITUTIONS

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Mudharabah		
Licensed banks	**1,890,739**	2,368,295
Maturity structure of investment accounts are as follows:		
Due within six months	**41,493**	424,677
One year to three years	**42,682**	41,836
Three years to five years	**108,724**	240,071
Five years and above	**1,697,840**	1,661,711
	1,890,739	2,368,295

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
Movement in investment accounts		
At beginning of the financial period/year	**2,368,295**	2,749,016
New placement during the financial period/year	**95,692**	1,296,030
Redemption during the financial period/year	**(569,733)**	(1,676,765)
Finance expense on RIA	**47,276**	116,662
Profit distributed	**(50,649)**	(118,577)
Exchange difference	**(142)**	1,929
At end of the financial period/year	**1,890,739**	2,368,295

Profit Sharing Ratio ("PSR") and Rate of Return ("ROR")

	Economic Entity and The Bank			
	30/6/2019		31/12/2018	
	Average profit sharing ratio (PSR)	**Average rate of return (ROR)**	Average profit sharing ratio (PSR)	Average rate of return (ROR)
	%	**%**	%	%
Investment accounts:				
Due within:				
One month	**-**	**-**	95	5.20
One to three months	**70**	**3.85%**	95	5.11
Three to six months	**-**	**-**	98	4.41
One year to three years	**91**	**6.68%**	89	6.82
Three years to five years	**83**	**4.90%**	83	4.78
Five years and above	**93**	**5.21%**	93	5.13

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 RM1,890.7 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.

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23 DERIVATIVE FINANCIAL LIABILITIES

	Economic Entity and The Bank			
	30/6/2019		31/12/2018	
	Contract/ notional amount RM'000	**Liabilities RM'000**	Contract/ notional amount RM'000	Liabilities RM'000
At fair value				
Foreign exchange derivatives				
- Currency forwards	**242,646**	**2,252**	591,701	4,289
	242,646	**2,252**	591,701	4,289

24 OTHER LIABILITIES

	Economic Entity and The Bank	
	30/6/2019 RM'000	31/12/2018 RM'000
Bank Negara Malaysia and Credit Guarantee Corporation Funding programmes	**887**	1,000
Margin and collateral deposits	**16,999**	13,828
Other creditors and accruals	**9,843**	8,740
Sundry creditors	**46,029**	32,831
Provision for zakat	**3,986**	910
Defined contribution plan (a)	**786**	1,337
Accrued employee benefits	**2,211**	3,065
Charity funds (b)	**23**	23
Unearned income	**3,735**	15,997
Financing commitments (c)	**8,781**	12,132
	93,280	89,863

(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	
	30/6/2019 RM'000	31/12/2018 RM'000
Sources and uses of charity funds		
At beginning of the financial period/year	**23**	63
Uses of charity funds		
- Contribution to education	**-**	10
- Contribution to program/event	**-**	30
	-	40
At end of the financial period/year	**23**	23

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.

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24 OTHER LIABILITIES (Continued)

(c) Movement in expected credit losses

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
At beginning of the financial year, as restated	**12,132**	16,463
Net remeasurement of loss allowance	**(4,026)**	(9,293)
New financing commitments and financial guarantees issued during the financial year	**675**	4,962
At end of the financial period/year	**8,781**	12,132

25 LEASE LIABILITIES

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
At beginning of financial period/year, on adoption of MFRS 16	**1,373**	-
Finance expense	**-**	-
Lease payment	**(672)**	-
At end of the financial period/year	**701**	-

26 SUBORDINATED TERM FINANCING AND MEDIUM TERM NOTES

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
(a) Medium Term Notes ("MTN") Tier-2 Sukuk Murabahah	**807,609**	807,748
(b) Additional Tier-1 Sukuk Wakalah ("AT1S")	**303,425**	303,483
	1,111,034	1,111,231

	At 1 January 2019 RM'000	**Cash flow RM'000**	**Profit expense RM'000**	**At 30 June 2019 RM'000**
MTN Tier-2 Sukuk Murabahah	**800,000**	**-**	**-**	**800,000**
AT1S	**300,000**	**-**	**-**	**300,000**
Profit payable	**11,231**	**(28,675)**	**28,478**	**11,034**
	1,111,231	**(28,675)**	**28,478**	**1,111,034**

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

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26 SUBORDINATED TERM FINANCING AND MEDIUM TERM NOTES (continued)

(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.

27 RESERVES

	Economic Entity		The Bank	
	30/6/2019	31/12/2018	**30/6/2019**	31/12/2018
	RM'000	RM'000	**RM'000**	RM'000
Retained profits (a)	**594,412**	577,671	**595,062**	578,321
FVOCI revaluation reserves (b)	**33,297**	3,172	**33,297**	3,172
Regulatory reserves	**227,534**	194,384	**227,534**	194,384
	855,243	775,227	**855,893**	775,877

(a) As at 30 June 2019, the Bank has tax exempt account balance of RM38,018,355 (2018: RM38,018,355) under Section 12 of the Income Tax (Amendment) Act 1999, subject to agreement by the Inland Revenue Board.

(b) 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 RM36,513,166.29.

28 INCOME FROM ISLAMIC BANKING BUSINESS

	Economic Entity and The Bank Individual Quarter Ended		Economic Entity and The Bank Cumulative Quarter Ended	
	30/6/2019	30/6/2018	**30/6/2019**	30/6/2018
	RM'000	RM'000	**RM'000**	RM'000
Income derived from investment of depositors' funds and others	**291,629**	234,419	**561,743**	445,034
Income derived from investment of investment account funds	**26,671**	22,400	**53,319**	45,949
Income derived from investment of shareholders' funds	**25,902**	23,027	**50,589**	44,557
Income attributable to depositors	**(236,081)**	(172,625)	**(460,260)**	(327,173)
	108,121	107,221	**205,391**	208,367
of which:				
Profit earned on impaired financing, advances and other financing	**837**	1,105	**1,780**	1,794

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29 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Economic Entity and The Bank Individual Quarter Ended		Economic Entity and The Bank Cumulative Quarter Ended	
	30/6/2019	30/6/2018	**30/6/2019**	30/6/2018
	RM'000	RM'000	**RM'000**	RM'000
Income derived from investment of:				
- General investment deposits (i)	**229,397**	152,157	**439,789**	284,866
- Other deposits (ii)	**62,232**	82,262	**121,954**	160,168
	291,629	234,419	**561,743**	445,034

(i) INCOME DERIVED FROM INVESTMENT OF GENERAL INVESTMENT DEPOSITS

	Economic Entity and The Bank Individual Quarter Ended		Economic Entity and The Bank Cumulative Quarter Ended	
	30/6/2019	30/6/2018	**30/6/2019**	30/6/2018
	RM'000	RM'000	**RM'000**	RM'000
Finance income and hibah				
Financing, advances and other financing	**162,034**	120,497	**318,081**	224,864
Financial investments at FVOCI	**17,298**	13,372	**35,255**	25,529
Money at call and deposits with other financial institutions	**25,323**	9,468	**46,217**	17,471
	204,655	143,337	**399,553**	267,864
Accretion of discount less amortisation of premium	**1,277**	1,278	**2,704**	2,028
Total finance income and hibah	**205,932**	144,615	**402,257**	269,892
Other operating income				
Fee income:				
Commission	**846**	449	**1,531**	735
Service charges and fees	**1,695**	2,013	**3,108**	4,751
Guarantee fees	**620**	525	**1,219**	988
	3,161	2,987	**5,858**	6,474
Commission paid on will/wasiat	**(4)**	(2)	**(7)**	(5)
Income from financial instruments:				
Gain on arising on financial investments at FVOCI	**15,752**	11	**21,658**	445
	15,752	11	**21,658**	445
Other income:				
Foreign exchange (loss)/profit				
- realised	**(224)**	1,001	**2,366**	3,058
- unrealised	**2,522**	1,258	**2,396**	863
Other non-operating income	**2,258**	2,287	**5,261**	4,139
	4,556	4,546	**10,023**	8,060
Total income derived from investment of general investment deposits	**229,397**	152,157	**439,789**	284,866

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29 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS (continued)

(ii) INCOME DERIVED FROM INVESTMENT OF OTHER DEPOSITS

	Economic Entity and The Bank Individual Quarter Ended		Economic Entity and The Bank Cumulative Quarter Ended	
	30/6/2019	30/6/2018	**30/6/2019**	30/6/2018
	RM'000	RM'000	**RM'000**	RM'000
Finance income and hibah				
Financing, advances and other financing	**43,909**	65,163	**88,205**	126,431
Financial investments at FVOCI	**4,679**	7,217	**9,776**	14,354
Money at call and deposits with other financial institutions	**6,885**	5,125	**12,816**	9,823
	55,473	77,505	**110,797**	150,608
Accretion of discount less amortisation of premium	**345**	700	**750**	1,140
Total finance income and hibah	**55,818**	78,205	**111,547**	151,748
Other operating income				
Fee income:				
Commission	**229**	246	**424**	414
Service charges and fees	**461**	1,065	**862**	2,672
Guarantee fees	**168**	283	**338**	555
	858	1,594	**1,624**	3,641
Commission paid on will/wasiat	**(1)**	(1)	**(2)**	(3)
Income from financial instruments:				
Gain on arising on financial investments at FVOCI	**4,329**	(5)	**6,006**	250
	4,329	(5)	**6,006**	250
Other income:				
Foreign exchange (loss)/profit				
- realised	**(79)**	511	**656**	1,719
- unrealised	**700**	717	**664**	485
Other non-operating income	**607**	1,241	**1,459**	2,328
	1,228	2,469	**2,779**	4,532
Total income derived from investment of other deposits	**62,232**	82,262	**121,954**	160,168

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30 INCOME DERIVED FROM INVESTMENT OF INVESTMENT ACCOUNT FUNDS

	Economic Entity and The Bank Individual Quarter Ended		Economic Entity and The Bank Cumulative Quarter Ended	
	30/6/2019	30/6/2018	**30/6/2019**	30/6/2018
	RM'000	RM'000	**RM'000**	RM'000
Finance income and hibah				
Financing, advances and other financing	**18,798**	17,751	**38,563**	36,271
Financial investments at FVOCI	**2,000**	1,961	**4,274**	4,118
Money at call and deposits with other financial institutions	**2,957**	1,398	**5,603**	2,818
	23,755	21,110	**48,440**	43,207
Accretion of discount less amortisation of premium	**147**	194	**328**	327
Total finance income and hibah	**23,902**	21,304	**48,768**	43,534
Other operating income				
Fee income:				
Commission	**99**	68	**186**	119
Service charges and fees	**198**	280	**377**	766
Guarantee fees	**72**	77	**148**	159
	369	425	**711**	1,044
Commission paid on will/wasiat	**(1)**	-	**(1)**	(1)
Income from financial instruments:				
Gain on arising on financial investments at FVOCI	**1,878**	(5)	**2,626**	72
	1,878	(5)	**2,626**	72
Other income:				
Foreign exchange (loss)/profit				
- realised	**(41)**	128	**287**	493
- unrealised	**306**	209	**290**	139
Other non-operating income	**258**	339	**638**	668
	523	676	**1,215**	1,300
Total income derived from investment of investment account funds	**26,671**	22,400	**53,319**	45,949

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31 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	Economic Entity and The Bank Individual Quarter Ended		Economic Entity and The Bank Cumulative Quarter Ended	
	30/6/2019	30/6/2018	**30/6/2019**	30/6/2018
	RM'000	RM'000	**RM'000**	RM'000
Finance income and hibah				
Financing, advances and other financing	**18,278**	18,240	**36,589**	35,172
Financial investments at FVOCI	**1,949**	2,021	**4,056**	3,993
Money at call and deposits with other financial institutions	**2,864**	1,435	**5,316**	2,733
	23,091	21,696	**45,961**	41,898
Accretion of discount less amortisation of premium	**144**	195	**311**	317
Total finance income and hibah	**23,235**	21,891	**46,272**	42,215
Other operating income				
Fee income:				
Commission	**96**	68	**176**	115
Service charges and fees	**192**	299	**358**	743
Guarantee fees	**70**	79	**140**	154
	358	446	**674**	1,012
Commission paid on will/wasiat	**(1)**	-	**(1)**	-
Income from financial instruments:				
Gain on arising on financial investments at FVOCI	**1,798**	-	**2,491**	70
	1,798	-	**2,491**	70
Other income:				
Foreign exchange (loss)/profit				
- realised	**(32)**	144	**272**	478
- unrealised	**291**	199	**276**	135
Other non-operating income	**253**	347	**605**	647
	512	690	**1,153**	1,260
Total income derived from investment of shareholders' fund	**25,902**	23,027	**50,589**	44,557

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

	Economic Entity and The Bank Individual Quarter Ended		Economic Entity and The Bank Cumulative Quarter Ended	
	30/6/2019	30/6/2018	**30/6/2019**	30/6/2018
	RM'000	RM'000	**RM'000**	RM'000
Expected credit loss ("ECL") (written-back)/made on:				
- Financing, advances and other financing	**7,444**	(3,158)	**12,275**	14,000
- Securities	**175**	(7)	**157**	(7)
- Financing commitments and financial guarantees	**(2,825)**	2,013	**(3,353)**	144
Bad debts and financing				
- recovered	**(1,249)**	(146)	**(1,747)**	(502)
- written-off	**99**	26	**128**	29
	3,644	(1,272)	**7,460**	13,664

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33 INCOME ATTRIBUTABLE TO DEPOSITORS

	Economic Entity and The Bank Individual Quarter Ended		Economic Entity and The Bank Cumulative Quarter Ended	
	30/6/2019	30/6/2018	**30/6/2019**	30/6/2018
	RM'000	RM'000	**RM'000**	RM'000
Deposits from customers				
- Mudharabah	**457**	469	**903**	983
- Non-mudharabah	**194,696**	129,989	**378,127**	239,291
Deposits and placements of banks and other financial institutions				
- Mudharabah	**2,852**	18,256	**4,914**	34,126
Finance expense-Subordinated term financing and medium term notes	**14,338**	-	**28,479**	-
Restricted investment account - Mudarabah	**23,722**	23,906	**47,814**	52,768
Others	**16**	5	**23**	5
	236,081	172,625	**460,260**	327,173

34 OTHER OPERATING EXPENSES

	Economic Entity and The Bank Individual Quarter Ended		Economic Entity and The Bank Cumulative Quarter Ended	
	30/6/2019	30/6/2018	**30/6/2019**	30/6/2018
	RM'000	RM'000	**RM'000**	RM'000
Personnel costs (a)	**46,046**	36,011	**88,389**	72,471
Establishment costs (b)	**15,116**	12,421	**29,412**	23,173
Marketing expenses (c)	**1,309**	1,918	**3,159**	3,890
Administrative and general expenses (d)	**2,822**	4,794	**5,795**	9,548
	65,293	55,144	**126,755**	109,082

(a) Personnel costs

	Economic Entity and The Bank Individual Quarter Ended		Economic Entity and The Bank Cumulative Quarter Ended	
	30/6/2019	30/6/2018	**30/6/2019**	30/6/2018
	RM'000	RM'000	**RM'000**	RM'000
Wages, salaries and bonuses	**34,661**	29,269	**67,102**	56,674
Defined contribution plan ('EPF')	**5,782**	4,938	**11,246**	9,914
Other personnel costs	**5,603**	1,804	**10,041**	5,883
	46,046	36,011	**88,389**	72,471

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34 OTHER OPERATING EXPENSES (continued)

(b) Establishment costs

	Economic Entity and The Bank Individual Quarter Ended		Economic Entity and The Bank Cumulative Quarter Ended	
	30/6/2019	30/6/2018	**30/6/2019**	30/6/2018
	RM'000	RM'000	**RM'000**	RM'000
Rental of premises	**(1,904)**	2,029	**411**	4,089
Equipment rental	**77**	38	**82**	74
Repair and maintenance	**2,460**	2,539	**4,699**	3,970
Depreciation of property and equipment	**185**	177	**402**	361
Amortisation of intangible assets	**45**	21	**85**	32
Depreciation of right-of-use assets	**337**	-	**675**	-
IT consultancy fees	**3,092**	2,523	**5,576**	4,980
Dataline rental	**2,085**	1,066	**3,703**	1,478
Security services	**1,743**	1,267	**3,260**	2,227
Electricity, water and sewerage	**743**	575	**1,535**	1,398
Licence fee	**86**	92	**189**	205
Insurance/takaful and indemnities	**736**	537	**1,235**	1,022
Other establishment costs	**5,431**	1,557	**7,560**	3,337
	15,116	12,421	**29,412**	23,173

(c) Marketing expenses

	Economic Entity and The Bank Individual Quarter Ended		Economic Entity and The Bank Cumulative Quarter Ended	
	30/6/2019	30/6/2018	**30/6/2019**	30/6/2018
	RM'000	RM'000	**RM'000**	RM'000
Business promotion and advertisement	**104**	464	**317**	840
Entertainment	**67**	93	**127**	104
Traveling and accommodation	**426**	492	**891**	873
Commissions expenses	**154**	399	**367**	789
Brokerage expenses	**331**	303	**724**	642
Other marketing expenses	**227**	167	**733**	642
	1,309	1,918	**3,159**	3,890

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34 OTHER OPERATING EXPENSES (continued)

(d) Administration and general expenses

	Economic Entity and The Bank Individual Quarter Ended		Economic Entity and The Bank Cumulative Quarter Ended	
	30/6/2019	30/6/2018	**30/6/2019**	30/6/2018
	RM'000	RM'000	**RM'000**	RM'000
Telecommunication expenses	**457**	287	**970**	640
Auditors' remuneration	**180**	140	**360**	250
Professional fees	**35**	227	**149**	1,339
Property and equipment written-off	**-**	-	**-**	3
Mail and courier charges	**265**	147	**516**	147
Stationery and consumables	**816**	1,398	**1,703**	2,258
Directors' fees and allowances	**533**	394	**1,058**	742
Shariah fees	**111**	-	**215**	-
Donations	**1**	193	**15**	203
Settlement, clearing and bank charges	**396**	312	**774**	581
Stamp duties	**-**	-	**-**	2
GST Input tax-non recoverable	**-**	1,559	**9**	2,803
Other administration and general expenses	**28**	137	**26**	580
	2,822	4,794	**5,795**	9,548

35 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	
	30/6/2019	31/12/2018
	Principal amount	Principal amount
	RM'000	RM'000
Direct credit substitutes (*)	**96,824**	101,288
Transaction-related contingent items	**261,590**	281,206
Short-term self-liquidating trade related contingencies	**297,082**	318,969
Irrevocable commitments to extend credit:		
- maturity less than one year	**1,576,916**	1,605,783
- maturity more than one year	**1,540,315**	1,998,265
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 borrower's creditworthiness	**-**	14,139
Unutilised credit card lines	**180,085**	195,947
Foreign exchange related contracts (#):		
- less than one year	**791,182**	1,028,226
	4,743,994	5,543,823

* Included in direct credit substitutes as above are financial guarantee contracts of RM96.8million at the Bank (31 December 2018: RM101.3 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 13 and 23 to the financial statements.

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36 FAIR VALUE MEASUREMENTS

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 oberservable 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 occuring 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 equites and actively exchange-traded derivatives.

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

Financial instruments 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 exposure 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 recognise 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 (31 December 2018: Nil)

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

	Level 1	**Level 2**	**Level 3**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Economic Entity and The Bank				
30/6/2019				
Assets				
Derivative financial assets	**-**	**3,631**	**-**	**3,631**
Financial investments at FVOCI				
- Money market instruments	**-**	**800,556**	**-**	**800,556**
- Corporate Sukuk	**-**	**1,701,318**	**-**	**1,701,318**
	-	**2,505,505**	**-**	**2,505,505**
Liabilities				
Derivative financial liabilities	**-**	**2,252**	**-**	**2,252**
	-	**2,252**	**-**	**2,252**

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
Economic Entity and The Bank				
31/12/2018				
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
	-	2,806,299	-	2,806,299
Liabilities				
Derivative financial liabilities	-	4,289	-	4,289
	-	4,289	-	4,289

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36 FAIR VALUE MEASUREMENTS (continued)

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

	Economic Entity and The Bank	
	30/6/2019	31/12/2018
	RM'000	RM'000
As at beginning of the financial period/year	-	-
As at end of the financial period/year	-	-

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

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

Qualitative information about the fair value measurements using significant unobservable inputs (Level 3):

Description	**Fair value assets** **30/6/2019** **RM'000**	31/12/2018 RM'000	**Valuation techniques**	**Unobservable inputs**	**Inter-relationship between significant unobservable inputs and fair value measurement**
Economic Entity and The Bank					
Financial investments at FVOCI/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.

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37 CAPITAL MANAGEMENT

The 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') ,Tier 1 Capital Ratio are 7.000% (2018: 6.375%) and 8.500% (2018: 7.875%)and Total Capital Ratio are 10.500% (2018:9.875) respectively for year 2019.

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 38 below summarises the composition of regulatory capital and the ratios of the Bank for the financial quarter ended 30 June 2019.

38 CAPITAL ADEQUACY

The capital adequacy ratios are as follows:

	Economic Entity		**The Bank**	
	30/6/2019	31/12/2018	**30/6/2019**	31/12/2018
	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	**544,521**	577,671	**545,171**	578,321
FVOCI revaluation reserve	**33,297**	3,172	**33,297**	3,172
	1,637,818	1,640,843	**1,638,468**	1,641,493
Less:				
Goodwill and other intangibles	**(728)**	(670)	**(728)**	(670)
Deferred tax assets	**(6,649)**	(17,993)	**(6,649)**	(17,993)
55% of cumulative unrealised gains of FVOCI	**(18,313)**	(1,745)	**(18,313)**	(1,745)
Investment in associate/joint ventures	**(750)**	(750)	**(1,400)**	(1,400)
CET1 Capital	**1,611,378**	1,619,685	**1,611,378**	1,619,685

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38 CAPITAL ADEQUACY (continued)

	Economic Entity		The Bank	
	30/6/2019	31/12/2018	**30/6/2019**	31/12/2018
	RM'000	RM'000	**RM'000**	RM'000
Additional Tier 1 capital				
Sukuk Wakalah	**300,000**	300,000	**300,000**	300,000
	300,000	300,000	**300,000**	300,000
Total Tier 1 capital	**1,911,378**	1,919,685	**1,911,378**	1,919,685
Subordinated medium term financing	**800,000**	800,000	**800,000**	800,000
Loss provision	**174,893**	177,100	**174,893**	177,100
Tier II capital	**974,893**	977,100	**974,893**	977,100
Total capital	**2,886,271**	2,896,785	**2,886,271**	2,896,785
CET1 capital ratio	**10.820%**	10.869%	**10.820%**	10.869%
Tier 1 capital ratio	**12.835%**	12.882%	**12.835%**	12.882%
Total capital ratio	**19.381%**	19.438%	**19.381%**	19.438%
Risk-weighted assets for:				
Credit risk	**13,991,443**	14,167,963	**13,991,443**	14,167,963
Market risk	**231,281**	98,198	**231,281**	98,198
Operational risk	**669,412**	636,209	**669,412**	636,209
Total risk-weighted assets	**14,892,136**	14,902,370	**14,892,136**	14,902,370

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 30 June 2019, RIA assets excluded from Total Capital Ratio calculation amounted to RM1,891,152,011 (31 December 2018: RM2,369,729,422).

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39 REVIEW OF PERFORMANCE OF THE BANK

(Analysis of financial performance of current quarter comparing to previous year's corresponding quarter)

During the 2nd quarter of 2019, the Bank registered a profit before tax of RM36.2 million as compared to the previous year's correponding quarter of RM53.3 million, a decrease of RM17.1 million or 32.1%.

This was mainly due to:

i) higher operating expenses by RM10.1 million.

ii) higher allowances for impairment losses on financing, advances and other financing & other assets by RM4.9 million.

iii) higher Zakat expenses by RM3.0 million.

The above was offsetted by:

i) higher income derived from investments after netting off income attributable to depositors' funds by RM0.9 million.

40 COMMENT ON FINANCIAL RESULTS

(Analysis of financial performance of current quarter comparing to immediate preceding quarter)

The Bank's profit before tax for 2nd quarter of 2019 stood at RM36.2 million as compared to RM32.0 million reported in the 1st quarter of 2019, an increase of RM4.2 million or 13.1%.

This was mainly due to:

i) higher income derived from investments after netting off income attributable to depositors' funds by RM11.0 million.

The above was off-setted by:

i) higher operating expenses by RM3.7 million.

ii) higher allowances for impairment losses on financing, advances and other financing & other assets by RM0.1 million.

41 PROSPECT FOR THE CURRENT FINANCIAL YEAR

Moving forward under the challenging global environment in 2019, Malaysia economy growth expected to sustain its momentum between 4.3% to 4.8%. This will be supported by continuing expansion in domestic demand and positive growth in net export. Private sector expenditure remains as the main driver of domestic demand.

Average inflation rate in 2019 is expected to be broadly stable between 0.7% to 1.7% throughout the year. The current rate of Overnight Policy Rate (OPR) stood at 3.00% in which a reduction of 25 basis points from 3.25% effectively on 7 May 2019. The adjustment of OPR is expected to impact the Bank’s Net Income Margin (“NIM”).

The Bank will continue to leverage on expertise within AFFIN Bank Group and further strengthen the group synergies. Our target segment remains on SME & Commercial and Corporate & Public Sector. The bank will continue to develop innovative product suites and strategic solutions in order to build stronger client relationship with these segments. While for Consumer business, our strategic initiatives will be towards enhancing customer experience, building infrastructure capability through digital banking platform and the development of digital banking capabilities with enhanced analytics for better customer engagement.

In compliance to BNM liquidity requirement of Net Stable Fund Ratio (NSFR), the Bank will continue to strengthen its liquidity position and to be aligned with the target allocated towards end of 2019. This will be backed by growing the low-cost and long term deposits segment. The Bank is also exploring funding options with Cagamas as well as through Sukuk Program to further strengthen its stable funding position.

The Bank remains committed to upgrade its capability specifically on digital initiatives in enriching customer experiences and services. AFFIN Islamic also believe in instilling a culture that values efficiencies, the bank will continue to invest in its people, to build a strong compliance and risk culture to gain greater flexibility in managing the environment changes towards sustainability.

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42 VARIANCE OF ACTUAL PROFIT FROM FORECAST PROFIT

The Bank's profit before tax registered an adverse variance of RM13.2million. The main contributing factors are follows:

Income derived from investments after netting off income attributable to the depositors' funds showed as an adverse variance of RM21.7 million.

Allowances for impairment losses on financing, advances and other financing showed an adverse variance of RM2.2million.

Other operating expenses showed an adverse variance of RM3.1 million.

Zakat expenses showed an adverse variance of RM1.7 million.

41 CONNECTED PARTIES TRANSACTIONS AND BALANCES

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

i)	The aggregate value of outstanding credit exposures with connected parties (RM'000)	1,623,426
ii)	The percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	6%
iii)	The percentage of outstanding credit exposures with connected parties which is non-performing or in default	Nil

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BASEL II
PILLAR 3 DISCLOSURES
As at 30th June 2019

Company No: 709506-V

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

BASEL II Pillar 3 Disclosures

Table of Contents

AFFIN Islamic Bank Berhad

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BASEL II Pillar 3 Disclosures

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.

AFFIN Islamic Bank Berhad

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BASEL II Pillar 3 Disclosures (continued)

2 Risk Governance Structure (continued)

2.1 Overview (continued)

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.

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 and Compliance Committee ('GBRMCC')

The GBRMCC 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.

AFFIN Islamic Bank Berhad

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BASEL II Pillar 3 Disclosures (continued)

2 Risk Governance Structure (continued)

2.2 Board Committees (continued)

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 ('GMCC') 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 Group Chief Executive Officer ('GCEO') 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.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

BASEL II Pillar 3 Disclosures (continued)

2 Risk Governance Structure (continued)

2.3 Management Committees

Management Committee ('MCM')

The MCM comprises the senior management team chaired by GCEO. 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 GCEO, 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 GBRMCC 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.

AFFIN Islamic Bank Berhad

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BASEL II Pillar 3 Disclosures (continued)

2 Risk Governance Structure (continued)

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.

2.5 Internal Audit and Internal Control Activities

In accordance with BNM's Guidelines on Corporate Governance, 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 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') ,Tier 1 Capital Ratio are 7.000% (2018: 6.375%) and 8.500% (2018: 7.875%)and Total Capital Ratio are 10.500% (2018:9.875) respectively for year 2019.

The following table sets forth further details on the capital resources and capital adequacy ratios for the Bank as at 31 December 2018.

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BASEL II Pillar 3 Disclosures (continued)

3 Capital Management (continued)

3.2 Capital Structure (continued)

	Economic Entity		The Bank	
	30/6/2019	31/12/2018	**30/6/2019**	31/12/2018
	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	**544,521**	577,671	**545,171**	578,321
Unrealised gains and losses on FVOCI/AFS instruments	**33,297**	3,172	**33,297**	3,172
	1,637,818	1,640,843	**1,638,468**	1,641,493
Goodwill and other intangibles	**(728)**	(670)	**(728)**	(670)
Deferred tax assets	**(6,649)**	(17,993)	**(6,649)**	(17,993)
55% of cumulative gains on FVOCI/AFS instruments	**(18,313)**	(1,745)	**(18,313)**	(1,745)
Investment in associate/joint ventures	**(750)**	(750)	**(1,400)**	(1,400)
CET1 capital	**1,611,378**	1,619,685	**1,611,378**	1,619,685
Additional Tier 1 Capital				
Qualifying capital instruments held by third parties	**300,000**	300,000	**300,000**	300,000
	300,000	300,000	**300,000**	300,000
Total Tier 1 Capital	**1,911,378**	1,919,685	**1,911,378**	1,919,685
Subordinated term financing and medium term notes (MTNs)	**800,000**	800,000	**800,000**	800,000
Loss provisions	**174,893**	177,100	**174,893**	177,100
Tier II capital	**974,893**	977,100	**974,893**	977,100
Total capital	**2,886,271**	2,896,785	**2,886,271**	2,896,785
CET1 capital ratio	**10.820%**	10.869%	**10.820%**	10.869%
Tier 1 capital ratio	**12.835%**	12.882%	**12.835%**	12.882%
Total capital ratio	**19.381%**	19.438%	**19.381%**	19.438%
Risk-weighted assets for:				
Credit risk	**13,991,443**	14,167,963	**13,991,443**	14,167,963
Market risk	**231,281**	98,198	**231,281**	98,198
Operational risk	**669,412**	636,209	**669,412**	636,209
Total risk-weighted assets	**14,892,136**	14,902,370	**14,892,136**	14,902,370

3 Capital Management (continued)

3.3 Capital Adequacy

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

Refer to Appendix I.

4 Risk Management Objectives and Policies

The Bank is principally engaged in all aspects of 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 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 a set of approved credit policies, guidelines and procedures to ensure that the overall financing objectives are in compliance with the internal and regulatory requirements. 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 ('GCM') function is headed by Group Chief Credit Officer ('GCCO') with direct reporting line to GCEO to ensure sound credit appraisal and approval process. GRM with direct reporting line to GBRMCC has functional responsibilities for the management of credit risk, to ensure adherence to risk standards and discipline.

5 Credit Risk (continued)

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).

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 tenor to maturity).

5 Credit Risk (continued)

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 lending 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 on an aggregated basis as part of the overall lending 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;
• 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).

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BASEL II Pillar 3 Disclosures (continued)

5 Credit Risk (continued)

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

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')

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.

5 Credit Risk (continued)

5.6 Expected Credit Losses ('ECL') (continued)

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 borrower 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, advances and other 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 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).

5 Credit Risk (continued)

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 debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor 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 interest 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 (continued)

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 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 repayment 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 repay the amount.	Asset is written off

The Bank has not used the low credit risk exemption for any financial instrument for the year ended 30 June 2019.

5 Credit Risk (continued)

5.6 Expected Credit Losses ('ECL') (continued)

Measurement of ECL (continued)

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 models. 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 lending 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 borrower'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 repayment of an advance or terminate a financing commitment or guarantee.

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 borrower/customer is 'unlikely to repay' its credit obligations

iii) the financing is classified as rescheduled and restructured in Central Credit Reference Information System ('CCRIS')

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BASEL II Pillar 3 Disclosures (continued)

5 Credit Risk (continued)

5.6 Expected Credit Losses ('ECL') (continued)

Analysed by economic sectors
Past due financing

	2019			
Economic Entity and The Bank	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Primary agriculture	**2,111**	**404**	**-**	**2,515**
Manufacturing	**2,461**	**2,209**	**-**	**4,670**
Electricity, gas and water supply	**565**	**308**	**-**	**873**
Construction	**11,394**	**6,453**	**-**	**17,847**
Wholesale & retail trade and restaurants & hotels	**13,954**	**8,750**	**-**	**22,704**
Transport, storage and communication	**19,334**	**2,751**	**-**	**22,085**
Finance, takaful/insurance and business services	**39,658**	**33,215**	**-**	**72,873**
Education, health and others	**3,257**	**1,302**	**-**	**4,559**
Household	**675,469**	**405,662**	**-**	**1,081,131**
	768,203	**461,054**	**-**	**1,229,257**

	2018			
Economic Entity and The Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Primary agriculture	1,082	456	-	1,538
Mining and quarrying	-	-	-	-
Manufacturing	1,993	967	-	2,960
Electricity, gas and water supply	468	333	-	801
Construction	15,709	4,538	-	20,247
Real estate	27,321	2,733	-	30,054
Wholesale & retail trade and restaurants & hotels	8,329	6,631	-	14,960
Transport, storage and communication	19,844	3,404	-	23,248
Finance, takaful/insurance and business services	5,593	8,684	-	14,277
Education, health and others	4,100	774	-	4,874
Household	625,050	376,522	-	1,001,572
	709,489	405,042	-	1,114,531

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BASEL II Pillar 3 Disclosures (continued)

5 Credit Risk (continued)

5.6 Expected Credit Losses ('ECL') (continued)

Analysed by economic sectors (continued)
Expected credit losses

Economic Entity and The Bank	**2019** **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	**3,153**	**3**	**18**	**3,174**
Mining and quarrying	**124**	**-**	**-**	**124**
Manufacturing	**2,104**	**287**	**648**	**3,039**
Electricity, gas and water supply	**542**	**2**	**7**	**551**
Construction	**1,491**	**57**	**1,342**	**2,890**
Wholesale & retail trade and restaurants & hotels	**2,035**	**141**	**1,207**	**3,383**
Transport, storage and communication	**547**	**608**	**574**	**1,729**
Finance, takaful/insurance and business services	**8,131**	**5,520**	**28,848**	**42,499**
Education, health and others	**4,666**	**11**	**135**	**4,812**
Household	**26,586**	**4,878**	**45,590**	**77,054**
	49,379	**11,507**	**78,369**	**139,255**

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

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BASEL II Pillar 3 Disclosures (continued)

5 Credit Risk (continued)

5.6 Expected Credit Losses ('ECL') (continued)

Analysed by economic sectors (continued)
Expected credit losses written-off

Economic Entity and The Bank	**2019 Lifetime ECL credit impaired Stage 3 RM'000**	2018 Lifetime ECL credit impaired Stage 3 RM'000
Mining and quarrying	**-**	67
Manufacturing	**-**	4
Electricity, gas and water supply	**-**	82
Construction	**-**	7,533
Real estate	**-**	-
Wholesale & retail trade and restaurants & hotels	**-**	617
Transport, storage and communication	**-**	89
Finance, takaful/insurance and business services	**-**	97
Education, health and others	**-**	64
Household	**2,008**	9,724
	2,008	18,277

Analysed by geographical area
Past due financing

Economic Entity and The Bank	**2019 Stage 1 RM'000**	**2019 Stage 2 RM'000**	**2019 Stage 3 RM'000**	**2019 Total RM'000**
Perlis	**1,114**	**1,065**	-	**2,179**
Kedah	**69,970**	**34,943**	-	**104,913**
Pulau Pinang	**35,075**	**22,374**	-	**57,449**
Perak	**37,180**	**32,123**	-	**69,303**
Selangor	**275,556**	**145,755**	-	**421,311**
Wilayah Persekutuan	**78,799**	**41,935**	-	**120,734**
Negeri Sembilan	**63,531**	**38,617**	-	**102,148**
Melaka	**22,758**	**15,140**	-	**37,898**
Johor	**103,279**	**53,566**	-	**156,845**
Pahang	**22,430**	**14,680**	-	**37,110**
Terengganu	**29,949**	**23,790**	-	**53,739**
Kelantan	**13,561**	**11,390**	-	**24,951**
Sarawak	**5,824**	**1,935**	-	**7,759**
Sabah	**9,177**	**23,741**	-	**32,918**
	768,203	**461,054**	-	**1,229,257**

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BASEL II Pillar 3 Disclosures (continued)

5 Credit Risk (continued)

5.6 Expected Credit Losses ('ECL') (continued)

Analysed by geographical area (continued)
Past due financing
Expected credit losses (continued)

	2018			
	Stage 1	Stage 2	Stage 3	Total
Economic Entity and The Bank	RM'000	RM'000	RM'000	RM'000
Perlis	815	1,304	-	2,119
Kedah	39,660	30,553	-	70,213
Pulau Pinang	35,916	18,281	-	54,197
Perak	32,201	28,623	-	60,824
Selangor	275,986	141,552	-	417,538
Wilayah Persekutuan	99,944	42,275	-	142,219
Negeri Sembilan	53,754	34,634	-	88,388
Melaka	14,836	13,601	-	28,437
Johor	88,689	37,307	-	125,996
Pahang	22,408	11,052	-	33,460
Terengganu	20,941	27,123	-	48,064
Kelantan	11,354	11,568	-	22,922
Sarawak	4,502	3,435	-	7,937
Sabah	8,483	3,734	-	12,217
	709,489	405,042	-	1,114,531

Expected credit losses

	2019			
	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	**2,735**	**20**	**207**	**2,962**
Kedah	**2,494**	**1,030**	**3,662**	**7,186**
Pulau Pinang	**2,037**	**383**	**2,977**	**5,397**
Perak	**1,407**	**797**	**3,727**	**5,931**
Selangor	**16,203**	**4,238**	**18,772**	**39,213**
Wilayah Persekutuan	**7,674**	**561**	**7,690**	**15,925**
Negeri Sembilan	**2,286**	**450**	**4,591**	**7,327**
Melaka	**794**	**230**	**1,022**	**2,046**
Johor	**5,843**	**1,590**	**4,087**	**11,520**
Pahang	**1,615**	**154**	**815**	**2,584**
Terengganu	**1,201**	**197**	**3,083**	**4,481**
Kelantan	**545**	**134**	**1,718**	**2,397**
Sarawak	**1,180**	**44**	**68**	**1,292**
Sabah	**2,286**	**1,679**	**452**	**4,417**
Outside Malaysia	**1,079**	**-**	**25,498**	**26,577**
	49,379	**11,507**	**78,369**	**139,255**

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BASEL II Pillar 3 Disclosures (continued)

5 Credit Risk (continued)

5.6 Expected Credit Losses ('ECL') (continued)

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

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 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 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.

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 GBRMCC 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.

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BASEL II Pillar 3 Disclosures (continued)

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.

GBRMCC approves all policies/policy changes relating to operational risk. GORMC supports GBRMCC 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.

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 organisation, 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 ORC 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 GRM 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') risk 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 Islamic Financial Services Act, 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 GBRMCC 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.

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.

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BASEL II Pillar 3 Disclosures (continued)

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').

GBRMCC 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 GBRMCC 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.

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BASEL II Pillar 3 Disclosures

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
30/6/2019

	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		**5,772,190**	**5,644,616**	**4,568,784**	**4,568,784**	**365,501**
	Regulatory Retail		**4,902,643**	**4,792,361**	**3,597,547**	**3,597,547**	**287,804**
	Other Assets		**716,848**	**716,848**	**70,096**	**70,096**	**5,608**
	Sovereigns/Central Banks		**6,736,982**	**6,736,983**	**-**	**-**	**-**
	Public Sector Entities		**-**	**-**	**-**	**-**	**-**
	Banks, Development Financial Institutions & MDBs		**30,264**	**30,265**	**2,044**	**2,044**	**164**
	Takaful/Insurance Companies, Securities Firms & Fund Managers		**125**	**125**	**125**	**125**	**10**
	Residential Mortgages		**6,844,507**	**6,829,818**	**4,298,524**	**4,298,524**	**343,882**
	Higher Risk Assets		**136,694**	**132,809**	**195,059**	**195,059**	**15,604**
	Specialised Financing/Investment		**-**	**-**	**-**	**-**	**-**
	Equity Exposure		**-**	**-**	**-**	**-**	**-**
	Securitisation Exposure		**-**	**-**	**-**	**-**	**-**
	Defaulted Exposures		**252,161**	**248,496**	**328,601**	**328,601**	**26,288**
	Total for On-Balance Sheet Exposures		25,392,414	25,132,321	13,060,780	13,060,780	1,044,861
	Off Balance Sheet Exposures						
	Off Balance Sheet Exposures other than OTC derivatives or credit derivatives		**1,421,046**	**1,421,046**	**925,322**	**925,322**	**74,027**
	Defaulted Exposures		**4,387**	**4,386**	**5,341**	**5,341**	**427**
	Total for Off-Balance Sheet Exposures		**1,425,433**	**1,425,432**	**930,663**	**930,663**	**74,454**
	Total for On and Off-Balance Sheet Exposures		**26,817,847**	**26,557,753**	**13,991,443**	**13,991,443**	**1,119,315**
2	**MARKET RISK**	**Long Position**	**Short Position**				
	Profit Rate Risk	**773,106**	**771,716**	**1,389**	**15,484**	**-**	**561**
	Foreign Currency Risk	**329,172**	**113,376**	**215,797**	**215,797**	**-**	**7,295**
3	**OPERATIONAL RISK**						
	Operational Risk				**669,412**		**53,553**
	Total RWA and Capital Requirements				**14,892,136**	**13,991,443**	**1,180,724**

OTC "Over The Counter"
PSIA "Profit Sharing Investment Account"

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BASEL II Pillar 3 Disclosures (continued)

Disclosure on Capital Adequacy under the Standardised Approach (RM'000)
Economic Entity and The Bank
31/12/2018

	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	<u>**CREDIT RISK**</u>						
	<u>On Balance Sheet Exposures</u>						
	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
	<u>Off Balance Sheet Exposures</u>						
	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
2	<u>**MARKET RISK**</u>	**Long Position**	**Short Position**				
	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	<u>**OPERATIONAL RISK**</u>						
	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"

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BASEL II Pillar 3 Disclosures (continued)

Disclosure on Capital Adequacy under the Standardised Approach (continued)

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.
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BASEL II Pillar 3 Disclosures (continued)

Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000)
Economic Entity and The Bank
30/6/2019

Risk Weights	Exposures after Netting and Credit Risk Mitigation												Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	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		
0%	6,792,785	-	20,044	-	778,288	-	-	-	645,601	-	-	-	8,236,718	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	53,267	-	22,204	-	402,999	-	-	-	1,440	-	-	-	479,910	95,982
35%	-	-	-	-	-	-	3,400,961	-	-	-	-	-	3,400,961	1,190,336
50%	-	-	5,090	-	93,546	1,887	1,206,877	6,439	-	-	-	-	1,313,839	656,920
70%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	4,942,248	3,748	-	-	-	-	-	4,945,996	3,709,497
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	125	5,105,235	7,847	2,680,556	-	69,808	-	-	-	7,863,571	7,863,571
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
115%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	72,280	11,660	98,311	134,507	-	-	-	-	316,758	475,137
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"

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BASEL II Pillar 3 Disclosures (continued)

Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000)
Economic Entity and The Bank
31/12/2018

Risk Weights	Exposures after Netting and Credit Risk Mitigation												Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	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		
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"

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BASEL II Pillar 3 Disclosures (continued)

(i) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000)
Economic Entity and The Bank
30/6/2019

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moodys	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Ba3**	**B1 to C**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	RAM	**AAA to AA3**	**A to A3**	**BBB1 to BB3**	**B to D**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	Rating & Investment Inc	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
On and Off-Balance-Sheet Exposures						
Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		**-**	**-**	**-**	**-**	**-**
Takaful/Insurance Companies, Securities Firms & Fund Managers		**-**	**-**	**-**	**-**	**124**
Corporates		**159,499**	**15,861**	**-**	**-**	**6,406,110**
Total		**159,499**	**15,861**	**-**	**-**	**6,406,234**

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BASEL II Pillar 3 Disclosures (continued)

(i) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000)

Economic Entity and The Bank

31/12/2018

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off-Balance-Sheet Exposures						
Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	-
Takaful/Insurance Companies, Securities Firms & Fund Managers		-	-	-	-	149
Corporates		276,898	27,861	-	-	6,680,486
Total		276,898	27,861	-	-	6,680,635

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BASEL II Pillar 3 Disclosures (continued)

(ii) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000) (continued)
Economic Entity and The Bank
30/6/2019

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		-	6,846,052	-	-	-	-
Total		-	6,846,052	-	-	-	-

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		11,877	-	-	-	-	35,462
Total		11,877	-	-	-	-	35,462

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BASEL II Pillar 3 Disclosures (continued)

(ii) Disclosures on Rated Exposures according to Ratings by ECAIs (RM'000) (continued)

Economic Entity and The Bank

31/12/2018

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
On and Off-Balance-Sheet Exposures							
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
On and Off-Balance-Sheet Exposures							
Banks, MDBs and FDIs		13,928	-	-	-	-	32,788
Total		13,928	-	-	-	-	32,788

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BASEL II Pillar 3 Disclosures (continued)

a) Disclosures on Credit Risk Mitigation (RM'000)
Economic Entity and The Bank
30/6/2019

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	6,736,982	-	-	-
Banks, Development Financial Institutions & MDBs	30,264	-	-	-
Takaful/Insurance Cos, Securities Firms & Fund Managers	125	-	-	-
Corporates	5,772,190	67,029	127,573	-
Regulatory Retail	4,902,643	-	110,281	-
Residential Mortgages	6,844,507	-	14,688	-
Higher Risk Assets	136,694	4,321	3,886	-
Other Assets	716,848	-	-	-
Defaulted Exposures	252,161	-	3,666	-
Total for On-Balance Sheet Exposures	25,392,414	71,350	260,094	-
Off-Balance Sheet Exposures				
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	1,421,046	-	-	-
Defaulted Exposures	4,387	-	-	-
Total for Off-Balance Sheet Exposures	1,425,433	-	-	-
Total On and Off-Balance Sheet Exposures	26,817,847	71,350	260,094	-

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BASEL II Pillar 3 Disclosures (continued)

a) Disclosures on Credit Risk Mitigation (RM'000)

Economic Entity and The Bank

31/12/2018

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 OTC derivatives or credit derivatives	1,678,218	-	-	-
Defaulted Exposures	4,405	-	-	-
Total for Off-Balance Sheet Exposures	1,682,623	-	-	-
Total On and Off-Balance Sheet Exposures	24,857,302	71,355	169,202	-

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BASEL II Pillar 3 Disclosures (continued)

b) Disclosure on Off-Balance Sheet and Counterparty Credit Risk (RM'000)

Counterparty Credit Risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cashflows. An economic loss could occur if the transactions with the counterparty has a positive economic value for the Bank at the time of default.

In contrast to the exposure to credit risk through a financing, where the exposure to credit risk is unilateral and only the financing bank faces the risk of loss, Counterparty Credit Risk creates a bilateral risk of loss where the market value for many types of transactions can be positive or negative to either counterparty.

In respect of off-balance sheet items, the credit risk inherent in each off-balance sheet instrument is translated into an on-balance sheet exposure equivalent (credit equivalent) by multiplying the nominal principal amount with a credit conversion factor ('CCF') as prescribed by the Standardised Approach under the Risk Weighted Capital Adequacy Framework. The resulting amount is then weighted against the risk weight of the counterparty. In addition, counterparty risk weights for over-the-counter ('OTC') derivative transactions will be determined based on the external rating of the counterparty and will not be subject to any specific ceiling.

Economic Entity and The Bank
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Description	Total Principle Amount	Positive Fair Value of Derivative Contracts	Total Credit Equivalent Amount	Total Risk Weighted Amount
Direct Credit Substitutes	96,824		96,824	88,895
Transaction related contingent Items	261,590		130,795	131,197
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,540,315		770,157	465,147
Short Term Self Liquidating trade related contingencies	297,082		59,416	16,802
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	1,576,916		315,383	196,515
Unutilised credit card lines	180,085		36,017	27,052
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	-		-	-
Foreign exchange related contracts				
-less than one year	791,182	3,631	16,842	5,058
Total	4,743,994	3,631	1,425,434	930,666

Economic Entity and The Bank
31/12/2018

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	1,682,622	1,114,341

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BASEL II Pillar 3 Disclosures (continued)

c) Disclosures on Market Risk - Profit Rate Risk/Rate of Return Risk in the Banking Book

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.

Type of Currency (RM million)	**Economic Entity and The Bank**		Economic Entity and The Bank	
	2019	**2019**	2018	2018
	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	**61.5**	**21.9**	46.5	57.2
US Dollar	**(0.7)**	**(0.2)**	(0.9)	(0.1)
Others (*)	**(0.2)**	**-**	(0.4)	-
Total	**60.6**	**21.7**	45.2	57.1

*Others comprise of SGD, JPY, EUR, AUD and GBP currencies where the amount of each currency is relatively small.