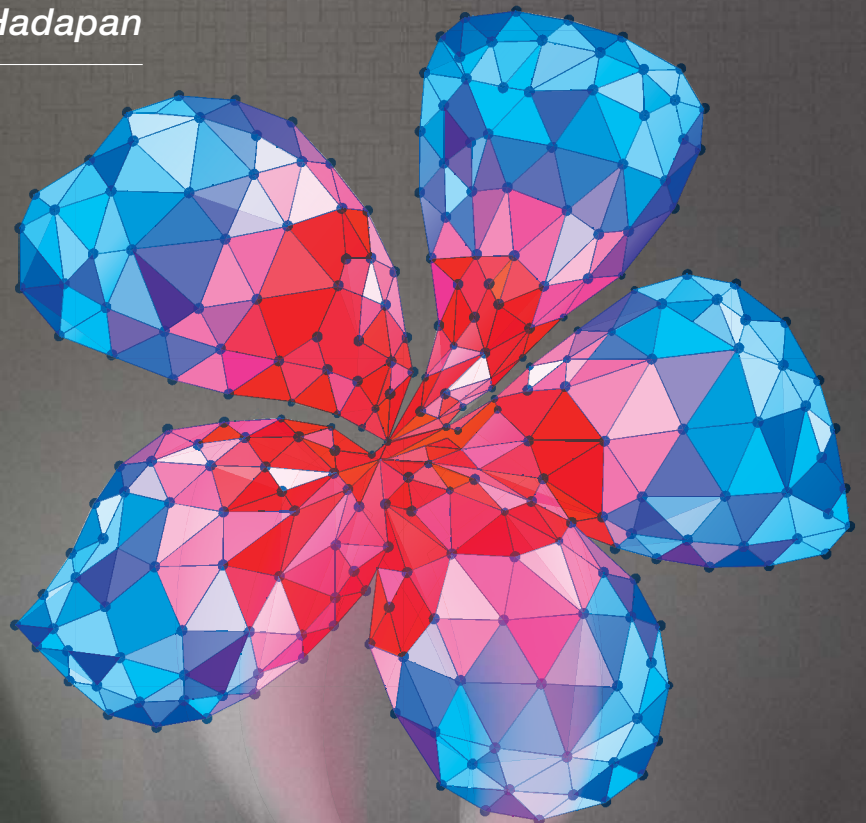




# Into the Future with Florescence

*Mekar Bersama dan Maju Ke Hadapan*

ANNUAL REPORT 2020





# TABLE OF CONTENTS

## 01 ORGANISATION

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Our Vision, Our Mission .....	2	Directors Profile .....	6
Corporate Information .....	3	Shariah Committee Profile .....	11
Corporate Structure .....	4	Management Team .....	16
Board of Directors .....	5		



### Rationale

'**Florescence**' refers to the blossoming of a flower as well as the fulfillment of true potential.

As such, the futuristic floral emblem on the cover celebrates our multi-faceted transformation towards digital banking and a high-performance corporate culture.

Customer-centricity lies at the heart of our new ethos and this is symbolised by the lady customer who is enjoying the convenience that is offered by our digital banking innovations.



## 02 EXECUTIVE SUMMARY

Chairman's Statement .....	18
CEO's Message .....	22
Management Discussion & Analysis .....	24
Corporate Diary .....	38
Five-Year Financial Summary .....	43

## 03 CORPORATE GOVERNANCE

Corporate Governance Overview Statement .....	44
---	----

## 04 FINANCIAL STATEMENTS

Financial Statements .....	65
----------------------------	----

## 05 OTHER INFORMATION

Directory of Branches .....	234
-----------------------------	-----



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Annual Report 2020



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# OUR VISION, OUR MISSION

## OUR VISION

A premier partner for Financial Growth and Innovative Services.

## OUR MISSION

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

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

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



# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### CHAIRMAN

**Dato' Mohd Ali Bin Mohd Tahir**  
Independent Non-Executive Director  
(appointed as Chairman w.e.f. 6.4.2021)

### DIRECTORS

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

**Musa Bin Abdul Malek**  
Independent Non-Executive Director

**Suffian Bin Baharuddin**  
Independent Non-Executive Director

**Datuk Mohd Farid Bin Mohd Adnan**  
Independent Non-Executive Director  
(appointed w.e.f. 1.3.2021)

**Mohd Suffian bin Haji Haron**  
Chairman/Non-Independent Non-Executive  
Director (completed his tenure of directorship  
w.e.f. 1.6.2020)

**Laksamana Madya Tan Sri Dato' Seri Ahmad  
Ramli bin Mohd Nor (Retired)**  
Non-Independent Non-Executive Director  
(completed his tenure of directorship  
w.e.f. 7.7.2020)

**Dato' Bakarudin Bin Ishak**  
Independent Non-Executive Director  
(completed his tenure of directorship w.e.f.  
2.1.2021)

**Mohd Haniz bin Mohd Nazlan**  
Non-Independent Non-Executive Director  
(resigned w.e.f. 12.3.2021)

### CHIEF EXECUTIVE OFFICER

**En. Nazlee bin Khalifah**

### COMPANY SECRETARY

Nimma Safira Khalid  
LS0009015  
(SSM PC No. 201908001266)  
Tel : 603-2055 9019  
E-mail : nimma@affinbank.com.my

### REGISTERED OFFICE

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

### HEAD OFFICE

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

### AUDITORS

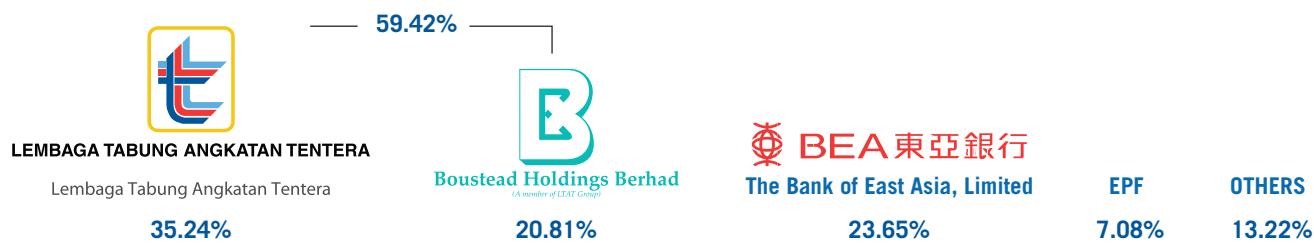
PricewaterhouseCoopers PLT  
LLP0014401-LCA& AF1146  
Level 10, 1 Sentral  
Jalan Rakyat  
Kuala Lumpur Sentral  
50706 Kuala Lumpur  
Malaysia

### WEBSITE

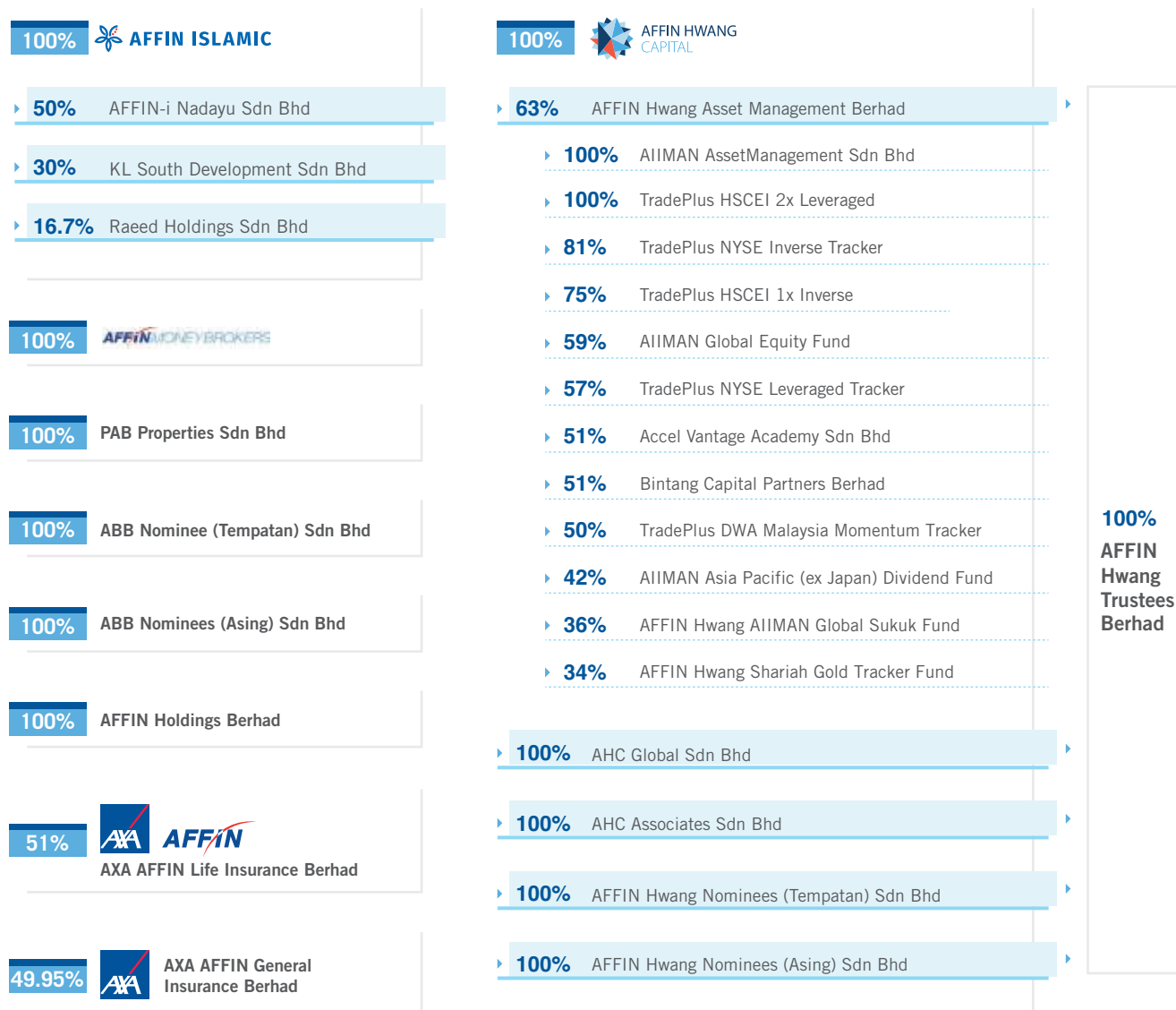
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# CORPORATE STRUCTURE

AS AT 28 FEBRUARY 2021



## AFFIN BANK



## BOARD OF DIRECTORS



**DATUK MOHD FARID  
BIN MOHD ADNAN**  
Independent  
Non-Executive  
Director

**ASSOC. PROF.  
DR. SAID BOUHERAOUA**  
Independent  
Non-Executive  
Director

**DATO' MOHD ALI BIN  
MOHD TAHIR**  
Chairman/  
Independent  
Non-Executive  
Director

**MUSA BIN ABDUL  
MALEK**  
Independent  
Non-Executive  
Director

**SUFFIAN BIN  
BAHARUDDIN**  
Independent  
Non-Executive  
Director



# DIRECTORS PROFILE



## DATO' MOHD ALI BIN MOHD TAHIR

Chairman/  
Independent Non-Executive Director

69 / Male

Date of Appointment:  
6 April 2021 (as Chairman)  
1 August 2019 (as Director)

Attendance in 2020: 15 / 15

### Nationality

Malaysian

### Academic/Professional Qualification

- Diploma in Investment Analysis of Malaysian Association of Productivity, Malaysia
- Banking Diploma of Institute of Bankers, UK
- Higher School Certificate of Royal Military College, Malaysia

### Past Working Experience/Directorship

- Independent Non-Executive Director, RHB Bank Bhd
- Independent Non-Executive Director, RHB Islamic Bank Bhd
- Chief Operating Officer, HSBC Bank Bhd (HSBC)
- Regional Manager South, HSBC
- Regional Manager East, HSBC
- Manager Hub, Head Office, HSBC
- Branch Manager, Penang Branch, HSBC
- Manager, Special Project, HSBC

### Directorship(s) in other public/public listed companies

- Independent Non-Executive Director, Affin Hwang Investment Bank Berhad

### Membership of Group Board Committees<sup>#</sup>

- Member of Group Board Nomination and Remuneration Committee
- Member of Group Board Credit Review and Recovery Committee

<sup>#</sup> Board Committees set-up on Group basis - Appointed as representative of Affin Islamic Bank Berhad

## DIRECTORS PROFILE

### ASSOC. PROF. DR. SAID BOUHERAOUA

Independent Non-Executive Director

53 / Male

Date of Appointment: 19 June 2014

Attendance in 2020: 15 / 15



#### Nationality

Algerian

#### Academic/Professional Qualification

- Ph.D in Fiqh/UsulFiqh (Shariah) from International Islamic University Malaysia
- Registered Shariah Adviser with Securities Commission Malaysia

#### Past Working Experience/Directorship

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

#### External Professional Commitment

Director of Research Development & Innovation of ISRA

#### Membership of Group Board Committees<sup>#</sup>

- Member of Shariah Committee (*relinquished his position as Chairman w.e.f. 31 March 2021*)
- Member of Group Board Audit Committee
- Member of Group Board Compliance Committee

<sup>#</sup> Board Committees set-up on Group basis - Appointed as representative of Affin Islamic Bank Berhad

## DIRECTORS PROFILE



### MUSA BIN ABDUL MALEK

Independent Non-Executive Director

65 / Male

Date of Appointment: 1 August 2019

Attendance in 2020: 15 / 15

#### Nationality

Malaysian

#### Academic/Professional Qualification

- Bachelor of Business Administration (Honours), University of Ohio/Mara Institute of Technology, USA/Malaysia
- Diploma in Tourism Administration (Dean's List), Mara Institute of Technology, Malaysia

#### Past Working Experience/Directorship

- Director of Bank Pembangunan Malaysia Berhad
- Group Head, Islamic Banking, Consumer Banking of CIMB Islamic Bank Berhad
- Adjunct Professor of International Islamic University Malaysia (IIUM) – Institute of Islamic Banking and Finance (IIBAF)
- Part Time Lecturer of IIUM Graduate School
- Deputy Chief Executive Officer of Bank Muamalat Malaysia Berhad
- Executive Director and Chief Executive Officer of HSBC Amanah Malaysia Berhad
- Manager, Business Development, Corporate & Institutional Banking of HSBC
- Attached to Debt Origination team in Debt Capital Market of HSBC Hong Kong
- Manager Corporate Relationship, Petaling Jaya Branch of HSBC

#### Directorship(s) in other public/public listed companies

-

#### Membership of Group Board Committees<sup>#</sup>

- Member of Group Board Credit Review and Recovery Committee
- Member of Group Board Information Technology Committee

<sup>#</sup> Board Committees set-up on Group basis - Appointed as representative of Affin Islamic Bank Berhad



## DIRECTORS PROFILE

### SUFFIAN BIN BAHARUDDIN

Independent Non-Executive Director

51 / Male

Date of Appointment: 1 July 2020

Attendance in 2020: 7 / 7  
(since his appointment as Director)



#### Nationality

Malaysian

#### Academic/Professional Qualification

- Bachelor of Science (Hons) in Accounting, University of East Anglia
- Chartered Accountant of Malaysian Institute of Accountants (MIA)
- Chartered Certified Accountant of Association of Chartered Certified Accountants (ACCA)

#### Past Working Experience/Directorship

- Independent Non-Executive Director (INED) of Bank Pembangunan Malaysia Berhad
- Director of Special Projects, Office of Chairman, Johor Port Berhad
- Deputy Chief Executive Officer, Senai Airport Terminal Services Sdn Bhd
- Senior General Manager (Corporate Division), Pelabuhan Tanjung Pelepas Sdn Bhd
- Managing Director / Chief Executive Officer, Rangkaian Pengangkutan Intergrasi Deras Sdn. Bhd.
- INED, Syarikat Prasarana Negara Berhad

- General Manager, Corporate Planning, Indah Water Konsortium Berhad
- General Manager, Finance Division, Malaysia Airports Holdings Berhad
- Senior Manager, Finance Division, Renong Berhad
- Assistant Manager, Corporate Finance, Arab-Malaysian Merchant Bank Berhad.

#### Directorship(s) in other public/public listed companies

-

#### Membership of Group Board Committees#

- Member of Group Board Audit Committee
- Member of Group Board Risk Management Committee

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

## DIRECTORS PROFILE



### DATUK MOHD FARID BIN MOHD ADNAN

Independent Non-Executive Director

58 / Male

Date of Appointment: 1 March 2021

#### Nationality

Malaysian

#### Academic/Professional Qualification

- Master of International Business Studies (MIBS), University of South Carolina at Columbia, USA
- Bachelor of Science Chemical Engineering, University of Tennessee at Knoxville, USA

#### Past Working Experience/Directorship

- Non-Independent Director, Petronas Dagangan
- Non-Independent Director, Petronas Energy Trading UK
- Non-Independent Director, MISC Berhad
- Managing Director/CEO, Engen Limited South Africa
- Vice President Oil Business, Petronas
- Senior General Manager, Petronas Dagangan Berhad (PDB)
- Managing Director/CEO, Petronas Trading Corporation (PETCO)
- Senior General Manager, Commercial MLNG and CEO Asean LNG Trading Corporation, Petronas LNG Business
- General Manager, Malaysia International Trading Corporation (MITCO)
- General Manager, Strategic Alliances, Engen Limited, South Africa
- Manager, Business Evaluation Unit, Corporate Planning of Petronas

#### Directorship(s) in other public/public listed companies

- Prasarana Malaysia Berhad

#### Membership of Group Board Committees<sup>#</sup>

- Member of Group Board Risk Management Committee

<sup>#</sup> Board Committees set-up on Group basis - Appointed as representative of Affin Islamic Bank Berhad

## SHARIAH COMMITTEE PROFILE

Associate Professor Dr. Said Bouheraoua



● Algerian / 53 / Male

Associate Professor Dr. Said Bouheraoua has been appointed as Shariah Committee of AFFIN ISLAMIC since 25 April 2008. He obtained his Ph.D in Fiqh/Usul Fiqh (Shariah) from the International Islamic University Malaysia (IIUM) in 2002.

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

Associate Professor Dr. Ahmad Azam Othman



● Malaysian / 52 / Male

Dr. Ahmad Azam Othman is currently an Associate Professor at Islamic Law Department, Ahmad Ibrahim Kulliyah of Laws (AIKOL), International Islamic University Malaysia (IIUM). He was the Director of Harun M. Hashim Law Centre, AIKOL, IIUM and the Head of Islamic Law Department, AIKOL, IIUM. His specialised areas are Islamic Law of Property, Obligations, Transactions, Personal Bankruptcy, Banking and Takaful as well as comparative laws.

He has vast experience in teaching for postgraduate as well as undergraduate courses. He is also an internal examiner and supervisor to a number of PhD Theses and Master Dissertation in various areas including Islamic Banking, Islamic Microfinance, Islamic Capital Market, Takaful and Waqf. Dr. Ahmad Azam Othman holds a PhD from University of Wales, UK. In addition, he holds a Master of Comparative Laws from IIUM where he also obtained his LLB (Bachelor of Laws) and LLB.S (Bachelor of Shariah) as his first degree.



## SHARIAH COMMITTEE PROFILE

### Associate Professor Dr. Zulkifli Hasan



● Malaysian / 44 / Male

Dr. Zulkifli Hasan is a Deputy Rector (Student) Development and Community Engagement) International Islamic University Malaysia and holds various other academic positions such as panel of expert on muamalat, JAKIM, ISRA Council of Scholars, guest speaker for Judicial and Legal Training Institute, Prime Minister's Department and CIBFM, Brunei Darussalam. Besides these appointments, he is involved as editor and reviewer for various refereed academic journals. His industry experience was as an in-house advocate and solicitor for Bank Muamalat Malaysia Berhad, member of Rules and Regulations Working Committee for Association of Islamic Banking Institutions Malaysia and member of corporate governance working committee for Awqaf South Africa.

He also underwent internship at Hawkamah, the Institute for Corporate Governance, Dubai International Financial Centre whereby he was involved in developing corporate governance guidelines for Islamic Financial Institutions in the Middle East and North Africa (MENA) as well as in the Task Force on Environmental, Social and Governance (ESG) which led towards development of the S&P Hawkamah Pan Arab ESG Index. He has been selected as a recipient of a 2014 grant to conduct scholarly research at Fordham University, New York, United States of America by the J. William Fulbright Foreign Scholarship Board through the Fulbright US-ASEAN Visiting Scholars Initiative. His articles have been numerous published in various academic journals and he has presented many papers in various conferences both local and abroad.

His research includes corporate and Shariah governance and regulation in Islamic finance. His book entitled 'Shari'ah Governance in Islamic Banks: Edinburgh Guides to Islamic Finance' published by the Edinburgh University Press, UK won the MAPIM Best Publication in the category of social science in 2013.

Dr. Zulkifli Hasan holds a PhD in Islamic Finance from Durham University, UK. Besides this, he holds a Master of Comparative Laws from International Islamic University of Malaysia where he also obtained his LLB (Bachelor of Laws) and LLB.S (Bachelor of Shariah) as his first degree.

## SHARIAH COMMITTEE PROFILE

### Dr. Mohammad Mahbubi Ali



● Malaysian / 38 / Male

Dr. Mohammad Mahbubi Ali is Head of Economics, Finance, Awqaf and Zakat unit cum research fellow at the International Institute of Advanced Islamic Studies (IAIS) Malaysia. Previously, he was a researcher at the International Shari'ah Research Academy for Islamic Finance (ISRA). During his stint at ISRA, he had contributed to numerous ISRA's research publications, mainly involving in the drafting of BNM Shari'ah Standards. He also serves as a Shariah advisor for a number of advisory and consultancy firms, including Masyref Management House, Malaysia and Dar al-Muraja'ah Al-Shar'iyyah, Bahrain. In the academic world, he teaches postgraduate students at INCEIF The Global University of Islamic Finance and Tazkia Business School Indonesia.

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

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

## SHARIAH COMMITTEE PROFILE

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### Dr. Nor Fahimah Mohd Razif



● Malaysian / 35 / Female

Dr. Nor Fahimah Mohd Razif is currently a senior lecturer at Department of Fiqh and Usul, University of Malaya (UM). She also has been appointed as Shariah Advisor at Dana Peladang Kebangsaan since 2019. She was previously attached at the International Shari'ah Research Academy for Islamic Finance (ISRA) as a Research Assistant to conduct research on hedging mechanism through option product in Islamic finance.

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

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



## SHARIAH COMMITTEE PROFILE

### Associate Professor Datin Dr. Nurdianawati Irwani Abdullah



● Malaysian / 46 / Female

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

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

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

# MANAGEMENT TEAM

*from left to right:*

**FERDAUS TOH BIN ABDULLAH**  
Deputy Chief Executive Officer

**MOHD FIZAR BIN MOHIDIN**  
Head, Islamic Treasury

**NAZLEE BIN KHALIFAH**  
Chief Executive Officer

**MOHD FAIZ BIN RAHIM**  
Head, Shariah Supervisory

**HAZLAN BIN HASAN**  
Head, Islamic Client Solutions



## MANAGEMENT TEAM

**MOHD  
RUSLEE  
BIN OMAR**

Head, Strategic  
Business  
Alliances

**ZURINA AYU  
BINTI  
SAMSUDIN**

Head, Product  
Development

**JOZAIMAH  
BINTI JOHAN  
ALI**

Head, Strategic  
Management

**THRESA  
BRIDGET  
D. VINCENT  
PAUL**

Head, Islamic IT  
& Operations  
Support

**NUR DIANA  
BINTI MOHD  
MUSHAHAR**

Head,  
Bancatakaful  
Business

**NORAZLINDA  
BINTI MOHD  
FADZIL**

Head, Promotion  
& Marketing  
Communications



# CHAIRMAN'S STATEMENT



**DATO' MOHD ALI BIN  
MOHD TAHIR**  
Chairman

**Dear Shareholders,**

In 2020, Malaysia and indeed globally, underwent and still experiencing a unique challenge in the form of the Covid-19 pandemic that impacted the socio-economic environment.

The stricture of the necessary health measures have caused the broad economic activities to slow down significantly, leading to Malaysia's Gross Domestic Product (GDP) to contract 5.6% in 2020. The banking industry is not spared, however, it weathered the downturn and generally helped maintained the country's financial stability.

Affin Islamic Bank Berhad (AFFIN ISLAMIC) recorded a modest 2020 performance. Profit before taxation for the financial year 2020 (FY2020) increased by 4.3% to RM97.2 million (FY2019: RM93.2 million), largely by an exceptional contribution from our Treasury operations, and in the final quarter 2020, a noticeably positive growth in personal financing assets.

AFFIN ISLAMIC continue to uphold its sizeable share of the Group total financing assets, which stood at 43% for the year under review.

**RM4.0 million**

increase in Profit before Tax

**RM12.0 million**

decrease in Net Income



## CHAIRMAN'S STATEMENT

The financial well-being of our customers is one of the main pillar of our business mission. The Bank made available, a series of Government initiated financial assistance programmes, and the in-house programmes.

”

The Covid-19 pandemic caused drastic socio-economic changes which we have never experienced before.

The ensuing MCO had led Banks, in public and private sectors, to institute ground level adjustments to cope with these changes.

To maintain a measure of stability, the Government and Bank Negara Malaysia (BNM) introduced a series of fiscal and monetary measures that saw, among others, reductions to the Overnight Policy Rate, a series of financial aid programmes, and 6-months moratorium on financial obligations.

### EMBRACING CHANGE

Our customers are at the core of business and with this in focus, the Bank disbursed several government-initiated financing programmes – PRIHATIN SME+, PENJANA, PERMAI and PEMERKASA and made available AFFIN's own Financial Assistance Instalment Relief (FAIR) and Expanded Targeted Assistance (X-TRA) programmes.

The FAIR and X-TRA programmes are specially customised solutions to assist our customers better manage their finances. A total of RM3.99 billion financing was approved, providing financial assistance to 17,415 affected customers.

Under the FAIR programme, customers were given the options for deferment of their financing obligations for up to 12 months at the Bank's discretion or rescheduling and restructuring (R&R) of an existing financing facility.

Under the consumer segment, the X-TRA programme made available to the customers, within the B40 and M40 income bracket, the option of a 3-months deferment of instalment payments.

### DIGITALISATION TO ACCELERATE CHANGE

The Bank remains focused on AFFIN Group's digital transformation agenda and on strengthening of our balance sheet.





## CHAIRMAN'S STATEMENT



We took cognisance of the heightened urgency to accelerate our digital transformation initiative in order to meet the fast changing expectations of our customers, and the consumer at large,

The Group formulated a Groupwide strategy, AFFINITY IN MOTION (AIM) 22, launched in 2020, with key focus on improving Return on Equity, the Cost to Income Ratio and Management of Risks.

### CREATING A SUSTAINABLE FUTURE

The importance of inculcating Environmental, Social and Governance (ESG) principles into our banking DNA is primary, and are increasingly adopted into the business strategy going forward. A major step is aligning our financing policy and strategy; we have taken to provide financing of green technology and, in 2020 have had a good measure of recognition towards this end.

In the National Energy Awards 2020 (NEA 2020), we had the honour of receiving the Special Award under the Sustainable Energy Financing (Islamic Financing) category.

We will continue to uphold corporate governance policies and practices to maintain corporate integrity, accountability and transparency guided by the Malaysian Code of Corporate Governance 2017 ("MCCG 2017"), BNM's guidelines and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia").

## CHAIRMAN'S STATEMENT

### CAUTIOUS OUTLOOK INTO 2021

The global impact of Covid-19 pandemic is expected to persist in 2021, and will bear strongly on the performance of the banking industry players. AFFIN ISLAMIC, and the Group, will remain vigilant of these challenges and will respond with appropriate management measures and actions to ensure the stability and sustainability of the Bank.

### APPRECIATION AND ACKNOWLEDGEMENTS

On behalf of the Board of Directors, I wish to express our sincere appreciation to our principal shareholder, Affin Bank Berhad, our major stakeholders Lembaga Tabung Angkatan Tentera, Boustead Holdings Berhad, The Bank of East Asia, Limited and the Employees Provident Fund, our clients, business partners and not the least, our depositors. Your continued support and contributions are invaluable to the Group.

A special thank you to ALL our staff for your dedications and commitment in going through the exceptional challenges of 2020. I also wish to extend our gratitude to Bank Negara Malaysia, Securities Commission Malaysia, Bursa Malaysia and other relevant regulatory bodies for their continued support and cooperation over the years.

On this note and on behalf of the Bank, may I extend my appreciation to my fellow Board of Directors, and Board members of Affin Bank Berhad, for their continued support and guidance.

I look forward to forging Team AFFIN BANK into 2021 and beyond.

**Dato' Mohd Ali bin Mohd Tahir**

Chairman

# CEO'S MESSAGE

Dear Shareholders,

The year in review was a challenging one. The global pandemic outbreak resulted in major changes in the economy, businesses and our daily lives. This translated into a contraction in gross domestic product (GDP) of 5.6% in 2020, compared to a smaller contraction of 4.3% in 2019.\*

## PERFORMANCE REVIEW

BNM's Overnight Policy Rate (OPR) was reduced four times over seven months by a cumulative of 125 basis points from 3.00% to 1.75%, the lowest in a decade, to stimulate economic growth as businesses and individuals lost their source of income. The cut placed further pressure on the Bank's profit margin, although asset quality remained stable. On top of this, a mandatory six-month moratorium was introduced.

For FYE2020, despite the overall economic landscape, the Bank has shown resilience, registering an increase in profit before taxation of 4.3% to RM97.2 million for the financial year ended 31 December 2020 (FYE2020), against a profit before taxation of RM93.2 million for the previous financial year ended 31 December 2019.

This result was underlined by an increase in revenue to RM453.6 million, from RM417.6 million in the previous financial year, supported by growth in treasury and towards the later part of the year, a growth in financing assets. Total assets of the Bank as at 31 December 2020 showed an increase of 8.3% to RM25.2 billion, as a result of a growth in net financing, advances and other financing by 4.3% to RM19.4 billion, supported by the increment in cash and short-term funds of 75.9% to RM2.8 billion.

As an Islamic bank, our business offered attractive products with various underlying Shariah contracts has seen us through the toughest period of a economic condition. We grew our assets prudently throughout the year, supported by our strong relationships with our existing and new customers.

The banking industry had to make major changes in operations as we adjusted to a reduction in both operating hours and face-to-face contact. As our customers moved their transactions and daily lives online, we accelerated our digitalisation efforts to meet their changing demands.

At the same time, we implemented various aid programmes under the government's initiatives. In addition, AFFIN ISLAMIC established the Financial Assistance Instalment Relief (FAIR) programme and Expanded Targeted Repayment Assistance (X-TRA) programme to ease the financial burdens of our customers.

We are determined to continue contributing to nation-building and socio-economic growth for Malaysians while creating value for our stakeholders. We continue to empower Malaysians and support them during this challenging period with our financial products and services.

Giving back to the community has always been the Bank's priority. Throughout the year, we continued to engage industry partners to broaden the reach of Islamic finance while promoting the culture of being a responsible corporate organisation through our charitable initiatives. More details are available in the Management Discussion and Analysis section of this report.

The Group's AIM22 metamorphosis plan, launched during the financial year in review, underscores key focus areas: lowering the overall cost of funds by re-engineering the balance sheet, digital transformation to match the industry, inculcating a high-performance culture, and improving risk management through enhanced asset quality management, liquidity risk and capital management initiatives. The plan which will carry the Group through to FY 2020 has started to show positive results. It also involves the implementation of additional efforts in order to attain sustainable growth targets. The programme is progressing well and all of its initiatives are scheduled to be completed by the end of 2022.

\*Source: Department of Statistics Malaysia, Malaysia Economic Performance Fourth Quarter 2020

## CEO'S MESSAGE



### OUTLOOK

At present, the Bank in its ability to improve on the profit margin and maximise revenue generation. We will continue to build on ongoing initiatives, including deposits strategy, driving fee income and shifting focus towards high yielding products, while avoiding unnecessary credit exposure.

To enhance customer experience in the digital realm, they can expect more strategic collaborations with digital service providers for a holistic banking solution. Our mobile banking app is scheduled to be launched in 2021 and is expected to improve customer experience and to enhance customer acquisition. We will continue to develop strategic partnerships with Takaful operators for Retail, SME and Corporate customers.

### ACKNOWLEDGEMENTS

I wish to express my sincere gratitude to our valued customers for their continued trust in our services, without them we would not have been able to consider FYE2020 a relative success.

I would also like to thank the dedicated Board of Directors and the Bank's senior management team for their guidance and support.

Finally, my gratitude is extended to Bank Negara Malaysia and the regulatory bodies for supporting us throughout our history.

**Nazlee bin Khalifah**  
Chief Executive Officer



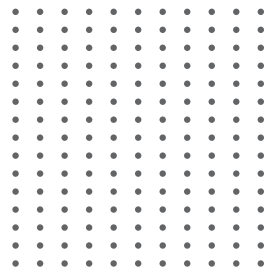


AFFIN ISLAMIC BANK BERHAD ('AFFIN ISLAMIC' OR 'THE BANK') CONTINUED TO GROW IN FINANCING SEGMENTS AND TOTAL ASSETS, RECORDING A HIGHER PROFIT BEFORE TAX ('PBT') OR RM97.2 MILLION FOR THE 2020 FINANCIAL YEAR ('FY2020').

THE BANK'S FINANCING PORTFOLIO REACHED 43% OF THE FINANCING ASSETS OF AFFIN BANK AND AFFIN ISLAMIC, AGAIN EXCEEDING THE 40% TARGET SET BY BANK NEGARA MALAYSIA ('BNM') UNDER ITS 10-YEAR FINANCIAL SECTOR BLUEPRINT 2011 – 2020.



# MANAGEMENT DISCUSSION & ANALYSIS





## MANAGEMENT DISCUSSION & ANALYSIS



AFFIN ISLAMIC has continued to maintain profitability and sustainability despite the backdrop of a challenging economic climate, political instability, drastic changes in consumer habits and the effects of the Covid-19 pandemic.

By adopting operating models that drive efficiency and resilience, the Bank has emerged focused and agile amidst an ever-changing landscape, registering various business and operational achievements.

Our achievements were underscored by our sound compliance with corporate governance standards and prudent risk management. The Bank continues to focus on product innovation and diversification in Islamic client solutions and broadening strategic alliance networks, while leveraging our expertise and operational support in Bancatakaful. We remain on track towards realising our aspirations to be a premier partner for financial growth and innovative services.

### MACRO OPERATING ENVIRONMENT

The ongoing Covid-19 pandemic and restrictions has resulted in an extremely challenging year for the industry, impacting social, business and economic fronts. Businesses have scaled down or closed operations, and unemployment rates increased following the mandatory Movement Control Order (MCO) implementation in March 2020.

While the world was gearing up to curtail the impact of the pandemic, Malaysia has had to brace through the health crisis against the backdrop of lingering political uncertainty and an already higher-than-peers fiscal burden. In addition to this, Fitch Ratings has downgraded Malaysia's Long-Term Foreign-Currency Issuer Default Rating to "BBB+ with stable outlook" from A- due to the weakening key credit metrics.

Bank Negara Malaysia further cut the Overnight Policy Rate (OPR) by a total of 125bps throughout the year 2020 to 1.75% to complement the equally robust fiscal measures aimed at buffering the economy from the impact of the pandemic. However, there is room for further monetary easing to support growth in the coming months despite growth surprising on the downside and an arduous recovery path ahead.

Following the implementation of MCO 2.0, the Government announced additional stimulus package worth RM15 billion under Perlindungan Ekonomi dan Rakyat Malaysia (PERMAI) on top of the earlier packages, namely Economic Stimulus Packages, PRIHATIN, PRIHATIN SME+, PENJANA and KITA PRIHATIN to mitigate the impact of the pandemic and protect the livelihood of Malaysians. The implementation of the stimulus packages are being tracked by LAKSANA, a unit under the Ministry of Finance to ensure the aids reach the targeted groups. The RM320 billion or 20.4% of GDP worth of economic stimulus packages are anticipated to generate spill-over effects and augment the economic recovery in 2021.

## MANAGEMENT DISCUSSION & ANALYSIS

Malaysia's Gross Domestic Product contracted by 5.6% in 2020 due to the Covid-19 pandemic, and it is expected to bounce back between 6.5% and 7.5% in the subsequent year. Month-to-month economic data has shown promising signs of recovery in production and trade statistics, declining unemployment rate and increasing private consumption. However, the economic outlook for 2021 is subjected to two major factors which are the effectiveness of the Covid-19 vaccine to contain the pandemic and continuous recovery in external demand. Internally, the nation's well diversified economy, backed by strong economic fundamentals, shall provide the desired support to promote continuous growth in the years to come.

Amid exceptional uncertainty, the International Monetary Fund (IMF), in its January 2021 issue of the World Economic Outlook (WEO) Update, anticipates global GDP to grow by 5.2% in 2021 and 4.2% in 2022. The 2021 forecast has been revised reflecting the expectation of vaccine-powered strengthening of activities later part of the year and additional policy support in a few large economies.

The banking sector is expected to continue to be impacted by added headwinds from rising gross impaired financings and net profit margin contractions.

The introduction of government measures during the Budget 2021 as well as tax incentives and the targeted Wage Subsidy Program will support Malaysia's private consumption growth. Meanwhile, private investment will likely to improve in 2021 with the resumption and implementation of mega infrastructure projects and other new projects. This is evidenced by the government's proposal to allocate a substantial RM69 billion to development expenditure focusing on construction-related and infrastructure projects with high multiplier impact.

*\*Source: Economic Outlook 2021 by Ministry of Finance Malaysia Opportunities & future challenges*

**Total assets of the Bank as at 31 December 2020 showed an increase of 8.3% to RM25.2 billion compared to the previous corresponding period.**



## MANAGEMENT DISCUSSION & ANALYSIS

### 2020 FINANCIAL REVIEW

AFFIN ISLAMIC posted a PBT of RM97.2 million for the financial year ended 31 December 2020, against a PBT of RM93.2 million for the previous financial year ended 31 December 2019. The improved performance was underlined by an increase in total revenue to RM453.6 million, from RM417.6 million in the previous financial year, supported by the enlarged financing and treasury portfolios.

Our total assets as at 31 December 2020 showed an increase of 8.3% to RM25.2 billion compared to the previous corresponding period. The incremental was attributed by the growth in net financing, advances and other financing by 4.3% to RM19.4 billion, supported by the increased in cash and short-term funds of 75.9% to RM2.8 billion.

Our liquidity requirement and business growth were reinforced by the increase in customer deposits by 7.9% to RM18.7 billion. Total Capital Ratio stood at 20.27%, while Common Equity Tier 1 and Tier 1 Ratios stood at 12.23% and 14.22%, respectively.



### Zakat contributions

Asnaf Category	Amount (RM)
Fakir miskin (Poor, needy & OKU)	600,189.38
Fisabilillah	168,760.00
Gharimin (Settling of debts for eligible recipients)	-
Riqab	-
Muallaf	10,650.00
Amil	2,510.17
Others*	1,785,000.00
Total	2,567,109.55

\* States Zakat Authority, Tabung Zakat Angkatan Tentera Malaysia (ATM) and Universities

## MANAGEMENT DISCUSSION & ANALYSIS

### IMPACT OF COVID-19

The Covid-19 pandemic brought with it many different challenges for the banking industry. The various implementations of the Movement Control Order (MCO) resulted in a slowdown in the economy, with wide-ranging effects on individuals and businesses. At AFFIN ISLAMIC, we provided as much support as possible to all customers affected through the moratorium and various financial assistance plans.

The AFFIN ISLAMIC's exposure in 2020 to those sectors that were most affected by Covid-19 are disclosed in the table below :-

AFFIN ISLAMIC	RM'000
Real estate	1,564,841
Education, health and others	1,181,146
Manufacturing	881,806
Primary agriculture	778,346

The Covid-19 customer relief and support measures provided in year 2020 are as shown in the table below :-

The Bank	Retail Portfolio			Total RM'000
	Mortgages RM'000	Hire purchase RM'000	Others RM'000	
Total outstanding moratoriums, payment assistances and Rescheduling and Restructuring ('R&R')	7,382,300	3,191,847	209,637	10,783,784
Resumed payments	5,689,569	2,571,832	166,218	8,427,619
Extended and paying as per revised schedules	1,398,048	453,772	28,785	1,880,605
Missed payments	294,683	166,243	14,634	475,560

## MANAGEMENT DISCUSSION & ANALYSIS



### 2020 OPERATIONAL REVIEW

The year in review was a challenging one for the Bank as we face the Covid-19 pandemic which has impacted the industry and changed the economic landscape.

To seize the opportunities in an ever-evolving business environment, we redoubled our efforts to improve our digital capabilities and strengthened our reach to the customers through our branch network and services. Furthermore, we are upgrading our customer-sourcing process as we move towards full digitalisation.

We remained focused on AFFIN Group's digital transformation agenda and on strengthening our balance sheet management to address liquidity excess and funding costs efficiently and effectively. AFFIN Group strives to reinforce both fields with adequate resources to supplement the execution of the Business Plan and other ongoing strategic initiatives for both AFFIN BANK and AFFIN ISLAMIC.

At the entity level, we established more strategic collaboration with digital service providers to enable value-added banking services specifically focused on enhancing user experience.

We are consistently implementing initiatives to strengthen our people and encouraging a high-performance culture. Productivity and efficiency have proven to be vital elements in helping us thrive in this challenging environment. Each individual within our organisation plays an important role in fulfilling our vision, and we take pride in our people. Various programmes related to redefining employee values and performance management are already in place to support this cause.

Ongoing initiatives remains a priority. These include deposit strategy, driving fee income and shifting focus towards high-yielding products. At present, the Bank is poised to capitalise on the improving profit margin to maximise revenue generation. However, we remain selective in our choice of industry to avoid credit exposure in sectors heavily impacted by the pandemic.

As an Islamic bank, our approach has been to focus on a diverse range of products based on a variety of Shariah principles offering unique features as a differentiating factor. Over the years, we maintained strong relationships with institutions of higher learning, federal and state governments and religious bodies.



## MANAGEMENT DISCUSSION & ANALYSIS



### PRODUCTS LAUNCHED

Through various strategic efforts and in support of BNM's initiatives, we launched several innovative new products into the market in 2020.

#### *Deposit*

- AFFIN ISLAMIC Foreign Currency Term Deposit-i (FCTD-i) launched on 2 March 2020
- AFFIN Avance Savvy-i launched on 11 November 2020

#### *Business*

- Special Relief Facility (SRF) launched on 6 March 2020
- PENJANA launched on 1 July 2020
- PENJANA TOURISM launched on 27 August 2020
- CGC BizDana-i Start-Up Financing Scheme launched on 30 September 2020
- Financial Supply Chain-i (FSC-i) launched on 12 December 2020
- Targeted Relief and Recovery Facility (TRRF) launched on 15 December 2020

#### *Consumer*

- AFFIN Advance-i launched on 28 February 2020
- AFFIN Smart Money-i launched on 15 July 2020
- AFFIN ISLAMIC Personal Financing-i to the Pensioners launched on 3 August 2020
- AFFIN ISLAMIC Personal Financing-i to the Government Servant via Salary Deduction launched on 23 October 2020

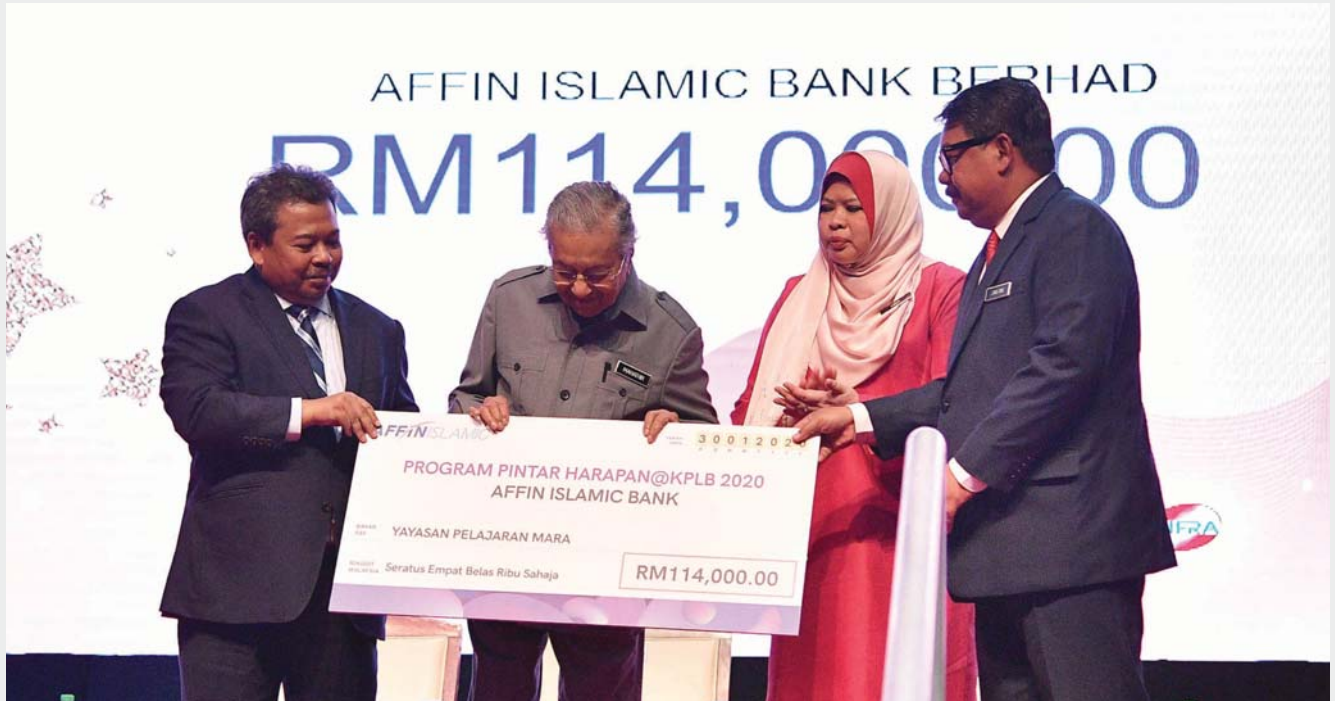
### AWARDS AND ACCOLADES

In recognition of our efforts in sustainability, AFFIN ISLAMIC was awarded the Special Award-Sustainable Energy Financing (Islamic Financing) category for National Energy Awards (NEA) 2020, organised by the Ministry of Energy and Natural Resources (KeTSA). The award is an annual recognition to acknowledge outstanding achievements and best practices in driving the country's sustainable energy agenda. The winners were evaluated by a rigorous assessment with three categories namely; Energy Efficiency, Renewable Energy and Special Awards category.

The award signifies our commitment in embracing and supporting the Government initiatives in pursuing greater energy sustainability projects in Malaysia and is in line with the Bank's efforts towards Value-Based Intermediation (VBI) and AFFIN Group's focus on Environmental, Social and Governance (ESG) agenda.

We have provided financial assistance to a number of customers under the Green Technology Financing Scheme. The Bank also provides financing for two (2) Large Scale Solar (LSS) projects in Malaysia. We will continue providing support to companies venturing into sustainable energy.

## MANAGEMENT DISCUSSION & ANALYSIS



### CORPORATE BRANDING

Industry partner engagement continued to be an initiative for AFFIN ISLAMIC in unlocking and enhancing the potential of Islamic finance and its offering to the Malaysian market.

In 2020 we participated in the Harian Metro Titipan Kasih 2020 campaign with New Straits Times Publication (NSTP), to deliver goods and assistance directly to the less fortunate, from Ramadhan 2020 to March 2021. With RM 200,000 Zakat contributions, each family received essential food and personal care items and cash.

The sponsorship collaboration with Harian Metro, a tabloid owned by New Straits Times (NST) gave us wider exposure and access to above-the-line advertisement channels under NST. While promoting the culture of helping the less fortunate members of the community, this program enabled us to strengthen our relationship with NST and Media Prima Berhad.

We are the sole bank financing solution in the Mind Campus platform, a mobile application developed by New Straits Times (NST) with the collaboration of AFFIN ISLAMIC, NST and Media Prima Berhad. This application equips users with a list of universities, courses and scholarships from both public and private sectors that are available in the country. More than 100 public universities, of which 41 are our panel universities, are also featured in the mobile application. It provided increased visibility and branding for AFFIN Islamic among our target group for AFFIN Education Financing-i namely University students and their parents/guardians, while generating leads and prospects.

## MANAGEMENT DISCUSSION & ANALYSIS

### STRENGTHENING COLLABORATIONS

AFFIN ISLAMIC signed an agreement with Asia Aeronautical Training Academy (AATA) to provide financing of up to RM400,000 for students at selected Malaysian Higher Education Institutions. The signing ceremony signifies our commitment in the framework of strengthening collaboration between the Bank, universities and institutions of higher education in Malaysia through value-based intermediation (VBI).

In 2020, we participated in the Shariah Audit Conference 2020 (virtual conference) jointly organised by the Islamic Banking and Finance Institute Malaysia (IBFIM) and the Malaysian Institute of Accountants. The conference acts as a platform for the participants to gain insightful discourse on Shariah audit and its importance as a key building block for Islamic finance.

### CARING FOR OUR COMMUNITIES

Corporate responsibility is our commitment to delivering significant and positive contributions to the well-being of communities as a vital aspect of our operations. To reflect our VBI role and create wider visibility of our Corporate Social Responsibility (CSR) and Zakat efforts, we organized several initiatives to reach out to the underserved communities.

As one of the Association of Islamic Banking and Financial Institutions Malaysia (AIBIM) member, we have collaborated on four (4) efforts, i.e. contribution to Majlis Agama Islam Perlis (MAIPS) for the development of a Waqf Dialysis Centre in Perlis. This is a strategic collaboration between AFFIN ISLAMIC, AIBIM and five (5) other banks to promote Waqf projects to improve the standard living condition and the society's economic well-being.

Together with AIBIM, we entered into an agreement with Wakaf Pulau Pinang (WPP) focusing on the collection of waqf funds under cash waqf initiative. The collaboration will focus on residential waqf properties alongside education and health assistance toward the public. We provided a complete supply chain to manage funds between public donors and WPP.

Apart from Waqf development, we sponsored 'Program Seorang Sekampit Beras' organised by AIBIM and supported by BNM, which provided zakat and food necessities to over 800 "asnaf" and 50 less fortunate families in Selangor and Kuala Lumpur.

In light of the Covid-19 pandemic, AFFIN ISLAMIC, together with AIBIM, contributed funds to two (2) government hospitals, namely Hospital Kuala Lumpur and Hospital Sungai Buloh. Additionally, we collaborated with Khadijah International Waqf Foundation (KIWF), in contributing zakat to IIUM Medical Centre. The contribution was to purchase Heat Scanning Machines, Personal Protective Equipment (PPE), ventilators, surgical face masks and monitors.

To emphasize our VBI role and support to Malaysia's frontliners, we contributed RM300,000 to Tabung Zakat Angkatan Tentera Malaysia (TZATM) to assist veterans and members of the Angkatan Tentera Malaysia (ATM). Since 2012, we have provided contributions aimed at helping underprivileged beneficiaries among the ATM community.

In 2020, AFFIN ISLAMIC contributed RM339,600 to this fund and kicked off its Titipan Kasih programme, a series of charitable activities to deliver goods and assistance directly to 500 families/recipients from 'Askar Wataniah' and underprivileged families registered with Jabatan Kebajikan Masyarakat (JKM).



## MANAGEMENT DISCUSSION & ANALYSIS



In terms of educational assistance, we have contributed RM114,000 towards 'Program Pintar Harapan', organised by Yayasan Pelajaran MARA and contributed zakat of RM30,000 to the Malaysian Indian Reverted Muslims Association (MIRA), a community development organisation, to help students purchase school items for the new school year.

Other than local contributions and as part of our international efforts, we provided contribution of RM20,000 to Global Peace Mission Malaysia to provide daily necessities and winter clothing for those in need in Palestine, Syria, Yemen, Kashmir, Turkey and Afghanistan.

### RISK MANAGEMENT AND MITIGATION

While the Islamic financial landscape will continue to adapt and change, we are committed to constantly assessing and addressing risks as well as capitalising on opportunities for our sustainable growth. As we operate in a competitive funding and compressed profit margin sector, Group Risk Management will continue to implement initiatives and refine policies and processes to improve our risk management capabilities.

Our business strategies are aligned to the risk appetite statement and annual credit plan to ensure adequate capacity and capabilities to process, underwrite, service and collect, whilst managing and tracking performance to support portfolio analysis. These strategies also help to enhance our risk measurement capabilities supported by the implementation of the credit scoring model. With the inclusion of risk into performance management and compensation decisions, we were able to formulate key performance indicators and key risk indicators that were aligned across the Bank. Together with the Group, we will be proactive in identifying, managing, and coordinating Technology/Cyber Risks, Operational Risks, Shariah Risks, and Business Continuity Management.

We have highlighted several areas to improve upon to mitigate risks and increase operational efficiency:

- a) Digitalisation: We are accelerating our efforts to upgrade our digital offerings and replace the current manual process for a greater customer experience. We will continue to explore collaborations with existing or emerging Fintech players, such as KiplePAY, and form strategic partnerships with Takaful operators for Retail, SME and Corporate customers.
- b) Distribution channels: We are studying opportunities to improve branch network capacity for transaction/service activities.



## MANAGEMENT DISCUSSION & ANALYSIS



Customers can expect more strategic collaboration with digital service providers to enable value-added banking services that are specifically designed to enhance user experience.

### OUTLOOK AND PROSPECTS FOR 2021

Islamic banking in Malaysia continues to grow as the demand to shift to asset-backed financing increases in light of the current economic situation.

Customers can expect more strategic collaboration with digital service providers to enable value-added banking services that are specifically designed to enhance user experience. We intend to strengthen our people by inculcating high-performance culture. Productivity and efficiency have proven to be vital indicators for us to thrive amidst the challenging environment.

Despite the challenges in the current operating environment, there are still opportunities for growth. We remain committed to our strategic focus on sustaining stable profitability, preserving strong asset quality and implementing an effective cost structure as we withstand the challenges in 2021.



## MANAGEMENT DISCUSSION & ANALYSIS



### Our vision and goals for 2021

The following are the key strategic focus for 2021:

- Effective management of balance sheet to minimise funding cost, maximising Net Profit Margin and maintaining healthy liquidity position.
- Revenue upliftment by focusing on high yield financing and fee income generation
- Embracing digital transformation with more strategic collaborations and partnerships

To meet these targets, our key deliverables for 2021 are:





## MANAGEMENT DISCUSSION & ANALYSIS

We will continue to tap into the SME segment in our bid to position ourselves as the preferred partner for SMEs and the largely underserved startups. It is our goal to tap into this fast-emerging market that will build a stronger base for growth, as this segment is the major contributor to the nation's economy.

The Bank sees opportunities created from AFFIN Group synergies and its full implementation for cross selling, fee-based income and cost efficiencies.

In 2020, AFFIN Group introduced the newly revamped AFFINMAX internet banking solutions for business. AFFINMAX has most of the solutions needed by SMEs and continuous enhancements in this platform will be a competitive tool for us in addressing their business transactional needs.

Through the SME Colony mobile application which works as a one-stop centre for all business-related matters, SMEs can grow their business inclusive of customised financial products and services, comprehensive market references and resources as well as vast cross-networking opportunities with other business partners. SMEs can also utilise the platform to promote their products and services online.

We continue to explore penetration of more industries in the SME segment to build our customer base, while remaining cautious of asset quality.

For the year under review, the Corporate Banking Division focused on targeted financing growth in higher risk-adjusted return on capital (RAROC) sectors/products and growing fee-based income. We shifted away from Term Deposit-i (TD-i) and aggressively growing our Current Account-i and Saving Account-i (CASA-i) to lower the cost of funds. We continued to focus on RAROC accretive deals.

In assisting our customers to weather the pandemic, our Corporate Banking Division is providing its assistance via the Financial Assistance and Instalment Relief (FAIR) Program. This was done proactively on a case-to-case basis to alleviate customers' financial difficulty without compromising the asset quality position.

We have seen an increase in compliance costs, stiff competition, deterioration in credit quality and the need for complete digitalisation of certain manual processes. In this segment, our strength lies in our prudent underwriting and selection of customers with whom we build lasting relationships.

The full potential of this AFFIN Group synergy within this segment is yet to be realised, and we expect growth within this segment with gradual replacement of low-quality financing.

**We continue to explore penetration of more industries in the SME segment to build our customer base, while remaining cautious of asset quality.**



## MANAGEMENT DISCUSSION & ANALYSIS



The Enterprise Banking Division continues to support Small & Medium Enterprises (SMEs) customers adversely impacted by the Covid-19 pandemic by providing financial relief facilities under BNM schemes and the Bank's FAIR and Expanded Targeted Repayment Assistance (XTRA) programs.

Enterprise Banking Division focused on maintaining aggressive financing growth and placing more emphasis on fee-based income. We also targeted aggressive growth in customer deposits in line with financing growth.

Our strength in the SME segment lies with the asset quality management (AQM) process: onboarding and pricing to case management. Potential non-performing financings (NPFs) are adequately managed. Our highly experienced personnel bring in market knowledge, while we carry out development programmes for key personnel.

There is room to grow in the adoption of technology specific for SMEs and financing for the largely underserved startups segment. More fee income and organisation-wide cross-selling opportunities will emerge with increasing synergy within the AFFIN Group.

In Community Banking Division, the Bank focused on cost management and optimisation and maintaining asset quality, while improving customer experience and enriching client relationships. We have encouraged the use of digital platforms to ease transactions and reduce face-to-face contact as a result of the Covid-19 pandemic and restrictions in movement.

The pandemic's impact on the economy has resulted in increasing our efforts to stem the potential outflow of deposits. Interchange/PayNet fees have seen a reduction as fintech services become more competitive. We are addressing talent attrition through the implementation of long-term development programmes for key employees.

Our strengths in servicing the Community Banking segment lie in our Branch network's strategic location, fast disbursement, and pricing competitiveness. We have a strong sales team and dealer/developer franchise within the hire purchase and mortgage areas which have helped grow this segment and will continue to make significant contributions in the future.

Increasing AFFIN Group synergy will unfold more opportunities for cross-selling and fee-based income. We will grow Wealth Management through our existing customer base and build relationships with our customers' family members, making us a true community-focused bank.

The digitalisation of processes will lead to increased cost efficiency and improve employee productivity. A reduction in impaired financing through various initiatives will improve income within this segment.

The Community Banking Division will be expanding its customer base by leveraging on collaborations and AFFIN Group synergies in line with the focus of AIM22. We will also streamline the human capital structure towards a more sales-centric model, expand digital penetration, and reduce gross impaired financings by improving analytics, collections, and customer management. The introduction of a mobile banking application in 2021 will further enhance customer experience and subsequently increase the number of transactions.

# CORPORATE DIARY

2020

AFFIN ISLAMIC BANK BERHAD

09 JAN



Winter Aid for the Needy

AFFIN ISLAMIC presented Zakat contribution to Global Peace Mission Malaysia (GPM) to support their Winter Aid for the Needy mission in six (6) winter countries i.e. Palestine, Syria, Yemen, Kashmir, Turkey and Afghanistan. Contribution includes essential items for the less fortunate.

16 JAN



MoU AFFIN Education Financing-i with Asia Aeronautical Training Academy (AATA)

AFFIN ISLAMIC signed a memorandum of understanding (MoU) on AFFIN Education Financing-i with Asia Aeronautical Training Academy (AATA), with the presence of former Johor Chief Minister, Yang Amat Berhormat Dato' Dr Sahrudin Bin Jamal and members of the media.

30 JAN



Program Pintar Harapan YPM

AFFIN ISLAMIC sponsored 'Program Pintar Harapan Yayasan Pelajaran MARA' (PPH YPM) that served SPM students from underprivileged family to prepare them for SPM examination. The contribution was presented to YAB Tun Dr. Mahatir Mohamad who received it on behalf of YPM.

15 FEB



Contribution to Malaysian Indian Reverted Muslims Association

Malaysian Indian Reverted Muslims Association (MIRA), a community development organisation received Zakat contribution from AFFIN ISLAMIC which was distributed to 301 underprivileged school students to prepare for their new schooling session.



2020

AFFIN ISLAMIC BANK BERHAD

14  
FEB**Majlis Amal Dana Wakaf MAIPS**

AFFIN ISLAMIC presented a contribution to Majlis Agama Islam Perlis (MAIPs) to develop a Waqf Dialysis Centre in Perlis. The contribution was presented by our Chief Executive Officer, En. Nazlee Khalifah to DYMM Raja Perempuan Perlis, Tuanku Tengku Fauziah who received it on behalf of MAIPs.

21  
APR**Covid-19: AIBIM Members Banks Contribution**

AFFIN ISLAMIC, as one of the Association of Islamic Banking & Financial Institutions Malaysia (AIBIM) member banks participated in sponsoring government hospitals to combat Covid-19. The contribution has been utilised to purchase items for the frontliners such as Heat Scanning Machine and Personal Protection Equipment (PPE).

29  
APR**Contribution to Tabung Zakat ATM**

AFFIN ISLAMIC was a zakat contributor to 'Tabung Zakat Angkatan Tentera Malaysia', presented by our Deputy Chief Executive Officer, En. Ferdaus Toh Abdullah to Minister of Defence, YB Dato' Sri Ismail Sabri Yaakob during 'Majlis Penyampaian Sumbangan Tabung Zakat ATM' held at the Ministry of Defence, Kuala Lumpur.

03  
JUN**Sumbangan kepada Pusat Perubatan UIAM**

AFFIN ISLAMIC presented contribution to 'IIUM Medical Centre', which was made via Khadijah International Waqf Foundation (KIWF). KIWF is an organisation that raises funds via Waqf and donation for community development activity. The contribution was presented to purchase medical supplies, ventilators and monitors to combat Covid-19 pandemic.

## CORPORATE DIARY

2020

AFFIN ISLAMIC BANK BERHAD

21  
MAY



**Program Seorang Sekampit Beras**

AFFIN ISLAMIC was one of the main sponsors of 'Program Seorang Sekampit Beras', organised by Association of Islamic Banking Institutions Malaysia (AIBIM) and supported by Bank Negara Malaysia. The programme involved distribution of Zakat and food necessities to over 800 'Asnaf' around Kuala Lumpur and Selangor.

14  
JUL



**Zakat to Majlis Agama Islam dan Adat Melayu Perak**

En. Nazlee Khalifah, AFFIN ISLAMIC's CEO presented Zakat to DYMM Sultan Perak, Sultan Nazrin Muizzuddin Shah who received the contribution on behalf of Majlis Agama Islam dan Adat Melayu Perak (MAIPK) during the auspicious event held in Kuala Lumpur.

25  
JUL



**Harian Metro Titipan Kasih 2020**

AFFIN ISLAMIC kicked off its 'Titipan Kasih' programme, a series of charitable activities for the communities to deliver goods and assistance directly to the less fortunate community. The CSR activity, carried out in collaboration between AFFIN Islamic & The New Straits Times Press (NSTP), was aimed at helping the less fortunate such as 'Askar Wataniah' and underprivileged families under 'Jabatan Kebajikan Masyarakat'. The first 'Titipan Kasih' was officiated in Sik, Kedah where each family received boxes of essential items together with cash contribution.

09  
AUG



**Sumbangan Pasca Pemulihan Covid-19'**

AFFIN ISLAMIC participated in 'Program Sumbangan Pasca Pemulihan Covid-19' whereby the Deputy CEO, En. Ferdaus Toh Abdullah presented sponsorship contribution to Menteri Besar Selangor, Datuk Seri Amiruddin Shari who received the mock cheque on behalf of the community. The contribution aimed to assist the underprivileged in Selangor who were badly affected by the Covid-19 pandemic.

CORPORATE  
DIARY

2020

AFFIN ISLAMIC BANK BERHAD

28  
JUL

Wakaf Perumahan Pulau Pinang

AFFIN ISLAMIC's Deputy CEO, En. Ferdaus Toh Abdullah presented mock house to Penang Deputy Chief Minister 1, YB Dato' Ir. Hj. Ahmad Zakiyuddin to signify inception of Wakaf Perumahan Pulau Pinang, which is a joint initiative with the Association of Islamic Banking Institutions Malaysia (AIBIM).

18  
SEP

Zakat to Markas Latihan Tentera Darat

AFFIN ISLAMIC contributed Zakat to Markas Latihan Tentera Darat through our Chief Executive Officer En. Nazlee Khalifah, which was received by Mejar Jeneral Dato' Nazari bin Abd Hadi at Kem Segenting, Port Dickson.

26  
SEP

Global Peace Mission

AFFIN ISLAMIC sponsored Needy Covid-19 campaign organised by Global Peace Mission Malaysia (GPM). En. Hazlan Hasan, Head of Islamic Client Solutions AFFIN Islamic presented the contribution to En. Ahmad Azam Ab. Rahman, Chairman of GPM during 'Majlis Perjuangan Kemanusiaan Global Peace Mission' held in Shah Alam, Selangor.

18  
NOV

AFFIN Islamic Received National Energy Award 2020

AFFIN ISLAMIC was awarded with the Special Award-Sustainable Energy Financing (Islamic Financing) category for National Energy Awards 2020. The National Energy Awards 2020 (NEA 2020), organised by the Ministry of Energy and Natural Resources (KeTSA) is an annual recognition to acknowledge outstanding achievements and best practices in driving the country's sustainable energy agenda. The NEA 2020 winners were evaluated through a rigorous assessment with three categories namely; Energy Efficiency, Renewable Energy and Special Awards category.



CORPORATE DIARY

2020 AFFIN ISLAMIC BANK BERHAD

10 OCT



Kelas Celik Al-Quran BAKAT Udara

AFFIN ISLAMIC presented Zakat to Badan Kebajikan Keluarga Angkatan Tentera (BAKAT Udara) through our Chief Executive Officer, En. Nazlee Khalifah which was received by YBhg. Puan Sri Norainy Shahr Alam, Chairman of BAKAT Udara during ‘Majlis Perasmian Kelas Celik Al-Quran BAKAT Udara’ held in Kuala Lumpur.

1-2 DEC



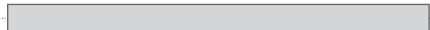




Shariah Audit Conference 2020






En. Nazlee Khalifah, AFFIN ISLAMIC's CEO was one of the speakers in virtual Shariah Audit Conference 2020, organised by Islamic Banking and Finance Institute Malaysia (IBFIM). Themed ‘Mainstreaming Shariah Audit in Islamic Finance’, the conference featured 15 international and local industry expert panels with insights on Shariah audit and Islamic finance industry.

# FIVE-YEAR FINANCIAL SUMMARY





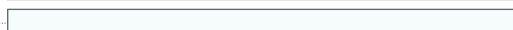
## EARNINGS PER SHARE (EPS) (Sen)

<b>FY2020</b>		<b>5.4</b>
FY2019		6.3
FY2018		10.6
FY2017		12.2
FY2016		24.4




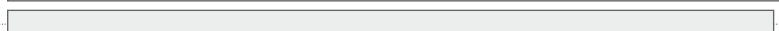
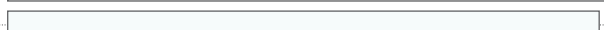
## PROFIT BEFORE TAXATION (RM'million)

<b>FY2020</b>		<b>97.2</b>
FY2019		93.2
FY2018		155.4
FY2017		118.0
FY2016		143.4






## TOTAL ASSETS (RM'billion)

<b>FY2020</b>		<b>25.2</b>
FY2019		23.2
FY2018		25.4
FY2017		20.0
FY2016		15.3




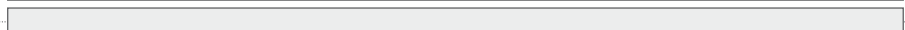
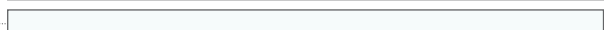
## NET FINANCING, ADVANCES & FINANCING (RM'billion)

<b>FY2020</b>		<b>19.4</b>
FY2019		18.6
FY2018		18.6
FY2017		15.4
FY2016		11.9

## DEPOSITS FROM CUSTOMERS (RM'billion)

<b>FY2020</b>		<b>18.7</b>
FY2019		17.3
FY2018		19.7
FY2017		14.2
FY2016		10.5

## SHAREHOLDERS' EQUITY (RM'billion)

<b>FY2020</b>		<b>2.0</b>
FY2019		1.9
FY2018		1.8
FY2017		1.8
FY2016		1.2

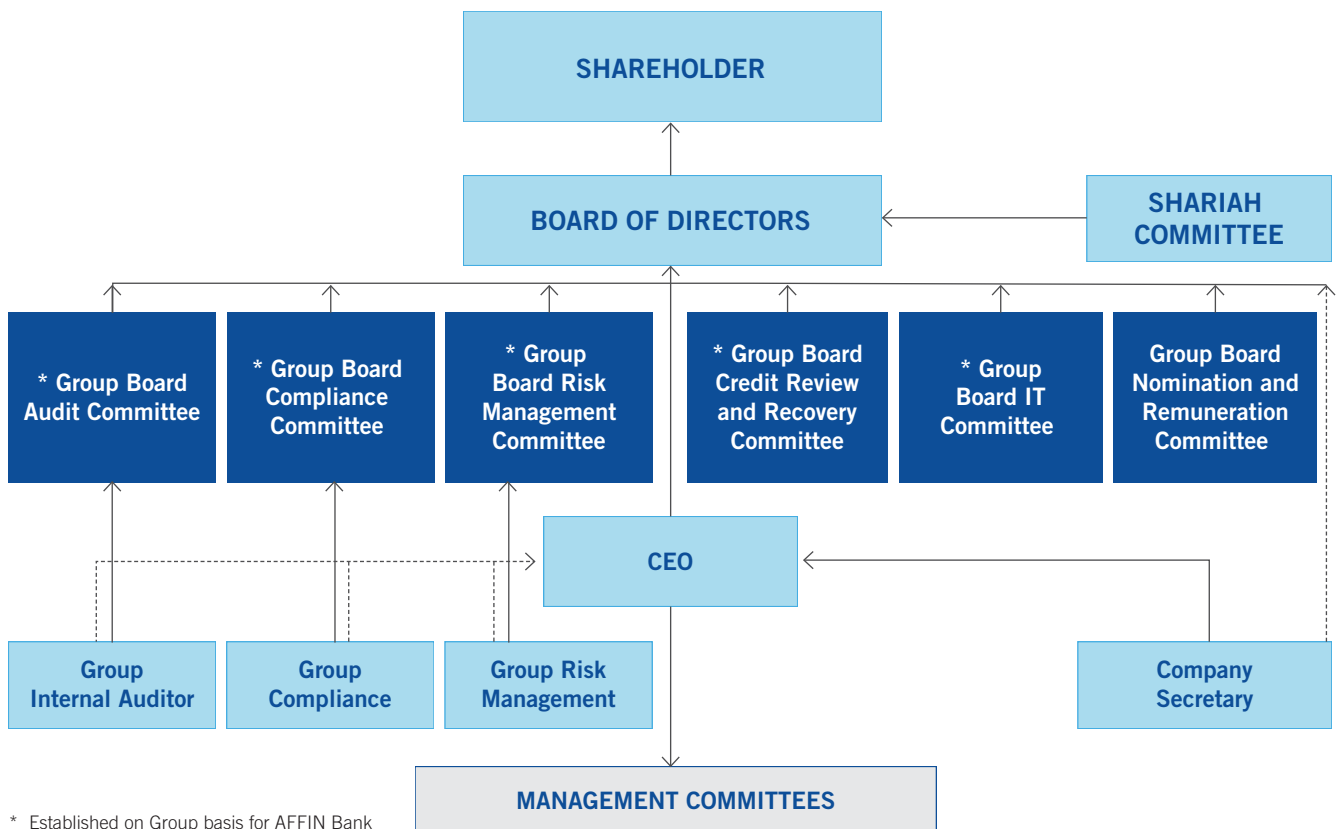
# CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors (“Board”) of Affin Islamic Bank Berhad (“Bank” or the “Company”) supports the principles of good governance and continues to improve the Bank’s ethical and compliant culture in line with the Group’s Governance Structure.

The Board and Management are fully committed to achieve high standards in the areas of corporate governance, business conducts and ethics. The Bank actively inculcates the principles of transparency, integrity and accountability in building its corporate culture.

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

In this regard, Corporate Governance Framework has been established to set out the broad principles, standards and requirements for sound corporate governance and practices to be adopted by the Bank.



The Corporate Governance Framework of the Bank is premised upon the following:-

- Companies Act, 2016
- Main Market Listing Requirements of Bursa Malaysia (applicable to Affin Bank Berhad) (MMLR)
- Policy Document on Corporate Governance issued by BNM (BNM CG)
- Malaysian Code on Corporate Governance issued by Securities Commission (MCCG)
- Other relevant guidelines/circulars /Practice Notes issued by relevant regulatory authorities

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Corporate Governance Framework will be continuously reviewed to ensure that it remains relevant and align with the Companies Act, 2016, BNM CG, MMLR, MCCG as well as best practices and guidelines.

This statement provides an overview of the Bank's application of the three (3) key principles of good corporate governance as set out in the MCCG.

### PRINCIPLE A:

### BOARD LEADERSHIP AND EFFECTIVENESS

#### I. BOARD RESPONSIBILITIES

##### 1. Clear roles and responsibilities

The Board is the principal decision-making body for all significant matters affecting the Bank and is accountable to shareholders for creating and delivering sustainable value. This includes formulating and reviewing the Bank's strategic plans and key policies, as well as the Bank's business operations. The Board and Management hold an annual strategic meeting together with Affin Bank Berhad to set the Bank's strategies and review the strategic direction of the Bank.

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

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

The roles and responsibilities of the Board are set out in the Bank's Board Charter which is available on the Bank's website at [www.affinislamic.com.my](http://www.affinislamic.com.my). The Board Charter sets out the demarcation of the mandate, roles and responsibilities, and procedures of the Board and Board Committees (both individually and collectively), in setting the direction, management and control of the Bank in accordance with the principles of good corporate governance as set out in the policy documents and guidelines issued by BNM and relevant regulatory authorities. The Board Charter outlines the issues and matters reserved for the Board.

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

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

The Chairman is responsible for leading the Board in its collective oversight of management. He ensures the smooth functioning of the Board and that procedures and processes are in place to facilitate effective conduct of business by the Board.

The CEO focuses on the business and day-to-day management of the Bank and responsible for developing business strategies and ensure implementation of such strategies and policies.

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

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### 3. Company Secretary

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

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

The Company Secretary attends the Board, selected Board Committees' and Management Committee meetings where she is the appointed Secretary and is responsible for supporting the effective functioning of the Board. In discharging this role, the Company Secretary provides counsel to the Board on governance matters and facilitates the communication of key decisions and policies between the Board, Board Committees and Management. The Board is also regularly updated and kept informed of the latest developments in the legislation and regulatory framework affecting the Bank as well as the Group.

### 4. Code of Ethics/Conduct

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

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

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

### 5. Whistleblowing Policy

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

- i. Safeguard the Bank's reputation by minimising unfavorable surprise events in relation to improper conduct.
- ii. Encourage Whistleblower to divulge pertinent information on improper activity occurring within the Bank and subsequently to curtail the possible detrimental impact.
- iii. Exhibit better corporate governance on managing whistleblowing issue, which is to be managed in a transparent manner by creating awareness on the protection, confidentiality and enforceability of whistleblowing.

The Whistleblowing Policy is available on the Bank's website at [www.affinislamic.com.my](http://www.affinislamic.com.my).



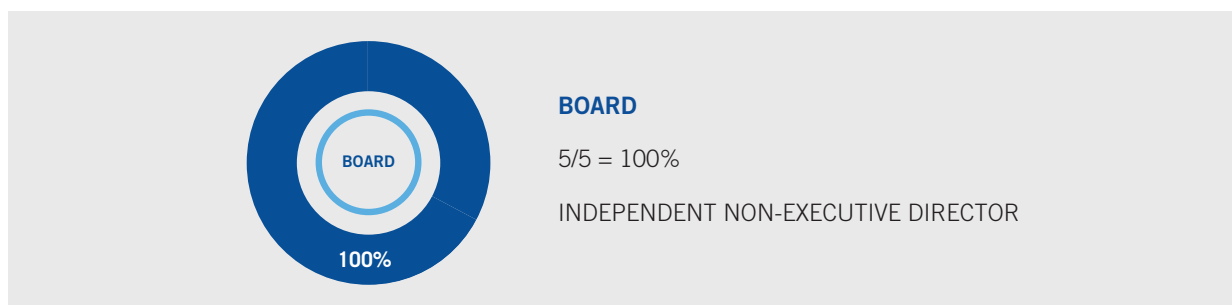
## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### II. BOARD COMPOSITION

#### 1. Board Composition and Balance

The composition of the Board reflects a good measure of objectivity and impartiality in order to ensure that the interest of stakeholders are balanced.

The current Board composition comprises all Independent Directors which provide strong independent views in Board deliberation and decision making process. The Directors fulfill the fit and proper criteria as specified in the Islamic Financial Services Act 2013 and the BNM Policy Document on Fit and Proper Criteria. Senior Management is not a member of the Board or Board Committees.



The size and composition of the Board are reviewed from time to time in order to ensure that the Board comprises strong and dynamic individuals with relevant skills and competencies necessary to drive the Bank towards achieving sustainability and viability. The existing size and composition of the Board are able to promote effective deliberation, encourages the active participation of all Directors and allows the work to be discharged without giving rise to an over-extension of Directors who are required to serve on multiple Board Committees.

#### Board Independence

To ensure the independence of the Board as well as to encourage fresh views and ideas, the Board had adopted the maximum tenure of (9) years of service for Independent Director within the AFFIN Bank Group.

The Independent Director shall, upon reaching the maximum tenure of nine (9) years of service and subject to the approval of BNM for his/her re-appointment as Director, remain as a Director but shall be re-designated as Non-Independent Non-Executive Director.

Represented on the Board are five (5) Independent Non-Executive Directors who bring their independent advice, views and judgement on the decision-making process of the Bank to ensure that a balanced, robust and unbiased deliberation process is in place to safeguard the interests of all stakeholders.

#### Board Diversity

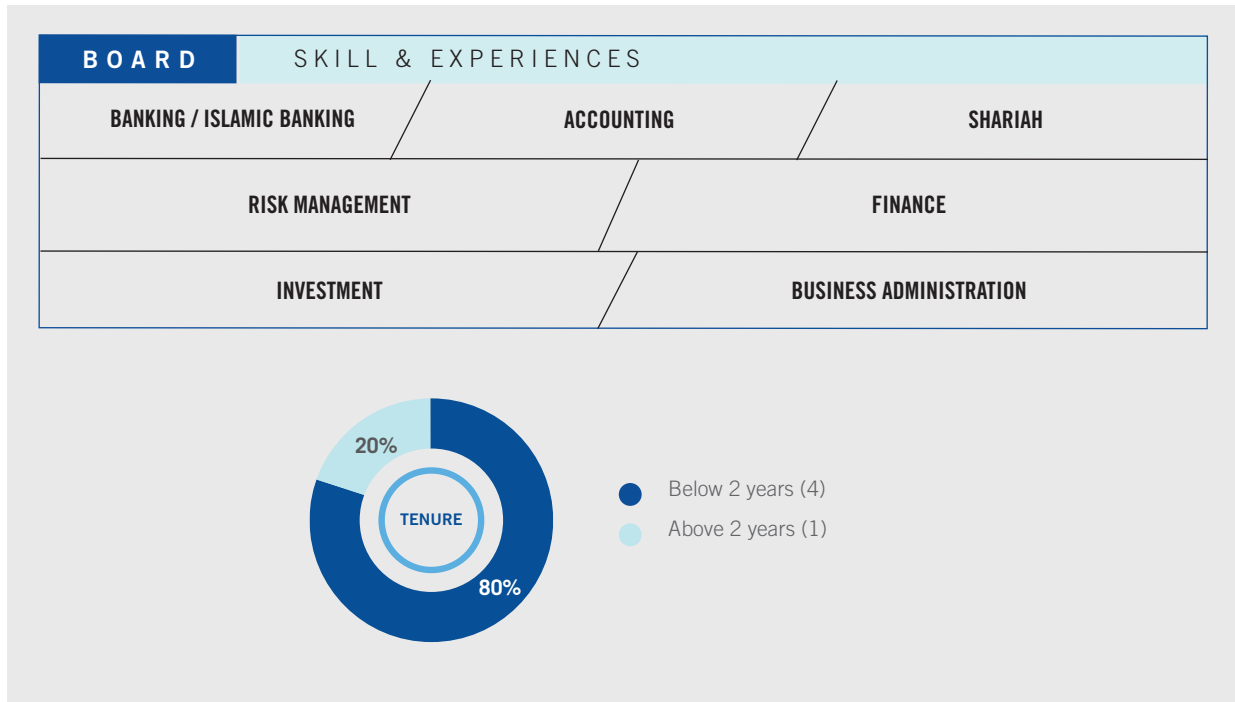
The broad range of experience, skills and knowledge of the Directors effectively facilitate the discharge of the Board's stewardship.

The Bank promotes diversity in Board as it recognises the values and the unique contribution from Directors with diverse individual background, skills, experiences, perspectives and nationality. Currently, there is one (1) foreign national on the Board, namely Assoc. Prof. Dr. Said Bouheraoua who is an Algerian and possess in-depth knowledge and experience in Shariah and Islamic Finance matters.

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

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board acknowledges the recommendation of the MCCG pertaining to the gender diversity and continuously review its diversity agenda through escalated efforts to establish a more diverse Board which bears a variety in the dimensions of skills, experience, age, cultural background including female Directors from the industry’s talent pool, available databases and the Group’s existing networks.



### Appointments, Removals and Re-election of Directors

#### New appointment of Directors

All appointments of Directors are subject to the approval of BNM which is for a specific term of appointment.

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

In identifying candidates for appointment of Directors, the GBNRC does not solely rely on recommendations from existing Board members, Management. The GBNRC has the right to utilise independent sources at the cost of the Company in order to identify suitable qualified candidates.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

Besides the above, GBNRC may also consider utilising the following sources:-

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

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

### Re-appointment of Directors

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

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

### Removal of Directors

An assessment on Fit & Proper Criteria, performance and effectiveness of each Director will be carried out and corrective measures will be taken by GBNRC if the Director is no longer Fit & Proper or non-performing as and when GBNRC becomes aware of such circumstances.

### Re-Election of Directors

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

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

## 2. Board Evaluation

In line with MCGG's recommendation, the Board has agreed to appoint independent experts periodically to conduct the Board Effectiveness Evaluation (BEE). For FY2020, the Board is of the view that due to of the various changes to the Chairmanship and Directors in 2019/2020 as well as for the BEE to be meaningful, the BEE for the Bank will be conducted in year 2021.

However, both GBNRC and the Board continuously carry out review on the composition of the Board of the Bank (as well as the Group), with the objective to assess the Board's effectiveness in discharging their expected duties as well as to ensure that the composition complies with the requirements by regulators and supports best practices expected of the Bank and Group.

Apart from the above, detailed assessment were also conducted on the Directors who are due for re-appointment and those newly appointed Directors, as required by BNM CG.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

For FY2021, the Board has indicated to conduct internal BEE by adopting the structure/process introduced by Affin Bank Berhad as follows:-

### FRAMEWORK FOR BEE

#### Themes

Themes enumerated for the evaluation of the Board, Board Committee and Individual Directors are as follows:-

<b>Board as a whole</b>	Section A: Board mix and composition Section B: Quality of information and decision making Section C: Boardroom activities Section D: Board's relationship with Management Section E : Relationship with Shareholders
<b>Individual Directors</b>	Section A: Fit and Proper Section B: Contribution and performance Section C: Calibre and personality
<b>Board Committees</b>	Section A: Quality and composition Section B: Skills and competencies Section C: Meeting administration and conduct

Notes:

- (1) A Director must have served on the Board/Board Committees for at least six (6) months to be able to participate in the BEE.
- (2) Management feedback on the BEE would be obtained vide the CEO.

#### Process and Reporting Structure

<b>1 Online Evaluation</b> BEE is conducted internally through a secured online platform.	<b>2 Individual Sessions</b> Interviewees are asked to elaborate or identify relevant factors impacting Board effectiveness	<b>3 Analysis</b> Comprehensive report highlighting feedback and issues identified. Thereafter, shared with the Chairman of the Board, Chairman of GBNRC and CEO.
<b>4 Action-Planning Discussion</b> Chairman of the Board, Chairman of GBNRC and CEO participate in action-planning discussion and outcome which is part of the report. Report is tabled to GBNRC/Board for deliberation.	<b>5 Feedback Storage</b> Original input from the survey will be destroyed upon tabling to GBNRC/Board.	<b>6 Implementation and Monitoring</b> The action plans are undertaken by the relevant parties for implementation, with regular updates to the GBNRC/Board.

The Board highlighted that it is the Bank's intention to engage an external consultant on periodical basis to conduct the BEE exercise in line with the recommendation as stated in the MCCG in the future.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### 3. Delegation by the Board

The Board delegates certain functions to several committees, namely the Group Board Nomination and Remuneration Committee, Group Board Audit Committee, Group Board Credit Review and Recovery Committee, Group Board Risk Management Committee, Group Board Compliance Committee and Group Board Information Technology Committee to support and assist in discharging its fiduciary duties and responsibilities. The respective Committees report to the Board on matters considered and their recommendations thereon. The ultimate responsibility for the final decision on all matters, however, lies with the Board.

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

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

#### (a) Group Board Credit Review and Recovery Committee (“GBCRRC”)

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

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

- i. To critically review financings/loans and other credit facilities upon recommendation by the Group Credit Management Division;
- ii. To provide an independent oversight of credits by ensuring that there are adequate financing/lending policies, procedures and operating strategies are adhered to;
- iii. Generally to ensure that the GMCC has discharged its responsibilities in a proper manner; and
- iv. To monitor the progress of recovery efforts.
- v. Assisting the Board in performing the oversight function and provide recommendations in respect of the investment strategies, management and performance of the investment account.

#### (b) Group Board Nomination and Remuneration Committee (“GBNRC”)

The Board had consolidated the BNRC functions at Group level with effect from 1 August 2020. The establishment of GBNRC is to provide a centralised platform in setting the Group principles, procedures and framework relating to the composition of the Board and Management including their appointment/re-appointment, effectiveness and performance as well as remuneration policy for the Board, Shariah Committee members, Management and the Group as a whole. This Group approach would promote compensation philosophy which would drive performance of the Group as a whole.

The GBNRC would be able to review the diversity, matrix skills of the Board, Shariah Committee and Management from broader perspective to ensure that it aligns with the Group’s strategy and placement of human capital at entity level with the right skills set. GBNRC is chaired by an Independent Non-Executive Director of Affin Bank, the apex entity, with the objective of providing a formal and transparent procedure in respect of the following:-

- i. The selection and appointment of all new Directors, Shariah Committee members and CEO as well as assessment of effectiveness of individual Directors, Board as a whole, Board Committees and performance of CEO and Key Senior Management officers; and
- ii. Develop remuneration policy for Directors, Shariah Committee members, CEO and Key Senior Management officers and ensuring that compensation is competitive and consistent with the Bank’s culture, objectives and strategies.



## CORPORATE GOVERNANCE OVERVIEW STATEMENT

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

The main activities of the GBNRC in 2020 included the following:-

- Review the overall composition of the Board, Board Committees and Shariah Committee.
- Performance assessment of Key Senior Management Officers for contract renewal.
- Assessment of fitness and propriety of Directors/Shariah Committee members for re-appointment and new candidates for proposed appointment as new Directors/Shariah Committee members.
- Review the remuneration of Directors/Senior Management.
- Recommendation to the Board on promotion and appointment of key responsible persons.

### (c) Group Board Risk Management Committee (“GBRMC”)

The primary objective of the GBRMC is to oversee, assess and examine the adequacy of group risk management frameworks including the policies, procedures and processes of the Bank and its subsidiaries.

The GBRMC is established to assist the Board in respect of the following:-

- i. ensuring that the Group wide enterprise risk management framework, policies and guidelines adequately protect the Group against all relevant risks, comprising but not limited to, credit risk, market and liquidity and profit/interest rate risks, operational risks including legal risk, regulatory risks, reputational risk, information technology (“IT”), cyber risks and Shariah non-compliance risk.
- ii. overseeing the management of IT and cyber risks including ex-ante risk assessments on e-banking services at the Group; and
- iii. implementing a sound remuneration system by examining whether incentives provided take into consideration risks, capital, liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the GBNRC.

### (d) Group Board Compliance Committee (“GBCC”)

The primary objective of the GBCC is to oversee, assess and examine the adequacy of group compliance management frameworks including the policies, procedures and processes of the Bank and its subsidiaries.

The GBCC is established to assist the Board in respect of the following:-

- i. overseeing the management of the Group's compliance risk by ensuring compliance process is in place and functioning in line with the expectations of the regulators namely Bank Negara Malaysia, Securities Commission and Bursa Malaysia Securities Berhad;
- ii. reviewing and recommending compliance risk management philosophy and strategy for Board's approval; and
- iii. ensuring clear and independent reporting lines and responsibilities for the overall business activities and compliance functions and recommending organizational alignments, where necessary, to the Board.

### (e) Group Board Information Technology Committee (“GBITC”)

The primary objective of the GBITC is to assess and examine the adequacy of Group Information Technology (including Digital and Security) management framework and risks including IT controls, policies, procedures and processes of the Group.

The GBITC is established to assist the Board in respect of the following:-

- i. oversee and review the IT and Digital strategies, costs and planning, including the financial, tactical and strategic benefits of proposed major IT and operational related initiatives.
- ii. review and assess progress on major IT initiatives, technology architecture decisions and IT priorities as well as overall IT performance, including metrics concerning technology investments, system availability, integrity, capacity and performance.
- iii. review and recommend IT investment proposal from management prior to submission for Board approval.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### (f) Shariah Committee (SC)

The Shariah Committee comprises of members who have the necessary qualification, knowledge, expertise and experience in Islamic banking industry.

The primary roles and responsibilities of the Shariah Committee are as follows:-

- (i) Providing a decision or advice to the Bank on the application of any rulings of the Shariah Advisory Council (“SAC”) or standards on Shariah matters that are applicable to the operations, business, affairs and activities of the Bank;
- (ii) Providing a decision or advice on matters which require a reference to be made to the SAC;
- (iii) Providing a decision or advice on the operations, business, affairs and activities of the Bank which may trigger a Shariah non-compliance event;
- (iv) Deliberating and affirming a Shariah non-compliance finding by any relevant functions; and
- (v) Endorsing a rectification measure to address a Shariah non-compliance event.

### (g) Management Committees



## 4. Board Meetings Supply of information to Board

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

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

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

In view of the Covid-19 pandemic, the Board has leveraged on technology to convene Board and Board Committee meetings. The Board adopted internal Guiding Principles and Protocols for Board, Board Committees and Management as part of the Business Continuity Plan. The Protocol allows the meetings to be convened virtually under a secured platform subscribed by the Bank.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

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

### 5. Access to third Party experts

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

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

### 6. Time Commitment

A Director shall notify the Chairman of the Board of his acceptance of any new directorship in public listed companies. In any event the maximum number of appointments in public listed companies shall be limited to five (5), best practices adopted from MMLR (best practices applicable to listed issuers).

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

The Board is satisfied that each Director has committed sufficient time to the Bank based on the Directors' record of attendance at Board meetings held in the financial year ended 31 December 2020. The details of Board and Board Committee meetings attendance are as set out below:-

#### Attendance on all meetings for year 2020

Directors	Board	BNRC	GBNRC	GBCRRC	GBAC	BOTC**	GBITC**	GBRMCC***	GBRMC	GBCC
YBhg. Dato' Mohd Ali Bin Mohd Tahir (appointed as Chairman w.e.f. 6 April 2021)	15/15	8/8		19/20				1/1	12/12	
Assoc. Prof. Dr. Said Bouheraoua	15/15	8/8			11/11					11/11
Encik Musa Bin Abdul Malek	15/15			22/22			9/9			
Encik Suffian Bin Baharuddin (appointed w.e.f. 1 July 2020)	7/7			2/2*					2/2*	
Datuk Mohd Farid Bin Mohd Adnan (appointed w.e.f. 1 March 2021)										
Encik Mohd Suffian bin Haji Haron (completed his tenure of directorship w.e.f. 1 June 2020)	7/7	5/6		22/22						

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

Directors	Board	BNRC	GBNRC	GBCRRC	GBAC	BOTC**	GBITC**	GBRMC**	GBCC
YBhg Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Bersara) (completed his tenure of directorship w.e.f. 7 July 2020)	8/8			9/12				1/1	
YBhg Dato' Bakarudin bin Ishak (completed his tenure of directorship w.e.f. 2 January 2021)	14/15	8/8	4/4			2/2		1/1	11/11
Mohd Haniz Bin Mohd Nazlan (resigned w.e.f. 12 March 2021)	5/5								

Note:

\* Appointed as member with effect from 1 November 2020.

\*\* BOTC dissolved effective 31 March 2020 and GBITC was set up in May 2020.

\*\*\* Decoupled into two separate Committees, i.e. GBRMC and GBCC with effect from 1 February 2020.

### 7. Continuing Education and Development

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

All new Directors are required to attend the Financial Institutions Directors' Education Programme (FIDE) organised by BNM within one (1) year from the date of appointment and Islamic Finance for Board Programme (IF4BOD) within two (2) years from the date of appointment.

Apart from the mandatory training programmes, Directors Orientation/Induction Programme is being organised internally to familiarise new Directors with the Bank's organisation structure, business and the financial industry. The CEO together with the Heads of Departments/Divisions will brief the new members of the Board on the functions and areas of responsibility of their respective Department/Divisions.

The Directors Orientation/Induction Programme is designed to broaden Directors' understanding of the Bank's business operations and its related risk, strategic priorities, people, culture and legal requirements and compliance controls.

The Board vide GBNRC, on a continuing basis, evaluate and determine the training plan for Directors, particularly on relevant new laws and regulations, and essential practices for effective corporate governance and risk management to enable the Directors to sustain their active participation in board deliberations and effectively discharge their duties.

For year 2021, the Board intend to focus on the following training:-

- future ready
- sustainability
- integrated reporting
- emerging risk, regulatory and compliance issues
- new business trends

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

During the financial year ended 31 December 2020, the Directors have attended the following courses/training programmes:-

No.	Name of Directors	Date	Organised By	Course Programme
1	<b>Dato' Mohd Ali Bin Mohd Tahir</b>	12 May 2020	KPMG	Webinar : ACI Virtual Roundtable 2020
		12 May 2020	KPMG (Webinar)	Webinar : Post MCO - Reset Thought Leadership
		15 May 2020	FIDE Forum	Challenging Times : What Role Must The Board Play?
		11 November 2020	FIDE Forum	Webinar : Green Fintech – Ping An's Journey To Becoming a top ESG-Performing Financial Institution
2	<b>Associate Prof. Dr. Said Bouheraoua</b>	22 January 2020	MNRB Holdings Berhad	An Overview of Shariah Governance of Retakaful
		18-19 February 2020	Morsli Abdellah University, Algeria	The fundamental of success in light of the Contemporary Development of Islamic Finance (online)
		9 – 10 May 2020	Al Baraka Banking Group, Jeddah	Issues on Pandemics and Force Majors (online)
		28 June 2020	Ahmed Zebana University Center of Relizane, Algeria	Islamic Finance and Parallel Economy (online)
		24 August 2020	International Shari'ah Research Academy for Islamic Finance (ISRA)	Islamic Finance 360 Webinar Series: The Framework of Conversion From Conventional Bank to Islamic Bank (online)
		25 September 2020	University of Kuwait, Kuwait	Covid 19 and the Major Shariah and Legal Impact (online)
		30 September 2020	Affin Bank Group	Staying relevant in the Age of Disruption and Innovation, a Mindshift Series
		25 November 2020	International Shari'ah Research Academy for Islamic Finance (ISRA), Al MAALI IRTI and Abwab	Impact Investment and Participatory Financing (online)



## CORPORATE GOVERNANCE OVERVIEW STATEMENT

No.	Name of Directors	Date	Organised By	Course Programme
3	<b>Encik Musa Bin Abdul Malek</b>	30 September 2020	Affin Bank Group	Staying relevant in the Age of Disruption and Innovation, a Mindshift Series
4	<b>Encik Suffian Bin Baharuddin</b>	2 April 2020	SKRINE	Webinar : Contractual Issues in the Time of Covid-19
		14 April 2020	FIDE Forum	Webinar : Covid-19 & Current Economic Reality - Implications for Financial Stability
		16 April 2020	ACCA	Webinar: Social and Environmental Value Creation for Finance
		30 April 2020	Amanie Media	Webinar : Maqasid As-Shariah vis-s-vis Islamic Financial Engineering in Battling Covid-19
		6 May 2020	ACCA	Webinar : Modern Data Analytics in a Nutshell
		27 May 2020	ACCA	Asia Pacific Thought Leadership Virtual Forum – SME financing in the post-Covid 19 world
		10 June 2020	ICDM and ACCA	Webinar : What it really means to be a Director
		26 June 2020	ACCA and Chartered Accountants Australia & New Zealand	Cyber security : The role of finance leaders (e-learning)
		1 September 2020	ICLIF Executive Education Center	FIDE Refresher : Understanding Fintech and Its Implications for Banks
		30 September 2020	Affin Bank Group	Staying relevant in the Age of Disruption and Innovation, a Mindshift Series

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### III REMUNERATION

#### 1. Board Remuneration

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

The remuneration package for the Directors of the Bank comprises the following:-

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

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

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

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

The details of the Directors' remuneration are set out in the Financial Statements in this Annual Report 2020.

#### 2. Shariah Committee Remuneration

The Board of Directors approved the remuneration for Shariah Committee members based on recommendation by the GBNRC. The remuneration shall commensurate with the accountabilities, duties and responsibilities of the Shariah Committee members towards ensuring Shariah compliance of the Bank's aims and operations, business, affairs and activities. This is in line with the requirement of BNM's Policy Document on Shariah Governance and the internal Shariah Committee Charter.

The remuneration package for the Shariah Committee members comprises of the following:

Remuneration for Shariah Committee members

<b>Board Committees Fees</b>	The Shariah Committee members are entitled to a monthly fee
<b>Meeting allowances</b>	The Shariah Committee members are entitled to meeting allowance for attending Shariah Committee meetings

In determining the level of remuneration for Shariah Committee members, the Board, via the Senior Management, may undertake a comparative survey on remuneration level of Shariah Committee members at other Islamic financial institutions.

The Board may from time to time review the remuneration package for the Shariah Committee members to ensure they are able to continuously support the Bank's long term vision as well as enabling the Bank to attract, retain and nurture talents in ensuring sound Shariah governance of the Bank.

The details of the remuneration for Shariah Committee members are set out in the Annual Report.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### 3. Senior Management Appointments and Removals

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

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

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

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

### 4. Senior Management Remuneration

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

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

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

- i. Rewards individuals for the achievement of the Bank's objectives and motivates high levels of performance;
- ii. Rewards exceptional performance by individual through the Performance Management System;
- iii. Allows the Bank to compete effectively in the labour market and to recruit and retain high calibre staff;
- iv. Achieves fairness and equity in remuneration and reward.

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

- i. Fixed pay consists of base salary and fixed allowances that are pegged to the market value of the job.
- ii. Variable pay rewards employees based on the performance of the Division, Department and Bank; and the employee's individual performance.

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

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### PRINCIPLE B

### EFFECTIVE AUDIT AND RISK MANAGEMENT

#### 1. Group Board Audit Committee (“GBAC”)

The GBAC established by the Board comprises six (6) Independent Non-Executive Directors. The GBAC members have the relevant accounting or related financial management experience or expertise. The Chairman of GBAC, Mr Gregory Jerome Gerald Fernandes has vast experience in accounting.

The roles and responsibilities of the GBAC are set out under the Board Audit Committee Report on pages 198 to 199.

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

#### 2. Group Board Risk Management Committee (“GBRMC”)

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

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

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

#### 3. Independence of External Auditors

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

The GBAC meets with the External Auditors at least twice a year to discuss their audit plans and audit findings in relation to the Group’s financial statements. Private sessions between the GBAC and the External Auditors were held without the presence of the CEO and the Management to discuss the audit findings and any other observations they may have had during the audit process. In addition, the External Auditors are invited to attend the Annual General Meeting of the Bank and be available to answer shareholders’ enquiries on the conduct of the statutory audit and the preparation and content of their audit report.

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

The amount of non-audit fees payable to the external auditors and their associates during the financial year 2020 is set out in the Financial Statements in this Annual Report 2020.

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### 4. Risk Management and Internal Control Framework

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

The Bank's Statement on Risk Management and Internal Control which provides an overview of the state of internal controls of the Bank is set out on pages 147 to 187.

### 5. Internal Audit Function

The Bank has an Internal Audit function that is supported by the Group Internal Audit (GIA) Division. The Bank's internal audit provides independent and objective assurance of the adequacy and effectiveness of the internal controls framework. The GIA staff is placed under direct authority and supervision of the GBAC to preserve its independence. The Group Chief Internal Auditor reports functionally to BAC and administratively to CEO. Details of the Internal Audit function, together with the state of the Group's internal controls, are set out in the Board Audit Committee Report on pages 198 to 199 and Statement on Risk Management and Internal Control on pages 147 to 187 of the Annual Report 2020.

#### PRINCIPLE C:

#### INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIPS WITH STAKEHOLDERS

### 1. Effective Communication with Shareholder

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

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

### 2. Focus areas on Corporate Governance

The Board had in 2020 directed its focus on the core duties of the Board which is grounded on the creation of long-term value for stakeholders. Corporate Governance areas which gained heightened attention from the Board during the financial year ended 31 December 2020 are as follows:-



## CORPORATE GOVERNANCE OVERVIEW STATEMENT

### Board Composition

The present size and composition of the Board are optimum to provide for a diversity of views, facilitate effective decision making, and appropriate balance of executive, independent and non-independent directors.

The present Board has the appropriate combination of experience and expertise in banking and finance, accountancy, strategic management and risk management.

The Board/GBNRC took note on the need to strengthen and crafted effective succession planning for the Board and have a 'live' source for potential Board candidates with IT, Shariah and Legal background, including female Directors.

The Independent Directors fulfills a pivotal role in providing unbiased and independent views, advice and judgement, taking into account the interest of the Bank as well as shareholders, employees, customers and communities in which the Bank conducts its business.

The Independent Directors who are of high calibre and possess wealth of experience ensure that there are robust discussions during the Board or Board committee meetings. They exercise strong independent judgement and do not shy away from asking hard and uncomfortable questions during deliberations and willing to continuously challenge Management.

The profile of each Director is set out on pages 6 to 10 of this Annual Report.

### Sustainability Report

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

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

### Corporate Governance Priorities

The Bank has applied all recommended practices in MCCG save for the following:-

<b>Practice 4.5</b>	the Board must have at least 30% women Directors
<b>Practice 7.2</b>	the remuneration of Top-5 key Senior Management
<b>Practice 11.2</b>	Integrated Reporting

## CORPORATE GOVERNANCE OVERVIEW STATEMENT

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

### 1. Board Diversity

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

In line with the MCCG of having 30% women on the Board, the Bank will seek to maintain a register of potential directors which include high-calibre female candidates.

### 2. Disclosure of Directors and Senior Management's Remuneration

The Board wishes to give assurance that the remuneration of Directors and Senior Management commensurate with their individual performance, taking into consideration of the Bank's performance as it is benchmarked against the market. The remuneration packages of Senior Management are based on experience, expertise, skills and industry benchmark. Total remuneration of its employees is also set out in the Audited Financial Statements for financial year ended 31 December 2020 which allow shareholders to assess whether the remuneration of Directors and Senior Management commensurate with their performance taking into consideration of the Bank's performance. The Board may consider disclosing the aggregate of the top 5 Senior Management's remuneration component including salary, bonus, benefits in-kinds and other emoluments.

### 3. Integrated Reporting

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

## LOOKING AHEAD

With global market conditions expected to remain challenging and the world still in the grips of the pandemic, active corporate governance and robust systems of oversight are critical. AFFIN's rigorous governance framework has kept the Group agile and effective in uncertain times, sustaining the Bank's growth and steering the Bank to new strengths. The Board will continue to refine the Bank's governance structure, sustain our ethical corporate culture and guide the Management on the furtherance of the Bank's Sustainability Plan. The Bank will maintain a close watch on the rapidly evolving market conditions and confident that the Bank has the right governance structure and team in place to maintain the momentum of high-performance business units in leading the Bank towards greater resilience and recovery in line with the Group's focus.

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# Affin Islamic Bank Berhad

(Incorporated in Malaysia)

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### CHAIRMAN

**Dato' Mohd Ali bin Mohd Tahir**  
(*w.e.f. 6 April 2021*)

#### DIRECTORS

**Assoc. Prof. Dr. Said Bouheraoua**

**Musa Bin Abdul Malek**

**Suffian Baharuddin**  
(*appointed w.e.f. 1.7.2020*)

**Datuk Mohd Farid bin Mohd Adnan**  
(*appointed w.e.f. 1 March 2020*)

**En. Mohd Suffian bin Haji Haron**  
Chairman (*completed his tenure of  
directorship w.e.f. 1.6.2020*)

**Laksamana Madya Tan Sri Dato' Seri Ahmad  
Ramli bin Mohd Nor (Retired)**  
(*completed his tenure of  
directorship w.e.f. 7.7.2020*)

**YBhg. Dato' Bakarudin Bin Ishak**  
Interim Chairman  
(*completed his tenure of directorship  
w.e.f. 2.1.2021*)

**En. Mohd Haniz bin Mohd Nazlan**  
(*resigned w.e.f. 12.3.2021*)

### CHIEF EXECUTIVE OFFICER

**En. Nazlee bin Khalifah**

### COMPANY SECRETARY

Nimma Safira Khalid

### REGISTERED OFFICE

17<sup>th</sup> Floor, Menara Affin  
80, Jalan Raja Chulan  
50200 Kuala Lumpur  
Malaysia

### AUDITORS

PricewaterhouseCoopers PLT  
(LLP0014401-LCA & AF 1146)

## CONTENTS

Directors' Report .....	68
Statements of Financial Position .....	75
Income Statements .....	76
Statements of Comprehensive Income .....	77
Statements of Changes in Equity .....	78
Statements of Cash Flows .....	80
Summary of Significant Accounting Policies .....	82
Notes to the Financial Statements .....	102
Statement by Directors .....	192
Statutory Declaration .....	192
Shariah Committee's Report .....	193
Independent Auditors' Report .....	195
Basel II Pillar 3 Disclosures .....	198

# FINANCIAL STATEMENTS

# DIRECTORS' REPORT

## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

The Directors hereby submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2020.

### PRINCIPAL ACTIVITIES

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

### FINANCIAL RESULTS

	Economic Entity RM'000	The Bank RM'000
Profit before zakat and taxation	99,788	99,138
Zakat	(2,540)	(2,540)
Profit before taxation	97,248	96,598
Taxation	(40,356)	(40,356)
Net profit for the financial year	56,892	56,242

### DIVIDENDS

No dividends have been paid by the Bank in respect of the financial year ended 31 December 2020. The Directors do not recommend the payment of any dividend in respect of the current financial year.

### RESERVES AND PROVISIONS

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

### SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in Note 48 to the financial statements.

### SUBSEQUENT EVENTS

Subsequent events after the financial year are disclosed in Note 49 to the financial statements.

## DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### DIRECTORS

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

Dato' Mohd Ali bin Mohd Tahir  
*(Chairman) (w.e.f. 6 April 2021)*

Assoc. Prof. Dr. Said Bouheraoua

Musa Bin Abdul Malek

Suffian Baharuddin  
*(appointed w.e.f. 1.7.2020)*

Datuk Mohd Farid bin Mohd Adnan  
*(appointed w.e.f. 1 March 2021)*

En. Mohd Suffian bin Haji Haron  
*(Chairman) (completed his tenure of directorship w.e.f. 1.6.2020)*

Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Retired)  
*(completed his tenure of directorship w.e.f. 7.7.2020)*

YBhg. Dato' Bakarudin Bin Ishak  
*(Interim Chairman) (completed his tenure of directorship w.e.f. 2.1.2021)*

En. Mohd Haniz bin Mohd Nazlan  
*(resigned w.e.f. 12.3.2021)*

### RESPONSIBILITY STATEMENT BY BOARD OF DIRECTORS

In the course of preparing the annual financial statements of the Bank, the Directors are collectively responsible in ensuring that these financial statements are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

It is the responsibility of the Directors to ensure that the financial reporting of the Bank present a true and fair view of the state of affairs of the Bank as at 31 December 2020 and of the financial results and cash flows of the Bank for the financial year then ended.

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

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

The Statement by Directors pursuant to Section 251(2) of the Companies Act 2016 is set out on page 192 of the financial statements.

## DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### DIRECTORS' INTERESTS

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

	Number of ordinary shares			As at 7.7.2020
	As at 1.1.2020	Bought	Sold	
<b>Affin Bank Berhad</b>				
Laksamana Madya Tan Sri Dato' *	25,000	-	-	25,000
Seri Ahmad Ramli bin Mohd Nor (Retired) (Resigned as Director w.e.f 7.7.2020)				

\* Indirect shares

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

### DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive a benefit (other than the fees and other emoluments shown in Note 38 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest.

### OTHER STATUTORY INFORMATION

#### Statutory information regarding the Bank

(a) As at the end of the financial year

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

- to ascertain that proper action had been taken in relation to the writing off of bad debts and financing and the making of allowance for doubtful debts and financing and satisfied themselves that all known bad debts and financing had been written off and that adequate allowance had been made for doubtful debts; and
- to ensure that any current assets, which were unlikely to be realised in the ordinary course of business including the values of current assets as shown in the accounting records of the Bank had been written down to an amount which the current assets might be expected so to realise.

**DIRECTORS'  
REPORT**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

**OTHER STATUTORY INFORMATION (CONTINUED)****Statutory information regarding the Bank (continued)**

- (b) From the end of the financial year to the date of this report
- (i) The Directors are not aware of any circumstances:
- which would render the amounts written off for bad debts and financing or the amount of the allowance for doubtful debts and financing inadequate to any substantial extent;
  - which would render the values attributed to current assets in the financial statements of the Bank misleading; or
  - which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate.
- (c) As at the date of this report:
- (i) there are no charges on the assets of the Bank which have arisen since the end of the financial year which secures the liabilities of any other person; and
- (ii) there are no contingent liabilities in the Bank which have arisen since the end of the financial year.
- (d) No contingent or other liability in the Bank has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Bank to meet the obligations when they fall due.
- (e) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Bank which would render any amount stated in the respective financial statements misleading.
- (f) In the opinion of the Directors:
- (i) the results of the operations of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, except for the impact of moratorium which resulted in a modification loss (Note 33); and
- (ii) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Bank for the financial year in which this report is made.

**BUSINESS STRATEGY AND FINANCIAL RESULTS FOR FINANCIAL YEAR ENDED 31 DECEMBER 2020**

For the financial year ended 31 December 2020, AFFIN Islamic Bank Berhad (“the Bank”) recorded a profit before tax (‘PBT’) after zakat of RM96.6 million, an increase of RM3.4 million or 3.7% as compared to the previous financial year while net profit after zakat and taxation (‘PAT’) for the financial year was RM56.2 million.

Total income increased by 8.6% or RM36.0 million to RM453.6 million, attributable to financing expansion and sustained non-fund-based income contribution. Net Fund based income was higher by 7.3% or RM21.2 million at RM311.4 million, due to asset growth and lower funding cost in consequence of repricing of term deposits post Overnight Policy Rate (“OPR”) cuts. As a result, net profit margin (“NPM”) improved by 29 bps to 2.03% from 1.74% in the preceding year. Non-fund-based income rose by 11.6% or RM14.8 million to RM142.2 million mainly contributed by investment income from Treasury operations.



## DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### BUSINESS STRATEGY AND FINANCIAL RESULTS FOR FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

The operating expenses of the Bank improved by RM16.4 million or 6.3% against the preceding year. This is attributable to the cost management initiatives and revision in the allocation of shared service charges in 2020 which resulted in management fees reducing by RM17.2 million. The cost to income ratio improved to 54.13% from 62.72% recorded in 2019. The Bank achieved a return on equity ("ROE") of 2.91% as compared to 3.57% in FY2019.

Gross financing went up by RM0.8 billion or 4.3% to RM19.6 billion as at 31 December 2020 contributed mainly by retail and Small and Medium-Sized Enterprises ("SME") segments.

In line with the growth in gross financing, total customer deposits also increased by RM1.4 billion or 7.9% to RM18.7 billion. Current Account-i and Saving Account-i (CASA-i) to total deposits ratio stood at 25.5%. The Total Capital ratio of the Bank was 20.271% while Common Equity Tier 1 and Tier 1 ratios stood at 12.234% and 14.226% respectively as at 31 December 2020.

### ECONOMIC AND BUSINESS OUTLOOK FOR 2021

The International Monetary Fund ("IMF") in its January 2021 issue of the World Economic Outlook ("WEO") forecasted global Gross Domestic Product ("GDP") to rebound by 5.5% in 2021 and 4.2% in 2022. The recent vaccine approvals have raised hopes of a return to normal in the second half of 2021. Nevertheless, renew waves and new variants of the virus may still pose a risk.

BNM also indicated that it will maintain an accommodative monetary policy by keeping its OPR unchanged at 1.75%. The Government announced another Movement Control Order ("MCO 2.0") from 13 January 2021 until 4 March 2021 to curb the increasing number of cases since November 2020. The implementation of MCO 2.0 would lead to higher corporate earnings risk, although the negative impact on most economic sectors is expected to be less severe than that experienced in 2Q2020 as MCO 2.0 was less restrictive than the earlier one in early 2020.

Following the implementation of MCO 2.0, the Government announced additional stimulus measures worth RM15 billion under Perlindungan Ekonomi dan Rakyat Malaysia ("PERMAI"). This is on top of the earlier stimulus packages namely PRIHATIN, PRIHATIN SME+, PENJANA and KITA PRIHATIN that was to mitigate the impact of the pandemic on affected households and businesses. The implementation of these stimulus packages are being tracked by LAKSANA, a unit under the Ministry of Finance to ensure that aid reaches the targeted groups. The economic stimulus packages amounting to RM320 billion are anticipated to spur economic recovery in 2021.

GDP growth is expected to remain negative in 1Q2021 due to the MCO 2.0 and is projected to improve and turn positive from 2Q2021 onwards, supported by better external demand from the expansion in global growth, ongoing fiscal measures as well as the expectation of the rollout of vaccines. The government through the National Covid-19 Immunisation Programme is targeting to vaccinate 80% of the population or 26.5 million people by 1Q2022.

The introduction of government measures in Budget 2021 coupled with tax incentives and the targeted Wage Subsidy Program will help to support private consumption growth. Private investment is likely to improve in 2021 with the resumption and implementation of mega infrastructure projects and other new projects respectively. This is evidenced by the government's proposal to allocate a substantial RM69 billion to development expenditure focusing on construction-related and infrastructure projects with high multiplier impact. Export growth in 2021 will be underpinned by a sustained pick-up in external demand led by a rebound in global economic growth. The strong turnaround expected in China's economy will help support the external demand as China remains one of Malaysia's main trading partners.

## DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### BUSINESS STRATEGY MOVING FORWARD

The Bank remains focused on AFFIN BANK Group (“the Group”)’s initiatives on digital transformation and strengthening balance sheet management to address liquidity excess and funding costs effectively. The Group strives to reinforce both fields with resources to supplement the execution of the Business Plan and other ongoing strategic initiatives for both the Bank and the Group. Customers can expect for more strategic collaboration with digital service providers to enable value added banking services that are focused on enhancing user experience.

The Bank intends to strengthen its people by inculcating a high performance culture amongst the staff. Productivity and efficiency have proven to be vital to thrive amidst this challenging environment. Various programmes relating to redefining employee values and performance management are already in place to support the Bank in fulfilling its vision.

Ongoing initiatives of the Bank include a new deposits strategy, growing fee income and focusing on high yielding products. The strategic focus remains on sustaining stable profitability, preserving strong asset quality and maintaining effective cost structures as key considerations through the challenging economic landscape of the 2021 financial year.

### RATING BY EXTERNAL RATING AGENCIES

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

### ZAKAT OBLIGATIONS

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

### HOLDING COMPANY, PENULTIMATE AND ULTIMATE HOLDING CORPORATE BODY

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

### DIRECTORS' REMUNERATION

Details of Directors' remuneration and the total amount of indemnity given are set out in Note 38 to the financial statements.

### AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 38 to the financial statements.

## DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### AUDITORS

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

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

### DATO' MOHD ALI BIN MOHD TAHIR

Independent Non-Executive Director

### ASSOCIATE PROFESSOR DR. SAID BOUHERAOUA

Independent Non-Executive Director

Kuala Lumpur  
22 March 2021

# STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Note	Economic Entity		The Bank	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
<b>ASSETS</b>					
Cash and short-term funds	2	2,794,278	1,588,868	2,794,278	1,588,868
Deposits and placements with banks and other financial institutions	3	50,058	-	50,058	-
Derivative financial assets	4	11,558	1,000	11,558	1,000
Financial investments at fair value through other comprehensive income ("FVOCI")	5	2,828,166	2,390,806	2,828,166	2,390,806
Financing, advances and other financing	6	19,380,090	18,580,253	19,380,090	18,580,253
Other assets	7	64,563	34,593	64,563	34,593
Amount due from holding company	8	-	53,946	-	53,946
Amount due from joint ventures	9	15,073	28,402	15,073	28,402
Amount due from an associate	10	-	900	-	900
Tax recoverable		-	15,550	-	15,550
Deferred tax assets	11	12,390	-	12,390	-
Statutory deposits with Bank Negara Malaysia	12	-	526,000	-	526,000
Investment in joint ventures	13	-	-	-	650
Investment in an associate	14	-	750	-	750
Property and equipment	15	1,383	1,980	1,383	1,980
Intangible assets	16	558	771	558	771
Right-of-use assets	17	1,085	1,554	1,085	1,554
<b>TOTAL ASSETS</b>		<b>25,159,202</b>	23,225,373	<b>25,159,202</b>	23,226,023
<b>LIABILITIES AND EQUITY</b>					
Deposits from customers	18	18,665,991	17,306,338	18,665,991	17,306,338
Investment accounts of customers	19	2,151	1,447	2,151	1,447
Deposits and placements of banks and other financial institutions	20	1,225,873	536,011	1,225,873	536,011
Investment accounts due to designated financial institutions	21	1,751,038	1,918,295	1,751,038	1,918,295
Recourse obligation on financing sold to Cagamas Berhad	22	50,034	-	50,034	-
Derivative financial liabilities	23	25,572	6,757	25,572	6,757
Other liabilities	24	67,912	422,685	67,912	422,685
Amount due to holding company	25	299,815	-	299,815	-
Provision for taxation		6,234	-	6,234	-
Deferred tax liabilities	11	-	2,604	-	2,604
Lease liabilities	26	2,433	1,568	2,433	1,568
Subordinated term financing and medium term notes	27	1,111,034	1,111,034	1,111,034	1,111,034
<b>TOTAL LIABILITIES</b>		<b>23,208,087</b>	21,306,739	<b>23,208,087</b>	21,306,739
Share capital	28	1,060,000	1,060,000	1,060,000	1,060,000
Reserves	29	891,115	858,634	891,115	859,284
<b>TOTAL EQUITY</b>		<b>1,951,115</b>	1,918,634	<b>1,951,115</b>	1,919,284
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>25,159,202</b>	23,225,373	<b>25,159,202</b>	23,226,023
<b>COMMITMENTS AND CONTINGENCIES</b>	42	<b>4,357,811</b>	4,051,316	<b>4,357,811</b>	4,051,316

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

# INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	Note	Economic Entity		The Bank	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Income derived from investment of depositors' funds and others	30	<b>951,973</b>	1,113,114	<b>951,973</b>	1,113,114
Income derived from investment of investment accounts	31	<b>96,333</b>	107,323	<b>96,333</b>	107,323
Income derived from investment of shareholders' funds	32	<b>98,512</b>	104,541	<b>98,512</b>	104,541
Modification loss	33	<b>(31,066)</b>	-	<b>(31,066)</b>	-
Allowances for impairment losses on financing, advances and other financing	34	<b>(91,061)</b>	(54,848)	<b>(91,061)</b>	(54,848)
Allowance for impairment losses on other assets	35	<b>(16,506)</b>	(4,690)	<b>(17,906)</b>	(4,690)
<b>Total distributable income</b>		<b>1,008,185</b>	1,265,440	<b>1,006,785</b>	1,265,440
Income attributable to the depositors and others	36	<b>(662,112)</b>	(907,355)	<b>(662,112)</b>	(907,355)
<b>Total net income</b>		<b>346,073</b>	358,085	<b>344,673</b>	358,085
Other operating expenses	37	<b>(245,535)</b>	(261,923)	<b>(245,535)</b>	(261,923)
		<b>100,538</b>	96,162	<b>99,138</b>	96,162
Share of associate's result		<b>(750)</b>	-	<b>-</b>	-
<b>Profit before zakat and taxation</b>		<b>99,788</b>	96,162	<b>99,138</b>	96,162
Zakat		<b>(2,540)</b>	(3,000)	<b>(2,540)</b>	(3,000)
<b>Profit before taxation</b>		<b>97,248</b>	93,162	<b>96,598</b>	93,162
Taxation	39	<b>(40,356)</b>	(26,075)	<b>(40,356)</b>	(26,075)
<b>Net profit after zakat and taxation</b>		<b>56,892</b>	67,087	<b>56,242</b>	67,087
<b>Attributable to:</b>					
Equity holder of the Bank		<b>56,892</b>	67,087	<b>56,242</b>	67,087
<b>Earnings per share (sen):</b>					
- Basic	40	<b>5.4</b>	6.3	<b>5.3</b>	6.3

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



# STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	Note	Economic Entity		The Bank	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
<b>Profit after zakat and taxation</b>		<b>56,892</b>	67,087	<b>56,242</b>	67,087
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Net fair value change in					
- financial investments at FVOCI		<b>67,993</b>	101,557	<b>67,993</b>	101,557
Net credit impairment losses change in financial investments at FVOCI		<b>2,837</b>	26	<b>2,837</b>	26
Net gains on financial investments at FVOCI reclassified to profit or loss on disposal		<b>(103,846)</b>	(80,117)	<b>(103,846)</b>	(80,117)
Deferred tax on					
- financial investments at FVOCI	11	<b>8,605</b>	(5,146)	<b>8,605</b>	(5,146)
Other comprehensive income for the financial year, net of tax		<b>(24,411)</b>	16,320	<b>(24,411)</b>	16,320
<b>Total comprehensive income for the financial year</b>		<b>32,481</b>	83,407	<b>31,831</b>	83,407
<b>Attributable to equity holder of the Bank:</b>					
- Total comprehensive income		<b>32,481</b>	83,407	<b>31,831</b>	83,407

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

# STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

Economic Entity	Note	Attributable to Equity Holder of the Bank				
		Share capital RM'000	FVOCI revaluation reserves RM'000	Regulatory reserves RM'000	Retained profits RM'000	Total RM'000
<b>At 1 January 2020</b>		<b>1,060,000</b>	<b>19,492</b>	<b>236,882</b>	<b>602,260</b>	<b>1,918,634</b>
Net profit for the financial year		-	-	-	<b>56,892</b>	<b>56,892</b>
Other comprehensive income (net of tax)						
- Financial investments at FVOCI		-	<b>(24,411)</b>	-	-	<b>(24,411)</b>
Total comprehensive income		-	<b>(24,411)</b>	-	<b>56,892</b>	<b>32,481</b>
Transfer from regulatory reserves	29(c)	-	-	<b>(109,789)</b>	<b>109,789</b>	-
<b>At 31 December 2020</b>		<b>1,060,000</b>	<b>(4,919)</b>	<b>127,093</b>	<b>768,941</b>	<b>1,951,115</b>
Economic Entity						
At 1 January 2019		1,060,000	3,172	194,384	577,671	1,835,227
Net profit for the financial year		-	-	-	67,087	67,087
Other comprehensive income (net of tax)						
- Financial investments at FVOCI		-	16,320	-	-	16,320
Total comprehensive income		-	16,320	-	67,087	83,407
Transfer to regulatory reserves	29(c)	-	-	42,498	(42,498)	-
At 31 December 2019		1,060,000	19,492	236,882	602,260	1,918,634

## STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

The Bank	Note	Non-Distributable			Distributable		Total RM'000
		Share capital RM'000	FVOCI revaluation reserves RM'000	Regulatory reserves RM'000	Retained profits RM'000		
<b>At 1 January 2020</b>		<b>1,060,000</b>	<b>19,492</b>	<b>236,882</b>	<b>602,910</b>	<b>1,919,284</b>	
Net profit for the financial year		-	-	-	56,242	56,242	
Other comprehensive income (net of tax)							
- Financial investments at FVOCI		-	(24,411)	-	-	(24,411)	
Total comprehensive income		-	(24,411)	-	56,242	31,831	
Transfer from regulatory reserves	29(c)	-	-	(109,789)	109,789	-	
<b>At 31 December 2020</b>		<b>1,060,000</b>	<b>(4,919)</b>	<b>127,093</b>	<b>768,941</b>	<b>1,951,115</b>	
The Bank							
At 1 January 2019		1,060,000	3,172	194,384	578,321	1,835,877	
Net profit for the financial year		-	-	-	67,087	67,087	
Other comprehensive income (net of tax)							
- Financial investments at FVOCI		-	16,320	-	-	16,320	
Total comprehensive income		-	16,320	-	67,087	83,407	
Transfer to regulatory reserves	29(c)	-	-	42,498	(42,498)	-	
At 31 December 2019		1,060,000	19,492	236,882	602,910	1,919,284	

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

# STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	Note	Economic Entity		The Bank	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
<b>Profit before taxation</b>		<b>97,248</b>	93,162	<b>96,598</b>	93,162
Adjustments for items not involving the movement of cash and cash equivalents:					
Finance income and hibah from:					
- financial investments at FVOCI		<b>(84,788)</b>	(100,587)	<b>(84,788)</b>	(100,587)
Gain on sale/redemption:					
- financial investments at FVOCI		<b>(102,388)</b>	(80,432)	<b>(102,388)</b>	(80,432)
Loss on unrealised foreign exchange		<b>8,256</b>	3,510	<b>8,256</b>	3,510
Depreciation of property and equipment		<b>654</b>	766	<b>654</b>	766
Property and equipment written-off		<b>2</b>	2	<b>2</b>	2
Amortisation of intangible assets		<b>213</b>	180	<b>213</b>	180
Depreciation of right-of-use assets		<b>1,019</b>	1,347	<b>1,019</b>	1,347
Expected credit losses ('ECL') made on:					
- financing, advances and other financing		<b>94,202</b>	63,805	<b>94,202</b>	63,805
- securities		<b>2,837</b>	26	<b>2,837</b>	26
- financing commitments and financial guarantees		<b>(2,533)</b>	(5,618)	<b>(2,533)</b>	(5,618)
Bad debt on financing written-off		<b>376</b>	789	<b>376</b>	789
Allowance for impairment losses on other assets		<b>16,506</b>	4,690	<b>17,906</b>	4,690
Share of associate's result		<b>750</b>	-	<b>-</b>	-
Modification loss on contractual cash flows arising from financial assets		<b>31,066</b>	-	<b>31,066</b>	-
Profit expense - Subordinated term financing and medium term notes		<b>57,350</b>	57,153	<b>57,350</b>	57,153
Finance expense on lease liabilities		<b>91</b>	52	<b>91</b>	52
Profit expense - Recourse obligation on financing sold to Cagamas Berhad		<b>34</b>	-	<b>34</b>	-
Zakat		<b>2,540</b>	3,000	<b>2,540</b>	3,000
<b>Operating profit before changes in working capital</b>		<b>123,435</b>	41,846	<b>123,435</b>	41,846
<i>(Increase)/decrease in operating assets:</i>					
Deposits and placements with banks and other financial institutions		<b>(50,058)</b>	-	<b>(50,058)</b>	-
Financing, advances and other financing		<b>(925,481)</b>	(26,987)	<b>(925,481)</b>	(26,987)
Other assets		<b>(28,149)</b>	8,437	<b>(28,149)</b>	8,437
Statutory deposits with Bank Negara Malaysia		<b>526,000</b>	(14,000)	<b>526,000</b>	(14,000)
Amount due from holding company		<b>53,946</b>	53,776	<b>53,946</b>	53,776
Amount due from joint ventures		<b>(1,920)</b>	(1,797)	<b>(1,920)</b>	(1,797)
Amount due from an associate		<b>(356)</b>	(400)	<b>(356)</b>	(400)
Derivative financial instruments		<b>8,256</b>	3,510	<b>8,256</b>	3,510

## STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	Note	Economic Entity		The Bank	
		2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
<i>Decrease/(Increase) in operating liabilities:</i>					
Deposits from customers		1,359,653	(2,381,050)	1,359,653	(2,381,050)
Investment accounts of customers		704	572	704	572
Deposits and placements of banks and other financial institutions		689,862	290,429	689,862	290,429
Investment accounts due to designated financial institutions		(167,257)	(450,000)	(167,257)	(450,000)
Amount due to holding company		299,815	-	299,815	-
Other liabilities		(352,466)	337,651	(352,466)	337,651
Cash generated from operations		1,535,984	(2,138,014)	1,535,984	(2,138,014)
Zakat paid		(2,312)	(2,212)	(2,312)	(2,212)
Tax refund		4,000	-	4,000	-
Tax paid		(28,961)	(34,917)	(28,961)	(34,917)
<b>Net cash generated from/(used in) operating activities</b>		<b>1,508,711</b>	<b>(2,175,143)</b>	<b>1,508,711</b>	<b>(2,175,143)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Finance income and hibah received from: - financial investments at FVOCI		95,295	101,395	95,295	101,395
Purchase of financial investments at FVOCI		(3,554,748)	(2,946,228)	(3,554,748)	(2,946,228)
Disposal of financial investments at FVOCI		3,173,416	3,460,743	3,173,416	3,460,743
Purchase of property and equipment		(500)	(177)	(500)	(177)
Purchase of intangible assets		-	(10)	-	(10)
<b>Net cash (used in)/generated from investing activities</b>		<b>(286,537)</b>	<b>615,723</b>	<b>(286,537)</b>	<b>615,723</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from recourse obligation on financing sold to Cagamas Berhad		50,000	-	50,000	-
Profit payment - Subordinated term financing and medium term notes		(57,350)	(57,350)	(57,350)	(57,350)
Lease payments		(1,158)	(1,385)	(1,158)	(1,385)
<b>Net cash used in financing activities</b>		<b>(8,508)</b>	<b>(58,735)</b>	<b>(8,508)</b>	<b>(58,735)</b>
Net increase/(decrease) in cash and cash equivalents		1,213,666	(1,618,155)	1,213,666	(1,618,155)
Effects of foreign exchange		(8,256)	(3,510)	(8,256)	(3,510)
Cash and cash equivalents at beginning of the financial year		1,588,868	3,210,533	1,588,868	3,210,533
<b>CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR</b>		<b>2,794,278</b>	<b>1,588,868</b>	<b>2,794,278</b>	<b>1,588,868</b>
<b>CASH AND CASH EQUIVALENTS COMPRISE:</b>					
Cash and short-term funds	2	2,794,278	1,588,868	2,794,278	1,588,868

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

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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

### (A) BASIS OF PREPARATION

The financial statements of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ('MFRS'), International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

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

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

#### Standards, amendments to published standards and interpretations that are effective

(a) Accounting standards, annual improvements and amendments to MFRS which are effective for the Bank for the financial period beginning on or after 1 January 2020:

- The Conceptual Framework for Financial Reporting (Revised 2018)
- Amendments to MFRS 101 and MFRS 108 'Definition of Material'
- Amendments to MFRS 3 "Definition of a Business"
- Amendments to MFRS 7, MFRS 9 and MFRS 139 "Interest Rate Benchmark Reform"

(b) Additional Measures to Assist Borrowers/Customers Affected by the Covid-19 Outbreak by BNM

On 24 March 2020, BNM announced the additional measures to assist customers experiencing temporary financial constraints due to the Covid-19 outbreak. The measures which are aimed at ensuring the financial intermediation function of the financial sector remains intact, access to financing continues to be available, and banking institutions remain focused on supporting the economy during these exceptional circumstances are set out as follows:

- (i) Banking institutions will grant an automatic moratorium on all financing payments, both principal and profit (except for credit card balances) by individuals and small-medium enterprises ('SMEs') customers for a period of 6 months effective 1 April 2020. This automatic moratorium is applicable to any financing that is not in arrears exceeding 90 days as at 1 April 2020 and denominated in Malaysian Ringgit;
- (ii) For credit card balances, banking institutions shall offer customers the option of converting their outstanding balances into a term financing of a tenure of not more than 3 years with an effective profit rate capped at 13% per annum. However, for customers who have not met the minimum payment of 3 consecutive months, banking institutions shall automatically convert their credit card balances into term financing with the abovementioned terms;
- (iii) For corporate customers, banking institutions will facilitate customer's requests for a moratorium on financing payment, additional financing to support cashflows or may reschedule and restructure existing facilities in an effort to assist the corporations to preserve jobs and slowly resume economic activities when conditions improve;
- (iv) Banking institutions are given prudential buffer with immediate effect to drawdown the capital conservation buffer of 2.5%, to operate below the minimum liquidity coverage ratio ('LCR') of 100% and to reduce the regulatory reserves ('RR') held against expected losses to 0%. This buffer will need to be restored to the minimum regulatory requirements by 30 September 2021; and



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### (A) BASIS OF PREPARATION (CONTINUED)

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

(b) Additional Measures to Assist Borrowers/Customers Affected by the Covid-19 Outbreak by BNM (continued)

- (v) Banking institutions are also allowed to implement lower minimum Net Stable Funding Ratio ('NSFR') of 80% effective 1 July 2020. However, banking institutions will need to comply with 100% NSFR ratio from 30 September 2021.

The financial impact of the moratorium is disclosed in Note 33.

#### Standards early adopted by the Bank

The Bank has early adopted the MFRS 16 amendment for the first time in its annual financial statements ended 31 December 2020; with the date of initial application of 1 January 2020. There is no impact to the current financial year.

During the financial year, the Bank changed its accounting policies on Covid-19-related rent concession upon early adoption of the MFRS 16 amendment.

In accordance with the transitional provisions provided in the MFRS 16 amendment, the comparative information for 2019 was not restated and continued to be reported under the previous accounting policies in accordance with the lease modification principles in MFRS 16.

On adoption of the MFRS 16 amendment, the Bank is not required to assess whether a Covid-19-related rent concession that meets all of the following conditions is a lease modification:

- 1) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- 2) any reduction in lease payments affects only payments due on or before 30 June 2021; and
- 3) there is no substantive change to other terms and conditions of the lease.

The Bank accounts for such Covid-19-related rent concession as a variable lease payment in the period(s) in which the event or condition that triggers the reduced payment occurs.

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

- Annual Improvements to MFRS 9 'Fees in the 10% Test for Derecognition of Financial Liabilities' (effective 1 January 2022) clarifies that only fees paid or received between the customer and the financier, including the fees paid or received on each other's behalf, are included in the cash flow of the new financing when performing the 10% test.

An entity shall apply the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

- Amendments to MFRS 3 'Reference to Conceptual Framework' (effective 1 January 2022) replace the reference to Framework for Preparation and Presentation of Financial Statements with 2018 Conceptual Framework. The amendments did not change the current accounting for business combinations on acquisition date.

The amendments provide an exception for the recognition of liabilities and contingent liabilities should be in accordance with the principles of MFRS 137 'Provisions, contingent liabilities and contingent assets' and IC Interpretation 21 'Levies' when falls within their scope. It also clarifies that contingent assets should not be recognised at the acquisition date.

The amendments shall be applied prospectively.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### (A) BASIS OF PREPARATION (CONTINUED)

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

- Amendments to MFRS 116 'Proceeds Before Intended Use' (effective 1 January 2022) prohibit an entity from deducting from the cost of a property, plant and equipment the proceeds received from selling items produced by the property, plant and equipment before it is ready for its intended use. The sales proceeds should instead be recognised in profit or loss.

The amendments also clarify that testing whether an asset is functioning properly refers to assessing the technical and physical performance of the property, plant and equipment.

The amendments shall be applied retrospectively.

- Amendments to MFRS 137 'onerous contracts - cost of fulfilling a contract' (effective 1 January 2022) clarify that direct costs of fulfilling a contract include both the incremental cost of fulfilling the contract as well as an allocation of other costs directly related to fulfilling contracts. The amendments also clarify that before recognising a separate provision for an onerous contract, impairment loss that has occurred on assets used in fulfilling the contract should be recognised.

The amendments shall be applied retrospectively.

- Amendments to MFRS 101 'Classification of Liabilities as Current or Non-current' (effective 1 January 2023) clarify that a liability is classified as non-current if an entity has a substantive right at the end of the reporting period to defer settlement for at least 12 months after the reporting period.

A liability is classified as current if a condition is breached at or before the reporting date and a waiver is obtained after the reporting date. A financing is classified as non-current if a covenant is breached after the reporting date.

In addition, the amendments clarify that when a liability could be settled by the transfer of an entity's own equity instruments (e.g. a conversion option in a convertible bond), conversion option that is not an equity instrument as defined in MFRS 132 'Financial Instruments: Presentation' is considered in the current or non-current classification of the convertible instrument.

The amendments shall be applied retrospectively.

### (B) JOINT ARRANGEMENTS

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

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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### (B) JOINT ARRANGEMENTS (CONTINUED)

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

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

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

### (C) ASSOCIATES

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

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

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

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

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

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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### (D) INTANGIBLE ASSETS

#### Computer Software

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

- (i) it is technically feasible to complete the software product so that it will be available for use;
- (ii) management intends to complete the software product and use or sell it;
- (iii) there is an ability to use or sell the software product;
- (iv) it can be demonstrated how the software product will generate probable future economic benefits;
- (v) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- (vi) the expenditure attributable to the software product during its development can be reliably measured.

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

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

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

### (E) IMPAIRMENT ON NON-FINANCIAL ASSETS

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

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

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus reserve.

### (F) RECOGNITION OF FINANCING INCOME AND EXPENSE

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

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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### (F) RECOGNITION OF FINANCING INCOME AND EXPENSE (CONTINUED)

#### Al-Bai' Bithaman Ajil

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

#### Ijarah Muntahiyah bi Tamlik

An ijarah contract which ends with the lessee owning the leased asset and shall contain a mechanism for the transfer of ownership of the leased asset from the lessor to the lessee during or the end of the lease period.

#### Murabahah

A sale and purchase of an asset where the acquisition cost and the mark-up are disclosed to the purchaser.

#### Musyarakah Mutanaqisah (diminishing partnership)

A partnership entered into by two or more parties on a particular asset or venture which allows one of the partners to gradually acquire the shareholding of the other partner through an agreed redemption method during the tenure of the partnership contract.

#### Tawarruq

A Tawarruq consists of two sale and purchase contracts. The first involves the sale of an asset by a seller to a purchaser on a deferred basis. Subsequently, the purchaser of the first sale will sell the same asset to a third party on a cash and spot basis.

#### Istisna'

A contract which a seller sells to a purchaser an asset which is yet to be constructed, built or manufactured according to agreed specifications and delivered on an agreed specified future date at an agreed pre-determined price.

Financing income is recognised using effective profit rate through the expected life of the financing based on the principal amount outstanding.

### (G) RECOGNITION OF FEES AND OTHER INCOME

The Bank earns fee and commission income from a diverse range of products and services provided to its customers. Fee and commission income are recognised when the Bank has satisfied its performance obligation in providing the promised products and services to the customer, and are recognised based on contractual rates or amount agreed with customers, and net of expenses directly related to it. The Bank generally satisfies its performance obligation and recognises the fee and commission income on the following basis:

- Transaction-based fee and commission income is recognised on the completion of the transaction. Such fees include fees related to the arrangement fees and service charges. These fees constitute a single performance obligation.
- For a service that is provided over a period of time, fee and commission income is recognised on equal proportion basis over the period during which the related service is provided or credit risk is undertaken. This basis of recognition most appropriately reflects the nature and pattern of provision of these services to the customers over time. Fees for these services will be billed periodically over time. Such fees include guarantees fee.
- Dividends are recognised when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.
- Dividends that clearly represent a recovery of part of the cost of investment is recognised in other comprehensive income if it relate to an investment in equity instruments measured at FVOCI.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### (H) FINANCIAL ASSETS

#### (a) Classification

The Bank classifies its financial assets in the following measurement categories:

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

#### (b) Recognition and derecognition

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

#### (c) Measurement

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

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

#### Debt instruments

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

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

##### (i) Amortised cost ("AC")

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

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

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



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### (H) FINANCIAL ASSETS (CONTINUED)

#### (c) Measurement

##### Debt instruments (continued)

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

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

##### Business model

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

##### SPPI

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

##### Equity instruments

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

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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### (H) FINANCIAL ASSETS (CONTINUED)

#### (d) Subsequent measurement – Impairment

##### Impairment for debt instruments and financial guarantee contracts

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

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

The measurement of ECL reflects:

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

##### (i) General 3-stage approach

At each reporting date, the Bank measures ECL through loss allowance at an amount equal to 12 month ECL if credit risk on a financial instrument or a group of financial instruments has not increased significantly since initial recognition. For all other financial instruments, a loss allowance at an amount equal to lifetime ECL is required. Note 43 sets out the measurement details of ECL. The Bank applies 3-stage approach on debt instruments measured at amortised cost and FVOCI, except for those that are under simplified approach, as explained below.

##### (ii) Simplified approach

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

##### Significant increase in credit risk

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

The following indicators are incorporated:

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

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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### (H) FINANCIAL ASSETS (CONTINUED)

#### (d) Subsequent measurement – Impairment (continued)

##### Definition of default and credit-impaired financial assets

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

- (i) Mandatory indicators
  - failure to make contractual payment within 90 days or 3 months of when they fall due.
  - bankruptcy or winding up order issued;
  - account turns fraud;
  - internal rating deteriorated to default credit grade or worse;
  - financial cashflow problems, classify as stressed company with evidence of business failure by Bursa;
  - collateral coverage ratio falls below 100% (for share margin financing).
- (ii) Judgmental indicators
  - evidence of three or more judgmental events;
  - account is past due or in excess of approved limit but less than or equal to 30 days;
  - non compliance with financial covenants imposed and evidence of misuse and diversion of funds or monies;
  - weakening in financial statements with sign of over-leveraging, erosion in capital base, deterioration in profitability and cash flows;
  - credit deterioration such as adverse change in payment pattern and default in other related accounts;
  - legal proceedings that have negative impact to the credit profile;
  - sign of operational weakness or disruptions arising from change in company's operations and management activities;
  - company/director/management involved in fraudulent activities;
  - consistently require margin call or unable to meet margin call (for share margin financing).
  - restructuring and rescheduling ("R&R") with significant increase in credit risk, however business operation remains viable post R&R.

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

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

##### Write-off policy

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

Indicators that there is no reasonable expectation of recovery include

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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### (H) FINANCIAL ASSETS (CONTINUED)

#### (d) Subsequent measurement – Impairment (continued)

##### Modification of financing

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

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

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

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

##### Derecognition other than on a modification

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

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

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Are prohibited from selling or pledging the assets; and
- (iii) Have obligation to remit any cash it collects from the assets without material delay.

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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### (H) FINANCIAL ASSETS (CONTINUED)

#### (e) Regulatory reserve requirements

Pursuant to BNM letter dated 1 November 2017, effective 1 January 2018, the banking subsidiaries shall maintain, in aggregate, stage 1 and 2 provisions regulatory reserve of no less than 1% of all credit exposures (on and off balance sheet that are subject to MFRS 9 impairment requirement, excluding exposures to and with an explicit guarantee from Malaysian Government), net of Stage 3 provision. However, banking institutions are allowed to reduce the regulatory reserves held against expected losses to 0% and to be restored by 30 September 2021.

### (I) FINANCING ASSISTANCE SCHEME

Financing under a government scheme is recognised and measured in accordance with MFRS 9 Financial Instruments, with the benefit at a below market and concession rate measured as the difference between the initial carrying amount or fair value of the financing and the amount received.

The benefit of government schemes that addresses identified costs or expenses incurred by the Bank is recognised in the profit or loss in the same financial period when the costs or expenses are recognised, when the required conditions are fulfilled in accordance with MFRS 120 Accounting for Government Grants and Disclosure of Government Assistance.

### (J) FINANCIAL LIABILITIES

Financial liabilities are classified as subsequently measured at amortised cost, except for:

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

#### Derecognition

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

### (K) FINANCIAL GUARANTEE CONTRACTS AND FINANCING COMMITMENTS

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

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

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

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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### (K) FINANCIAL GUARANTEE CONTRACTS AND FINANCING COMMITMENTS (CONTINUED)

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

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

### (L) OFFSETTING FINANCIAL INSTRUMENTS

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

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

### (M) PROPERTY AND EQUIPMENT AND DEPRECIATION

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

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

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

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

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

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

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



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### (N) LEASES

Leases are recognised as right-of-use ('ROU') asset and a corresponding liability at the date on which the leased asset is available for use by the Bank (i.e. the commencement date).

Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of properties for which the Bank is lessee, it has elected the practical expedient provided in MFRS 16 not to separate lease and non-lease components. Both components are accounted for as a single lease component and payments for both components are included in the measurement of lease liability.

#### Lease term

In determining the lease term, the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not to be terminated).

The Bank reassess the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Bank and affects whether the Bank is reasonably certain to exercise an option not previously included in the determination of lease term, or not to exercise an option previously included in the determination of lease term. A revision in lease term results in remeasurement of the lease liabilities. See accounting policy below on reassessment of lease liabilities.

#### Right-of-use ('ROU') assets

ROU assets are initially measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Decommissioning or restoration costs.

The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

If the Bank is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life. In addition, the ROU assets are adjusted for certain remeasurement of the lease liabilities.

#### Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. The lease payments include the following:

- Fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- The exercise price of a purchase options if the group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.
- The amount expected to be payable by the Bank under residual value guarantees.

Lease payments are discounted using the profit rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, the lessee's incremental financing is used. This is the rate that the individual lessee would have to pay to obtain the funds necessary to obtain an asset of similar value to the ROU in a similar economic environment with similar term, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of profit on the remaining balance of the liability for each period.

The Bank presents the lease liabilities as a separate line item in the statements of financial position. Lease payment on the lease liability is presented within the profit expense in the income statements.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### (N) LEASES (CONTINUED)

#### Lease liabilities (continued)

The Bank is also exposed to potential future increases in variable lease payments that depend on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is remeasured and adjusted against the ROU assets.

#### Short-term leases and leases of low-value assets

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office equipment. Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line bases as an operating expense in profit or loss.

During the financial year, the Bank elects to account for a Covid-19-related lease concession that meets all of the following conditions in the same way as they would if they were not lease modification:

- 1) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- 2) any reduction in lease payments affects only payments due on or before 30 June 2021; and
- 3) there is no substantive change to other terms and conditions of the lease.

#### Accounting policy applied from 1 January 2020

The Bank accounts for such Covid-19-related rent concession as a variable lease payment in the period(s) in which the event or condition that triggers the reduced payment occurs. The Bank presents the impacts of lease concessions within operating expenses.

Until 31 December 2019, the accounting required by MFRS 16 for a change in lease payments, other than those arising from a change in amounts expected to be payable under residual value guarantees or in an index or rate used to determine lease payments, depends on whether that change meets the definition of a lease modification.

If a lease concession results from a lease modification, the Bank accounts for the lease concession as either a new lease or as a remeasurement of an existing lease liability, depending on the criteria set in MFRS 16.

If a lease concession does not result from a lease modification, the Bank accounts for the rent concession as a variable lease payment in the period(s) in which the event or condition that triggers the reduced payment occurs.

### (O) FOREIGN CURRENCY TRANSLATIONS

#### Functional and presentation currency

The financial statements are presented in Ringgit Malaysia, which is the Bank's functional and presentation currency.

#### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. However, exchange differences are deferred in other comprehensive income when they arose from qualifying cash flow or net investment hedge or are attributable to items that form part of the net investment in a foreign operation.

Changes in the fair value of monetary securities denominated in foreign currency classified as FVOCI are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in income statement, and other changes in the carrying amount are recognised in other comprehensive income.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### (O) FOREIGN CURRENCY TRANSLATIONS (CONTINUED)

#### Transactions and balances (continued)

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit and loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as FVOCI are included in other comprehensive income.

### (P) DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

### (Q) CURRENT AND DEFERRED INCOME TAXES

#### Current tax

Tax expense for the period comprises current and deferred income tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

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

#### Deferred tax

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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### (Q) CURRENT AND DEFERRED INCOME TAXES (CONTINUED)

#### Deferred tax (continued)

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

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

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

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

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

### (R) ZAKAT

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

### (S) CASH AND CASH EQUIVALENTS

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

For the purpose of statement of cash flows, cash and cash equivalents comprise cash and short-term funds and deposits and placements with banks and other financial institutions with original maturity 3 months or less.

### (T) FORECLOSED PROPERTIES

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

### (U) CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### (U) CONTINGENT ASSETS AND CONTINGENT LIABILITIES (CONTINUED)

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

### (V) BILLS AND ACCEPTANCES PAYABLE

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

### (W) PROVISIONS

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

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

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

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

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

### (X) EMPLOYEE BENEFITS

#### Short-term employee benefits

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

#### Defined contribution plan

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

The Bank's contribution to defined contribution plans are charged to the income statement in the period to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### (X) EMPLOYEE BENEFITS (CONTINUED)

#### Termination benefits

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

### (Y) RESTRICTED INVESTMENT ACCOUNTS ('RIA')

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

### (Z) SHARE CAPITAL

#### Classification

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

#### Share issue costs

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

#### Dividend distribution

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

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

#### Earnings per share

##### Basic earnings per share

Basic earnings per share is calculated by dividing:

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

##### Diluted earnings per share

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

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



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### (AA) CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

#### Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 43, which also sets out key sensitivities of the ECL to changes in these elements.

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

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

#### Impact arising from Covid-19 on ECL

As the current MFRS 9 models are not expected to generate levels of expected credit loss ("ECL") with sufficient reliability in view of the unprecedented and on-going Covid-19 pandemic, overlays and post-model adjustments have been applied to determine a sufficient overall level of ECLs for the year ended and as at 31 December 2020.

These overlays and post-model adjustments were taken to reflect the latest macroeconomic outlook not captured in the modelled outcome and the potential impact to delinquencies and defaults when the various relief and support measures are expiring in 2021.

The overlays and post-model adjustments involved significant level of judgement and reflect the management's views of possible severities of the pandemic and paths of recovery in the forward looking assessment for ECL estimation purposes.

The customers who have received payment supports remain in their existing stages unless they have been individually identified as not viable or with subsequent indicators of significant increase in credit risk from each of their pre- Covid-19 status. The overlays and post-model adjustments were generally made at both account and portfolio level in determining the sufficient level of ECLs.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

## 1 GENERAL INFORMATION

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

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

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

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

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

## 2 CASH AND SHORT-TERM FUNDS

	Economic Entity and The Bank	
	2020	2019
	RM'000	RM'000
Cash and bank balances with banks and other financial institutions	23,747	10,911
Money at call and interbank placements with remaining maturity not exceeding one month	2,770,531	1,577,957
	<b>2,794,278</b>	1,588,868

## 3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Economic Entity and The Bank	
	2020	2019
	RM'000	RM'000
Licensed banks	50,058	-

## 4 DERIVATIVE FINANCIAL ASSETS

	Economic Entity and The Bank			
	2020		2019	
	Contract/ notional amount RM'000	Assets RM'000	Contract/ notional amount RM'000	Assets RM'000
At fair value				
Foreign exchange derivatives				
- Currency forwards	392,631	11,558	125,647	1,000
	<b>392,631</b>	<b>11,558</b>	125,647	1,000

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
<b>At fair value</b>		
Malaysian Government investment issues	1,187,871	860,976
Khazanah Sukuk	-	53,074
	<b>1,187,871</b>	914,050
Unquoted securities:		
Corporate Sukuk in Malaysia	1,640,295	1,476,756
	<b>2,828,166</b>	2,390,806

The expected credit losses in relation to financial instruments at FVOCI are recorded in FVOCI reserves.

Movement in allowances for impairment which reflect the expected credit losses ("ECL") model on impairment are as follows:

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
<b>Economic Entity and The Bank 2020</b>				
At beginning of the financial year	283	-	-	283
Financial assets derecognised during the year (other than write-offs)	(2,802)	-	-	(2,802)
New financial assets originated or purchased	458	-	-	458
Changes due to change in credit risk	4,971	-	-	4,971
Changes in model/risk parameters	210	-	-	210
<b>At end of the financial year</b>	<b>3,120</b>	<b>-</b>	<b>-</b>	<b>3,120</b>
<b>Economic Entity and The Bank 2019</b>				
At beginning of the financial year	257	-	-	257
Financial assets derecognised during the year (other than write-offs)	(17)	-	-	(17)
New financial assets originated or purchased	174	-	-	174
Changes due to change in credit risk	(137)	-	-	(137)
Changes in model/risk parameters	6	-	-	6
<b>At end of the financial year</b>	<b>283</b>	<b>-</b>	<b>-</b>	<b>283</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 5 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI") (CONTINUED)

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

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
<b>Economic Entity and The Bank 2020</b>				
At beginning of the financial year	2,390,806	-	-	2,390,806
Financial assets derecognised during the year (other than write-offs)	(3,071,028)	-	-	(3,071,028)
New financial assets originated or purchased	3,554,748	-	-	3,554,748
Changes in profit accrual/discount/premium	(10,507)	-	-	(10,507)
Changes in fair value	(35,853)	-	-	(35,853)
<b>At end of the financial year</b>	<b>2,828,166</b>	<b>-</b>	<b>-</b>	<b>2,828,166</b>

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
<b>Economic Entity and The Bank 2019</b>				
At beginning of the financial year	2,804,257	-	-	2,804,257
Financial assets derecognised during the year (other than write-offs)	(3,380,311)	-	-	(3,380,311)
New financial assets originated or purchased	2,946,228	-	-	2,946,228
Changes in profit accrual/discount/premium	(808)	-	-	(808)
Changes in fair value	21,440	-	-	21,440
<b>At end of the financial year</b>	<b>2,390,806</b>	<b>-</b>	<b>-</b>	<b>2,390,806</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 6 FINANCING, ADVANCES AND OTHER FINANCING

#### (i) By type

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Cash line	466,589	469,379
Term financing		
- House financing	7,765,469	7,351,173
- Hire purchase receivables	4,022,480	3,820,401
- Syndicated financing	759,504	746,036
- Business term financing	4,922,324	4,885,355
Bills receivables	8,429	11,668
Trust receipts	13,140	30,232
Claims on customers under acceptance credits	508,029	447,486
Staff financing (of which RM Nil to Directors)	85,141	62,761
Credit/charge cards	38,076	30,828
Revolving credit	975,306	897,504
<b>Gross financing, advances and other financing</b>	<b>19,564,487</b>	<b>18,752,823</b>
Less:		
Allowance for impairment losses		
- Expected credit losses ("ECL")	(184,397)	(172,570)
<b>Total net financing, advances and other financing</b>	<b>19,380,090</b>	<b>18,580,253</b>

Included in business term financing as at reporting date is RM55.2 million (2019 RM53.7 million) of term financing disbursed by the Bank to a joint venture with AFFIN-i Nadayu Sdn Bhd.

#### (ii) By maturity structure

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Maturing within one year	2,167,842	2,026,732
One year to three years	497,543	736,716
Three years to five years	2,493,251	1,819,649
Over five years	14,405,851	14,169,726
	<b>19,564,487</b>	<b>18,752,823</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 6 FINANCING, ADVANCES AND OTHER FINANCING (CONTINUED)

#### (iii) By contract

	Al-Bai Bithaman Ajlil	Ijarah	Al-Ijarah Thumma Al-Bai	Murabahah	Tawarruq	Musyarakah	Istisna'	Others	Total
<b>Economic Entity and The Bank</b>									
<b>2020</b>									
<b>RM'000</b>									
Cash line	-	-	-	-	443,131	-	-	23,458	466,589
Term financing									
House financing	656,962	-	-	-	109,272	6,999,235	-	-	7,765,469
Hire purchase receivables	-	-	4,022,480	-	-	-	-	-	4,022,480
Syndicated financing	-	-	-	-	759,504	-	-	-	759,504
Business term financing	88,625	861,733	-	226,018	2,245,939	966,271	533,018	720	4,922,324
Bills receivables	-	-	-	3,261	-	-	-	5,168	8,429
Trust receipts	-	-	-	13,140	-	-	-	-	13,140
Claims on customers under acceptance credits	-	-	-	508,029	-	-	-	-	508,029
Staff financing	3,865	-	-	18,751	22,177	40,348	-	-	85,141
Credit/charge cards	-	-	-	-	38,076	-	-	-	38,076
Revolving credit	-	-	-	-	975,306	-	-	-	975,306
<b>Total Financing</b>	<b>749,452</b>	<b>861,733</b>	<b>4,022,480</b>	<b>769,199</b>	<b>4,593,405</b>	<b>8,005,854</b>	<b>533,018</b>	<b>29,346</b>	<b>19,564,487</b>



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 6 FINANCING, ADVANCES AND OTHER FINANCING (CONTINUED)

#### (iii) By contract (continued)

	Al-Bai Bithaman Ajil		Al-Ijarah Thumma Al-Bai		Murabahah	Tawarruq	Musyarakah	Istisna'	Others	Total
	Ijarah	Al-Bai	Al-Ijarah	Al-Bai						
Economic Entity and The Bank										
2019										
RM'000										
Cash line	-	-	-	-	-	435,716	-	-	33,663	469,379
Term financing										
House financing	695,350	-	-	-	-	83,744	6,572,079	-	-	7,351,173
Hire purchase receivables	-	-	3,820,401	-	-	-	-	-	-	3,820,401
Syndicated financing	-	288,915	-	-	-	457,121	-	-	-	746,036
Business term financing	97,231	714,253	-	-	256,757	2,267,785	876,031	668,452	4,846	4,885,355
Bills receivables	-	-	-	-	-	-	-	-	11,668	11,668
Trust receipts	-	-	-	-	30,232	-	-	-	-	30,232
Claims on customers under acceptance credits	-	-	-	-	447,486	-	-	-	-	447,486
Staff financing	4,098	-	-	-	14,402	19,169	25,092	-	-	62,761
Credit/charge cards	-	-	-	-	-	30,828	-	-	-	30,828
Revolving credit	-	-	-	-	-	897,504	-	-	-	897,504
<b>Total Financing</b>	<b>796,679</b>	<b>1,003,168</b>	<b>3,820,401</b>	<b>748,877</b>	<b>4,191,867</b>	<b>7,473,202</b>	<b>668,452</b>	<b>50,177</b>	<b>18,752,823</b>	

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 6 FINANCING, ADVANCES AND OTHER FINANCING (CONTINUED)

#### (iv) By type of customer

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Domestic non-banking institutions		
- Others	48,305	54,004
Domestic business enterprises		
- Small medium enterprises	2,100,434	1,856,190
- Others	4,011,059	4,126,493
Government and statutory bodies	710,245	766,167
Individuals	12,427,101	11,614,413
Other domestic entities	508	791
Foreign entities	266,835	334,765
	<b>19,564,487</b>	<b>18,752,823</b>

#### (v) By profit rate sensitivity

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Fixed rate		
- House financing	41,875	43,139
- Hire purchase receivables	4,022,480	3,820,401
- Other fixed rate financing	707,099	1,317,831
Variable rate		
- BFR plus	12,143,474	11,188,990
- Cost plus	2,649,559	2,378,795
- Other variable rate	-	3,667
	<b>19,564,487</b>	<b>18,752,823</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 6 FINANCING, ADVANCES AND OTHER FINANCING (CONTINUED)

#### (vi) By economic sectors

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Primary agriculture	778,346	932,467
Mining and quarrying	242,201	291,515
Manufacturing	881,806	581,702
Electricity, gas and water supply	381,561	406,121
Construction	574,845	538,749
Real estate	1,564,841	1,933,214
Wholesale & retail trade and restaurants & hotels	749,260	552,127
Transport, storage and communication	334,878	312,231
Finance, takaful/insurance and business services	392,124	352,239
Education, health & others	1,181,146	1,182,078
Household	12,483,479	11,670,380
	<b>19,564,487</b>	<b>18,752,823</b>

#### (vii) By economic purpose

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Purchase of securities	390,285	299,615
Purchase of transport vehicles	4,078,560	3,875,863
Purchase of landed property of which:		
- Residential	7,910,750	7,493,000
- Non-residential	2,303,988	2,239,936
Fixed assets other than land and building	79,361	87,328
Personal use	203,042	91,521
Credit/charge cards	38,076	30,829
Consumer durable	72	3
Construction	922,421	1,136,280
Working capital	3,248,466	3,064,617
Others	389,466	433,831
	<b>19,564,487</b>	<b>18,752,823</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 6 FINANCING, ADVANCES AND OTHER FINANCING (CONTINUED)

#### (viii) By geographical distribution

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Perlis	163,132	197,380
Kedah	821,156	804,254
Pulau Pinang	997,635	892,939
Perak	576,561	560,277
Selangor	6,558,963	6,129,408
Wilayah Persekutuan	3,898,850	4,020,100
Negeri Sembilan	1,012,321	946,808
Melaka	275,943	273,003
Johor	2,394,578	2,288,851
Pahang	670,627	649,610
Terengganu	518,449	490,462
Kelantan	270,662	204,564
Sarawak	576,670	497,834
Sabah	802,649	699,888
Labuan	26,287	27,651
Outside Malaysia	4	69,794
	<b>19,564,487</b>	<b>18,752,823</b>

#### (ix) Movements of impaired financing

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
At beginning of the financial year	607,312	530,829
Classified as impaired	121,621	315,874
Reclassified as non-impaired	(103,492)	(183,350)
Amount recovered	(214,880)	(35,889)
Amount written-off	(95,090)	(20,152)
At end of the financial year	<b>315,471</b>	<b>607,312</b>
Ratio of gross impaired financing, advances and other financing to gross financing, advances and other financing (exclude restricted investment accounts)	<b>1.77%</b>	2.47%

The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2020 for the Bank is RM95,090,000 (2019: RM20,152,000). The Bank still seek to recover the amounts that is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 6 FINANCING, ADVANCES AND OTHER FINANCING (CONTINUED)

#### (x) Impaired financing by economic sectors

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Primary agriculture	145	41
Mining and quarrying	31	-
Manufacturing	60,136	62,644
Electricity, gas and water supply	45	47
Construction	3,131	8,613
Real estate	12,039	272,960
Wholesale & retail trade and restaurants & hotels	1,380	1,817
Transport, storage and communication	75,334	75,697
Finance, takaful/insurance and business services	431	1,039
Education, health & others	192	218
Household	162,607	184,236
	<b>315,471</b>	<b>607,312</b>

#### (xi) Impaired financing by economic purpose

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Purchase of securities	34	39
Purchase of transport vehicles	22,533	18,620
Purchase of landed property of which:		
- Residential	136,711	166,184
- Non-residential	18,953	212,960
Personal use	1,276	1,202
Credit card	131	263
Construction	57,183	100,988
Working capital	78,640	107,052
Others	10	4
	<b>315,471</b>	<b>607,312</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 6 FINANCING, ADVANCES AND OTHER FINANCING (CONTINUED)

#### (xii) Impaired financing by geographical distribution

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Perlis	2,461	2,543
Kedah	7,298	8,080
Pulau Pinang	6,522	8,044
Perak	81,627	82,361
Selangor	80,662	98,570
Wilayah Persekutuan	90,039	284,312
Negeri Sembilan	17,180	16,777
Melaka	2,019	4,894
Johor	17,183	19,911
Pahang	1,600	2,531
Terengganu	3,519	4,666
Kelantan	3,245	2,367
Sarawak	338	581
Sabah	1,778	1,899
Outside Malaysia	-	69,776
	<b>315,471</b>	<b>607,312</b>

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

Economic Entity and The Bank 2020	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 year	51,043	17,171	104,356
Total transfer between stages	10,438	14,072	(24,510)	-
Changes due to change in credit risk :-				
- Transfer to 12-month ECL (Stage 1)	18,731	(14,585)	(4,146)	-
- Transfer to Lifetime ECL not credit impaired (Stage 2)	(8,276)	30,441	(22,165)	-
- Transfer to Lifetime ECL credit impaired (Stage 3)	(17)	(1,784)	1,801	-
Financing, advances and other financing derecognised during the year (other than write-off)	(26,531)	(2,557)	(2,595)	(31,683)
New financing, advances and other financing originated or purchased	29,947	981	106	31,034
Changes due to change in credit risk	(2,291)	28,623	87,699	114,031
Changes in models/risk parameters	(15,345)	(3,584)	(251)	(19,180)
Write-offs	-	-	(82,488)	(82,488)
Other adjustments	-	-	113	113
<b>At the end of financial year</b>	<b>47,261</b>	<b>54,706</b>	<b>82,430</b>	<b>184,397</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 6 FINANCING, ADVANCES AND OTHER FINANCING (CONTINUED)

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

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
At beginning of the financial year	50,292	10,864	67,861	129,017
Total transfer between stages	6,337	25,385	(31,722)	-
Changes due to change in credit risk :-				
- Transfer to 12-month ECL (Stage 1)	9,134	(7,380)	(1,754)	-
- Transfer to Lifetime ECL not credit impaired (Stage 2)	(2,772)	36,096	(33,324)	-
- Transfer to Lifetime ECL credit impaired (Stage 3)	(25)	(3,331)	3,356	-
Financing, advances and other financing derecognised during the year (other than write-off)	(31,489)	(2,865)	(1,909)	(36,263)
New financing, advances and other financing originated or purchased	30,171	1,702	10,681	42,554
Changes due to change in credit risk	(9,546)	(19,562)	72,892	43,784
Changes in models/risk parameters	5,278	1,647	6,805	13,730
Write-offs	-	-	(19,399)	(19,399)
Other adjustments	-	-	(853)	(853)
<b>At the end of financial year</b>	<b>51,043</b>	<b>17,171</b>	<b>104,356</b>	<b>172,570</b>

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

Economic Entity and The Bank 2020	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 year	17,347,431	798,080	607,312	18,752,823
Total transfer between stages	(946,530)	946,029	501	-
Changes due to change in credit risk :-				
- Transfer to 12-month ECL (Stage 1)	712,651	(695,606)	(17,045)	-
- Transfer to Lifetime ECL not credit impaired (Stage 2)	(1,656,026)	1,742,473	(86,447)	-
- Transfer to Lifetime ECL credit impaired (Stage 3)	(3,155)	(100,838)	103,993	-
Financing, advances and other financing derecognised during the year (other than write-off)	(9,279,821)	(171,446)	(16,762)	(9,468,029)
New financing, advances and other financing originated or purchased	10,779,848	124,901	10,271	10,915,020
Changes due to change in credit risk	(270,273)	(16,426)	(194,803)	(481,502)
Modifications to contractual cash flows of financial assets (Note)	(51,797)	(8,425)	(6)	(60,228)
Write-offs	-	-	(95,090)	(95,090)
Other adjustments	(496)	(2,059)	4,048	1,493
<b>At the end of financial year</b>	<b>17,578,362</b>	<b>1,670,654</b>	<b>315,471</b>	<b>19,564,487</b>

Note: The amount of financing, advances and other financing whose cash flows were modified during the year was RM2,895,950,660.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 6 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 2019	12 - Month	Lifetime ECL	Lifetime ECL	Total RM'000
	ECL Stage 1 RM'000	not credit impaired Stage 2 RM'000	credit impaired Stage 3 RM'000	
At beginning of the financial year	17,490,102	725,946	530,829	18,746,877
Total transfer between stages	(300,731)	218,619	82,112	-
Changes due to change in credit risk :-				
- Transfer to 12-month ECL (Stage 1)	428,709	(420,963)	(7,746)	-
- Transfer to Lifetime ECL not credit impaired (Stage 2)	(717,764)	893,368	(175,604)	-
- Transfer to Lifetime ECL credit impaired (Stage 3)	(11,676)	(253,786)	265,462	-
Financing, advances and other financing derecognised during the year (other than write-off)	(9,270,780)	(325,901)	(10,745)	(9,607,426)
New financing, advances and other financing originated or purchased	9,620,019	308,629	43,031	9,971,679
Changes due to change in credit risk	(191,137)	(125,844)	(24,259)	(341,240)
Write-offs	-	-	(20,152)	(20,152)
Other adjustments	(42)	(3,369)	6,496	3,085
At the end of financial year	17,347,431	798,080	607,312	18,752,823

### 7 OTHER ASSETS

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Other debtors	58,902	497
Deposits and prepayments	788	481
Cheque clearing accounts	-	28,742
Foreclosed properties (a)	4,873	4,873
	<b>64,563</b>	34,593

(a) Foreclosed properties

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
At beginning/end of the financial year	4,873	4,873

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 8 AMOUNT DUE FROM HOLDING COMPANY

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Intersystem balances due to holding company	-	53,946

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

### 9 AMOUNT DUE FROM JOINT VENTURES

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Advances to joint ventures	59,060	57,140
Less: Expected credit losses ("ECL")	(43,987)	(28,738)
	15,073	28,402

	Lifetime ECL credit impaired Stage 3 RM'000	Lifetime ECL credit impaired Stage 3 RM'000
<b>Movement of expected credit losses</b>		
At beginning of the financial year	28,738	24,048
Charge for the year	15,249	4,690
<b>At end of the financial year</b>	<b>43,987</b>	<b>28,738</b>

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

### 10 AMOUNT DUE FROM AN ASSOCIATE

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Advances to an associate	1,257	900
Less: Expected credit losses ("ECL")	(1,257)	-
	-	900

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 10 AMOUNT DUE FROM AN ASSOCIATE (CONTINUED)

<b>Movement of expected credit losses</b>	<b>Lifetime ECL credit impaired Stage 3 RM'000</b>	<b>Lifetime ECL credit impaired Stage 3 RM'000</b>
At beginning of the financial year	-	-
Charge for the year	1,257	-
<b>At end of the financial year</b>	<b>1,257</b>	<b>-</b>

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

### 11 DEFERRED TAX ASSETS/(LIABILITIES)

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

	<b>Economic Entity and The Bank</b>	
	<b>2020 RM'000</b>	<b>2019 RM'000</b>
<b>Deferred tax assets/(liabilities)</b>	<b>12,390</b>	<b>(2,604)</b>
Deferred tax assets/(liabilities)		
- settled within 12 months	15,250	-
Deferred tax liabilities:		
- settled more than 12 months	(2,860)	(247)
- settled within 12 months	-	(2,357)
<b>Deferred tax assets/(liabilities)</b>	<b>12,390</b>	<b>(2,604)</b>
At beginning of the financial year	(2,604)	17,993
Credited/(Charged) to income statements (Note 39)	6,389	(15,451)
Credited to equity	8,605	(5,146)
<b>At end of the financial year</b>	<b>12,390</b>	<b>(2,604)</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 11 DEFERRED TAX ASSETS/(LIABILITIES)

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

Economic Entity and The Bank 2020	Lease Rental RM'000	Property and equipment RM'000	Intangible assets RM'000	Other liabilities RM'000	Financing, advances and other financing RM'000	Financial investments FVOCI RM'000	Total RM'000
At beginning of the financial year	3	(269)	(90)	2,874	939	(6,061)	(2,604)
Recognised income statement	320	158	7	807	4,416	681	6,389
Recognised in equity	-	-	-	-	-	8,605	8,605
<b>At end of the financial year</b>	<b>323</b>	<b>(111)</b>	<b>(83)</b>	<b>3,681</b>	<b>5,355</b>	<b>3,225</b>	<b>12,390</b>

Economic Entity and The Bank 2019	Lease Rental RM'000	Property and equipment RM'000	Intangible assets RM'000	Other liabilities RM'000	Financing, advances and other financing RM'000	Financial investments FVOCI RM'000	Total RM'000
At beginning of the financial year	-	(332)	(51)	5,862	13,374	(860)	17,993
Recognised income statement	3	63	(39)	(2,988)	(12,435)	(55)	(15,451)
Recognised in equity	-	-	-	-	-	(5,146)	(5,146)
<b>At end of the financial year</b>	<b>3</b>	<b>(269)</b>	<b>(90)</b>	<b>2,874</b>	<b>939</b>	<b>(6,061)</b>	<b>(2,604)</b>

### 12 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

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

On 15 May 2020, BNM has issued Statutory Reserve Requirement ('SRR') guideline and with effect from 16 May 2020, banking institutions are allowed to recognise Malaysian Government Securities ('MGS') and Malaysian Government Investment Issue ('MGI') to fully meet the SRR compliance. This flexibility is available until 31 May 2021.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 13 INVESTMENT IN JOINT VENTURES

	Economic Entity		The Bank	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Unquoted shares at cost	650	650	650	650
Economic Entity's share of post acquisition retained losses	(650)	(650)	-	-
Impairment made	-	-	(650)	-
	-	-	-	650

The principal place of business and country of incorporation of the joint ventures is in Malaysia.

	AFFIN-i Nadayu Sdn Bhd		KL South Development Sdn Bhd	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Non-current assets	3	10	4	15
Current assets	97,893	97,049	65,266	80,766
Current liabilities	(63,290)	(69,708)	(107,101)	(119,221)
Non-current liabilities	(53,383)	(42,835)	-	-
Net (liabilities)/assets	(18,777)	(15,484)	(418,311)	(38,440)

The summarised financial information of joint ventures are as follows:

Non-current assets	3	10	4	15
Current assets	97,893	97,049	65,266	80,766
Current liabilities	(63,290)	(69,708)	(107,101)	(119,221)
Non-current liabilities	(53,383)	(42,835)	-	-
Net (liabilities)/assets	(18,777)	(15,484)	(418,311)	(38,440)

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	134	-	1,866	14,134
Revenue	-	-	767	22,578
Profit for the financial year	(3,280)	(3,688)	(1,419)	6,958

The above profit for the financial year include the following:

Finance income	496	-	23	224
Finance expense	(3,188)	(3,550)	-	(3,715)
Taxation	-	-	-	(775)
Depreciation and amortisation	(7)	(8)	(5)	(17)

The joint ventures, all of which are incorporated in Malaysia, are as follows:

Name	Principal Activities	Issued and Paid up share capital	Percentage of equity held	
			2020	2019
AFFIN-i Nadayu Sdn Bhd	Property development	1,000	50	50
KL South Development Sdn Bhd	Property development	500	30	30

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 13 INVESTMENT IN JOINT VENTURES (CONTINUED)

	AFFIN-i Nadayu Sdn Bhd		KL South Development Sdn Bhd	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
<b>Net liabilities</b>				
At beginning of the financial year	(15,484)	(11,796)	(38,440)	(45,398)
(Loss)/Gain for the financial year	(3,280)	(3,688)	(1,419)	6,958
<b>At end of the financial year</b>	<b>(18,764)</b>	<b>(15,484)</b>	<b>(39,859)</b>	<b>(38,440)</b>
Issued and paid up share capital	1,000	1,000	500	500
Investment in joint venture (%)	50	50	30	30
Share of loss in joint venture (RM'000)	(9,382)	(7,742)	(11,958)	(11,532)

Both the joint ventures' principal activities are property development.

As the Bank's share of cumulative loss of RM21.3 million (2019: cumulative loss of RM19.2 million) as at 31 December 2020 has exceeded its investment in the joint ventures, the Bank does not recognise further losses in its Economic Entity financial statements.

### 14 INVESTMENT IN AN ASSOCIATE

#### Raeed Holdings Sdn Bhd

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

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

The associate, which is incorporated in Malaysia, is as follows:

Name	Principal Activities	Issued and Paid up share capital	Percentage of equity held	
			2020	2019
RAEED Holdings Sdn Bhd	Investment Holding	4,500	17	17

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 14 INVESTMENT IN AN ASSOCIATE (CONTINUED)

Raeed Holdings Sdn Bhd (continued)

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Unquoted share at cost	750	750
Economic Entity's share of post acquisition retained loss	(750)	-
	-	750
The summarised financial information of associate is as follows:		
Revenue	144	186
Loss after tax	(2,346)	(1,843)
Non-current assets	632	881
Current assets	4,917	777
Current liabilities	(7,529)	(2,073)
<b>Net liabilities</b>		
At beginning of the financial year	(415)	(1,572)
Issuance of share capital	-	3,000
Loss for the financial year	(2,346)	(1,843)
<b>At end of the financial year</b>	<b>(2,761)</b>	<b>(415)</b>
Issued and paid up share capital	4,500	4,500
Investment in associate (%)	17	17
Share of loss in associate (RM'000)	(1,756)	(1,365)



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 15 PROPERTY AND EQUIPMENT

Economic Entity and The Bank 2020	Renovation RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital work-in progress RM'000	Total RM'000
<b>Cost</b>						
At beginning of the financial year	3,850	2,403	3,250	836	53	10,392
Additions	23	47	390	-	40	500
Write-off	-	(9)	(4)	-	-	(13)
Reclassification to holding company	(1,506)	(1,031)	(1,318)	-	-	(3,855)
<b>At end of the financial year</b>	<b>2,367</b>	<b>1,410</b>	<b>2,318</b>	<b>836</b>	<b>93</b>	<b>7,024</b>
<b>Accumulated depreciation</b>						
At beginning of the financial year	3,609	1,904	2,647	252	-	8,412
Charge for the financial year	72	144	272	166	-	654
Write-off	-	(8)	(3)	-	-	(11)
Reclassification to holding company	(1,426)	(968)	(1,020)	-	-	(3,414)
<b>At end of the financial year</b>	<b>2,255</b>	<b>1,072</b>	<b>1,896</b>	<b>418</b>	<b>-</b>	<b>5,641</b>
<b>Net book value at end of the financial year</b>	<b>112</b>	<b>338</b>	<b>422</b>	<b>418</b>	<b>93</b>	<b>1,383</b>
Economic Entity and The Bank 2019	Renovation RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital work-in progress RM'000	Total RM'000
<b>Cost</b>						
At beginning of the financial year	3,779	2,407	3,198	836	118	10,338
Additions	69	21	9	-	78	177
Write-off	-	(25)	-	-	-	(25)
Reclassification	2	-	43	-	(143)	(98)
<b>At end of the financial year</b>	<b>3,850</b>	<b>2,403</b>	<b>3,250</b>	<b>836</b>	<b>53</b>	<b>10,392</b>
<b>Accumulated depreciation</b>						
At beginning of the financial year	3,498	1,779	2,298	86	-	7,661
Charge for the financial year	111	147	342	166	-	766
Write-off	-	(22)	-	-	-	(22)
Reclassification	-	-	7	-	-	7
<b>At end of the financial year</b>	<b>3,609</b>	<b>1,904</b>	<b>2,647</b>	<b>252</b>	<b>-</b>	<b>8,412</b>
<b>Net book value at end of the financial year</b>	<b>241</b>	<b>499</b>	<b>603</b>	<b>584</b>	<b>53</b>	<b>1,980</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 16 INTANGIBLE ASSETS

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
<b>Computer software</b>		
<b>Cost</b>		
At beginning of the financial year	7,466	7,165
Additions	-	10
Transfer from holding company	-	148
Reclassification from property and equipment (Note 15)	-	143
<b>At end of the financial year</b>	<b>7,466</b>	<b>7,466</b>
<b>Less: Accumulated amortisation</b>		
At beginning of the financial year	6,695	6,495
Reclassification	-	20
Charge for the financial year	213	180
<b>At end of the financial year</b>	<b>6,908</b>	<b>6,695</b>
<b>Net book value at end of the financial year</b>	<b>558</b>	<b>771</b>

### 17 RIGHT-OF-USE ASSETS

Economic Entity and The Bank	Properties RM'000	Total RM'000
<b>2020</b>		
<b>Cost</b>		
At beginning of the financial year	2,901	2,901
Additions	1,932	1,932
Reclassification to holding company	(2,681)	(2,681)
<b>At end of the financial year</b>	<b>2,152</b>	<b>2,152</b>
<b>Less: Accumulated depreciation</b>		
At beginning of the financial year	1,347	1,347
Charge for the financial year	1,019	1,019
Reclassification to holding company	(1,299)	(1,299)
<b>At end of the financial year</b>	<b>1,067</b>	<b>1,067</b>
<b>Net book value at end of the financial year</b>	<b>1,085</b>	<b>1,085</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 17 RIGHT-OF-USE ASSETS

Economic Entity and The Bank	Properties RM'000	Total RM'000
<b>2019</b>		
Cost		
At beginning of the financial year, on adoption of MFRS 16	1,373	1,373
Additions	1,528	1,528
At end of the financial year	2,901	2,901
Less: Accumulated depreciation		
Charge for the financial year	1,347	1,347
At end of the financial year	1,347	1,347
Net book value at end of the financial year	1,554	1,554

### 18 DEPOSITS FROM CUSTOMERS

#### (i) By type of deposit

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
<b>Qard</b>		
Demand deposits	3,539,236	2,954,059
Savings deposits	1,005,821	646,907
	<b>4,545,057</b>	3,600,966
<b>Mudarabah</b>		
General investment deposits	57,313	61,558
<b>Tawarruq</b>		
Murabahah term deposits	13,333,675	13,241,472
Commodity Murabahah	516,492	402,074
Savings deposits	102,574	157
Demand deposit	110,880	111
	<b>14,063,621</b>	13,643,819
	<b>18,665,991</b>	17,306,338

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 18 DEPOSITS FROM CUSTOMERS (CONTINUED)

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

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Due within six months	8,831,048	6,476,907
Six months to one year	3,731,511	6,138,589
One year to three years	822,817	411,815
Three years to five years	5,612	275,719
	<b>13,390,988</b>	<b>13,303,030</b>

#### (iii) By type of customer

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Government and statutory bodies	6,651,501	6,655,399
Business enterprises	4,215,444	4,411,025
Individuals	6,972,875	5,269,030
Domestic banking institutions	7,826	1,160
Domestic non-banking financial institutions	484,295	658,945
Foreign entities	133,648	110,692
Others entities	200,402	200,087
	<b>18,665,991</b>	<b>17,306,338</b>

### 19 INVESTMENT ACCOUNTS OF CUSTOMERS

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
<b>Movement in investment accounts</b>		
At beginning of the financial year	1,447	875
New placement during the year	1,905	1,395
Redemption during the year	(1,201)	(826)
Finance expense on RIA	285	101
Profit distributed	(285)	(98)
<b>At end of the financial year</b>	<b>2,151</b>	<b>1,447</b>



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 21 INVESTMENT ACCOUNTS DUE TO DESIGNATED FINANCIAL INSTITUTIONS

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
<b>Mudarabah</b>		
Licensed banks	1,751,038	1,918,295

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
<b>Movement in investment accounts</b>		
At beginning of the financial year	1,918,295	2,368,295
New placement during the year	196,746	181,504
Redemption during the year	(356,601)	(628,637)
Finance expense on RIA	74,203	86,574
Profit distributed	(75,807)	(86,760)
Exchange differences	(5,798)	(2,681)
<b>At end of the financial year</b>	<b>1,751,038</b>	<b>1,918,295</b>

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

	Economic Entity and The Bank			
	2020		2019	
	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 to three months	70	0.89	83	4.33
Six months to one year	89	5.56	85	7.11
One year to three years	70	2.68	87	5.44
Three years to five years	84	4.49	83	5.45
Five years and above	89	4.85	93	5.67

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

Inclusive of RIA is amount placed by the holding company amounting to RM1,751.0 million (2019: RM1,918.3 million). These investments are used to fund certain specific financing. The RIA is a contract based on the Mudarabah principle between two parties to finance a financing where the investor (i.e. 'AFFIN Bank Berhad') solely provides capital and the business venture is managed solely by the Mudarib (Manager) (i.e. 'the Bank'). The profit of the business venture is shared between both parties based on pre-agreed ratio. Losses shall be borne by the investor.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 22 RECOURSE OBLIGATION ON FINANCING SOLD TO CAGAMAS BERHAD

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Recourse obligation on financing sold to Cagamas Berhad	50,034	-

	At 1 January 2020 RM'000	Cash flow RM'000	Profit expense RM'000	At 31 December 2020 RM'000
Recourse obligation on financing sold to Cagamas Berhad	-	50,000	34	50,034

This represents the proceeds received from housing financing sold directly to Cagamas Berhad with recourse to the Bank. Under this agreement, the Bank undertakes to administer the financing on behalf of Cagamas Berhad and to buy back any financing which is regarded as defective based on prudential criteria set by Cagamas Berhad. Such financing transactions and the obligation to buy back the financing are reflected as a liability on the statements of financial position. These financial liabilities are stated at amortised cost.

### 23 DERIVATIVE FINANCIAL LIABILITIES

	Economic Entity and The Bank			
	2020		2019	
	Contract/ notional amount RM'000	Liabilities RM'000	Contract/ notional amount RM'000	Liabilities RM'000
<b>At fair value</b>				
Foreign exchange derivatives				
- Currency forwards	819,530	25,572	388,806	6,757
	819,530	25,572	388,806	6,757

### 24 OTHER LIABILITIES

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Bank Negara Malaysia and Credit Guarantee Corporation Funding programmes	1,599	1,639
Margin and collateral deposits	18,263	16,979
Other creditors and accruals	10,909	8,067
Sundry creditors	18,692	27,812
Treasury and cheque clearing accounts	-	342,244
Provision for zakat	1,925	1,697
Defined contribution plan (a)	1,415	1,231
Accrued employee benefits	4,746	3,025
Charity funds (b)	35	52
Unearned income	6,346	13,424
Financing commitments (c)	3,982	6,515
	67,912	422,685



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 24 OTHER LIABILITIES (CONTINUED)

#### (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	
	2020 RM'000	2019 RM'000
Sources and uses of charity funds		
At beginning of the financial year	52	67
Sources of charity funds		
- AFFIN Barakah Charity Account-i	24	34
Uses of charity funds		
- Contribution to medical aid	30	-
- Contribution to education	-	15
- Contribution to program/event	11	34
	41	49
<b>At end of the financial year</b>	<b>35</b>	<b>52</b>

The source of charity funds come from the following categories:

- Sources from Shariah non-compliant events.
- AFFIN Barakah Charity Account-i refers to a savings account with element of "Save and Donate" by transferring the earned Hibah to charity with the flexibility to change the percentage of contribution agreed by the depositor.
- Any other charity allocation by the Bank or funds collected from customers/depositors.

The charity fund was channeled to a number of charitable or public purposes; for example, centres for disabled children and the less fortunate and are inclusive of non-Muslims.

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

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
At beginning of the financial year	6,515	12,132
Net remeasurement of loss allowance	(3,694)	(8,706)
New financing commitments and financial guarantees issued during the financial year	940	2,551
Change in model/risk parameters	221	538
<b>At end of the financial year</b>	<b>3,982</b>	<b>6,515</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 25 AMOUNT DUE TO HOLDING COMPANY

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Intersystem balances due to holding company	299,815	-
	299,815	-

The balance due to holding company are relating to intercompany transactions which are unsecured, bear no profit rate (2019: Nil) and payable on demand.

### 26 LEASE LIABILITIES

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
At beginning of financial year, on adoption of MFRS 16	1,568	1,373
Addition	1,932	1,528
Finance expense	91	52
Lease payment	(1,158)	(1,385)
<b>At end of the financial year</b>	<b>2,433</b>	<b>1,568</b>

The Bank has not include potential future rental payments after the exercise date of termination options because the Bank is not reasonably certain to extend the lease beyond the date.

Potential future rental payments relating to periods following the exercise date of termination options are summarized below.

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Lease liabilities recognised (discounted)	2,433	1,568
Potential future lease payments not included in lease liabilities		
- Payable in 2021 to 2025	3,097	5,838
- Payable in 2026 to 2030	288	448
	3,385	6,286

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 27 SUBORDINATED TERM FINANCING AND MEDIUM TERM NOTES

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
(a) Medium Term Notes Tier-2 Sukuk Murabahah ('MTN')	807,609	807,609
(b) Additional Tier-1 Sukuk Wakalah ('AT1S')	303,425	303,425
	<b>1,111,034</b>	1,111,034

	At 1 January 2020 RM'000	Cash flow RM'000	Profit expense RM'000	At 31 December 2020 RM'000
Medium Term Notes Tier-2 Sukuk Murabahah ('MTN')	807,609	(40,400)	40,400	807,609
Additional Tier-1 Sukuk Wakalah ('AT1S')	303,425	(16,950)	16,950	303,425
	<b>1,111,034</b>	<b>(57,350)</b>	<b>57,350</b>	<b>1,111,034</b>

	At 1 January 2019 RM'000	Cash flow RM'000	Profit expense RM'000	At 31 December 2019 RM'000
Medium Term Notes Tier-2 Sukuk Murabahah ('MTN')	807,748	(40,400)	40,261	807,609
Additional Tier-1 Sukuk Wakalah ('AT1S')	303,483	(16,950)	16,892	303,425
	<b>1,111,231</b>	<b>(57,350)</b>	<b>57,153</b>	<b>1,111,034</b>

- (a) The Bank had on 23 October 2018 issued MTN Tier-2 Sukuk Murabahah of RM800.0 million each out of its approved BASEL III Compliant MTN programme of up to RM800.0 million in nominal value. The Sukuk is issued for a tenure of 10 years from the issue date on a 10-year non-callable 5-year basis, at a profit rate of 5.05%. The Sukuk is issued for the purpose of general banking business and working capital requirements of the Bank.
- (b) The Bank had on 18 October 2018 issued AT1S of RM300 million out of its approved BASEL III Compliant AT1S programme of up to RM300 million in nominal value. The AT1S was on perpetual non-callable 5-year basis, at a profit rate of 5.65%. The AT1S was issued for the purpose of general banking business and working capital requirements of the Bank.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 28 SHARE CAPITAL

	Economic Entity and the Bank 2020		2019	
	Number of ordinary shares '000	RM'000	Number of ordinary shares '000	RM'000
<b>Ordinary share issued and fully paid:</b>				
At beginning of the financial year	1,060,000	1,060,000	1,060,000	1,060,000
<b>At end of the financial year</b>	<b>1,060,000</b>	<b>1,060,000</b>	1,060,000	1,060,000

### 29 RESERVES

	Economic Entity		The Bank	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Retained profits (a)	768,941	602,260	768,941	602,910
FVOCI revaluation reserves (b)	(4,919)	19,492	(4,919)	19,492
Regulatory reserves (c)	127,093	236,882	127,093	236,882
	<b>891,115</b>	858,634	<b>891,115</b>	859,284

- (a) As at 31 December 2020, the Bank has tax exempt account balance of RM38,018,355 (2019: 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 to 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 loss of RM8,780,247 in 2020 (2019: Net unrealised gain RM21,232,342).
- (c) Pursuant to BNM letter dated 1 November 2017 effective 1 January 2018, the Bank shall maintain, in aggregate, Stage 1 and Stage 2 provisions regulatory reserve of no less than 1% of all credit exposures (on and off balance sheet that are subject to MFRS9 impairment requirement, excluding exposures to and with an explicit guarantee from Malaysia Government), net of Stage 3 provision. However, banking institutions are allowed to reduce the regulatory reserves held against expected losses to 0% and to be restored by 30 September 2021.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 30 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Income derived from investment of:		
- General investment deposits (a)	672,568	862,552
- Other deposits (b)	279,405	250,562
	951,973	1,113,114

#### a) Income derived from investment of general investment deposits

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
<b>Finance income and hibah</b>		
Financing, advances and other financing	507,130	623,495
Financial investments at FVOCI	56,845	63,285
Money at call and deposits with financial institutions	32,305	90,637
	596,280	777,417
Accretion of discount less amortisation of premium	(7,120)	2,197
Total finance income and hibah	589,160	779,614
<b>Other operating income</b>		
Fee income:		
Commission	3,001	3,551
Service charges and fees	6,890	6,531
Guarantee fees	2,540	2,806
	12,431	12,888
Commission paid on will/wasiat	(10)	(12)
Income from financial instruments:		
Gain on sale of financial investments at FVOCI	60,047	52,361
	60,047	52,361
Other income:		
Foreign exchange profit/(loss)		
- realised	13,049	12,796
- unrealised	(4,842)	(2,285)
Other non-operating income	2,733	7,190
	10,940	17,701
<b>Total income derived from investment of general investment deposits</b>	<b>672,568</b>	<b>862,552</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 30 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS (CONTINUED)

#### b) Income derived from investment of other deposits

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
<b>Finance income and hibah</b>		
Financing, advances and other financing	210,676	181,119
Financial investments at FVOCI	23,616	18,384
Money at call and deposits with financial institution	13,420	26,329
	247,712	225,832
Accretion of discount less amortisation of premium	(2,958)	638
Total finance income and hibah	244,754	226,470
<b>Other operating income</b>		
Fee income:		
Commission	1,247	1,031
Service charges and fees	2,862	1,897
Guarantee fees	1,056	815
	5,165	3,743
Commission paid on will/wasiat	(4)	(3)
Income from financial instruments:		
Gain on sale of financial investments at FVOCI	24,945	15,210
	24,945	15,210
Other income:		
Foreign exchange profit/(loss)		
- realised	5,421	3,717
- unrealised	(2,011)	(664)
Other non-operating income	1,135	2,089
	4,545	5,142
<b>Total income derived from investment of other deposits</b>	<b>279,405</b>	<b>250,562</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 31 INCOME DERIVED FROM INVESTMENT OF INVESTMENT ACCOUNTS

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
<b>Finance income and hibah</b>		
Financing, advances and other financing	72,637	77,578
Financial investments at FVOCI	8,142	7,874
Money at call and deposits with other financial institutions	4,627	11,277
	<b>85,406</b>	96,729
Accretion of discount less amortisation of premium	(1,020)	273
Total finance income and hibah	<b>84,386</b>	97,002
<b>Other operating income</b>		
Fee income:		
Commission	430	442
Service charges and fees	987	813
Guarantee fees	364	349
	<b>1,781</b>	1,604
Commission paid on will/wasiat	(1)	(1)
Income from financial instruments:		
Gain on sale of financial investments at FVOCI	8,601	6,515
	<b>8,601</b>	6,515
Other income:		
Foreign exchange profit/(loss)		
- realised	1,869	1,592
- unrealised	(694)	(284)
Other non-operating income	391	895
	<b>1,566</b>	2,203
<b>Total income derived from investment of investment accounts</b>	<b>96,333</b>	107,323



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 32 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
<b>Finance income and hibah</b>		
Financing, advances and other financing	74,280	75,567
Financial investments at FVOCI	8,326	7,670
Money at call and deposits with financial institutions	4,732	10,985
	<b>87,338</b>	94,222
Accretion of discount less amortisation of premium	<b>(1,043)</b>	266
	<b>86,295</b>	94,488
<b>Other operating income</b>		
Fee income:		
Commission	440	430
Service charges and fees	1,009	792
Guarantee fees	372	340
	<b>1,821</b>	1,562
Commission paid on will/wasiat	<b>(1)</b>	(1)
Income from financial instruments:		
Gain on sale of financial investments at FVOCI	8,795	6,346
	<b>8,795</b>	6,346
Other income:		
Foreign exchange profit/(loss)		
- realised	1,911	1,551
- unrealised	(709)	(277)
Other non-operating income	400	872
	<b>1,602</b>	2,146
<b>Total income derived from investment of shareholders' funds</b>	<b>98,512</b>	104,541

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 33 MODIFICATION LOSS

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Loss on modification of cash flows	(90,176)	-
Benefits recognised under the various government schemes	59,110	-
Net effect	(31,066)	-

During the financial year, the Bank granted an automatic moratorium on certain financing repayments/payments, by individuals and small and medium enterprises (SMEs) for a period of six months from 1 April 2020. This, among other measures, was to assist customers experiencing temporary financial constraints due to the Covid-19 pandemic and the introduction of the Movement Control Order implemented by the Malaysian Government to control the spread of the pandemic. As a result of the payment moratorium, the Bank recognised a loss from the modification of cash flows of the financing.

The financing under various government schemes by the Bank in sustaining business operations, safeguard jobs and encourage domestic investments during the Covid-19 pandemic. The benefit under the various government schemes for the Bank that is recognised in the statements of income is applied to address some of the financial and accounting impact incurred by the Bank for Covid-19 related repayments/payments relief measures.

### 34 ALLOWANCES FOR IMPAIRMENT LOSSES ON FINANCING, ADVANCES AND OTHER FINANCING

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Expected credit losses ('ECL') made/(written-back) on:		
- financing, advances and other financing	94,202	63,805
- securities	2,837	26
- financing commitments and financial guarantees	(2,533)	(5,618)
Bad debts on financing:		
- recovered	(3,821)	(4,154)
- written-off	376	789
	91,061	54,848

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 35 ALLOWANCE FOR IMPAIRMENT LOSSES ON OTHER ASSETS

	Economic Entity		The Bank	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Allowance for impairment on:				
- amount due from joint ventures	15,249	4,690	15,249	4,690
- amount due from associate	1,257	-	1,257	-
Allowance for impairment on:				
- investment in joint ventures	-	-	650	-
- investment in associate	-	-	750	-
	<b>16,506</b>	4,690	<b>17,906</b>	4,690

### 36 INCOME ATTRIBUTABLE TO THE DEPOSITORS AND OTHERS

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Deposits from customers		
- mudarabah	1,348	1,771
- non-mudarabah	503,350	746,505
Deposits and placement of banks and other financial institutions		
- mudarabah	16,628	7,771
Finance expense - Subordinated term financing and medium term notes	57,350	57,154
Restricted investment account - Mudarabah	83,302	94,088
Others	134	66
	<b>662,112</b>	907,355

### 37 OTHER OPERATING EXPENSES

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Personnel costs (a)	162,061	181,220
Establishment costs (b)	64,529	64,591
Marketing expenses (c)	4,806	6,418
Administrative and general expenses (d)	14,139	9,694
	<b>245,535</b>	261,923

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 37 OTHER OPERATING EXPENSES (CONTINUED)

#### (a) Personnel costs

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Wages, salaries and bonuses	125,002	137,359
Defined contribution plan ('EPF')	20,840	22,881
Other personnel costs	16,219	20,980
	<b>162,061</b>	<b>181,220</b>

#### (b) Establishment costs

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Equipment rental	574	982
Repair and maintenance	25,603	12,394
Depreciation of property and equipment	654	766
Depreciation of right-of-use assets	1,019	1,347
Amortisation of intangible assets	213	180
IT consultancy fees	17,343	19,382
Dataline rental	5,658	9,001
Security services	2,800	11,028
Electricity, water and sewerage	5,958	5,375
Licence fees	348	381
Insurance/takaful and indemnities	2,102	2,250
Other establishment costs	2,257	1,505
	<b>64,529</b>	<b>64,591</b>

#### (c) Marketing expenses

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Business promotion and advertisement	585	2,012
Entertainment	454	339
Traveling and accommodation	1,262	1,657
Commissions expenses	340	541
Brokerage expenses	938	677
Other marketing expenses	1,227	1,192
	<b>4,806</b>	<b>6,418</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 37 OTHER OPERATING EXPENSES (CONTINUED)

#### (d) Administration and general expenses

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Telecommunication expenses	1,986	1,710
Auditors' remuneration	363	662
Professional fees	2,819	459
Property and equipment written-off	2	2
Mail and courier charges	895	986
Stationery and consumables	3,002	2,766
Directors' fees and allowances	1,868	1,340
Shariah fees	429	423
Donations	353	163
Settlement, clearing and bank charges	1,591	998
Stamp duties	5	2
GST input tax-non recoverable	11	9
Other administration and general expenses	815	174
	<b>14,139</b>	<b>9,694</b>

The expenditure includes the following statutory disclosures:

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Directors' remuneration (Note 38)	3,038	3,085
Auditors' remuneration (a)		
- statutory audit fees	247	335
- regulatory related fees	41	183
Tax fees	26	24
Non audit fees	49	120

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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 38 CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION

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

#### CEO

Nazlee bin Khalifah

#### Non-Executive Directors

YBhg. Dato' Bakarudin Bin Ishak (Chairman)

Associate Professor Dr. Said Bouheraoua

Dato' Mohd Ali bin Mohd Tahir

En. Musa bin Abdul Malek

En. Suffian Bin Baharuddin

En. Mohd Haniz Bin Mohd Nazlan

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

	Economic Entity and The Bank	
	2020	2019
	RM'000	RM'000
<b>CEO</b>		
Salaries	645	660
Bonuses	290	745
Defined contribution plan ('EPF')	156	232
Other employee benefits	44	44
Benefits-in-kind	35	64
	<b>1,170</b>	1,745
<b>Non-executive Directors</b>		
Fees	1,508	1,340
Benefits-in-kind	360	-
	<b>1,868</b>	1,340
Directors' remuneration (Note 37)	<b>3,038</b>	3,085
<b>Shariah committee remuneration</b>		
Fees	429	423

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 38 CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION

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

Economic Entity and The Bank 2020	Salaries RM'000	Bonuses RM'000	Fees RM'000	Other* emoluments RM'000	Benefits- in-kind RM'000	Total RM'000
<b>CEO</b>						
Nazlee bin Khalifah	645	290	-	200	35	1,170
<b>Total</b>	<b>645</b>	<b>290</b>	<b>-</b>	<b>200</b>	<b>35</b>	<b>1,170</b>
<b>Non-Executive Directors</b>						
Dato' Bakaruddin Ishak (Chairman)	-	-	319	-	-	319
En. Mohd Suffian bin Haji Haron Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Retired)	-	-	118	180	-	298
Associate Professor Dr. Said Bouheraoua	-	-	123	180	-	303
Dato' Mohd Ali bin Mohd Tahir	-	-	301	-	-	301
En. Musa bin Abdul Malek	-	-	255	-	-	255
En. Suffian Bin Baharuddin	-	-	282	-	-	282
En. Mohd Haniz Bin Mohd Nazlan	-	-	96	-	-	96
	-	-	14	-	-	14
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,508</b>	<b>360</b>	<b>-</b>	<b>1,868</b>
<b>Shariah Committee</b>						
Associate Professor Dr. Said Bouheraoua	-	-	82	-	-	82
Associate Professor Dr. Ahmad Azam bin Othman	-	-	70	-	-	70
Associate Professor Dr. Zulkifli bin Hasan	-	-	68	-	-	68
Associate Professor Datin Dr. Nurdianawati Irwani Abdullah	-	-	69	-	-	69
Dr. Mohammad Mahbubi Ali	-	-	70	-	-	70
Dr. Nor Fahimah Mohd Razif	-	-	70	-	-	70
<b>Total</b>	<b>-</b>	<b>-</b>	<b>429</b>	<b>-</b>	<b>-</b>	<b>429</b>
<b>Grand total</b>	<b>645</b>	<b>290</b>	<b>1,937</b>	<b>560</b>	<b>35</b>	<b>3,467</b>



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 38 CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION (CONTINUED)

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

<b>Economic Entity and The Bank 2019</b>	<b>Salaries RM'000</b>	<b>Bonuses RM'000</b>	<b>Fees RM'000</b>	<b>Other* emoluments RM'000</b>	<b>Benefits- in-kind RM'000</b>	<b>Total RM'000</b>
CEO						
Nazlee bin Khalifah	660	745	-	276	64	1,745
<b>Total</b>	<b>660</b>	<b>745</b>	<b>-</b>	<b>276</b>	<b>64</b>	<b>1,745</b>
Non-Executive Directors						
En. Mohd Suffian bin Haji Haron (Chairman)	-	-	255	-	-	255
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Retired)	-	-	268	-	-	268
Associate Professor Dr. Said Bouheraoua	-	-	348	-	-	348
Dato' Bakaruddin Ishak	-	-	301	-	-	301
Dato' Mohd Ali bin Mohd Tahir	-	-	88	-	-	88
En. Musa bin Abdul Malek	-	-	80	-	-	80
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,340</b>	<b>-</b>	<b>-</b>	<b>1,340</b>
Shariah Committee						
Associate Professor Dr. Said Bouheraoua	-	-	81	-	-	81
Associate Professor Dr. Ahmad Azam bin Othman	-	-	69	-	-	69
Associate Professor Dr. Zulkifli bin Hasan	-	-	67	-	-	67
Associate Professor Datin Dr. Nurdianawati Irwani Abdullah	-	-	68	-	-	68
Dr. Mohammad Mahbubi Ali	-	-	69	-	-	69
Dr. Nor Fahimah Mohd Razif	-	-	69	-	-	69
<b>Total</b>	<b>-</b>	<b>-</b>	<b>423</b>	<b>-</b>	<b>-</b>	<b>423</b>
<b>Grand total</b>	<b>660</b>	<b>745</b>	<b>1,763</b>	<b>276</b>	<b>64</b>	<b>3,508</b>

During the financial year, Directors and Officers of the Bank are covered under the Directors' & Officers' Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors and Officers of Bank subject to the terms of the policy. The total amount of Directors' & Officers' Liability Insurance effected for the Directors & Officers of the Bank was RM40 million. The total amount of takaful contribution paid for the Directors' & Officers' Liability Insurance paid by the Company was RM60,955 (2019: RM53,005).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 39 TAXATION

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
<b>Malaysian income tax</b>		
Current tax	41,570	27,331
Under/(Over) provision in prior year	5,175	(16,707)
Deferred tax (Note 11)	(6,389)	15,451
	<b>40,356</b>	<b>26,075</b>

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

	%	%
<b>Statutory tax rate in Malaysia</b>	<b>24.00</b>	<b>24.00</b>
Tax effect in respect of:		
Non-allowable expenses	3.96	0.65
Under/(Over) provision in prior year	5.22	(17.93)
Other temporary differences not recognised in prior years	-	17.55
Effect of different tax rate	7.53	3.72
<b>Average effective tax rate</b>	<b>40.71</b>	<b>27.99</b>

### 40 EARNINGS PER SHARE

The basic earnings per ordinary share for the Economic Entity and the Bank have been calculated based on the net profit attributable to ordinary equity holders of the Economic Entity and the Bank by the weighted average number of shares in issue during the financial year.

	Economic Entity		The Bank	
	2020	2019	2020	2019
Net profit attributable to ordinary equity holders (RM'000)	56,892	67,087	56,242	67,087
Weighted average number of shares in issue ('000)	1,060,000	1,060,000	1,060,000	1,060,000
Basic earnings per share (sen)	5.4	6.3	5.3	6.3

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 41 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

Related parties	Relationships
Lembaga Tabung Angkatan Tentera ('LTAT')	Ultimate holding corporate body, which is Government-Link Investment Company ('GLIC') of the Government of Malaysia
AFFIN Bank Berhad ('ABB')	Holding company
Subsidiaries and associates of LTAT	Subsidiary and associate companies of the ultimate holding corporate body
Subsidiaries and associates of ABB as disclosed in its financial statements	Subsidiary and associate companies of the holding company
Joint ventures as disclosed in Note 13	Joint ventures with AFFIN Islamic Bank Berhad
Associate as disclosed in Note 14	Associate of AFFIN Islamic Bank Berhad
Key management personnel	The key management personnel of the Bank consist of: <ul style="list-style-type: none"> <li>- Directors</li> <li>- Chief Executive Officer</li> <li>- Member of Senior Management team</li> </ul>
Related parties of key management personnel (deemed as related to the Bank)	<ul style="list-style-type: none"> <li>- Close family members and dependents of key management personnel</li> <li>- Entities that are controlled, jointly controlled or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members</li> </ul>

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

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

#### (a) Related parties transactions and balances

Economic Entity and The Bank	Ultimate holding corporate body		Holding company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
<b>Expenditure</b>				
Profit paid on Commodity murabahah	87	139	57	-
Profit paid on deposits and placement of banks and other financial institutions	-	-	678	1,572
Profit paid on Restricted Investment Account (RIA)	-	-	83,186	518
Finance expense-Subordinated term financing and medium term notes	-	-	998	2,226
Other expenditure	-	-	186,908	204,129
	<b>87</b>	139	<b>271,827</b>	208,445

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 41 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

#### (a) Related parties transactions and balances (continued)

Economic Entity and The Bank	Other related companies		Companies in which certain Directors have substantial interest		Key management personnel	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
<b>Income</b>						
Income on financing, advances and other financing	16,149	24,889	685	4,490	85	158
	<b>16,149</b>	<b>24,889</b>	<b>685</b>	<b>4,490</b>	<b>85</b>	<b>158</b>
<b>Expenditure</b>						
Profit paid on Murabahah term deposit	2,371	3,715	1,982	2,049	92	126
Profit paid on general investment deposits	6	8	-	-	-	-
Profit paid on Commodity murabahah	96	532	-	-	-	-
Other expenditure	27	46	-	-	-	-
	<b>2,500</b>	<b>4,301</b>	<b>1,982</b>	<b>2,049</b>	<b>92</b>	<b>126</b>

Economic Entity and The Bank	Ultimate holding corporate body		Holding company	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
<b>Amount due from</b>				
Intercompany balances	-	-	-	53,946
	-	-	-	53,946
<b>Amount due to</b>				
Demand and saving deposits	167	138	-	-
Commodity Murabahah	78,463	3,936	-	-
Deposits and placement of banks and other financial institutions	-	-	-	69,968
Restricted Investment Account (RIA)	-	-	1,751,038	1,918,295
Intercompany balances	-	-	299,813	-
Subordinated term financing and medium term notes	-	-	302,913	50,483
	<b>78,630</b>	<b>4,074</b>	<b>2,353,764</b>	<b>2,038,746</b>
Commitments and contingencies	1,018	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 41 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

#### (a) Related parties transactions and balances (continued)

Economic Entity and The Bank	Other related companies		Companies in which certain Directors have substantial interest		Key management personnel	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
<b>Amount due from</b>						
Financing, advances and other financing	629,097	600,912	29,419	60,351	3,821	3,958
Intercompany balances	15,073	29,302	-	-	-	-
	<b>644,170</b>	630,214	<b>29,419</b>	60,351	<b>3,821</b>	3,958
<b>Amount due to</b>						
Demand and saving deposits	19,973	128,987	5,823	4,275	5,535	4,924
Murabahah term deposit	107,072	95,695	4,043	64,536	3,260	3,937
General investment deposits	299	292	-	-	-	-
Commodity Murabahah	5,620	12,253	-	-	-	-
	<b>132,964</b>	237,227	<b>9,866</b>	68,811	<b>8,795</b>	8,861
Commitments and contingencies	93,528	183,335	748	1,660	-	-

ECL were made according to MFRS 9 in 2020 and 2019 for financing, advances and other financing made to key management personnel.

#### (b) Key management personnel compensation

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
<b>Directors' fees and allowances</b>		
Fees	1,508	1,340
Benefits-in-kind	360	-
Shariah committee fees	82	80
	<b>1,950</b>	1,420
<b>Short-term employment benefits</b>		
Salaries	1,150	1,164
Bonuses	482	1,098
Defined contribution plan ("EPF")	283	384
Other employee benefits	161	161
Benefits-in-kind	54	97
	<b>2,130</b>	2,904
	<b>4,080</b>	4,324

Included in the above table are CEO and directors' remuneration as disclosed in Note 38.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 42 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions. These commitments and contingencies are not secured over the assets of the Bank.

The commitments and contingencies consist of:

	Economic Entity and The Bank	
	Principal amount 2020 RM'000	Principal amount 2019 RM'000
Direct credit substitutes (*)	68,709	110,704
Transaction-related contingent items	368,737	383,531
Short-term self-liquidating trade related contingencies	294,032	279,759
Irrevocable commitments to extend credit:		
- maturity less than one year	1,372,672	1,450,127
- maturity more than one year	831,745	1,112,733
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	-	32,861
Unutilised credit card lines	209,755	167,149
Foreign exchange related contracts (#):		
- less than one year	1,212,161	514,452
	<b>4,357,811</b>	<b>4,051,316</b>

\* Included in direct credit substitutes as above are financial guarantee contracts of RM68.7 million at the Bank (2019: RM110.7million), 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 4 and Note 23 to the financial statements.

### 43 FINANCIAL RISK MANAGEMENT

#### (i) Credit risk

Credit risk is the risk that a counterparty will fail to meet its contractual obligations which could result in a financial loss to the Bank. The Bank's exposure to credit risks arises primarily from financing, advances and other financing, financing commitments arising from such financing activities, corporate/inter-bank financing activities, bonds investment, foreign exchange trading as well as equity and debt underwriting and from participation in securities settlements and payment transactions.

The management of credit risk 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. The risk management policies are subject to review by the Group Board Risk Management Committee ("GBRMC"), a sub-committee of the Board that reviews the adequacy of the Bank's risk policies and framework. The Bank's credit risk framework is further strengthened through an established process for the approval and review of proposals that comprises the Group Management Credit Committee ("GMCC") and the Group Board Credit Review and Recovery Committee ("GBCRRC"). The GMCC represents the approving authority for credit and underwriting proposals, whilst the GBCRRC is the committee that reviews proposals that exceed specified limits and criteria, as well as to consider whether to reject the proposal or modify the terms of the proposal.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (i) Credit risk (continued)

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

The Bank is supportive of credit officer in taking the Professional Credit Certification ('PCC') programme offered by the Asian Institute of Chartered Bankers ('AICB'). Upon attaining the PCC certification, credit officers are expected to demonstrate sound understanding of credit process and competence to undertake credit roles and responsibilities.

#### Credit risk evaluation

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

A number of relevant qualitative and quantitative factors are taken into consideration in the identification and analysis of a counterparty's credit risk. Each counterparty is assigned a credit rating which considers factors such as competitive position, operating performance, cash flow strength and management strength.

All corporate financing, underwritings and corporate debt securities investments are independently evaluated by the Bank's credit management function and approved by the relevant approving authorities based on the Authority Matrix approved by the Board.

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.

#### Risk limit control and mitigation policies

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

#### *Financing limits*

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

The credit risk exposure for derivatives due to potential exposure arising from market movements and financing books are managed on an aggregated basis as part of the overall financing limits with customers.

#### *Collateral*

Credits are established against customer's capacity to pay rather than rely solely on security. However, collateral may be taken to mitigate credit risk.

The main collateral types accepted and given value by the Bank are:

- Mortgages over residential properties;
- Charges over commercial real estate or vehicles financed;
- Charges over business assets such as business premises, inventory and account receivables; and
- Charges over financial instruments such as marketable securities

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



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (i) Credit risk (continued)

##### Risk limit control and mitigation policies (continued)

##### Collateral (continued)

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

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

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

<b>Economic Entity and The Bank 2020</b>	<b>Gross financing, advances and other financing RM'000</b>	<b>Expected credit losses RM'000</b>	<b>Net financing, advances and other financing RM'000</b>	<b>Fair value of collateral held RM'000</b>
Community Banking				
- Cash Line-i	834	264	570	1,578
- Credit cards	131	85	46	-
- Term financing	10,526	2,539	7,987	16,811
- Mortgages	135,980	36,783	99,197	139,769
- Hire purchase	22,466	13,650	8,816	62,535
Corporate & Public Sector	140,567	27,483	113,084	177,541
Enterprise Banking	4,967	1,626	3,341	6,185
<b>Total credit-impaired assets</b>	<b>315,471</b>	<b>82,430</b>	<b>233,041</b>	<b>404,419</b>
2019				
Community Banking				
- Cash Line-i	314	110	204	980
- Credit cards	263	17	246	-
- Term financing	11,617	2,586	9,031	17,608
- Mortgages	160,768	37,422	123,346	172,770
- Hire purchase	18,620	12,642	5,978	48,682
Corporate & Public Sector	403,609	50,428	353,181	439,302
Enterprise Banking	12,121	1,151	10,970	16,095
<b>Total credit-impaired assets</b>	<b>607,312</b>	<b>104,356</b>	<b>502,956</b>	<b>695,437</b>

The financial effect of collateral held for financing, advances and other financing of the Bank is 82.4% (2019: 82.5%). The financial effects of collateral for the other financial assets are insignificant.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (i) Credit risk (continued)

##### Risk limit control and mitigation policies (continued)

##### *Credit Related Commitments*

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

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

##### Collateral and other credit enhancement obtained

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

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
Nature of assets		
Industrial and residential properties	<b>4,873</b>	4,873

Foreclosed properties are sold as soon as possible, with the proceeds used to reduce the outstanding indebtedness. The carrying amount of foreclosed properties held by the Bank as at reporting date has been classified as Other assets as disclosed in Note 7.

##### Credit risk measurement

##### *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.

##### *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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (i) Credit risk (continued)

##### Credit risk measurement (continued)

##### *Determining whether credit risk has increased significantly (continued)*

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 (“DPD”). 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; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

##### *Measurement of expected credit losses ('ECL')*

The Bank uses three categories for financial instruments at amortised cost for recognising ECL.

Category	Definition	Basis for recognising
Performing accounts (Stage 1)	<ul style="list-style-type: none"> <li>- Financial assets that do not have significant increase in credit risk since initial recognition of the asset and therefore, less likely to default;</li> <li>- Performing accounts with credit grade 13 or better;</li> <li>- Accounts past due less than or equal to 30 days or;</li> <li>- For early control accounts where on that has risk or potential weakness which if left unchecked, may result in significant deterioration of payment prospect and transfer to underperforming status (stage 2) or worse.</li> </ul>	12 - month ECL
Underperforming accounts (Stage 2)	<ul style="list-style-type: none"> <li>- Accounts with significant increase in credit risk since initial recognition and if left uncorrected, may result in impairment of the accounts within the next 12 months;</li> <li>- Accounts past due more than 30 days but less than or equals to 90 days;</li> <li>- Account demonstrates critical level of risk and therefore, credit graded to 14 and place under watchlist;</li> </ul>	Lifetime ECL - not credit impaired
Impaired accounts (Stage 3)	<ul style="list-style-type: none"> <li>- Impaired credit;</li> <li>- Credit grade 15 or worse;</li> <li>- Accounts past due more than 90 days.</li> <li>- All restructure and rescheduling (R&amp;R) accounts due to credit deterioration are to be classified as impaired.</li> </ul>	Lifetime ECL - credit impaired
Write-off	<ul style="list-style-type: none"> <li>- Evidence indicating that there is no reasonable expectation of recovery based on unavailability of debtor's sources of income or;</li> <li>- Assets unable to generate sufficient future cash flow to pay the amount.</li> </ul>	Asset is written off

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (i) Credit risk (continued)

##### Credit risk measurement (continued)

##### *Measurement of expected credit losses ('ECL') (continued)*

The Bank has not used the low credit risk exemption for any financial instrument for the year ended 31 December 2020.

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 is the likelihood of a counterparty defaulting on its contractual obligations to a financial institution over a given time horizon and 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 or changes in past due status, 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.

The Bank collects performance and default information about its credit risk exposures analysed by type of product and customer as well as by credit risk grading. For some portfolios, information from external credit reference agencies are also used.

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

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

LGD is the magnitude of the likely loss if there is a default. LGD parameters are estimated based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

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

ECL is determined by projecting the PD, LGD and EAD at each future point on a yearly basis on individual exposure, or collective segment, and discounting these monthly expected losses back to the reporting date. The discount rate used in the ECL calculation is the original profit rate or an approximation thereof.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (i) Credit risk (continued)

##### Credit risk measurement (continued)

##### *Measurement of expected credit losses ('ECL') (continued)*

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any customer's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require payment of an advance or terminate a financing commitment or guarantee.

Forward looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- product/instrument type;
- past due status;
- credit risk grading;
- collateral type;
- date of initial recognition;
- remaining term to maturity.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period that have material impact to ECL.

##### *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. A 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios are formulated.

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.

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 years.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (i) Credit risk (continued)

##### Credit risk measurement (continued)

##### Measurement of expected credit losses ('ECL') (continued)

The economic scenarios used for the expected credit losses ('ECL') estimate and the effect to the ECL estimate due to the changes in the economic variables by % as at 31 December 2020 are set out as below:

	2020	2019
<b>Macroeconomic variables change (%)</b>	<b>+ / - (%)</b>	<b>+ / - (%)</b>
Overnight Policy Rate	<b>10.8</b>	1.3
3-month KLIBOR	<b>11.4</b>	0.3
House Price Index	<b>0.9</b>	1.0
Automotive Association Malaysia Total Car Sales Growth (AAM)	<b>39.8</b>	*N/A
Unemployment Rate	<b>*N/A</b>	1.5
GDP of Malaysia	<b>*N/A</b>	4.1
Malaysia Economic Indicator Leading Index	<b>1.4</b>	0.0
Private Consumption Expenditure	<b>2.4</b>	4.2
Base Financing Rate	<b>*N/A</b>	0.0
APPLIED Hire Purchase	<b>*N/A</b>	1.5
USD/MYR Exchange Rate	<b>0.2</b>	*N/A
M1 Money Supply	<b>2.4</b>	*N/A

\* N/A - Not applicable as a result of change in model/risk parameters during the financial year.

The impact based on 3 years historical MEV as below:

Economic Entity and The Bank	2020		2019	
	+	-	+	-
	RM'000	RM'000	RM'000	RM'000
Impact on expected credit losses	<b>(7,051)</b>	<b>8,684</b>	(2,439)	2,628

##### Credit risk monitoring

Corporate credits and large individual accounts are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. This is to ensure that the credit grades remain appropriate and to detect any signs of weaknesses or deterioration in the credit quality. Remedial action is taken where evidence of deterioration exists.

Significant increase in Credit Risk 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 non-performing. 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 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, analyze and mitigate adverse trends or specific areas of risk concerns.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (i) Credit risk (continued)

##### Credit risk monitoring (continued)

The Bank conducts post-mortem reviews on newly impaired financing to determine the key reason(s) and/or driver(s) leading to the account being classified as impaired, take appropriate remedial actions or measures and establish lessons learned to minimize potential or future credit loss from similar or repeat events.

In addition, an independent credit review is undertaken by Group Risk Management (“GRM”) to ensure that credit decision-making is consistent with the Bank’s overall credit risk appetite and strategy.

##### Maximum exposure to credit risk

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

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

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

	Economic Entity and The Bank	
	2020 Maximum Credit Exposure RM'000	2019 Maximum Credit Exposure RM'000
<b>Credit risk exposures of on-balance sheet assets:</b>		
Other assets <sup>^</sup>	59,238	29,566
<b>Credit risk exposure of off-balance sheet items:</b>		
Financial guarantees	68,709	110,704
Financing commitments and other credit related commitments	3,076,941	3,426,160
Total maximum credit risk exposure	3,204,888	3,566,430

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

<sup>^</sup> Excluded prepayment and foreclosed properties

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (i) Credit risk (continued)

##### Credit risk concentration

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

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

Economic Entity and The Bank 2020	Short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Derivative financial assets RM'000	Financial investments at FVOCI RM'000	Financing, advances and other financing RM'000	Other <sup>^</sup> assets RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	-	-	774,931	-	774,931	53,803
Mining and quarrying	-	-	-	-	241,998	-	241,998	175,913
Manufacturing	-	-	148	36,210	878,147	-	914,505	168,436
Electricity, gas and water supply	-	-	-	48,900	381,037	-	429,937	28,105
Construction	-	-	-	21,475	565,577	-	587,052	631,643
Real estate	-	-	-	180,755	1,525,014	-	1,705,769	183,527
Transport, storage and communication	-	-	-	-	308,330	-	308,330	69,263
Finance, takaful/insurance and business services	19,236	50,058	6,732	71,112	388,461	-	535,599	116,934
Government and government agencies	2,775,042	-	-	2,454,132	765,697	-	5,994,871	519,586
Wholesale & retail trade and restaurants & hotels	-	-	4,678	-	742,538	-	747,216	370,709
Others	-	-	-	15,582	12,808,360	74,311	12,898,253	827,731
<b>Total assets</b>	<b>2,794,278</b>	<b>50,058</b>	<b>11,558</b>	<b>2,828,166</b>	<b>19,380,090</b>	<b>74,311</b>	<b>25,138,461</b>	<b>3,145,650</b>

<sup>^</sup> Others include amount due from joint ventures and other assets.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (i) Credit risk (continued)

##### Credit risk concentration (continued)

Economic Entity and The Bank 2019	Short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Derivative financial assets RM'000	Financial investments at FVOCI RM'000	Financing, advances and other financing RM'000	Other assets RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	-	-	929,723	-	929,723	77,890
Mining and quarrying	-	-	-	-	291,397	-	291,397	76,489
Manufacturing	-	-	-	25,814	579,024	-	604,838	209,260
Electricity, gas and water supply	-	-	-	68,647	405,546	-	474,193	43,357
Construction	-	-	-	21,248	536,866	-	558,114	745,282
Real estate	-	-	-	178,470	1,881,943	-	2,060,413	222,902
Transport, storage and communication	-	-	-	15,651	300,381	-	316,032	52,756
Finance, takaful/insurance and business services	10,911	-	937	167,658	347,920	-	527,426	108,458
Government and government agencies	1,577,957	-	-	1,887,663	765,624	-	4,231,244	634,061
Wholesale & retail trade and restaurants & hotels	-	-	63	-	549,417	-	549,480	221,353
Others	-	-	-	25,655	11,992,412	112,814	12,130,881	1,145,056
Total assets	1,588,868	-	1,000	2,390,806	18,580,253	112,814	22,673,741	3,536,864

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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (i) Credit risk (continued)

##### Total financing, advances and other financing - credit quality

All financing, advances and other financing are categorised into 'neither past due nor impaired', 'past due but not impaired' and 'impaired'.

Past due financing refers to financing, advances and other financing that are overdue by one day or more.

Financing, advances and other financing are classified impaired when they fulfill any of the following criteria:

- i) the principal or profit or both is past due more than 3 months from the first day of default;
- ii) where the account is in arrears for less than 3 months, there is evidence of impairment to indicate that the customer is 'unlikely to pay' its credit obligations; or
- iii) the financing is classified as rescheduled and restructured in Central Credit Reference Information System (CCRIS).

Distribution of financing, advances and other financing by credit quality

Economic Entity and The Bank	2020			Total RM'000
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	
Neither past due nor impaired	16,973,591	964,286	-	17,937,877
Past due but not impaired	604,771	706,368	-	1,311,139
Impaired	-	-	315,471	315,471
Gross financing, advances and other financing	17,578,362	1,670,654	315,471	19,564,487
less: Allowance for impairment losses				
- Expected credit losses ("ECL")	(47,261)	(54,706)	(82,430)	(184,397)
Net financing, advances and other financing	17,531,101	1,615,948	233,041	19,380,090

Economic Entity and The Bank	2019			Total RM'000
	12 - Month ECL Stage 1 RM'000	Lifetime ECL not credit impaired Stage 2 RM'000	Lifetime ECL credit impaired Stage 3 RM'000	
Neither past due nor impaired	16,651,858	305,416	-	16,957,274
Past due but not impaired	695,573	492,664	-	1,188,237
Impaired	-	-	607,312	607,312
Gross financing, advances and other financing	17,347,431	798,080	607,312	18,752,823
less: Allowance for impairment losses				
- Expected credit losses ("ECL")	(51,043)	(17,171)	(104,356)	(172,570)
Net financing, advances and other financing	17,296,388	780,909	502,956	18,580,253

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (i) Credit risk (continued)

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

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets.

Economic Entity and The Bank 2020	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
<b>Credit grade</b>				
Satisfactory	6,096,332	172,317	-	6,268,649
Special mention	590	182,944	-	183,534
Default/impaired	-	-	145,533	145,533
Unrated	11,481,440	1,315,393	169,938	12,966,771
Gross financing, advances and other financing	17,578,362	1,670,654	315,471	19,564,487
Expected credit losses ("ECL")	(47,261)	(54,706)	(82,430)	(184,397)
Total net financing, advances and other financing	17,531,101	1,615,948	233,041	19,380,090
<b>Economic Entity and The Bank 2019</b>	<b>Stage 1 RM'000</b>	<b>Stage 2 RM'000</b>	<b>Stage 3 RM'000</b>	<b>Total RM'000</b>
Credit grade				
Satisfactory	6,041,260	51,008	-	6,092,268
Special mention	80	138,442	-	138,522
Default/impaired	-	-	342,862	342,862
Unrated	11,306,091	608,630	264,450	12,179,171
Gross financing, advances and other financing	17,347,431	798,080	607,312	18,752,823
Expected credit losses ("ECL")	(51,043)	(17,171)	(104,356)	(172,570)
Total net financing, advances and other financing	17,296,388	780,909	502,956	18,580,253

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

Special mention: Exposures require varying degrees of special attention and default risk is of greater concern which are under the monitoring of Group Early Alert Committee ('GEAC').

##### Deposits and short-term funds, corporate sukuk, treasury bills and derivatives - credit quality

Corporate sukuk, treasury bills and other eligible bills included in financial assets FVTPL and financial investments FVOCI are measured on a fair value basis. The fair value will reflect the credit risk of the issuer.

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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (i) Credit risk (continued)

The table below presents the deposits and short-term funds, corporate bonds/sukuk, treasury bills and other eligible bills that neither past due nor impaired and impaired, analysed by rating:

Economic Entity and The Bank	2020			2019		
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000
<b>Short-term funds, deposits and placements with banks and other financial institutions</b>						
Sovereigns	2,775,041	-	-	2,775,041	-	1,577,957
AA- to AA+	16,883	-	-	16,883	-	8,790
A- to A+	1,705	-	-	1,705	-	1,002
Lower than A-	50,707	-	-	50,707	-	1,119
	<b>2,844,336</b>	<b>-</b>	<b>-</b>	<b>2,844,336</b>	<b>-</b>	<b>1,588,868</b>
<b>Derivative financial assets</b>						
AAA	1,721	-	-	1,721	-	141
AA- to AA+	4,777	-	-	4,777	-	758
A- to A+	234	-	-	234	-	-
Unrated	4,826	-	-	4,826	-	101
	<b>11,558</b>	<b>-</b>	<b>-</b>	<b>11,558</b>	<b>-</b>	<b>1,000</b>
<b>Financial assets at FVOCI</b>						
Sovereigns	2,454,132	-	-	2,454,132	-	1,887,663
AAA	114,544	-	-	114,544	-	256,822
AA- to AA+	100,299	-	-	100,299	-	94,239
A- to A+	15,358	-	-	15,358	-	15,328
Unrated	143,833	-	-	143,833	-	136,754
	<b>2,828,166</b>	<b>-</b>	<b>-</b>	<b>2,828,166</b>	<b>-</b>	<b>2,390,806</b>
Expected credit loss ("ECL")	(3,120)	-	-	(3,120)	-	(283)

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (i) Credit risk (continued)

##### Other financial assets - credit quality

Other financial assets of the Bank is neither past due nor impaired are summarised as below:

Economic Entity and The Bank 2020	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000
<u>Neither past due nor impaired</u>			
Other assets	59,238	-	59,238
<u>Impaired</u>			
Amount due from joint ventures	-	59,060	59,060
Amount due from an associate	-	1,257	1,257
Allowance for impairment	-	(45,244)	(45,244)
	-	15,073	15,073
<b>Economic Entity and The Bank 2019</b>			
<u>Neither past due nor impaired</u>			
Other assets	29,566	-	29,566
Amount due from holding company	53,946	-	53,946
Amount due from associate	900	-	900
<u>Impaired</u>			
Amount due from joint ventures	57,140	-	57,140
Allowance for impairment	(28,738)	-	(28,738)
	28,402	-	28,402

Other financial assets that are past due but not impaired or impaired are not significant.

Financing commitments and financial guarantees below represent the expected credit losses ('ECL') being recognised.

Economic Entity and The Bank 2020	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
<b>Financing commitments and financial guarantees</b>				
Satisfactory	2,895	236	-	3,131
Special mention	-	-	-	-
Default/impaired	-	-	851	851
	2,895	236	851	3,982

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (i) Credit risk (continued)

##### Other financial assets - credit quality (continued)

Economic Entity and The Bank 2019	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Financing commitments and financial guarantees				
Satisfactory	5,262	203	-	5,465
Special mention	-	-	-	-
Default/impaired	-	-	1,050	1,050
	5,262	203	1,050	6,515

#### (ii) Market risk

Market risk defined as changes in the market value of financial instrument position arising from movements in market factors such as profit rate, foreign exchange rates and implied volatility rates. The Bank's exposure to market risk results largely from profit rate and foreign exchange rate risks.

The Market Risk Management Framework governs the market risk activities of the Bank which is supported by a set of approved market risk management policies, guidelines and procedures.

Risk parameters are established based on risk appetite, market liquidity and business strategies as well as macroeconomic conditions. These parameters are reviewed at least annually.

Profit rate risk is quantified by analysing the mismatches in timing repricing of the rate sensitive assets and rate sensitive liabilities. Earnings-at-Risk ('EaR') or Net Profit Income simulation is conducted to assess the variation in short term earnings under various rates scenarios. The potential long term effect of the overall exposure is tracked by assessing the impact on Economic Value of Equity ('EVE'), also known as Economic Value-at-Risk ('EVaR'). Thresholds are set for EaR and EVaR as management triggers.

Periodic stress tests are conducted to quantify market risk arising from probability of abnormal market movements.

##### Risk Management Policies and Procedures

Risk management policies and procedures are reviewed and updated to ensure relevance to current business needs as well as current/applicable regulatory requirements such as BNM's policy documents on:

- Managing Unauthorised Trading & Market Manipulation;
- Code of Conduct for Malaysia Wholesale Financial Markets; and
- Principles for a Fair and Effective Financial Market for Malaysian Financial Market.

##### Risk measures

- Mark-to-market valuation tracks the current market value of the outstanding financial instruments.
- Stress tests are conducted to attempt to quantify market risk arising from abnormal market movements. Stress tests measure the changes in values arising from extreme movements in profit rates and foreign exchange rates based on past experiences and simulated stress scenarios.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (ii) Market risk (continued)

##### Profit rate sensitivity

The table below shows the sensitivity for the financial assets and financial liabilities held as at reporting date.

Impact on profit after tax is measured using Repricing Gap Simulation methodology based on 100 basis point parallel shifts in profit rate.

Impact in equity represents the changes in fair value of fixed income instruments held at FVOCI portfolio arising from the shift in the profit rate.

Economic Entity and The Bank 2020	+100 basis point RM million	-100 basis point RM million
Impact on profit after tax	24.0	(24.0)
Impact on equity	(150.0)	166.9
<b>2019</b>		
Impact on profit after tax	36.0	(36.0)
Impact on equity	(129.8)	146.2

##### Foreign exchange risk sensitivity analysis

An analysis of the exposure to assess the impact of a one per cent change in exchange rate to the profit after tax are as follows:

	Economic Entity and The Bank	
	2020 RM'000	2019 RM'000
<b>+1%</b>		
Euro	1,388	20
United States Dollar	5,223	1,141
Great Britain Pound	3	3
Australian Dollar	2	1
Japanese Yen	2	2
Others	129	2
	<b>6,747</b>	<b>1,169</b>
<b>-1%</b>		
Euro	(1,388)	(20)
United States Dollar	(5,223)	(1,141)
Great Britain Pound	(3)	(3)
Australian Dollar	(2)	(1)
Japanese Yen	(2)	(2)
Others	(129)	(2)
	<b>(6,747)</b>	<b>(1,169)</b>

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

**43 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(ii) Market risk (continued)**

**Foreign exchange risk**

The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and 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.

The following table summarises the Bank's exposure to foreign currency exchange rate risk at reporting date. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

Economic Entity and The Bank 2020	Euro RM'000	United States Dollar RM'000	Great Britain Pound RM'000	Australian Dollar RM'000	Japanese Yen RM'000	Others RM'000	Total RM'000
<b>Assets</b>							
Cash and short-term funds	586	17,531	409	246	204	260	19,236
Derivative financial assets	3,602	-	-	-	-	-	3,602
Financing, advances and other financing	-	203,387	-	-	-	-	203,387
<b>Total financial assets</b>	<b>4,188</b>	<b>220,918</b>	<b>409</b>	<b>246</b>	<b>204</b>	<b>260</b>	<b>226,225</b>
<b>Liabilities</b>							
Deposits from customers	1,884	26,908	7	4	-	3	28,806
Deposits and placements of banks and other financial institutions	-	402,417	-	-	-	-	402,417
Investment accounts due to designated financial institutions	-	200,272	-	-	-	-	200,272
Derivative financial liabilities	-	25,572	-	-	-	-	25,572
<b>Total financial liabilities</b>	<b>1,884</b>	<b>655,169</b>	<b>7</b>	<b>4</b>	<b>-</b>	<b>3</b>	<b>657,067</b>
Net on-balance sheet financial position	2,304	(434,251)	402	242	204	257	(430,842)
Off balance sheet commitments	180,335	1,121,470	-	-	-	16,653	1,318,458



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

## 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

### (ii) Market risk (continued)

#### Foreign exchange risk (continued)

#### Economic Entity and The Bank 2019

	Euro RM'000	United States Dollar RM'000	Great Britain Pound RM'000	Australian Dollar RM'000	Japanese Yen RM'000	Others RM'000	Total RM'000
<b>Assets</b>							
Cash and short-term funds	465	9,791	(86)	119	233	389	10,911
Derivative financial assets	72	38	1	-	-	-	111
Financing, advances and other financing	-	287,205	-	-	-	-	287,205
<b>Total financial assets</b>	<b>537</b>	<b>297,034</b>	<b>(85)</b>	<b>119</b>	<b>233</b>	<b>389</b>	<b>298,227</b>
<b>Liabilities</b>							
Deposits from customers	4,299	127,480	1	4	-	119	131,903
Deposits and placements of banks and other financial institutions	-	151,972	-	-	-	-	151,972
Investment accounts due to designated financial institutions	-	249,476	-	-	-	-	249,476
Derivative financial liabilities	-	6,720	-	-	-	-	6,720
<b>Total financial liabilities</b>	<b>4,299</b>	<b>535,648</b>	<b>1</b>	<b>4</b>	<b>-</b>	<b>119</b>	<b>540,071</b>
<b>Net on-balance sheet financial position</b>	<b>(3,762)</b>	<b>(238,614)</b>	<b>(86)</b>	<b>115</b>	<b>233</b>	<b>270</b>	<b>(241,844)</b>
<b>Off balance sheet commitments</b>	<b>6,446</b>	<b>388,804</b>	<b>538</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>395,788</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (ii) Market risk (continued)

##### Profit rate risk

Profit rate risk is the risk to earnings and capital arising from exposure to adverse movements in profit rates mainly due to mismatches in timing repricing of assets and liabilities. These mismatches are actively managed from an earnings and economic value perspective. Profit rate risk thresholds are established in line with the Group's strategy and risk appetite. These thresholds are reviewed regularly to ensure relevance in the context of prevailing market conditions.

Economic Entity and The Bank 2020	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- profit sensitive RM'000		
Cash and short-term funds	2,768,950	-	-	-	-	25,328	-	2,794,278
Deposits and placements with banks and other financial institutions	-	50,000	-	-	-	58	-	50,058
Derivative financial assets	-	-	-	-	-	-	11,558	11,558
Financial investments at FVOCI	-	93,703	35,550	351,651	2,322,406	24,856	-	2,828,166
Financing, advances and other financing	11,155,645	652,490	1,533,896	3,833,101	2,073,884	(101,967)	-	19,147,049
- non-impaired	-	-	-	-	-	233,041 #	-	233,041
- impaired	-	-	-	-	-	74,311	-	74,311
Others (1)	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>13,924,595</b>	<b>796,193</b>	<b>1,569,446</b>	<b>4,184,752</b>	<b>4,396,290</b>	<b>255,627</b>	<b>11,558</b>	<b>25,138,461</b>

# Net of individual impairment allowance.

(1) Others include other assets, amount due from joint ventures.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (ii) Market risk (continued)

##### Profit rate risk (continued)

Economic Entity and The Bank 2020	Non-trading book							Total RM'000
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- profit sensitive RM'000	Trading book RM'000	
<b>Liabilities</b>								
Deposits from customers	8,058,499	3,723,124	5,637,641	822,330	-	424,397	-	18,665,991
Investment accounts of customers	-	-	376	1,767	-	8	-	2,151
Deposits and placements of banks and other financial institutions	710,269	413,700	100,000	-	-	1,904	-	1,225,873
Investment accounts due to designated financial institutions	-	16,129	40,487	627,139	1,067,260	23	-	1,751,038
Recourse obligation on financing sold to Cagamas Berhad	-	-	-	50,000	-	34	-	50,034
Derivative financial liabilities	-	-	-	-	-	-	25,572	25,572
Amount due to holding company	-	-	-	-	-	299,815	-	299,815
Other liabilities	-	-	-	-	-	61,751	-	61,751
Lease liabilities	-	-	221	2,212	-	-	-	2,433
Subordinated term financing and medium term notes	-	-	-	-	1,100,000	11,034	-	1,111,034
<b>Total liabilities</b>	<b>8,768,768</b>	<b>4,152,953</b>	<b>5,778,725</b>	<b>1,503,448</b>	<b>2,167,260</b>	<b>798,966</b>	<b>25,572</b>	<b>23,195,692</b>
<b>Net profit sensitivity gap</b>	<b>5,155,827</b>	<b>(3,356,760)</b>	<b>(4,209,279)</b>	<b>2,681,304</b>	<b>2,229,030</b>			

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (ii) Market risk (continued)

##### Profit rate risk (continued)

Economic Entity and The Bank 2019	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- profit sensitive RM'000		
Assets								
Cash and short-term funds	1,576,000	-	-	-	-	12,868	-	1,588,868
Derivative financial assets	-	-	-	-	-	-	1,000	1,000
Financial investments at FVOCI	-	-	140,580	482,566	1,744,437	23,223	-	2,390,806
Financing, advances and other financing								
- non-impaired	10,744,563	733,598	832,876	3,587,540	2,246,934	(68,214)	-	18,077,297
- impaired	-	-	-	-	-	502,956 #	-	502,956
Others (1)	-	-	-	-	-	59,022	-	59,022
Amount due from holding company	-	-	-	-	-	53,946	-	53,946
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	526,000	-	526,000
Total assets	12,320,563	733,598	973,456	4,070,106	3,991,371	1,109,801	1,000	23,199,895

# Net of individual impairment allowance.

(1) Others include other assets, amount due from joint ventures and amount due from associate.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

## 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

### (ii) Market risk (continued)

#### Profit rate risk (continued)

Economic Entity and The Bank 2019	Non-trading book							Total RM'000
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- profit sensitive RM'000	Trading book RM'000	
Liabilities								
Deposits from customers	5,526,759	1,785,877	9,089,421	681,930	-	222,351	-	17,306,338
Investment accounts of customers and placements of banks and other financial institutions	-	-	436	1,003	-	8	-	1,447
Investment accounts due to designated financial institutions	154,800	373,242	6,817	-	-	1,152	-	536,011
Derivative financial liabilities	-	92,729	396	410,512	1,414,658	-	-	1,918,295
Other liabilities	-	-	-	-	-	-	6,757	6,757
Lease liabilities	-	-	-	-	-	418,429	-	418,429
Subordinated term financing and medium term notes	-	-	455	1,113	-	-	-	1,568
	-	-	-	-	1,100,000	11,034	-	1,111,034
Total liabilities	5,681,559	2,251,848	9,097,525	1,094,558	2,514,658	652,974	6,757	21,299,879
Net profit sensitivity gap	6,639,004	(1,518,250)	(8,124,069)	2,975,548	1,476,713			

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (iii) Liquidity risk

Liquidity risk is the risk of inability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. Liquidity risk includes the inability to manage sudden decreases or changes in funding sources. Liquidity risk also arises from the failure to recognise changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

The Liquidity Risk Management Framework governs the liquidity risk management activities of the Bank. The objective of liquidity risk management is to ensure that there are sufficient funds to meet contractual and regulatory obligations without incurring unacceptable losses as well as to undertake new transactions. The Bank's liquidity management process involves establishing liquidity risk management policies and prudential thresholds, liquidity risk threshold monitoring, stress testing and establishing contingency funding plans. These building blocks of liquidity risk management are subject to regular reviews to ensure relevance in the context of prevailing market conditions and regulatory landscape.

The Bank's short term liquidity risk management is premised on BNM's Liquidity Coverage Ratio ('LCR') final standards. The LCR is a quantitative requirement which seeks to ensure that the Bank holds sufficient high-quality liquid assets ('HQLA') to withstand a significant liquidity stress scenario over a 30-day horizon.

Long term liquidity risk profile is assessed via the Net Stable Funding Ratio ('NSFR') which promotes resilience over a longer time horizon for the Bank to fund its activities with more stable sources of funding on an ongoing basis.

The Bank also employs a set of liquidity risk indicators as an early alert of any structural change for liquidity risk management. The liquidity risk indicators include internal and external qualitative as well as quantitative indicators.

Liquidity stress tests are conducted periodically and on ad-hoc basis to gauge the Bank's resilience in the event of a liquidity disruption.

The Contingency Funding Plan provides a systematic approach in handling liquidity disruption. The document encompasses strategies, decision-making authorities, and courses of action to be taken in the event of liquidity crisis and emergencies, enabling the Bank to respond to an unexpected liquidity disruption in an effective and efficient manner.

The Group Board Risk Management Committee ('GBRMC') is responsible for the Bank's liquidity policy and the strategic management of liquidity has been delegated to the Group Asset Liability Management Committee ('GALCO'). The GBRMC is informed regularly on the liquidity position of the Bank.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (iii) Liquidity risk (continued)

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

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

Economic Entity and The Bank 2020	Up to 1 month RM'000	> 1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Deposits from customers	8,392,159	3,800,907	5,795,595	923,439	-	18,912,100
Investment accounts of customers	10	19	619	1,859	-	2,507
Deposits and placements of banks and other financial institutions	710,910	414,883	101,637	-	-	1,227,430
Investment accounts due to designated financial institutions	5,665	26,867	89,368	867,414	1,270,721	2,260,035
Recourse obligation on financing sold to Cagamas Berhad	-	-	1,240	49,676	-	50,916
Other liabilities	-	-	56,170	1,599	3,982	61,751
Lease liabilities	108	217	897	1,337	-	2,559
Subordinated term financing and medium term notes	-	-	57,320	495,593	921,332	1,474,245
	<b>9,108,852</b>	<b>4,242,893</b>	<b>6,102,846</b>	<b>2,340,917</b>	<b>2,196,035</b>	<b>2,3991,543</b>

Economic Entity and The Bank 2019	Up to 1 month RM'000	> 1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Deposits from customers	5,570,084	1,846,363	9,517,648	813,523	-	17,747,618
Investment accounts of customers	8	16	502	1,035	-	1,561
Deposits and placements of banks and other financial institutions	155,645	375,615	7,090	-	-	538,350
Investment accounts due to designated financial institutions	7,786	107,344	66,793	737,927	1,718,577	2,638,427
Other liabilities	-	-	410,275	1,639	6,515	418,429
Lease liabilities	99	197	631	712	-	1,639
Subordinated term financing and medium term notes	-	-	57,184	512,487	961,710	1,531,381
	<b>5,733,622</b>	<b>2,329,535</b>	<b>10,060,123</b>	<b>2,067,323</b>	<b>2,686,802</b>	<b>22,877,405</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (iii) Liquidity risk (continued)

##### Derivative financial liabilities

Derivative financial liabilities based on contractual undiscounted cash flow:

Economic Entity and The Bank 2020	Up to 1 month RM'000	> 1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
<b>Derivatives settled on gross basis</b>						
Foreign exchange derivatives:						
Outflow	(89,215)	(588,557)	(142,244)	-	-	(820,016)
Inflow	88,550	588,425	142,555	-	-	819,530
	(665)	(132)	311	-	-	(486)
<hr/>						
Economic Entity and The Bank 2019	Up to 1 month RM'000	> 1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Derivatives settled on gross basis						
Foreign exchange derivatives:						
Outflow	(180,751)	(191,975)	(16,073)	-	-	(388,799)
Inflow	180,757	191,975	16,073	-	-	388,805
	6	-	-	-	-	6



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (iii) Liquidity risk (continued)

##### Liquidity risk for assets and liabilities based on remaining contractual maturities

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

Economic Entity 2020	Up to 1	>1-3	>3-12	>1-5	Over 5	No specific	Total
	month	months	months	years	years	maturity	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Assets</b>							
Cash and short-term funds	2,794,278	-	-	-	-	-	2,794,278
Deposits and placements with banks and other financial institutions	-	50,058	-	-	-	-	50,058
Derivative financial assets	2,886	4,554	4,118	-	-	-	11,558
Financial assets at FVOCI	7,573	105,546	40,990	351,651	2,322,406	-	2,828,166
Financing, advances and other financing	771,924	509,577	254,088	3,004,804	14,839,697	-	19,380,090
Other assets	58,900	-	-	311	27	-	59,238
Amount due from joint ventures	15,073	-	-	-	-	-	15,073
Other assets (1)	-	-	452	1,086	-	19,203	20,741
	<b>3,650,634</b>	<b>669,735</b>	<b>299,648</b>	<b>3,357,852</b>	<b>17,162,130</b>	<b>19,203</b>	<b>25,159,202</b>

(1) Other assets include tax recoverable, property and equipment, intangible assets and right-of-use assets, prepayments and foreclosed properties.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Liquidity risk (continued)

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

Economic Entity 2020	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
<b>Liabilities</b>							
Deposits from customers	8,387,917	3,780,073	5,669,572	828,429	-	-	18,665,991
Investment accounts of customers	-	-	377	1,774	-	-	2,151
Deposits and placements of banks and other financial institutions	710,593	414,501	100,779	-	-	-	1,225,873
Investment accounts due to designated financial institutions	-	16,129	40,488	627,160	1,067,261	-	1,751,038
Recourse obligation on financing sold to Cagamas Berhad	-	-	34	50,000	-	-	50,034
Derivative financial liabilities	4,011	17,574	3,987	-	-	-	25,572
Other liabilities	-	-	56,170	1,599	3,982	-	61,751
Lease liabilities	-	-	220	2,213	-	-	2,433
Amount due to holding company	299,815	-	-	-	-	-	299,815
Subordinated term financing and medium term notes	-	-	11,034	-	800,000	300,000	1,111,034
Other non-financial liabilities (2)	6,161	-	-	-	-	6,234	12,395
	9,408,497	4,228,277	5,882,661	1,511,175	1,871,243	306,234	23,208,087
<b>Net liquidity gap</b>	<b>(5,757,863)</b>	<b>(3,558,542)</b>	<b>(5,583,013)</b>	<b>1,846,677</b>	<b>15,290,887</b>	<b>(287,031)</b>	

(2) Other non-financial liabilities include provision for taxation, defined contribution plan and accrued employee benefits.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (iii) Liquidity risk (continued)

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

Economic Entity 2019	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	1,588,868	-	-	-	-	-	1,588,868
Derivative financial assets	584	168	248	-	-	-	1,000
Financial assets at FVOCI	1,710	15,269	146,824	482,566	1,744,437	-	2,390,806
Financial assets at amortised cost	-	-	-	-	-	-	-
Financing, advances and other financing	629,503	536,411	208,967	2,181,212	14,521,205	502,955	18,580,253
Other assets	29,085	-	150	304	27	-	34,593
Amount due from holding company	53,946	-	-	-	-	-	53,946
Amount due from joint ventures	28,402	-	-	-	-	-	28,402
Amount due from associate	900	-	-	-	-	-	900
Statutory deposits with Bank Negara Malaysia	526,000	-	-	-	-	-	526,000
Other (1)	154	-	16,000	1,104	-	8,374	20,605
	2,859,152	551,848	372,189	2,665,186	16,265,669	511,329	23,225,373

(1) Other include tax recoverable, property and equipment, intangible assets and right-of-use assets.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

**43 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(iii) Liquidity risk (continued)**

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

<b>Economic Entity 2019</b>	<b>Up to 1 month RM'000</b>	<b>&gt;1-3 months RM'000</b>	<b>&gt;3-12 months RM'000</b>	<b>&gt;1-5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>No specific maturity RM'000</b>	<b>Total RM'000</b>
Liabilities							
Deposits from customers	5,560,247	1,824,845	9,233,712	687,534	-	-	17,306,338
Investment accounts of customers	-	-	438	1,009	-	-	1,447
Deposits and placements of banks and other financial institutions	155,366	373,628	7,017	-	-	-	536,011
Investment accounts due to designated financial institutions	-	92,729	831	410,087	1,414,648	-	1,918,295
Derivative financial liabilities	3,849	2,663	245	-	-	-	6,757
Other liabilities	-	-	410,275	1,639	6,515	-	418,429
Lease liabilities	-	-	455	1,113	-	-	1,568
Subordinated term financing and medium term notes	-	-	11,034	-	800,000	300,000	1,111,034
Other non-financial liabilities (2)	4,256	-	-	-	-	2,604	6,860
	5,723,718	2,293,865	9,664,007	1,101,382	2,221,163	302,604	21,306,739
Net liquidity gap	(2,864,566)	(1,742,017)	(9,291,818)	1,563,804	14,044,506	208,725	

(2) Other non-financial liabilities include provision for taxation, defined contribution plan and accrued employee benefits.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (iii) Liquidity risk (continued)

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

The Bank 2020	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
<b>Assets</b>							
Cash and short-term funds	2,794,278	-	-	-	-	-	2,794,278
Deposits and placements with banks and other financial institutions	-	50,058	-	-	-	-	50,058
Derivative financial assets	2,886	4,554	4,118	-	-	-	11,558
Financial assets at FVOCI	7,573	105,546	40,990	351,651	2,322,406	-	2,828,166
Financing, advances and other financing	771,924	509,577	254,088	3,004,804	14,839,697	-	19,380,090
Other assets	58,900	-	-	311	27	-	59,238
Amount due from joint ventures	15,073	-	-	-	-	-	15,073
Other assets (1)	-	-	452	1,086	-	19,853	21,391
	<b>3,650,634</b>	<b>669,735</b>	<b>299,648</b>	<b>3,357,852</b>	<b>17,162,130</b>	<b>19,853</b>	<b>25,159,852</b>

(1) Other assets include tax recoverable, property and equipment, intangible assets and right-of-use assets.

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

43 FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Liquidity risk (continued)

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

The Bank 2020	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
<b>Liabilities</b>							
Deposits from customers	8,387,917	3,780,073	5,669,572	828,429	-	-	18,665,991
Investment accounts of customers	-	-	377	1,774	-	-	2,151
Deposits and placements of banks and other financial institutions	710,593	414,501	100,779	-	-	-	1,225,873
Investment accounts due to designated financial institutions	-	16,129	40,488	627,160	1,067,261	-	1,751,038
Recourse obligation on financing sold to Cagamas Berhad	-	-	34	50,000	-	-	50,034
Derivative financial liabilities	4,011	17,574	3,987	-	-	-	25,572
Other liabilities	-	-	56,170	1,599	3,982	-	61,751
Lease liabilities	-	-	220	2,213	-	-	2,433
Amount due to holding company	299,815	-	-	-	-	-	299,815
Subordinated term financing and medium term notes	-	-	11,034	-	800,000	300,000	1,111,034
Other non-financial liabilities (2)	6,161	-	-	-	-	6,234	12,395
	9,408,497	4,228,277	5,882,661	1,511,175	1,871,243	306,234	23,208,087
<b>Net liquidity gap</b>	<b>(5,757,863)</b>	<b>(3,558,542)</b>	<b>(5,583,013)</b>	<b>1,846,677</b>	<b>15,290,887</b>	<b>(286,381)</b>	

(2) Other non-financial liabilities include provision for taxation, defined contribution plan and accrued employee benefits.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (iii) Liquidity risk (continued)

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

The Bank 2019	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	1,588,868	-	-	-	-	-	1,588,868
Derivative financial assets	584	168	248	-	-	-	1,000
Financial assets at FVOCI	1,710	15,269	146,824	482,566	1,744,437	-	2,390,806
Financing, advances and other financing	629,503	536,411	208,967	2,181,212	14,521,205	502,955	18,580,253
Other assets	29,239	-	150	304	27	4,873	34,593
Amount due from holding company	53,946	-	-	-	-	-	53,946
Amount due from joint ventures	28,402	-	-	-	-	-	28,402
Amount due from associate	900	-	-	-	-	-	900
Statutory deposits with Bank Negara Malaysia	526,000	-	-	-	-	-	526,000
Other assets (1)	-	-	16,000	1,104	-	4,151	21,255
	2,859,152	551,848	372,189	2,665,186	16,265,669	511,979	23,226,023

(1) Other assets include tax recoverable, property and equipment, intangible assets and right-of-use assets.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (iii) Liquidity risk (continued)

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

The Bank 2019	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Liabilities							
Deposits from customers	5,560,247	1,824,845	9,233,712	687,534	-	-	17,306,338
Investment accounts of customers	-	-	438	1,009	-	-	1,447
Deposits and placements of banks and other financial institutions	155,366	373,628	7,017	-	-	-	536,011
Investment accounts due to designated financial institutions	-	92,729	831	410,087	1,414,648	-	1,918,295
Derivative financial liabilities	3,849	2,663	245	-	-	-	6,757
Other liabilities	-	-	410,275	1,639	6,515	-	418,429
Amount due to holding company	-	-	455	1,113	-	-	1,568
Subordinated term financing and medium term notes	-	-	11,034	-	800,000	300,000	1,111,034
Other non-financial liabilities (2)	4,256	-	-	-	-	2,604	6,860
	5,723,718	2,293,865	9,664,007	1,101,382	2,221,163	302,604	21,306,739
Net liquidity gap	(2,864,566)	(1,742,017)	(9,291,818)	1,563,804	14,044,506	209,375	

(2) Other non-financial liabilities include provision for taxation, defined contribution plan and accrued employee benefits.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (iv) Operational risk management

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or external events. The definition includes legal risk, and exposure to litigation from all aspects of the Bank's activities, but excludes strategic business, reputational and systemic risks.

The Group Operational Risk Management Framework governs the management of operational risk across the Group and the Bank. GBRMC approves all policies/policy changes relating to operational risk. Management Committee Meeting - Governance Risk Compliance ('MCM-GRC') supports GBRMC in the review and monitoring of operational risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

The Operational Risk Management ('ORM') function within GRM operates in independent capacity to facilitate business/support units managing the risks in activities associated with the operational function of the Bank. 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')  
Note: Process to assist Business / Support Unit to identify and assess the operational risks, identify controls and assess controls effectiveness.
- Key Risk Indicator ('KRI')  
Note: Process to monitor and manage key operational risk exposures over time, measured against a set of threshold levels (Red, Amber & Green).
- Loss Event Reporting ('LER')  
Note: Process for reporting, evaluating and monitoring operational risk loss incidents including service disruption due to system failure, secrecy breach and Shariah Non-Compliance (SNC)
- Scenario Analysis (ScAn)  
Note: Process to process in the creation of plausible operational risk events and has become an essential element in the operational risk management and measurement.

Introduction of new products or services are evaluated to assess suitability, potential risks and operational readiness.

Business Risk Compliance Manager ('BRCM') are appointed at business and support units as champions of ORM activities within respective units. The BRCM is responsible for the reporting of ORM activities and to liaise with Group Operational Risk Management on all operational defects and results.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (v) Technology Risk

Technology risk is any potential for technology failures and cyber threats that may disrupt business such as failures of information technology (IT) systems, applications, platforms or infrastructures including threats or vulnerabilities exposed from external network or Internet, which could result in financial loss, financial services disruption or the operations of the Group.

The Group Technology Risk Management Framework governs the management of technology risk across the Group. .

The technology risk management function within GRM manages the risks associated with technology risk of the Group. GORMC supports GBRMCC in the review and monitoring of technology risks and provides the forum to discuss and manage all aspects of technology risk. GBRMCC is responsible to provide oversight of overall technology related matters of the Group

The Bank uses risk identification and assessment to determine the extent of the potential threat and the risk associated with an IT system throughout its System Development Life Cycle. The output of this process helps to identify appropriate controls for reducing or eliminating risk during the risk mitigation process.

Technology risk controls encompass the use of technical and nontechnical methods. Technical controls are safeguards that are incorporated into computer hardware, software, or firmware (e.g., access control mechanisms, identification and authentication mechanisms, encryption methods, intrusion detection software). Nontechnical controls are management and operational controls, such as security policies; operational procedures; and personnel, physical, and environmental security.

#### (vi) Shariah Non-Compliance Risk

Shariah non-compliance (“SNC”) is the risk of legal or regulatory sanctions, financial loss or non-financial implications including reputational damage, which the Bank may suffer arising from the failure to comply with the rulings of the Shariah Advisory Council of Bank Negara Malaysia (“SAC”), standards on Shariah matters issued by BNM pursuant to section 29(1) of the IFSA or decisions or advice of the Shariah Committee.

BNM has on 20 September 2019 issued the Policy Document on Shariah Governance which supercedes the Shariah Governance Framework issued on 22 October 2010. The Shariah Supervision and Compliance Framework and the Bank’s Shariah Risk Management Framework are the main reference for the Shariah supervision and Shariah risk management process within AFFIN Islamic Bank Berhad.

The Bank’s Shariah Committee (‘AISC’) is established to deliberate on Shariah issues presented to them and provide resolution as well as 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 to systematically identify all possible risks of SNC and where appropriate, to provide mitigating measures that need to be taken to reduce the risk. The scope covers overall business activities and operations, commencing from Islamic product origination until maturity.

SNC risk is proactively managed via the following tools and methodologies:

1. SNC Event Reporting to BNM to collect, evaluate, monitor and report Shariah loss data;
2. Shariah Risk and Control Self-Assessment (RCSA) / Risk Profiling to assist business/functional unit to identify and assess risks and controls. RCSA will be performed annually or as and when there is occurrence of significant events either internal or external;
3. Key Risk Indicator (KRI) to predict and highlight any potential high risk area. These indicators will be reviewed on a periodic basis (monthly or quarterly) to alert Management to changes that may have risk concerns; and
4. Key Control Standard (KCS) to validate the effectiveness of control measures.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (vii) Business Continuity Risk

Business continuity risk is the risk of losses in assets, revenue, reputation and stakeholder/customer confidence due to the discontinuation of services in both business and technology operations.

The Business Continuity Management Framework governs the management of business continuity issues, in line with BNM Guidelines on Business Continuity Management (“BCM”).

GBRMCC approves all policies and its changes relating to business continuity management. It also reviews, monitors and discusses business continuity management reports tabled at its meetings. GORMC supports BRMC in the review and monitoring of Business Continuity Risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

The BCM function is an independent body overseeing the management of the overall business continuity risk.

Annual Risk Assessment and Business Impact Analysis are made compulsory for each business and support unit in the Bank to undertake. The outcome of this assessment will translate into a risks listing that require business and support units to derive action plans to address the risks.

Risk control is established through adherence with established BCM guidelines and standards throughout the implementation of BCM programs. Rigorous testing on business continuity and disaster recovery plans are diligently performed to ensure effective and smooth execution of the plan for resumption and recovery of disrupted business.

Policies and processes are in place to support the monitoring and reporting of business continuity risks.

#### (viii) Fair value financial assets and liabilities

Fair value is defined as the price that would be received to sell as an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Bank measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities and actively exchange-traded derivatives.

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

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or other analytical techniques.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (viii) Fair value financial assets and liabilities (continued)

This category includes unquoted shares held for socio economic reasons. Fair values for shares held for socio economic reasons are based on the net tangible assets of the affected companies. The Bank's exposures to financial instruments classified as Level 3 comprised a small number of financial instruments which constitute an insignificant component of the Bank's portfolio of financial instruments. Hence, changing one or more of the inputs to reasonable alternative assumptions would not change the value significantly for the financial assets in Level 3 of the fair value hierarchy.

The Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. Transfers between fair value hierarchy primarily due to change in the level of trading activity, change in observable market activity related to an input, reassessment of available pricing information and change in the significance of the unobservable input. There were no transfers between Level 1, 2 and 3 of the fair value hierarchy during the financial year (2018: Nil).

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

<b>Economic Entity and The Bank 2020</b>	<b>Level 1 RM'000</b>	<b>Level 2 RM'000</b>	<b>Level 3 RM'000</b>	<b>Total RM'000</b>
<b>Financial Assets</b>				
Derivative financial assets	-	11,558	-	11,558
Financial investments at FVOCI				
- Money market instruments	-	1,187,871	-	1,187,871
- Corporate Sukuk	-	1,640,295	-	1,640,295
	-	2,828,166	-	2,828,166
<b>Total Financial Assets</b>	-	2,839,724	-	2,839,724
<b>Financial Liabilities</b>				
Derivative financial liabilities	-	25,572	-	25,572
<b>Total Financial Liabilities</b>	-	25,572	-	25,572

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (viii) Fair value financial assets and liabilities (continued)

Economic Entity and The Bank 2019	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial Assets				
Derivative financial assets	-	1,000	-	1,000
Financial investments at FVOCI				
- Money market instruments	-	914,050	-	914,050
- Corporate bonds/Sukuk	-	1,476,756	-	1,476,756
	-	2,390,806	-	2,390,806
Total Financial Assets	-	2,391,806	-	2,391,806
Financial Liabilities				
Derivative financial liabilities	-	6,757	-	6,757
Total Financial Liabilities	-	6,757	-	6,757

#### Effect of changes in significant unobservable assumptions to reasonably possible alternatives

The following table summarises the carrying amounts and the fair values of financial instruments of the Bank which are not carried at fair value in the statement of financial position. It does not include those short term/on demand financial assets and liabilities where the carrying amounts are reasonable approximate to their fair values.

Economic Entity and The Bank 2020	Carrying value RM'000	Fair value			Total RM'000
		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
<b>Financial assets</b>					
Financing, advances and other financing	19,380,090	-	19,389,218	-	19,389,218
	19,380,090	-	19,389,218	-	19,389,218
<b>Financial liabilities</b>					
Deposits from customers	18,665,991	-	18,687,533	-	18,687,533
Investment amount due to designated financial institutions	1,751,038	-	1,750,631	-	1,750,631
Recourse obligation on financing sold to Cagamas Berhad	50,034	-	48,112	-	48,112
Subordinated term financing and medium term notes	1,111,034	-	1,152,233	-	1,152,233
	21,578,097	-	21,638,509	-	21,638,509

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (viii) Fair value financial assets and liabilities (continued)

##### Effect of changes in significant unobservable assumptions to reasonably possible alternatives (continued)

Economic Entity and The Bank 2019	Carrying value RM'000	Fair value			Total RM'000
		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	
<b>Financial assets</b>					
Financing, advances and other financing	18,580,253	-	18,803,002	-	18,803,002
	18,580,253	-	18,803,002	-	18,803,002
<b>Financial liabilities</b>					
Deposits from customers	17,306,338	-	17,325,286	-	17,325,286
Subordinated term financing and medium term notes	1,111,034	-	1,141,383	-	1,141,383
	18,417,372	-	18,466,669	-	18,466,669

Other than as disclosed above, the total fair value of each financial assets and liabilities presented on the statement of financial position as at reporting date of the Bank approximates the total carrying amount.

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

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

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

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

#### Financing, advances and other financing

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

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

The fair values of impaired financing, advances and other financing whether fixed or floating are represented by their carrying values, net of expected credit losses, being the reasonable estimate of recoverable amount.

#### Other assets and liabilities

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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 43 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (viii) Fair value financial assets and liabilities (continued)

##### Deposits from customers, banks and other financial institutions, financing sold to Cagamas and investment account

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

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

### 44 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In accordance with MFRS 132 'Financial Instruments: Presentation', the Bank reports financial assets and financial liabilities on a net basis on the statements of financial position only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The following table shows the impact of netting arrangement on:

- All financial assets and liabilities that are reported net on statements of financial position; and
- All derivative financial instruments and other similar secured financing and funding agreements that are subject to enforceable master netting arrangements or similar agreements, but do not qualify for statements of financial position netting.

The table identifies the amounts that have been offset in the statements of financial position and also those amounts that are covered by enforceable netting arrangements (offsetting arrangements and financial collateral) but do not qualify for netting under the requirements of MFRS 132 described above.

The "Net amounts" presented below are not intended to represent the Bank's actual exposure to credit risk, as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements.

#### Related amount not offset

##### Derivative financial assets and liabilities

The 'Financial instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements, such as the ISDA Master Agreement or derivative exchange or clearing counterparty agreements, whereby all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transaction covered by the agreements if an event of default or other predetermined events occur.

Financial collateral refers to cash and non-cash collateral obtained, typically daily or weekly, to cover the net exposure between counterparties by enabling the collateral to be realised in an event of default or if other predetermined events occur.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 44 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Economic Entity and The Bank 2020	Effects of offsetting on the statements of financial position			Related amounts not offset		
	Gross amount RM'000	Amount offset RM'000	Net amount reported on statement of financial position RM'000	Financial instruments RM'000	Financial collateral RM'000	Net amount RM'000
<b>Financial assets</b>						
Derivative financial assets	11,558	-	11,558	(9,764)	-	1,794
Total assets	11,558	-	11,558	(9,764)	-	1,794
<b>Financial liabilities</b>						
Derivative financial liabilities	25,572	-	25,572	(9,764)	-	15,808
Total liabilities	25,572	-	25,572	(9,764)	-	15,808

Economic Entity and The Bank 2019	Effects of offsetting on the statements of financial position			Related amounts not offset		
	Gross amount RM'000	Amount offset RM'000	Net amount reported on statement of financial position RM'000	Financial instruments RM'000	Financial collateral RM'000	Net amount RM'000
<b>Financial assets</b>						
Derivative financial assets	1,000	-	1,000	(632)	-	368
Total assets	1,000	-	1,000	(632)	-	368
<b>Financial liabilities</b>						
Derivative financial liabilities	6,757	-	6,757	(632)	-	6,125
Total liabilities	6,757	-	6,757	(632)	-	6,125



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 45 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 09 December 2020.

The Bank is currently adopting the 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 ("CET1") and Tier 1 Capital Ratio are 7.00% and 8.50% respectively for the financial year ended 31 December 2020. The minimum regulatory capital adequacy requirement at 10.50% for total capital ratio.

The Bank has elected to apply BNM's transitional arrangement for four financial years beginning on 1 January 2020. Under the transitional arrangements, a financial institution is allowed to addback the amount of loss allowance measured at an amount equal to 12-month and lifetime expected credit losses to the extent they are ascribed to non-credit-impaired exposures (which is Stage 1 and Stage 2 provisions), to CET1 capital.

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 46 below summarises the composition of regulatory capital and the ratios of the Bank for the financial year ended 31 December 2020.

### 46 CAPITAL ADEQUACY

The capital adequacy ratios are as follows:

	Economic Entity		The Bank	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
Paid-up share capital	1,060,000	1,060,000	1,060,000	1,060,000
Retained profits	768,941	602,260	768,941	602,910
FVOCI revaluation reserves	(4,919)	19,492	(4,919)	19,492
	<b>1,824,022</b>	1,681,752	<b>1,824,022</b>	1,682,402
Less:				
Intangible assets	(558)	(771)	(558)	(771)
Deferred tax assets	(12,390)	-	(12,390)	-
55% of cumulative unrealised gains of FVOCI	-	(10,721)	-	(10,721)
Investment in associate/joint ventures	-	(750)	-	(1,400)
Other CET1 transitional adjustment	31,418	-	31,418	-
<b>CET1 capital</b>	<b>1,842,492</b>	1,669,510	<b>1,842,492</b>	1,669,510

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 46 CAPITAL ADEQUACY (CONTINUED)

The capital adequacy ratios are as follows (continued):

	Economic Entity		The Bank	
	2020 RM'000	2019 RM'000	2020 RM'000	2019 RM'000
<b>Additional Tier 1 capital</b>				
Qualifying capital instruments held by third parties	300,000	300,000	300,000	300,000
	300,000	300,000	300,000	300,000
<b>Total Tier 1 capital</b>	<b>2,142,492</b>	1,969,510	<b>2,142,492</b>	1,969,510
Subordinated medium term financing	800,000	800,000	800,000	800,000
Expected loss provisions #	110,509	155,664	110,509	155,664
<b>Tier II capital</b>	<b>910,509</b>	955,664	<b>910,509</b>	955,664
<b>Total capital</b>	<b>3,053,001</b>	2,925,174	<b>3,053,001</b>	2,925,174
<u>Without transitional arrangements</u>				
CET1 capital ratio	12.025%	11.720%	12.025%	11.720%
Tier 1 capital ratio	14.017%	13.826%	14.017%	13.826%
Total capital ratio	20.271%	20.535%	20.271%	20.535%
CET1 capital ratio (after deducting proposed dividend)	12.025%	11.720%	12.025%	11.720%
Tier 1 capital ratio (after deducting proposed dividend)	14.017%	13.826%	14.017%	13.826%
Total capital ratio (after deducting proposed dividend)	20.271%	20.535%	20.271%	20.535%
<u>With transitional arrangements</u>				
CET1 capital ratio	12.234%	11.720%	12.234%	11.720%
Tier 1 capital ratio	14.226%	13.826%	14.226%	13.826%
Total capital ratio	20.271%	20.535%	20.271%	20.535%
CET1 capital ratio (after deducting proposed dividend)	12.234%	11.720%	12.234%	11.720%
Tier 1 capital ratio (after deducting proposed dividend)	14.226%	13.826%	14.226%	13.826%
Total capital ratio (after deducting proposed dividend)	20.271%	20.535%	20.271%	20.535%
Risk-weighted assets for:				
Credit risk	14,342,941	13,546,899	14,342,941	13,546,899
Market risk	19,079	13,303	19,079	13,303
Operational risk	698,564	684,842	698,564	684,842
<b>Total risk-weighted assets</b>	<b>15,060,584</b>	14,245,044	<b>15,060,584</b>	14,245,044

# Qualifying loss provisions are restricted to allowances on the unimpaired portion of the financing, advances and other financing.

In accordance with BNM's Guidelines on Investment Account, the credit and market risk weighted on the assets funded by the RIA are excluded from calculation of capital adequacy. As at 31 December 2020, RIA assets excluded from Total Capital Ratio calculation amounted to RM1,754,875,226 (2019: RM1,919,347,918)

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

### 47 CREDIT EXPOSURES ARISING FROM TRANSACTIONS WITH CONNECTED PARTIES

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

	The Bank 2020	2019
(i) The aggregate value of outstanding credit exposures with connected parties (RM'000)	<b>1,152,420</b>	1,658,506
(ii) The percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	<b>4%</b>	6%
(iii) The percentage of outstanding credit exposures with connected parties which is impaired	<b>Nil</b>	Nil

### 48 SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

The World Health Organisation declared the outbreak of a Corona virus disease (Covid-19) as a global pandemic in March 2020. The direct and indirect effects of the Covid-19 outbreak have impacted the global economy, markets and the Bank's counterparties and clients.

The Covid-19 effects have a material negative impact on the Bank's results of operations. In particular, the process to determine expected credit losses ('ECL') requires numerous estimates and assumptions, some of which require a high degree of judgement. Changes in the estimates and assumptions can result in significant changes in ECL. The Bank is unable to predict the Covid-19's potential future direct or indirect effects. However, the Bank is taking actions to mitigate the impacts, and will continue to closely monitor the impact and the related risks as they evolve.

### 49 SIGNIFICANT EVENT SUBSEQUENT TO THE FINANCIAL YEAR

On 13 January 2021, the Government of Malaysia reintroduced the movement control order to curb the soaring number of Covid-19 cases. The movement controls may have a negative impact on the Bank's results, similar to that highlighted in Note 48. The Bank is not able to predict the potential future direct or indirect effects resulted from the movement control order. However, the Bank is taking actions to mitigate the impacts, and will continue to closely monitor the impact and the related risks as they evolve.

### 50 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 22 March 2021.

# STATEMENT BY DIRECTORS

## PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, DATO' MOHD ALI BIN MOHD TAHIR and ASSOCIATE PROFESSOR DR. SAID BOUHERAOUA, two of the Directors of AFFIN 75 to 191 are drawn up so as to give a true and fair view of the state of affairs of the Economic Entity and the Bank as at 31 December 2020 and of the results and cash flows of the Economic Entity and the Bank for the financial year ended on the date in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016, in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

**DATO' MOHD ALI BIN MOHD TAHIR**  
Independent Non-Executive Director

Kuala Lumpur

**ASSOCIATE PROFESSOR DR. SAID BOUHERAOUA**  
Director

# STATUTORY DECLARATION

## PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT 2016

I, JOANNE RODRIGUES, being the person primarily responsible for the financial management of AFFIN ISLAMIC BANK BERHAD, do solemnly and sincerely declare that in my opinion, the accompanying financial statements set out on pages 75 to 191 are correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

**JOANNE RODRIGUES**  
MIA No. CA17745

Subscribed and solemnly declared by the abovenamed JOANNE RODRIGUES at Kuala Lumpur in Malaysia on 22 March 2021, before me.

Commissioner for Oaths

# SHARIAH COMMITTEE'S REPORT

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

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

In compliance with the Policy Document of Shariah Governance, Financial Reporting for Islamic Banking Institutions and other relevant guidelines issued by Bank Negara Malaysia, we affirm the following report:

We have reviewed the principles and contracts underlying the transactions and applications offered by AFFIN Islamic Bank Berhad ("the Bank") during the financial period ended 31 December 2020. We have also conducted our review to form an opinion as to whether the Bank has complied with the Shariah principles and rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as our Shariah decisions.

The management of the Bank is responsible to ensure that the Bank conducts its operations, businesses, affairs and activities in accordance with Shariah principles. It is our responsibility to form an independent opinion and deliberation, based on the assessment carried out by the Shariah review and Shariah audit of the Bank and to provide our report.

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

We planned and performed our review so as to obtain all information and explanations which we considered necessary to obtain sufficient evidence in order to give reasonable assurance that the Bank has not violated any Shariah principles.

We conducted interactive sessions and discussions with the directors and senior management to enhance understanding in Islamic finance. Periodic training for staff has been conducted in order to provide adequate knowledge and competency in undertaking related tasks for the business of the Bank.

We have performed an oversight function over the management and distribution of the Bank's charity fund.

In our opinion:

1. The overall operations, businesses, affairs and activities carried out by the Bank during the year ended 31 December 2020 that we have reviewed are in compliance with the Shariah principles;
2. The allocation of profits and incurrence of losses relating to investment accounts conform to the basis that we have approved in accordance with Shariah principles;
3. No earning and purification were recorded from sources or by means that are prohibited by Shariah for the financial year ended 31 December 2020;
4. There was one Shariah non-compliant event discovered involving Tawarruq financings i.e., disbursement was made prior to Tawarruq trading. The rectification has been done by reversing the profit charged and recognizing the profit after completion of Tawarruq trading totaling RM224,122.42. The Bank has correspondingly taken an additional measure to avoid similar events in the future i.e., the reconciliation between the disbursement and Tawarruq trading to be performed on a daily basis;
5. The calculation of zakat is based on 2.5775% of the prior year's working capital method, in accordance with the Shariah principles.

## SHARIAH COMMITTEE'S REPORT

During the financial year ended 31 December 2020, a total of 8 meetings were held. The Shariah Committee comprises the following members and the details of the following members and the details of attendance of each member at the Shariah Committee meetings held during the financial year are as follows:

Members	Total Meetings Attended
Associate Professor Dr. Said Bouheraoua	8/8
Associate Professor Dr. Ahmad Azam bin Othman	8/8
Associate Professor Dr. Zulkifli bin Hasan	6/8
Dr. Mohammad Mahbubi Ali	8/8
Dr. Nor Fahimah binti Mohd Razif	8/8
Associate Professor Datin Dr. Nurdianawati Irwani Abdullah	7/8

We, the members of the Shariah Committee of AFFIN Islamic Bank Berhad, do hereby confirm that the operations of the Bank for the financial year ended 31 December 2020 have been conducted in conformity with the Shariah principles.

Chairman of the Shariah Committee:

\_\_\_\_\_  
**Associate Professor Dr. Said Bouheraoua**

Shariah Committee:

\_\_\_\_\_  
**Associate Professor Dr. Ahmad Azam bin Othman**

Shariah Committee:

\_\_\_\_\_  
**Associate Professor Dr. Zulkifli bin Hasan**

Shariah Committee:

\_\_\_\_\_  
**Dr. Mohammad Mahbubi Ali**

Shariah Committee:

\_\_\_\_\_  
**Dr. Nor Fahimah binti Mohd Razif**

Shariah Committee:

\_\_\_\_\_  
**Associate Professor Datin Dr. Nurdianawati Irwani Abdullah**

Kuala Lumpur, Malaysia  
22 March 2021

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBER OF AFFIN ISLAMIC BANK BERHAD

Incorporated in Malaysia  
Company No. 200501027372 (709506-V)

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Our opinion

In our opinion, the financial statements of AFFIN Islamic Bank Berhad (“the Bank”) give a true and fair view of the financial position of the Economic Entity and of the Bank as at 31 December 2020, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

### What we have audited

We have audited the financial statements of the Economic Entity and of the Bank, which comprise the statements of financial position as at 31 December 2020 of the Economic Entity and of the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Economic Entity and of the Bank for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 75 to 191.

### Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the “Auditors’ responsibilities for the audit of the financial statements” section of our report.

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

### Independence and other ethical responsibilities

We are independent of the Economic Entity and of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants (“By-Laws”) and the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

### Information other than the financial statements and auditors’ report thereon

The Directors of the Bank are responsible for the other information. The other information comprises the Annual Report 2020, but does not include the financial statements of the Economic Entity and of the Bank and our auditors’ report thereon.

Our opinion on the financial statements of the Economic Entity and of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Economic Entity and of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Economic Entity and of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## INDEPENDENT AUDITORS' REPORT

TO THE MEMBER OF AFFIN ISLAMIC BANK BERHAD  
Incorporated in Malaysia  
Company No. 200501027372 (709506-V)

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

#### Responsibilities of the Directors for the financial statements

The Directors of the Bank are responsible for the preparation of the financial statements of the Economic Entity and of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Economic Entity and of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Economic Entity and of the Bank, the Directors are responsible for assessing the Economic Entity's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Economic Entity or the Bank or to cease operations, or have no realistic alternative but to do so.

#### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Economic Entity and of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- a) Identify and assess the risks of material misstatement of the financial statements of the Economic Entity and of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Economic Entity's and of the Bank's internal control.
- c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Economic Entity's or on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Economic Entity and of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Economic Entity or the Bank to cease to continue as a going concern.
- e) Evaluate the overall presentation, structure and content of the financial statements of the Economic Entity and of the Bank, including the disclosures, and whether the financial statements of the Economic Entity and of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.
- f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Economic Entity to express an opinion on the financial statements of the Economic Entity. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.



## INDEPENDENT AUDITORS' REPORT

TO THE MEMBER OF AFFIN ISLAMIC BANK BERHAD  
Incorporated in Malaysia  
Company No. 200501027372 (709506-V)

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

#### Auditors' responsibilities for the audit of the financial statements (continued)

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### OTHER MATTERS

This report is made solely to the member of the Bank, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**PRICEWATERHOUSECOOPERS PLT**  
LLP0014401-LCA & AF 1146  
Chartered Accountants

**NG YEE LING**  
03032/01/2023 J  
Chartered Accountant

Kuala Lumpur, Malaysia  
22 March 2021

# BASEL II PILLAR 3 DISCLOSURES

## TABLE OF CONTENTS

<b>1. Introduction</b>	<b>pg. 199</b>	<b>7. Liquidity Risk</b>	<b>pg. 217</b>
1.1 Background		7.1 Liquidity Risk Management Objectives and Policies	
1.2 Scope of Application		7.2 Liquidity Risk Measurement, Control and Monitoring	
<b>2. Risk Governance Structure</b>	<b>pg. 199</b>	<b>8. Operational Risk</b>	<b>pg. 217</b>
2.1 Overview		8.1 Operational Risk Management Objectives and Policies	
2.2 Board Committees		8.2 Application of Basic Indicator Approach for Operational Risk	
2.3 Management Committees		8.3 Operational Risk Measurement, Control and Monitoring	
2.4 Group Risk Management Function		8.4 Certification	
2.5 Internal Audit and Internal Control Activities		<b>9. Technology Risk</b>	<b>pg. 218</b>
<b>3. Capital Management</b>	<b>pg. 202</b>	9.1 Technology risk objectives and policies	
3.1 Internal Capital Adequacy Assessment Process ('ICAAP')		9.2 Technology risk measurement, control and monitoring	
3.2 Capital Structure		<b>10. Shariah Non-Compliance Risk</b>	<b>pg. 219</b>
3.3 Capital Adequacy		10.1 Shariah non-compliance risk objectives and policies	
<b>4. Risk Management Objectives and Policies</b>	<b>pg. 204</b>	10.2 Shariah non-compliance risk measurement, control and monitoring	
<b>5. Credit Risk</b>	<b>pg. 205</b>	10.3 Shariah non-compliance income	
5.1 Credit Risk Management Objectives and Policies		<b>11. Business Continuity Risk</b>	<b>pg. 220</b>
5.2 Application of Standardised Approach for Credit Risk		11.1 Business continuity risk management objectives and policies	
5.3 Credit Risk Evaluation		11.2 Business continuity risk measurement, control and monitoring	
5.4 Risk Limit Control and Mitigation Policies		<b>Appendices</b>	
5.5 Credit Risk Measurement			
5.6 Credit Risk Monitoring			
5.7 Credit Quality of Financial Assets			
<b>6. Market Risk</b>	<b>pg. 215</b>		
6.1 Market Risk Management Objectives and Policies			
6.2 Application of Standardised Approach for Market Risk Capital Charge Computation			
6.3 Market Risk Measurement, Control and Monitoring			
6.4 Foreign Exchange Risk			

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 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 framework 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 2020. 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 2020 Annual Report for the year ended 31 December 2020.

The capital requirements of the Bank are generally based on the principles of consolidation adopted in the preparation of its financial statements.

There are no significant restrictions or impediments on the transfer of funds or regulatory capital within the Bank.

There were no capital deficiencies in the Bank as at the financial year end.

### 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.

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 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 Committee ('GBRMC')

The GBRMC is responsible for overseeing management activities in managing credit, market, liquidity, operational, legal, reputational and other material risks as well as ensuring that the risk management process is in place and functioning effectively.

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

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

##### Group Board Credit Review and Recovery Committee ('GBCRRC')

The GBCRRC 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.

##### Group Board Audit Committee ('GBAC')

The GBAC 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 GBAC 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 GBAC and administratively to the Group Chief Executive Officer ('GCEO') of AFFIN Bank Berhad.

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 2 RISK GOVERNANCE STRUCTURE (CONTINUED)

#### 2.2 Board Committees (continued)

##### Group Board Information Technology Committee ('GBITC')

The GBITC is responsible to oversee overall development, risk management, integration and alignment of Information Technology (IT) strategy, plan with Affin Bank Group business strategy. Leveraging on technology for new business models, changing business practices, driving competitive advantage and empowering next level thinking. GBITC also oversees the AIM 22 (Affinity In Motion 22) strategic program, to ensure alignment with the business strategic objectives and AIM 22 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 Policy Document on Shariah Governance.

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 of BNM.

#### 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.

##### 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.

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 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 GBCRRC, SC, MCM, GMCC, GALCO, LMC, MCM-GRC 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 GBAC.

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 GBAC and Management meetings on bi-monthly basis. The GBAC also conducts annual reviews on the adequacy of internal audit function, scope of work, resources and budget of GIA.

### 3 CAPITAL MANAGEMENT

#### 3.1 Internal Capital Adequacy Assessment Process ('ICAAP')

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

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

#### 3.2 Capital Structure

The total capital and capital adequacy ratios of the Bank is computed in accordance with BNM's CAFIB (Capital Components).

The Bank is currently adopting the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk. In line with the transitional arrangements under the BNM CAFIB (Capital Components), the minimum capital adequacy requirement for Common Equity Tier 1 Capital Ratio ('CET 1') and Tier 1 Capital Ratio are 7.000% (2019: 7.000%) and 8.500% (2019: 8.500%) respectively for year 2020. The minimum regulatory capital adequacy requirement is 10.500% (2019: 10.500%) for total capital ratio.

The following table sets forth further details on the capital resources and capital adequacy ratios for the Bank as at 31 December 2020.

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

	Economic Entity			The Bank		
	*2020 RM'000	2020 RM'000	2019 RM'000	*2020 RM'000	2020 RM'000	2019 RM'000
Paid-up share capital	1,060,000	1,060,000	1,060,000	1,060,000	1,060,000	1,060,000
Retained profits	768,941	768,941	602,260	768,941	768,941	602,910
Unrealised gains and losses on FVOCI	(4,919)	(4,919)	19,492	(4,919)	(4,919)	19,492
	<b>1,824,022</b>	<b>1,824,022</b>	1,681,752	<b>1,824,022</b>	<b>1,824,022</b>	1,682,402
Goodwill and other intangibles	(558)	(558)	(771)	(558)	(558)	(771)
Deferred tax assets	(12,390)	(12,390)	-	(12,390)	(12,390)	-
55% of cumulative gains on FVOCI	-	-	(10,721)	-	-	(10,721)
Investment in associate/joint ventures	-	-	(750)	-	-	(1,400)
Other CET1 transitional adjustment	31,418	-	-	31,418	-	-
<b>CET1 capital</b>	<b>1,842,492</b>	<b>1,811,074</b>	1,669,510	<b>1,842,492</b>	<b>1,811,074</b>	1,669,510
<b>Additional Tier 1 Capital</b>						
Qualifying capital instruments held by third parties	300,000	300,000	300,000	300,000	300,000	300,000
	<b>300,000</b>	<b>300,000</b>	300,000	<b>300,000</b>	<b>300,000</b>	300,000
<b>Total Tier 1 Capital</b>	<b>2,142,492</b>	<b>2,111,074</b>	1,969,510	<b>2,142,492</b>	<b>2,111,074</b>	1,969,510
Subordinated term financing and medium term notes (MTNs)	800,000	800,000	800,000	800,000	800,000	800,000
Regulatory adjustments #	110,509	141,927	155,664	110,509	141,927	155,664
<b>Tier II capital</b>	<b>910,509</b>	<b>941,927</b>	955,664	<b>910,509</b>	<b>941,927</b>	955,664
<b>Total capital</b>	<b>3,053,001</b>	<b>3,053,001</b>	2,925,174	<b>3,053,001</b>	<b>3,053,001</b>	2,925,174
CET1 capital ratio	12.234%	12.025%	11.720%	12.234%	12.025%	11.720%
Tier 1 capital ratio	14.226%	14.017%	13.826%	14.226%	14.017%	13.826%
Total capital ratio	20.271%	20.271%	20.535%	20.271%	20.271%	20.535%
CET1 capital ratio (net of proposed dividends)	12.234%	12.025%	11.720%	12.234%	12.025%	11.720%
Tier 1 capital ratio (net of proposed dividends)	14.226%	14.017%	13.826%	14.226%	14.017%	13.826%
Total capital ratio (net of proposed dividends)	20.271%	20.271%	20.535%	20.271%	20.271%	20.535%
Risk-weighted assets for:						
Credit risk	14,342,941	14,342,941	13,546,899	14,342,941	14,342,941	13,546,899
Market risk	19,079	19,079	13,303	19,079	19,079	13,303
Operational risk	698,564	698,564	684,842	698,564	698,564	684,842
<b>Total risk-weighted assets</b>	<b>15,060,584</b>	<b>15,060,584</b>	14,245,044	<b>15,060,584</b>	<b>15,060,584</b>	14,245,044

# In accordance with BNM's Guidelines on Investment Account, the credit and market risk weighted on the assets funded by the RIA are included in calculation of capital adequacy for the Bank. As at 31 December 2020, RIA assets included in the Total Capital Ratio calculation amounted to RM1,754.9 million (2019: RM1,919.3 million).

\* The Bank has elected to apply BNM's transitional arrangement for four financial years beginning on 1 January 2020. Under the transitional arrangements, a financial institution is allowed to add back the amount of loss allowance measured at an amount equal to 12-month and lifetime expected credit losses to the extent they are ascribed to non-credit-impaired exposures (which is Stage 1 and Stage 2 provisions), to CET1 capital.

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 3 CAPITAL MANAGEMENT (CONTINUED)

#### 3.2 Capital Structure (continued)

The Bank has issued capital instruments which qualify as components of regulatory capital under the BNM CAFIB (Capital Components), as summarised in the following table:

Capital Instruments		Capital Component	Main Features
<b>Issued by the Bank:</b>			
(a)	Additional Tier-1 Sukuk Wakalah ('AT1S')	Tier 1 Capital	The Bank had on 18 October 2018 issued AT1S of RM300.0 million out of its approved BASEL III Compliant AT1S programme of up to RM300.0 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.
(b)	Medium Term Notes Tier-2 Sukuk Murabahah ('MTN')	Tier 2 Capital	The Bank had on 23 October 2018 issued MTN Tier-2 Sukuk Murabahah of RM800.0 million 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.

#### 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.



## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 5 CREDIT RISK

#### 5.1 Credit Risk Management Objectives and Policies

Credit risk is the risk that a counterparty will fail to meet its contractual obligations which could result in a financial loss to the Bank. The Bank's exposure to credit risks arises primarily from stockbroking trade receivables, share margin financing, corporate/inter-bank lending activities, bonds investment, foreign exchange trading as well as equity and debt underwriting and from participation in securities settlements and payment transactions.

The management of credit risk is governed by a set of approved credit policies, guidelines and procedures to ensure that the overall lending objectives are in compliance with the internal and regulatory requirements. The risk management policies are subject to review by the Group Board Risk Management Committee ('GBRMC'), a sub-committee of the Board that reviews the adequacy of the Bank's risk policies and framework. The Bank's credit risk framework is further strengthened through an established process for the approval and review of proposals that comprises the Group Management Credit Committee ('GMCC') and the Group Board Credit Review and Recovery Committee ('GBCRRC'). The GMCC represents the approving authority for credit and underwriting proposals, whilst the GBCRRC is the committee that reviews proposals that exceed specified limits and criteria, as well as to consider whether to reject the proposal or modify the terms of the proposal.

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

The Bank is supportive of its credit officers in pursuing the Professional Credit Certification ('PCC') programme offered by the Asian Institute of Chartered Bankers ('AICB'). Upon attaining the PCC certification, credit officers are expected to demonstrate sound understanding of credit process and competence to undertake credit roles and responsibilities.

#### 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.

#### 5.3 Credit Risk Evaluation

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

A number of relevant qualitative and quantitative factors are taken into consideration in the identification and analysis of a counterparty's credit risk. Each counterparty is assigned a credit rating which considers factors such as competitive position, operating performance, cash flow strength and management strength.

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 5 CREDIT RISK (CONTINUED)

#### 5.3 Credit Risk Evaluation (continued)

All corporate financing, underwritings and corporate debt securities investments are independently evaluated by the Bank's credit management function and approved by the relevant approving authorities based on the Authority Matrix approved by the Board.

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. For share margin financing, the credit decisions are guided by an internally developed rating scorecard as well as other terms and conditions stipulated in the Bank's Margin Financing Policy. The credit risk of share margin financing is largely mitigated by the holding of collateral in the form of marketable securities.

#### 5.4 Risk Limit Control and Mitigation Policies

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

##### Financing limits

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

The credit risk exposure for derivatives due to potential exposure arising from market movements and financing books are managed on an aggregated basis as part of the overall financing limits with customers.

##### Collateral

Credits are established against customer's capacity to pay rather than relying solely on security. However, collateral may be taken to mitigate credit risk.

The main collateral types accepted and given value by the Bank are:

- Mortgage over residential;
- Charges over commercial real estate or vehicles financed;
- Charges over business assets such as business premises, inventory and accounts receivable; and
- Charges over financial instruments such as marketable securities.

The Bank prepares a valuation of the collateral obtained as part of the financing origination process. This assessment is reviewed periodically.

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

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

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

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 5 CREDIT RISK (CONTINUED)

#### 5.4 Risk Limit Control and Mitigation Policies (continued)

##### Credit related commitments

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

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

Refer to Appendix IV (a) to (b).

#### 5.5 Credit risk measurement

##### 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.

##### 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 quantitative modelling, the remaining lifetime Probability of Default ('PD') is determined to have increased by more than a predetermined percentage/range.

Using expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk ('SICR') 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 ("DPD"). 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; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 5 CREDIT RISK (CONTINUED)

#### 5.5 Credit risk measurement (continued)

##### Measurement of ECL

The Bank use three categories for financial instruments at amortised cost for recognising ECL.

Category	Definition	Basic for recognising
Performing accounts (Stage1)	<ul style="list-style-type: none"> <li>- Financial assets that do not have significant increase in credit risk since initial recognition of the asset and therefore, less likely to default;</li> <li>- Performing accounts with credit grade 13 or better.;</li> <li>- Accounts past due less than or equal to 30 days or;</li> <li>- For early control accounts where on that has risk or potential weakness which if left unchecked, may result in significant deterioration of payment and prospect and transfer to underperforming status (stage 2) or worse.</li> </ul>	12 - month ECL
Underperforming accounts (Stage 2)	<ul style="list-style-type: none"> <li>- Accounts with significant increase in credit risk since initial recognition and if left uncorrected, may result in impairment of the accounts within the next 12 months;</li> <li>- Accounts past due more than 30 days but less than or equals co 90 days;</li> <li>- Account demonstrates critical level of risk and therefore, credit graded to 14 and place under watchlist;</li> </ul>	Lifetime ECL - not credit impaired
Impaired accounts (Stage 3)	<ul style="list-style-type: none"> <li>- Impaired credit;</li> <li>- Credit grade 15 or worse;</li> <li>- Accounts past due more than 90 days.</li> <li>- All restructure and rescheduling (R&amp;R) accounts due to credit deterioration are to be classified as impaired.</li> </ul>	Lifetime ECL - credit impaired
Write-off	<ul style="list-style-type: none"> <li>- Evidence indicating that there is no reasonable expectation of recovery based on unavailability of debtor's sources of income or;</li> <li>- Assets unable to generate sufficient future cash flow to pay the amount.</li> </ul>	Asset is written off

The Bank has not used the low credit risk exemption for any financial instrument for the year ended 31 December 2020.

##### Term structure of ECL variables

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 is the likelihood of a counterparty defaulting on its contractual obligations to a financial institution over a given time horizon and 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 or changes in past due status, 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.

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 5 CREDIT RISK (CONTINUED)

#### 5.5 Credit risk measurement (continued)

##### Term structure of ECL variables (continued)

The Bank's holding company collects performance and default information about its credit risk exposures analysed 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 leverages on its holding company's statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

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

LGD is the magnitude of the likely loss if there is a default. LGD parameters are estimated based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective profit rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

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

ECL is determined by projecting the PD, LGD and EAD at each future point on a yearly basis on individual exposure, or collective segment, and discounting these monthly expected losses back to the reporting date. The discount rate used in the ECL calculation is the original profit rate or an approximation thereof.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any customer's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require payment of an advance or terminate a financing commitment or guarantee.

Forward looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- product/instrument type;
- past due status;
- credit risk grading;
- collateral type;

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 5 CREDIT RISK (CONTINUED)

#### 5.5 Credit risk measurement (continued)

##### Term structure of ECL variables (continued)

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period that have material impact to ECL.

##### 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. A 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios are formulated.

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.

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 years.

#### 5.6 Credit Risk Monitoring

Corporate credits and large individual accounts are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. This is to ensure that the credit grades remain appropriate and to detect any signs of weaknesses or deterioration in the credit quality. Remedial action is taken where evidence of deterioration exists.

Significant Increase in Credit Risk 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 non-performing. 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 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, analyze and mitigate adverse trends or specific areas of risk concerns.

The Bank conducts post-mortem reviews on newly impaired financing to determine the key reason(s) and/or driver(s) leading to the account being classified as impaired, take appropriate remedial actions or measures and establish lessons learned to minimize potential or future credit loss from similar or repeat events.

In addition, an independent credit review is undertaken by Risk Management Department ('RMD') to ensure that credit decision-making is consistent with the Bank's overall credit risk appetite and strategy.

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 5 CREDIT RISK (CONTINUED)

#### 5.7 Credit quality of financial assets

##### Total financing, advances and other financing - credit quality

All financing, advances and other financing are categorised into 'neither past due nor impaired', 'past due but not impaired' and 'impaired'. Past due financing refers to financing, advances and other financing that are overdue by one day or more. Financing, advances and other financing are classified impaired when they fulfill any of the following criteria:

- i) the principal or profit or both is past due more than 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')

##### Analysed by economic sectors

##### Past due financing

Economic Entity and The Bank	2020			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Primary agriculture	417	961	-	1,378
Mining and quarrying	-	-	-	-
Manufacturing	9,330	3,349	-	12,679
Electricity, gas and water supply	91	134	-	225
Construction	10,584	52,011	-	62,595
Real estate	14,213	38,357	-	52,570
Wholesale & retail trade and restaurants & hotels	10,886	39,712	-	50,598
Transport, storage and communication	26,531	5,407	-	31,938
Finance, takaful/insurance and business services	7,880	10,637	-	18,517
Education, health and others	1,995	2,605	-	4,600
Household	522,844	553,195	-	1,076,039
	<b>604,771</b>	<b>706,368</b>	<b>-</b>	<b>1,311,139</b>

Economic Entity and The Bank	2019			
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Primary agriculture	1,372	660	-	2,032
Mining and quarrying	-	-	-	-
Manufacturing	2,339	2,180	-	4,519
Electricity, gas and water supply	312	103	-	415
Construction	7,575	6,214	-	13,789
Real estate	29,993	10,477	-	40,470
Wholesale & retail trade and restaurants & hotels	8,442	7,595	-	16,037
Transport, storage and communication	18,776	2,745	-	21,521
Finance, takaful/insurance and business services	6,106	7,032	-	13,138
Education, health and others	59,651	1,563	-	61,214
Household	561,007	454,095	-	1,015,102
	<b>695,573</b>	<b>492,664</b>	<b>-</b>	<b>1,188,237</b>

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 5 CREDIT RISK (CONTINUED)

#### 5.7 Credit quality of financial assets (continued)

Analysed by economic sectors (continued)

Expected credit losses

Economic Entity and The Bank	2020			Total RM'000
	12-month ECL Stage 1 RM'000	Lifetime ECL Not credit impaired Stage 2 RM'000	Lifetime ECL credit impaired Stage 3 RM'000	
Primary agriculture	3,330	8	77	3,415
Mining and quarrying	190	-	13	203
Manufacturing	2,872	273	514	3,659
Electricity, gas and water supply	477	1	45	523
Construction	987	7,214	1,067	9,268
Real estate	10,521	25,113	4,193	39,827
Wholesale & retail trade and restaurants & hotels	3,024	3,136	561	6,721
Transport, storage and communication	754	1,789	24,005	26,548
Finance, takaful/insurance and business services	1,552	1,907	204	3,663
Education, health and others	1,854	2,963	178	4,995
Household	21,230	12,302	51,573	85,105
Government	470	-	-	470
	<b>47,261</b>	<b>54,706</b>	<b>82,430</b>	<b>184,397</b>

Economic Entity and The Bank	2019			Total RM'000
	12-month ECL Stage 1 RM'000	Lifetime ECL Not credit impaired Stage 2 RM'000	Lifetime ECL credit impaired Stage 3 RM'000	
Primary agriculture	2,711	8	25	2,744
Mining and quarrying	118	-	-	118
Manufacturing	2,090	27	561	2,678
Electricity, gas and water supply	556	2	17	575
Construction	1,022	89	772	1,883
Real estate	5,544	6,128	39,599	51,271
Wholesale & retail trade and restaurants & hotels	1,627	153	930	2,710
Transport, storage and communication	559	138	11,154	11,851
Finance, takaful/insurance and business services	1,045	2,534	739	4,318
Education, health and others	2,004	19	187	2,210
Household	33,225	8,073	50,372	91,670
Government	542	-	-	542
	<b>51,043</b>	<b>17,171</b>	<b>104,356</b>	<b>172,570</b>



## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 5 CREDIT RISK (CONTINUED)

#### 5.7 Credit quality of financial assets (continued)

Analysed by economic sectors (continued)

Expected credit losses written-off

Economic Entity and The Bank	2020 Lifetime ECL credit impaired Stage 3 RM'000	2019 Lifetime ECL credit impaired Stage 3 RM'000
Manufacturing	69	108
Electricity, gas and water supply	-	17
Construction	598	657
Wholesale & retail trade and restaurants & hotels	329	637
Transport, storage and communication	162	214
Finance, takaful/insurance and business services	72,140	2,315
Education, health and others	2	96
Household	9,188	15,355
	<b>82,488</b>	19,399

Analysed by geographical area

Past due financing

Economic Entity and The Bank	2020			Total RM'000
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	
Perlis	1,329	1,632	-	2,961
Kedah	36,208	104,048	-	140,256
Pulau Pinang	27,622	29,047	-	56,669
Perak	24,755	29,817	-	54,572
Selangor	215,233	208,858	-	424,091
Wilayah Persekutuan	88,733	112,377	-	201,110
Negeri Sembilan	36,774	68,430	-	105,204
Melaka	16,350	16,056	-	32,406
Johor	71,592	77,647	-	149,239
Pahang	22,000	16,103	-	38,103
Terengganu	20,512	23,021	-	43,533
Kelantan	11,090	12,937	-	24,027
Sarawak	5,870	2,236	-	8,106
Sabah	6,221	4,159	-	10,380
Labuan	20,482	-	-	20,482
	<b>604,771</b>	<b>706,368</b>	<b>-</b>	<b>1,311,139</b>

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 5 CREDIT RISK (CONTINUED)

#### 5.7 Credit quality of financial assets (continued)

Analysed by geographical area (continued)

Past due financing (continued)

Economic Entity and The Bank	2019			Total RM'000
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	
Perlis	57,222	975	-	58,197
Kedah	36,905	38,998	-	75,903
Pulau Pinang	23,548	28,885	-	52,433
Perak	24,400	29,601	-	54,001
Selangor	265,478	162,773	-	428,251
Wilayah Persekutuan	83,626	47,630	-	131,256
Negeri Sembilan	48,371	49,488	-	97,859
Melaka	15,334	15,496	-	30,830
Johor	81,187	61,016	-	142,203
Pahang	21,584	12,319	-	33,903
Terengganu	19,551	22,608	-	42,159
Kelantan	10,127	11,831	-	21,958
Sarawak	2,528	3,520	-	6,048
Sabah	5,712	7,524	-	13,236
	695,573	492,664	-	1,188,237

Analysed by geographical area

Expected credit losses

Economic Entity and The Bank	2020			Total RM'000
	Lifetime ECL 12-month ECL	Lifetime ECL Not credit impaired	credit impaired	
	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	
Perlis	1,336	21	884	2,241
Kedah	1,850	9,008	2,161	13,019
Pulau Pinang	2,223	1,991	1,976	6,190
Perak	1,173	473	26,464	28,110
Selangor	13,608	10,071	23,488	47,167
Wilayah Persekutuan	11,837	23,918	10,245	46,000
Negeri Sembilan	2,174	1,476	5,525	9,175
Melaka	758	284	969	2,011
Johor	4,818	4,207	6,515	15,540
Pahang	1,275	964	435	2,674
Terengganu	936	291	1,677	2,904
Kelantan	761	184	1,538	2,483
Sarawak	2,158	286	96	2,540
Sabah	2,236	1,532	457	4,225
Labuan	118	-	-	118
	47,261	54,706	82,430	184,397

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 5 CREDIT RISK (CONTINUED)

#### 5.7 Credit quality of financial assets (continued)

Analysed by geographical area (continued)

Expected credit losses (continued)

Economic Entity and The Bank	2019			Total RM'000
	Lifetime ECL 12-month ECL Stage 1 RM'000	Lifetime ECL Not credit impaired Stage 2 RM'000	credit impaired Stage 3 RM'000	
Perlis	1,100	18	100	1,218
Kedah	2,585	1,158	2,683	6,426
Pulau Pinang	2,582	582	2,962	6,126
Perak	1,573	554	13,142	15,269
Selangor	17,260	4,913	23,394	45,567
Wilayah Persekutuan	7,812	4,944	6,327	19,083
Negeri Sembilan	2,953	890	5,045	8,888
Melaka	906	214	1,520	2,640
Johor	6,622	1,741	5,481	13,844
Pahang	1,815	225	783	2,823
Terengganu	1,355	303	1,672	3,330
Kelantan	655	178	1,048	1,881
Sarawak	1,259	53	117	1,429
Sabah	2,463	1,398	483	4,344
Labuan	103	-	-	103
Outside Malaysia	-	-	39,599	39,599
	51,043	17,171	104,356	172,570

### 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.

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 6 MARKET RISK (CONTINUED)

#### 6.1 Market Risk Management Objectives and Policies (continued)

##### Risk Management Policies and Procedures

Risk management policies and procedures are reviewed and updated to ensure relevance to current business needs as well as current/applicable regulatory requirements such as BNM's policy documents on:

- a) Managing Unauthorised Trading & Market Manipulation,
- b) Code of Conduct for Malaysia Wholesale Financial Markets, and
- c) Principles for a Fair and Effective Financial Market for Malaysian Financial Market.

#### 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 primarily arising from extreme movements in profit rates and foreign exchange rates based on past experiences and simulated stress scenarios.

#### 6.4 Foreign Exchange Risk

The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The risk of fluctuations in foreign currency exchange rates is managed via setting of thresholds on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 7 LIQUIDITY RISK

#### 7.1 Liquidity Risk Management Objectives and Policies

Liquidity risk is the risk of inability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. Liquidity risk includes the inability to manage sudden decreases or changes in funding sources. Liquidity risk also arises from the failure to recognise changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

The Liquidity Risk Management Framework governs the liquidity risk management activities of the Bank. The objective of liquidity risk management is to ensure that there are sufficient funds to meet contractual and regulatory obligations without incurring unacceptable losses as well as to undertake new transactions. The Bank's liquidity management process involves establishing liquidity risk management policies and prudential thresholds, liquidity risk threshold monitoring, stress testing and establishing contingency funding plans. These building blocks of liquidity risk management are subject to regular reviews to ensure relevance in the context of prevailing market conditions and regulatory landscape.

#### 7.2 Liquidity Risk Measurement, Control and Monitoring

The Bank's short term liquidity risk management is premised on BNM's Liquidity Coverage Ratio ('LCR') final standards. The LCR is a quantitative requirement which seeks to ensure that the Bank holds sufficient high-quality liquid assets ('HQLA') to withstand a significant liquidity stress scenario over a 30-day horizon. Long term liquidity risk profile is assessed via the Net Stable Funding Ratio ('NSFR') which promotes resilience over a longer time horizon for the Bank to fund its activities with more stable sources of funding on an ongoing basis.

The Bank also employs a set of liquidity risk indicators as an early alert of any structural change for liquidity risk management. The liquidity risk indicators include internal and external qualitative as well as quantitative indicators.

Liquidity stress tests are conducted periodically and on ad-hoc basis to gauge the Bank's resilience in the event of a liquidity disruption.

The Contingency Funding Plan provides a systematic approach in handling liquidity disruption. The document encompasses strategies, decision-making authorities, and courses of action to be taken in the event of liquidity crisis and emergencies, enabling the Bank to respond to an unexpected liquidity disruption in an effective and efficient manner.

The GBRMC is responsible for the Bank's liquidity policy and the strategic management of liquidity has been delegated to the GALCO. The GBRMC is informed regularly on the liquidity position of the Bank.

### 8 OPERATIONAL RISK

#### 8.1 Operational Risk Management Objectives and Policies

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or external events. The definition includes legal risk, and exposure to litigation from all aspects of the Bank's activities, but excludes strategic business, reputational and systemic risks.

The Group Operational Risk Management Framework governs the management of operational risk across the Group and the Bank. GBRMC endorses all policies changes relating to operational risk prior to Board's approval. Management Committee Meeting - Governance Risk Compliance ('MCM-GRC') supports GBRMC in the review and monitoring of operational risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

The Operational Risk Management ('ORM') function within GRM operates in independent capacity to facilitate business/support units managing the risks in activities associated with the operational function of the Bank.

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 8 OPERATIONAL RISK (CONTINUED)

#### 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

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')

Note: Process to assist Business / Support Unit to identify and assess the operational risks, identify controls and assess controls effectiveness.

- Key Risk Indicator ('KRI')

Note: Process to monitor and manage key operational risk exposures over time, measured against a set of threshold levels (Red, Amber & Green).

- Loss Event Reporting ('LER')

Note: Process for reporting, evaluating and monitoring operational risk loss incidents including service disruption due to system failure, secrecy breach and Shariah Non-Compliance (SNC)

- Scenario Analysis (ScAn)

Note: Process to process in the creation of plausible operational risk events and has become an essential element in the operational risk management and measurement.

Introduction of new products or services are evaluated to assess suitability, potential risks and operational readiness. Business Risk Compliance Manager ('BRCM') are appointed at business and support units as champions of ORM activities within respective units. The BRCM is responsible for the reporting of ORM activities and to liaise with Group Operational Risk Management on all operational defects and results. The current BRCM structure is the combined functions to replace both Operational Risk Coordinators ("ORC") and Business Unit Compliance Officer ("BUCO").

#### 8.4 Certification

As an internal requirement, all BRCM must satisfy an Internal Operational Risk (including business continuity management) Certification Program. These coordinators will first go through an online self learning exercise before attempting online assessments to measure their skills and knowledge level. This will enable Group Risk Management to prescribe appropriate training and development activities for the coordinators.

### 9 TECHNOLOGY RISK

#### 9.1 Technology risk objectives and policies

Technology risk is any potential for technology failures and cyber threats that may disrupt business such as failures of information technology (IT) systems, applications, platforms or infrastructures including threats or vulnerabilities exposed from external network or Internet, which could result in financial loss, financial services disruption or the operations of the Bank.

The Group Technology Risk Management Framework governs the management of technology risk across the Bank.

The technology risk management function within GRM manages the risks associated with technology risk of the Bank. GORMC supports GBRMC in the review and monitoring of technology risks and provides the forum to discuss and manage all aspects of technology risk. GBRMC is responsible to provide oversight of overall technology related matters of the Bank.

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 9 TECHNOLOGY RISK (CONTINUED)

#### 9.2 Technology risk measurement, control and monitoring

The Bank uses risk identification and assessment to determine the extent of the potential threat and the risk associated with an IT system throughout its System Development Life Cycle ('SDLC'). The output of this process helps to identify appropriate controls for reducing or eliminating risk during the risk mitigation process.

Technology risk controls encompass the use of technical and nontechnical methods. Technical controls are safeguards that are incorporated into computer hardware, software, or firmware (e.g., access control mechanisms, identification and authentication mechanisms, encryption methods, intrusion detection software). Nontechnical controls are management and operational controls, such as security policies; operational procedures; and personnel, physical, and environmental security.

### 10 SHARIAH NON-COMPLIANCE RISK

#### 10.1 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.

BNM has on 20 September 2019 issued the Policy Document on Shariah Governance which supercedes the Shariah Governance Framework issued on 22 October 2010. The Shariah Supervision and Compliance Framework and the bank's Shariah Risk Management Framework are the main reference for the Shariah governance and Shariah risk management process within AFFIN Islamic Bank Berhad.

The Bank's Shariah Committee ('AISC') is established to deliberate on Shariah issues presented to them and provide resolution as well as guidance. GORMC together with GBRMC assist the Board in the overall oversight of Shariah risk management of the Bank.

Shariah Risk Management is part of an integrated risk management control function to systematically identify all possible risks of SNC and where appropriate, to provide mitigating measures that need to be taken to reduce the risk. The scope covers overall business activities and operations, commencing from Islamic product origination until maturity.

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 10 SHARIAH NON-COMPLIANCE RISK (CONTINUED)

#### 10.2 Shariah non-compliance risk measurement, control and monitoring

SNC risk is proactively managed with the following tools:

1. SNC Event Reporting to BNM to collect, evaluate, monitor and report Shariah loss data;
2. Shariah Risk and Control Self-Assessment ('RCSA')/Risk Profiling to assist business/functional unit to identify and assess risks and controls. RCSA will be performed annually or as and when there is occurrence of significant events either internal or external;
3. Key Risk Indicator ('KRI') to predict and highlight any potential high risk area. These indicators will be reviewed on a periodic basis (monthly or quarterly) to alert Management to changes that may have risk concerns; and
4. Key Control Standard ('KCS') to validate the effectiveness of control measures.

#### 10.3 Shariah non-compliance income during the year

	<b>Economic Entity and The Bank</b>	
	<b>2020</b>	<b>2019</b>
	<b>RM'000</b>	<b>RM'000</b>
Shariah Non-Compliant Income	-	-

There was one Shariah non-compliant event discovered involving Tawarruq financings i.e. disbursement was made prior to Tawarruq trading. The Bank has completed the Tawarruq trading for the 22 accounts involved. The Tawarruq trading is based on similar Sale Price and maturity. The amount disbursed prior to Tawarruq trading is considered as Qard. All profits earned have been reversed. After the trading has been done, the Bank immediately recognized the profit from new Tawarruq trading which was equivalent to the profit amount that have been reversed.

### 11 BUSINESS CONTINUITY RISK

#### 11.1 Business continuity risk management objectives and policies

Business continuity risk is the risk of losses in assets, revenue, reputation and stakeholder/customer confidence due to the discontinuation of services in both business and technology operations.

The Business Continuity Management Framework governs the management of business continuity issues, in line with BNM Guidelines on Business Continuity Management ('BCM').

GBRMC approves all policies and its changes relating to business continuity management. It also review, monitor and discuss business continuity management reports tabled at its meetings. GORMC supports GBRMC in the review and monitoring of Business Continuity Risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

The BCM function is an independent body overseeing the management of the overall business continuity risk.



## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 11 BUSINESS CONTINUITY RISK (CONTINUED)

#### 11.2 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.

AS AT 31<sup>ST</sup> DECEMBER 2020

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  
2020**

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%
<b>1 CREDIT RISK</b>					
On-Balance Sheet Exposures					
Corporates	5,520,673	5,369,576	4,987,252	4,987,252	398,980
Regulatory Retail	4,708,681	4,435,179	3,330,457	3,330,457	266,437
Other Assets	159,413	159,413	111,582	111,582	8,927
Sovereigns/Central Banks	5,205,489	5,205,489	-	-	-
Banks, Development Financial Institutions & MDBs	98,099	95,436	32,718	32,718	2,617
Takaful/Insurance Companies, Securities Firms & Fund Managers	209	209	209	209	17
Residential Mortgages	7,640,669	7,628,450	4,818,388	4,818,388	385,471
Higher Risk Assets	1,092	1,108	1,637	1,637	131
Defaulted Exposures	235,018	234,994	240,205	240,205	19,216
<b>Total for On-Balance Sheet Exposures</b>	<b>23,569,343</b>	<b>23,129,854</b>	<b>13,522,448</b>	<b>13,522,448</b>	<b>1,081,796</b>
Off-Balance Sheet Exposures					
Off-Balance Sheet Exposures other than OTC derivatives or credit derivatives	1,072,474	1,072,474	819,919	819,919	65,593
Defaulted Exposures	750	750	574	574	46
<b>Total for Off-Balance Sheet Exposures</b>	<b>1,073,224</b>	<b>1,073,224</b>	<b>820,493</b>	<b>820,493</b>	<b>65,639</b>
<b>Total for On and Off-Balance Sheet Exposures</b>	<b>24,642,567</b>	<b>24,203,078</b>	<b>14,342,941</b>	<b>14,342,941</b>	<b>1,147,435</b>
<b>2 MARKET RISK</b>					
Profit Rate Risk					
Foreign Currency Risk	274,354	(218)	8,958	8,958	717
	10,121	10,121	10,121	10,121	810
<b>3 OPERATIONAL RISK</b>					
Operational Risk			698,564		55,885
<b>Total RWA and Capital Requirements</b>			<b>15,060,584</b>	<b>14,362,020</b>	<b>1,204,847</b>

OTC "Over-The-Counter"

PSIA "Profit Sharing Investment Account"

# BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

APPENDIX I

## Disclosure on Capital Adequacy under the Standardised Approach (RM'000)

Economic Entity and The Bank  
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%
<b>1 CREDIT RISK</b>					
On-Balance Sheet Exposures					
Corporates	5,330,864	5,233,716	4,393,477	4,393,477	351,478
Regulatory Retail	4,730,311	4,604,727	3,457,933	3,457,933	276,635
Other Assets	716,087	716,087	73,457	73,457	5,877
Sovereigns/Central Banks	2,975,357	2,975,357	-	-	-
Banks, Development Financial Institutions & MDBs	20,562	20,562	2,092	2,092	167
Takaful/Insurance Companies, Securities Firms & Fund Managers	100	100	100	100	8
Residential Mortgages	7,176,635	7,162,324	4,314,662	4,314,662	345,173
Higher Risk Assets	117,277	113,192	166,647	166,647	13,332
Defaulted Exposures	247,323	247,179	279,980	279,980	22,398
<b>Total for On-Balance Sheet Exposures</b>	<b>21,314,516</b>	<b>21,073,244</b>	<b>12,688,348</b>	<b>12,688,348</b>	<b>1,015,068</b>
Off-Balance Sheet Exposures					
Off-Balance Sheet Exposures other than OTC derivatives or credit derivatives	1,241,787	1,241,787	856,193	856,193	68,495
Defaulted Exposures	2,153	2,153	2,358	2,358	189
<b>Total for Off-Balance Sheet Exposures</b>	<b>1,243,940</b>	<b>1,243,940</b>	<b>858,551</b>	<b>858,551</b>	<b>68,684</b>
<b>Total for On and Off-Balance Sheet Exposures</b>	<b>22,558,456</b>	<b>22,317,184</b>	<b>13,546,899</b>	<b>13,546,899</b>	<b>1,083,752</b>
<b>2 MARKET RISK</b>					
	Long Position	Short Position			
Profit Rate Risk	494,270	499,950	7,100	7,100	561
Foreign Currency Risk	1,366	6,203	6,203	6,203	7,295
<b>OPERATIONAL RISK</b>					
Operational Risk			684,842		54,787
<b>Total RWA and Capital Requirements</b>			<b>14,245,044</b>	<b>13,560,202</b>	<b>1,146,395</b>

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

## BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

### 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 foreign exchange financial instruments.

The Banks 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.

# BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

## APPENDIX II

### Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000)

Economic Entity and The Bank  
2020

← Exposures after Netting and Credit Risk Mitigation →

Risk Weighted	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%	5,216,518	-	-	-	-	-	-	-	32,442	-	-	5,248,960	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	57,939	-	67,041	-	441,244	-	-	-	19,324	-	-	585,548	117,110
35%	-	-	-	-	-	-	-	-	-	-	-	3,154,308	1,104,008
50%	-	-	53,432	-	123,969	51	3,154,308	1,865,513	-	-	-	2,042,965	1,021,482
70%	-	-	-	-	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	4,494,291	5,857	-	-	-	-	4,500,148	3,375,111
90%	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	209	5,536,351	12,922	2,905,775	-	107,735	-	-	8,562,992	8,562,992
110%	-	-	-	-	-	-	-	-	-	-	-	-	-
115%	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	104,750	1,582	-	1,827	-	-	-	108,159	162,238
250%	-	-	-	-	-	-	-	-	-	-	-	-	-
270%	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-
Average Risk Weigh	-	-	-	-	-	-	-	-	-	-	-	-	-
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-

PSE "Public Sector Entities"  
MDB "Multilateral Development Banks"  
FDI "Financial Development Institutions"

AS AT 31<sup>ST</sup> DECEMBER 2020

**Disclosure on Credit Risk: Disclosures on Risk Weights under the Standardised Approach (RM'000)**

Economic Entity and The Bank  
2019

← Exposures after Netting and Credit Risk Mitigation →

Risk Weighted	Sovereigns & Central Banks	PSEs	Banks, MDBs and FDIs	Takaful/ Insurance Companies, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing /Investment Securitisation	Equity	Total Exposure after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
0%	3,030,244	-	10,100	-	487,665	-	-	-	591,452	-	-	4,119,461	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	55,236	-	13,350	-	461,687	-	-	-	63,972	-	-	594,245	118,849
35%	-	-	-	-	-	-	3,421,990	-	-	-	-	3,421,990	1,197,697
50%	-	-	2,790	-	77,555	1,095	1,626,938	3,141	-	-	-	1,711,519	855,759
70%	-	-	-	-	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	4,736,491	2,902	-	-	-	-	4,739,393	3,554,546
90%	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	100	4,954,317	17,139	2,519,219	191	60,663	-	-	7,551,629	7,551,629
110%	-	-	-	-	-	-	-	-	-	-	-	-	-
115%	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	34,245	8,390	25,398	110,913	-	-	-	178,946	268,419
250%	-	-	-	-	-	-	-	-	-	-	-	-	-
270%	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-
Average Risk Weigh	-	-	-	-	-	-	-	-	-	-	-	-	-
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-

PSE "Public Sector Entities"  
MDB "Multilateral Development Banks"  
FDI "Financial Development Institutions"

# BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

## APPENDIX III

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

Economic Entity and The Bank  
2020

		Ratings of Corporate by Approved ECAIs					
Exposure Class	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	B+ to D	Unrated
<b>On and Off-Balance-Sheet Exposures</b>							
<b>Credit Exposures (using Corporate Risk Weights)</b>							
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	-	-
Takaful/Insurance Companies, Securities Firms & Fund Managers		-	-	-	-	-	209
Corporates		139,817	-	-	-	-	6,066,496
<b>Total</b>		139,817	-	-	-	-	6,066,705

AS AT 31<sup>ST</sup> DECEMBER 2020

**Disclosures on Rated Exposures according to Ratings by ECAs (RM'000)**

Economic Entity and The Bank  
2019

Exposure Class	Ratings of Corporate by Approved ECAs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	B+ to D	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	B+ to D	Unrated
<b>On and Off-Balance-Sheet Exposures</b>							
<b>Credit Exposures (using Corporate Risk Weights)</b>							
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	-	100
Takaful/Insurance Companies, Securities Firms & Fund Managers		99,829	-	-	-	-	5,915,641
Corporates							
<b>Total</b>		99,829	-	-	-	-	5,915,741



# BASEL II PILLAR 3 DISCLOSURES

AS AT 31<sup>ST</sup> DECEMBER 2020

## APPENDIX III

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

#### Economic Entity and The Bank 2020

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated	
Moody's							
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	
<b>On and Off-Balance-Sheet Exposures</b>							
Sovereigns and Central Banks	302,950	4,331,581	-	-	-	639,926	
<b>Total</b>	302,950	4,331,581	-	-	-	639,926	

#### Ratings of Banking Institutions by Approved ECAIs

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated	
Moody's							
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	
<b>On and Off-Balance-Sheet Exposures</b>							
Banks, MDBs and FDIs	8,918	50,328	-	-	-	61,227	
<b>Total</b>	8,918	50,328	-	-	-	61,227	

AS AT 31<sup>ST</sup> DECEMBER 2020

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

Economic Entity and The Bank  
2019

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
<u>On and Off-Balance-Sheet Exposures</u> <u>Sovereigns and Central Banks</u>		-	3,085,480	-	-	-	-
Total		-	3,085,480	-	-	-	-

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3-	A1 to A3	BBB1+ to BBB3	BB1 to B3	C1+ to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
<u>On and Off-Balance-Sheet Exposures</u> <u>Banks, MDBs and FDIs</u>		2,888	-	-	-	-	23,352
Total		2,888	-	-	-	-	23,352

## APPENDIX IV

BASEL II  
PILLAR 3 DISCLOSURESAS AT 31<sup>ST</sup> DECEMBER 2020

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

Economic Entity and The Bank  
2020

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees /Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
<b>Credit Risk</b>				
<u>On-Balance Sheet Exposures</u>				
Sovereigns/Central Banks	5,205,489	-	-	-
Banks, Development Financial Institutions & MDBs	98,099	-	2,663	-
Takaful/Insurance Cos, Securities Firms & Fund Managers	209	-	-	-
Corporates	5,520,673	208,329	151,369	-
Regulatory Retail	4,708,681	-	272,703	-
Residential Mortgages	7,640,669	-	12,731	-
Higher Risk Assets	1,092	-	-	-
Other Assets	159,413	-	-	-
Defaulted Exposures	235,018	-	23	-
<b>Total for On-Balance Sheet Exposures</b>	<b>23,569,343</b>	<b>208,329</b>	<b>439,489</b>	<b>-</b>
<u>Off-Balance Sheet Exposures</u>				
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	1,072,474	-	-	-
Defaulted Exposures	750	-	-	-
<b>Total for Off-Balance Sheet Exposures</b>	<b>1,073,224</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>24,642,567</b>	<b>208,329</b>	<b>439,489</b>	<b>-</b>

## BASEL II PILLAR 3 DISCLOSURES

## APPENDIX IV

AS AT 31<sup>ST</sup> DECEMBER 2020

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

Economic Entity and The Bank  
2019

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees /Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
<u>Credit Risk</u>				
<u>On-Balance Sheet Exposures</u>				
Sovereigns/Central Banks	2,975,357	-	-	-
Banks, Development Financial Institutions & MDBs	20,562	-	-	-
Takaful/Insurance Cos, Securities Firms & Fund Managers	100	-	-	-
Corporates	5,330,864	182,057	97,135	-
Regulatory Retail	4,730,311	-	125,583	-
Residential Mortgages	7,176,635	-	14,325	-
Higher Risk Assets	117,277	3,141	4,086	-
Other Assets	716,087	-	-	-
Defaulted Exposures	247,323	-	143	-
<b>Total for On-Balance Sheet Exposures</b>	<b>21,314,516</b>	<b>185,198</b>	<b>241,272</b>	<b>-</b>
<u>Off-Balance Sheet Exposures</u>				
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	1,241,787	-	-	-
Defaulted Exposures	2,153	-	-	-
<b>Total for Off-Balance Sheet Exposures</b>	<b>1,243,940</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>22,558,456</b>	<b>185,198</b>	<b>241,272</b>	<b>-</b>

## APPENDIX IV

BASEL II  
PILLAR 3 DISCLOSURESAS AT 31<sup>ST</sup> DECEMBER 2020**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  
2020**

Description	Total Principle Amount	Positive Fair Value of Derivative Contracts	Total Credit Equivalent Amount	Amount
Direct Credit Substitutes	68,709	-	68,709	68,746
Transaction related contingent Items	368,737	-	184,368	184,326
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	831,745	-	415,022	277,138
Short Term Self Liquidating trade related contingencies	294,032	-	58,806	12,455
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	1,372,672	-	274,534	230,962
Unutilised credit card lines	209,755	-	41,951	31,463
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	1,212,161	11,558	29,834	15,403
<b>Total</b>	<b>4,357,811</b>	<b>11,558</b>	<b>1,073,224</b>	<b>820,493</b>

## BASEL II PILLAR 3 DISCLOSURES

## APPENDIX IV

AS AT 31<sup>ST</sup> DECEMBER 2020

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

Economic Entity and The Bank  
2019

Description	Total Principle Amount	Positive Fair Value of Derivative Contracts	Total Credit Equivalent Amount	Amount
Direct Credit Substitutes	110,704	-	110,704	110,704
Transaction related contingent Items	383,531	-	191,766	191,659
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,112,733	-	556,366	342,623
Short Term Self Liquidating trade related contingencies	279,759	-	55,952	11,763
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	1,450,127	-	290,025	174,599
Unutilised credit card lines	167,149	-	33,430	25,107
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	32,861	-	-	-
Foreign exchange related contracts - less than one year	514,452	1,000	5,696	2,098
<b>Total</b>	<b>4,051,316</b>	<b>1,000</b>	<b>1,243,939</b>	<b>858,553</b>

## APPENDIX IV

BASEL II  
PILLAR 3 DISCLOSURESAS AT 31<sup>ST</sup> DECEMBER 2020

## 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.

	Economic Entity and The Bank		Economic Entity and The Bank	
	2020	2020	2019	2019
	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	35.0	157.8	45.2	89.8
US Dollar	(3.4)	(0.9)	(2.1)	0.9
Others (*)	(0.0)	(0.0)	(0.1)	-
<b>Total</b>	<b>31.6</b>	<b>156.9</b>	<b>43.0</b>	<b>90.7</b>

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

# DIRECTORY OF BRANCHES

	NAME & ADDRESS	TEL	FAX
<b>JOHOR</b>			
1	AFFIN ISLAMIC Taman Molek Branch No. 23, 23-01, 23-02, Jalan Molek 1/29, Taman Molek, 81100 Johor Bahru, Johor.	07-351 9522	07-357 9522
<b>KEDAH</b>			
2	AFFIN ISLAMIC Jitra Branch No. 17, Jalan Tengku Maheran 2, Taman Tengku Maheran Fasa 4, 06000 Jitra Kedah	04-919 0888	04-919 0380
<b>NEGERI SEMBILAN</b>			
3	AFFIN ISLAMIC Senawang Branch No 312-G & 312-1, Jalan Bandar Senawang 17, Pusat Bandar Senawang, 70450 Seremban, Negeri Sembilan.	06-675 7288	06-675 7088
<b>PULAU PINANG</b>			
4	AFFIN ISLAMIC Juru Auto-City Branch No. 1813A, Jalan Perusahaan, Auto-City, North-South Highway Juru Interchange, 13600 Prai, Pulau Pinang.	04-507 7522	04-507 0522
<b>SELANGOR</b>			
5	AFFIN ISLAMIC Bangi Branch No.175 & 177, Ground Floor, Jalan 8/1, Seksyen 8, 43650 Bandar Baru Bangi, Selangor	03-8927 5881	03-8927 4815
6	AFFIN ISLAMIC MSU Branch Management & Science University, 2 <sup>nd</sup> Floor, University Drive, Persiaran Olahraga, Seksyen 13, 40100 Shah Alam, Selangor	03-5510 0425	03-5510 0563
7	AFFIN ISLAMIC PJ SS2 Branch 1 <sup>st</sup> Floor, 161-163, Jalan SS 2/24, 47300 Petaling Jaya, Selangor	03-7874 3513	03-7874 3480
<b>TERENGGANU</b>			
8	AFFIN ISLAMIC Kuala Terengganu Branch No. 63 & 63 A , Jalan Sultan Ismail, 20200 Kuala Terengganu, Terengganu	09-622 3725	09-623 6496
<b>WILAYAH PERSEKUTUAN</b>			
9	AFFIN ISLAMIC Fraser Branch No. 20-G & 20-1, Jalan Metro Pudu, Fraser Business Park, 55100 Kuala Lumpur	03-9222 8877	03-9222 9877



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