Registration No: 200501027372 (709506-V)

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

Reports and financial statements for the financial year ended 31 December 2021

Registration No: 200501027372 (709506-V)

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Reports and financial statements for the financial year ended 31 December 2021

Contents

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AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

CORPORATE INFORMATION

BOARD OF DIRECTORS

Dato' Mohd Ali bin Mohd Tahir
(Chairman, deceased on 12.2.2022)
Associate Professor Dr. Said Bouheraoua
En. Musa bin Abdul Malek
En. Suffian bin Baharuddin
Datuk Mohd Farid Bin Mohd Adnan
(appointed w.e.f. 1.3.2021)
Ms. Tan Ler Chin, Cindy
(appointed w.e.f. 1.10.2021)
Dato' Bakarudin Bin Ishak
(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

Nazlee bin Khalifah

COMPANY SECRETARY

Nimma Safira Khalid

REGISTERED OFFICE

17th Floor, Menara Affin
80, Jalan Raja Chulan
50200 Kuala Lumpur
Malaysia

AUDITORS

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146)

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

DIRECTORS' REPORT

for the financial year ended 31 December 2021

The Directors hereby submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2021.

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	**252,152**	**252,152**
Zakat	**(3,660)**	**(3,660)**
Profit before taxation	**248,492**	**248,492**
Taxation	**(57,897)**	**(57,897)**
Net profit for the financial year	**190,595**	**190,595**

DIVIDENDS

No dividends have been paid by the Bank in respect of the financial year ended 31 December 2021.

The Directors do not recommend any final dividends to be paid for the financial year ended 31 December 2021.

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.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

DIRECTORS' REPORT
for the financial year ended 31 December 2021

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/Independent Non-Executive Director (deceased on 1.3.2021)

Associate Professor Dr. Said Bouheraoua
Independent Non-Executive Director

En. Musa bin Abdul Malek
Independent Non-Executive Director

En. Suffian Bin Baharuddin
Independent Non-Executive Director

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

Ms. Tan Ler Chin, Cindy
Independent Non-Executive Director (appointed w.e.f. 1.10.2021)

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

En. Mohd Haniz bin Mohd Nazlan
Independent Non-Executive Director (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 2021 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 118 of the financial statements.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

DIRECTORS' REPORT
for the financial year ended 31 December 2021

DIRECTORS' INTERESTS

None of the Directors in office at the end of the financial year have interest in the shares in the Bank or its related companies 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.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

DIRECTORS' REPORT
for the financial year ended 31 December 2021

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 financing and the making of allowance for doubtful financing and satisfied themselves that all known bad financing had been written off and that adequate allowance had been made for doubtful financing; 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.

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

The Directors are not aware of any circumstances:

- which would render the amounts written off for bad financing or the amount of the allowance for doubtful 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:

- 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
- 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:

- 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.
- 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.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

DIRECTORS' REPORT
for the financial year ended 31 December 2021

PERFORMANCE IN FINANCIAL YEAR ENDED 31 DECEMBER 2021

For the financial year ended 31st December 2021, Affin Islamic Bank Berhad ('the Bank') recorded a profit before tax ('PBT') after zakat of RM248.5 million, an increase of RM151.9 million or 157.2% as compared to the previous financial year while net profit after zakat and taxation ('PAT') for the financial year was RM190.6 million.

Total income increased by 18.4% or RM83.6 million to RM537.2 million, attributable to financing expansion income contribution. Net Financing based income was higher by 53.0% or RM165.0 million at RM476.4 million, due to asset growth and lower funding cost. As a result, net profit margin ('NPM') improved by 24 bps to 2.27% from 2.03% in the preceding year.

The operating expenses of the Bank was slightly higher by RM0.7 million against the preceding year. The cost to income ratio improved to 45.83% from 54.13% recorded in 2020. The Bank achieved a return on equity ('ROE') of 9.30% as compared to 2.91% in FY2020.

Gross financing went up by RM3.2 billion or 16.4% to RM22.8 billion as at 31 December 2021 contributed mainly by retail segments.

In line with the growth in gross financing, total customer deposits also increased by RM3.3 billion or 17.8% to RM22.0 billion. Current Account and Savings Account ('CASA') to total deposits ratio stood at 28.0%. The Total Capital ratio of the Bank was 19.02% while Common Equity Tier 1 and Tier 1 ratios stood at 12.13% and 13.87% respectively as at 31 December 2021.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

DIRECTORS' REPORT
for the financial year ended 31 December 2021

ECONOMIC AND BUSINESS OUTLOOK FOR 2022

The global outlook for 2022 remains uncertain with renewed Covid-19 outbreaks due to Omicron and other new virus variants, lingering supply bottlenecks and the risk of stagflation. These risks have resulted in the World Bank lowering its global growth forecast to 4.1% in 2022 and 3.2% in 2023.

Prospects in Malaysia are more promising as the World Bank forecasted a GDP growth of 5.8%, to be fuelled by the resumption of all economic and social activities in the fourth quarter of 2021. With 80% of the population vaccinated and strong assurances from the Government that any future movement control orders would be targeted rather than widespread, consumer demand is expected to increase with investors' confidence. Malaysia's economy is expected to face challenges from events such as slower than expected recovery, increased commodity price volatility and limited fiscal space.

The banking sector is expected to grow in line with the economy and should see improved growth in 2022 after two difficult years dealing with Covid-19 related issues. The recovering economy, potential rate increase and expectations of a lower credit provision is expected to bring positive change to the sector. The banking system has remained resilient through pandemic challenges, supported by healthy liquidity and capital buffers to absorb potential losses and support lending activities. This is supported by proactive monitoring by Bank Negara Malaysia ('BNM'), continued repayment and rehabilitation assistance for targeted customers via the Credit Counselling and Debt Management Agency.

The Bank is optimistic about its growth prospects for 2022 as the economy continues to recover. Financing growth is expected to improve compared to 2021, to be in line with GDP growth. The downside risks are expected to be from customers who have yet to benefit from any economic recovery and are under the repayment assistance programmes. 2022 will see new entrants to the banking scene as five new digital banking licences will be issued to new players. In the near term the outlook for the Bank is not expected to be impacted by these new entrants.

BUSINESS STRATEGY MOVING FORWARD

The Bank will focus on realising its key priorities as it enters its final year of the AIM22 Transformation journey. Our AIM22 Journey was charted with the aim of transforming the Bank into a modern and progressive organisation for our customers, shareholders and employees. The Bank remains committed to its five key focus areas which are to increase Return on Equity, improve productivity and efficiency, build the current account and savings account base, transform digital capabilities and focus on people. 2022 will also see the Bank work towards strengthening its presence in areas related to Financial Inclusion and Environment, Social and Governance ('ESG').

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

DIRECTORS' REPORT
for the financial year ended 31 December 2021

RATING BY EXTERNAL RATING AGENCIES

The Bank has been rated by the following external rating agency:

Name of rating agency:	RAM Rating Services Berhad ('RAM')
Date of rating:	29 October 2021
Rating classifications:	
- Long term:	AA_3
- Short term:	P1

RAM has reaffirmed the Bank's long-term and short-term financial institution ratings, at AA3 and P1, respectively, with negative outlook.

'AA' rating is defined by RAM as an entity which has a strong capacity to meets its financial obligations and is resilient against adverse changes in circumstances, economic condition and/or operating environment. The subscript 3 in this category indicate as the lower end of its generic rating in the AA category.

A 'P1' rating is defined by RAM as obligations which are supported by superior ability with regards to timely payment of obligations.

ZAKAT OBLIGATIONS

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

HOLDING COMPANY 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 37 to the financial statements.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

DIRECTORS' REPORT
for the financial year ended 31 December 2021

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:

MUSA BIN ABDUL MALEK
Independent Non-Executive Director

SUFFIAN BIN BAHARUDDIN
Independent Non-Executive Director

Kuala Lumpur

28 March 2022

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION ***as at 31 December 2021***

		Economic Entity		The Bank	
		2021	2020	**2021**	2020
	Note	**RM'000**	RM'000	**RM'000**	RM'000
ASSETS					
Cash and short-term funds	2	**2,240,427**	2,794,278	**2,240,427**	2,794,278
Deposits and placements with banks and other financial institutions	3	**50,008**	50,058	**50,008**	50,058
Derivative financial assets	4	**11,436**	11,558	**11,436**	11,558
Financial investments at fair value through other comprehensive income ('FVOCI')	5	**-**	2,828,166	**-**	2,828,166
Financial investments at amortised cost ('AC')	6	**3,464,981**	-	**3,464,981**	-
Financing and other financing	7	**22,570,323**	19,380,090	**22,570,323**	19,380,090
Other assets	8	**77,711**	64,563	**77,711**	64,563
Amount due from joint ventures	9	**15,737**	15,073	**15,737**	15,073
Amount due from an associate	10	**-**	-	**-**	-
Deferred tax assets	11	**22,484**	12,390	**22,484**	12,390
Statutory deposits with Bank Negara Malaysia	12	**-**	-	**-**	-
Investment in joint ventures	13	**-**	-	**-**	-
Investment in an associate	14	**-**	-	**-**	-
Property and equipment	15	**1,328**	1,383	**1,328**	1,383
Intangible assets	16	**345**	558	**345**	558
Right-of-use assets	17	**632**	1,085	**632**	1,085
TOTAL ASSETS		**28,455,412**	25,159,202	**28,455,412**	25,159,202
LIABILITIES AND EQUITY					
Deposits from customers	18	**21,990,129**	18,665,991	**21,990,129**	18,665,991
Investment accounts of customers	19	**1,329**	2,151	**1,329**	2,151
Deposits and placements of banks and other financial institutions	20	**358,050**	1,225,873	**358,050**	1,225,873
Investment accounts due to designated financial institutions	21	**1,831,585**	1,751,038	**1,831,585**	1,751,038
Recourse obligation on financing sold to Cagamas Berhad	22	**50,033**	50,034	**50,033**	50,034
Derivative financial liabilities	23	**10,659**	25,572	**10,659**	25,572
Other liabilities	24	**188,453**	67,912	**188,453**	67,912
Amount due to holding company	25	**758,812**	299,815	**758,812**	299,815
Provision for taxation		**8,033**	6,234	**8,033**	6,234
Lease liabilities	26	**666**	2,433	**666**	2,433
Subordinated term financing and medium term notes	27	**1,111,034**	1,111,034	**1,111,034**	1,111,034
TOTAL LIABILITIES		**26,308,783**	23,208,087	**26,308,783**	23,208,087
Share capital	28	**1,060,000**	1,060,000	**1,060,000**	1,060,000
Reserves	29	**1,086,629**	891,115	**1,086,629**	891,115
TOTAL EQUITY		**2,146,629**	1,951,115	**2,146,629**	1,951,115
TOTAL LIABILITIES AND EQUITY		**28,455,412**	25,159,202	**28,455,412**	25,159,202
COMMITMENTS AND CONTINGENCIES	42	**5,075,670**	4,357,811	**5,075,670**	4,357,811

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

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

INCOME STATEMENTS ***for the financial year ended 31 December 2021***

		Economic Entity		The Bank	
		2021	2020	**2021**	2020
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Income derived from investment of depositors' funds and others	30	**905,858**	951,973	**905,858**	951,973
Income derived from investment of investment accounts	31	**74,195**	96,333	**74,195**	96,333
Income derived from investment of shareholders' funds	32	**82,912**	98,512	**82,912**	98,512
Modification loss	33	**(2,495)**	(31,066)	**(2,495)**	(31,066)
Allowances for impairment losses on financing and other financing	34	**(37,519)**	(91,061)	**(37,519)**	(91,061)
Allowance for impairment losses on other assets	35	**(1,333)**	(16,506)	**(1,333)**	(17,906)
Total distributable income		**1,021,618**	1,008,185	**1,021,618**	1,006,785
Income attributable to the depositors and others	36	**(456,090)**	(578,810)	**(456,090)**	(578,810)
Income attributable to the investment accounts holders		**(67,165)**	(83,302)	**(67,165)**	(83,302)
Total net income		**498,363**	346,073	**498,363**	344,673
Other operating expenses	37	**(246,211)**	(245,535)	**(246,211)**	(245,535)
		252,152	100,538	**252,152**	99,138
Share of associate's results		**-**	(750)	**-**	-
Profit before zakat and taxation		**252,152**	99,788	**252,152**	99,138
Zakat		**(3,660)**	(2,540)	**(3,660)**	(2,540)
Profit before taxation		**248,492**	97,248	**248,492**	96,598
Taxation	39	**(57,897)**	(40,356)	**(57,897)**	(40,356)
Net profit after zakat and taxation		**190,595**	56,892	**190,595**	56,242
Attributable to:					
Equity holder of the Bank		**190,595**	56,892	**190,595**	56,242
Earnings per share (sen):					
- Basic	40	**18.0**	5.4	**18.0**	5.3

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

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

STATEMENTS OF COMPREHENSIVE INCOME ***for the financial year ended 31 December 2021***

		Economic Entity		The Bank	
		2021	2020	**2021**	2020
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Profit after zakat and taxation		**190,595**	56,892	**190,595**	56,242
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Net fair value change in					
- financial investments at FVOCI		**12,801**	67,993	**12,801**	67,993
Net credit impairment losses change in					
- financial investments at FVOCI		**(3,120)**	2,837	**(3,120)**	2,837
Net gains on financial investments at FVOCI reclassified to profit or loss on disposal		**(2,223)**	(103,846)	**(2,223)**	(103,846)
Deferred tax on					
- financial investments at FVOCI	11	**(2,539)**	8,605	**(2,539)**	8,605
Other comprehensive income for the financial year, net of tax		**4,919**	(24,411)	**4,919**	(24,411)
Total comprehensive income for the financial year		**195,514**	32,481	**195,514**	31,831
Attributable to equity holder of the Bank:					
- Total comprehensive income		**195,514**	32,481	**195,514**	31,831

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

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY ***for the financial year ended 31 December 2021***

		Attributable to Equity Holder of the Bank				
Economic Entity	**Note**	**Share capital RM'000**	**FVOCI revaluation reserves RM'000**	**Regulatory reserves RM'000**	**Retained profits RM'000**	**Total RM'000**
At 1 January 2021		**1,060,000**	**(4,919)**	**127,093**	**768,941**	**1,951,115**
Net profit for the financial year		**-**	**-**	**-**	**190,595**	**190,595**
Other comprehensive income (net of tax)						
- Financial investments at FVOCI		**-**	**4,919**	**-**	**-**	**4,919**
Total comprehensive income		**-**	**4,919**	**-**	**190,595**	**195,514**
Transfer from regulatory reserves	29(b)	**-**	**-**	**(21,480)**	**21,480**	**-**
At 31 December 2021		**1,060,000**	**-**	**105,613**	**981,016**	**2,146,629**
Economic Entity						
At 1 January 2020		1,060,000	19,492	236,882	602,260	1,918,634
Net profit for the financial year		-	-	-	56,892	56,892
Other comprehensive income (net of tax)						
- Financial investments at FVOCI		-	(24,411)	-	-	(24,411)
Total comprehensive income		-	(24,411)	-	56,892	32,481
Transfer from regulatory reserves	29(b)	-	-	(109,789)	109,789	-
At 31 December 2020		1,060,000	(4,919)	127,093	768,941	1,951,115

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

AFFIN Islamic Bank Berhad
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STATEMENTS OF CHANGES IN EQUITY ***for the financial year ended 31 December 2021***

			Non-Distributable		Distributable	
The Bank	**Note**	**Share capital RM'000**	**FVOCI revaluation reserves RM'000**	**Regulatory reserves RM'000**	**Retained profits RM'000**	**Total RM'000**
At 1 January 2021		**1,060,000**	**(4,919)**	**127,093**	**768,941**	**1,951,115**
Net profit for the financial year		**-**	**-**	**-**	**190,595**	**190,595**
Other comprehensive income (net of tax)						
- Financial investments at FVOCI		**-**	**4,919**	**-**	**-**	**4,919**
Total comprehensive income		**-**	**4,919**	**-**	**190,595**	**195,514**
Transfer from regulatory reserves	29(b)	**-**	**-**	**(21,480)**	**21,480**	**-**
At 31 December 2021		**1,060,000**	**-**	**105,613**	**981,016**	**2,146,629**

The Bank						
At 1 January 2020		1,060,000	19,492	236,882	602,910	1,919,284
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(b)	-	-	(109,789)	109,789	-
At 31 December 2020		1,060,000	(4,919)	127,093	768,941	1,951,115

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

AFFIN Islamic Bank Berhad
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STATEMENTS OF CASH FLOWS ***for the financial year ended 31 December 2021***

		Economic Entity		The Bank	
		2021	2020	**2021**	2020
	Note	**RM'000**	RM'000	**RM'000**	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		**248,492**	97,248	**248,492**	96,598
Adjustments for items not involving the movement of cash and cash equivalents:					
Finance income and hibah from:					
- financial investments at FVOCI		**(79,545)**	(84,788)	**(79,545)**	(84,788)
- financial investments at AC		**(11,234)**	-	**(11,234)**	-
Gain on sale/redemption:					
- financial investments at FVOCI		**(2,161)**	(102,388)	**(2,161)**	(102,388)
(Profit)/loss on unrealised foreign exchange		**(14,791)**	8,256	**(14,791)**	8,256
Depreciation of property and equipment		**467**	654	**467**	654
Property and equipment written-off		**1**	2	**1**	2
Amortisation of intangible assets		**213**	213	**213**	213
Depreciation of right-of-use assets		**453**	1,019	**453**	1,019
Expected credit losses ('ECL') made on:					
- financing and other financing		**38,832**	94,202	**38,832**	94,202
- securities		**668**	2,837	**668**	2,837
- financing commitments and financial guarantees		**1,684**	(2,533)	**1,684**	(2,533)
Bad financing written-off		**369**	376	**369**	376
Allowance for impairment losses on other assets		**1,333**	16,506	**1,333**	17,906
Share of associate's results		-	750	-	-
Modification loss on contractual cash flows arising from financial assets		**2,495**	31,066	**2,495**	31,066
Profit expense - Subordinated term financing and medium term notes		**57,350**	57,350	**57,350**	57,350
Finance expense on lease liabilities		**38**	91	**38**	91
Profit expense - Recourse obligation on financing sold to Cagamas Berhad		**1,237**	34	**1,237**	34
Zakat		**3,660**	2,540	**3,660**	2,540
Operating profit before changes in working capital		**249,561**	123,435	**249,561**	123,435
(Increase)/decrease in operating assets:					
Deposits and placements with banks and other financial institutions		**50**	(50,058)	**50**	(50,058)
Financing and other financing		**(3,231,929)**	(925,481)	**(3,231,929)**	(925,481)
Other assets		**15,358**	(28,149)	**15,358**	(28,149)
Statutory deposits with Bank Negara Malaysia		-	526,000	**-**	526,000
Amount due from holding company		-	53,946	**-**	53,946
Amount due from joint ventures		**(940)**	(1,920)	**(940)**	(1,920)
Amount due from an associate		-	(356)	**-**	(356)
Derivative financial instruments		**(14,791)**	8,256	**(14,791)**	8,256

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS *for the financial year ended 31 December 2021 (continued)*

		Economic Entity		The Bank	
		2021	2020	**2021**	2020
	Note	**RM'000**	RM'000	**RM'000**	RM'000
(Decrease)/increase in operating liabilities:					
Deposits from customers		**3,324,138**	1,359,653	**3,324,138**	1,359,653
Investment accounts of customers		**(822)**	704	**(822)**	704
Deposits and placements of banks and other financial institutions		**(867,823)**	689,862	**(867,823)**	689,862
Investment accounts due to designated financial institutions		**80,547**	(167,257)	**80,547**	(167,257)
Amount due to holding company		**458,997**	299,815	**458,997**	299,815
Other liabilities		**118,447**	(352,466)	**118,447**	(352,466)
Cash generated from operations		**130,793**	1,535,984	**130,793**	1,535,984
Zakat paid		**(3,248)**	(2,312)	**(3,248)**	(2,312)
Tax refund		**4,000**	4,000	**4,000**	4,000
Tax paid		**(72,731)**	(28,961)	**(72,731)**	(28,961)
Net cash generated from operating activities		**58,814**	1,508,711	**58,814**	1,508,711
CASH FLOWS FROM INVESTING ACTIVITIES					
Finance income and hibah received from:					
- financial investments at FVOCI		**105,041**	95,295	**105,041**	95,295
Purchase of					
- financial investments at FVOCI		**(769,483)**	(3,554,748)	**(769,483)**	(3,554,748)
- financial investments at AC		**(100,730)**	-	**(100,730)**	-
Disposal of financial investments at FVOCI		**228,087**	3,173,416	**228,087**	3,173,416
Purchase of property and equipment		**(396)**	(500)	**(396)**	(500)
Net cash used in investing activities		**(537,481)**	(286,537)	**(537,481)**	(286,537)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from recourse obligation on financing sold to Cagamas Berhad		**-**	50,000	**-**	50,000
Profit payment from recourse obligation on financing sold to Cagamas Berhad		**(1,238)**	-	**(1,238)**	-
Profit payment from subordinated term financing and medium term notes		**(57,350)**	(57,350)	**(57,350)**	(57,350)
Lease payments		**(1,805)**	(1,158)	**(1,805)**	(1,158)
Net cash used in financing activities		**(60,393)**	(8,508)	**(60,393)**	(8,508)
Net (decrease)/increase in cash and cash equivalents		**(539,060)**	1,213,666	**(539,060)**	1,213,666
Effects of foreign exchange		**(14,791)**	(8,256)	**(14,791)**	(8,256)
Cash and cash equivalents at beginning of the financial year		**2,794,278**	1,588,868	**2,794,278**	1,588,868
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR		**2,240,427**	2,794,278	**2,240,427**	2,794,278
CASH AND CASH EQUIVALENTS COMPRISE:					
Cash and short-term funds	2	**2,240,427**	2,794,278	**2,240,427**	2,794,278

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

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the financial year ended 31 December 2021

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.

(a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank and are effective

Accounting standards, annual improvements and amendments to MFRS which are effective for the Bank for the financial period beginning on or after 1 January 2021:

- Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 & MFRS 16 'Profit Rate Benchmark Reform - Phase 2'

The Bank has adopted 'Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16 'Profit Rate Benchmark Reform - Phase 2' for the first time in the December 2021 financial statements, which resulted in changes in accounting policies.

Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 & MFRS 16 'Profit Rate Benchmark Reform - Phase 2'

The Bank has adopted the Phase 2 amendments and applied the practical expedient to update the effective profit rate to account for the changes in contractual cash flows that is a direct consequence of interbank offered rate (‘IBOR’) reform. As a result, no immediate gain or loss is recognised in profit or loss.

The amendments also provide reliefs that enable and require the Bank to continue the MFRS 9 hedge accounting in circumstances when the Bank updates the hedge documentation to reflect changes in hedged items and hedging instruments which are required by IBOR reform.

The adoption of the amendments has no impact on the opening retained earnings as at 1 January 2021 because none of the IBOR-based contracts of the Bank were modified in 2020. For contracts modified as a result of IBOR reform during the year, the Bank applies the Phase 2 amendments.

(b) 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 financer, 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.

(A) BASIS OF PREPARATION (continued)

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

- 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.

- 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.

- Amendments to MFRS 112 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction' (effective 1 January 2023) clarify that the initial exemption rule does not apply to transactions where both an asset and a liability are recognised at the same time such as leases and decommissioning obligations. Accordingly, entities are required to recognise both deferred tax assets and liabilities for all deductible and taxable temporary differences arising from such transactions.

(c) Changes in regulatory requirements

Enchanced Additional Measures issued by Bank Negara Malaysia ('BNM')

During the financial year 2021, BNM had announced an enhanced additional measures to facilitate repayment assistance to customers affected by the Covid-19 pandemic. The measures which are aimed to support economic recovery of individuals and SMEs, including microenterprises are set out as follows:

Targeted repayment assistance ("TRA") and moratorium

(i) *Extension of TRA under Perlindungan Ekonomi dan Rakyat Malaysia ('PERMAI')*

Extension of TRA under PERMAI was announced on 18 January 2021. This extension applied to all TRA schemes where all customers may apply for 3-month deferment of instalment or a 50% reduction in their monthly instalment payment for a period of 6 months. The TRA applicable to all B40 (ie; registered recipient of Bantuan Sara Hidup ('BSH') or Bantuan Prihatin Rakyat ('BPR')), M40 (ie; recipients of Bantuan Prihatin National ('BPN')) and microenterprises with financing facilities of not more than RM150,000, whose financing were approved on or before 30 September 2020 and not in arrears for more than 90 days.

(A) BASIS OF PREPARATION (continued)

(c) Changes in regulatory requirements (continued)

Enchanced Additional Measures issued by Bank Negara Malaysia ('BNM') (continued)

(ii) *TRA under Program Strategik Memperkasa Rakyat dan Ekonomi Tambahan ('PEMERKASA+')*

TRA under PEMERKASA+ was announced on 31 May 2021. The TRA was applicable to all customers who have lost their employment, B40 customers registered under BSH/BPR, SMEs and microenterprises with financing facilities of not more than RM150,000 whose financing were approved on or before 30 June 2021 and not in arrears for more than 90 days. All these affected customers may opt for 3-month deferment of instalment or a 50% reduction in their monthly instalment payment for a period of 6 months.

(iii) *Six-month moratorium under Perlindungan Rakyat dan Pemulihan Ekonomi ('PEMULIH')*

The six-month moratorium under PEMULIH was announced on 28 June 2021. This moratorium is applicable to any applies to any financing approved on or before 30 June 2021 that is not in arrears exceeding 90 days as at the date of their application, denominated in Malaysian Ringgit and foreign currency and the customers not a bankrupt or under bankruptcy proceedings. Under this PEMULIH, all individual, SMEs and microenterprises may opt for 6-month deferment of instalment or 50% reduction in their monthly instalment payment for a period of 6 months, with non-compounding profit or any penalty profit during the moratorium period.

The above TRA/moratorium exclude the credit card balances. For outstanding credit card balances, customers shall have the option to convert their outstanding balance into a term financing of tenure of not more than 3 years.

Waiver of profit

On 14 October 2021, BNM had announced that B50 income catogories who are affected by the Covid-19 pandemic and under an existing repayment assistance programme, may apply for a comprehensive extended financial assistance scheme called Financial Management and Resilience Programme ('URUS') managed by Agensi Kaunseling dan Pengurusan Kredit ('AKPK') effective from 15 November 2021 until 31 January 2022. Under URUS, AKPK will provide a personalised financial plan that will encompass options of either a waiver of an profit for a period of 3-months or a 3-months profit waiver together with reduced instalments for a period of up to 24 months.

Customers who are not eligible for URUS may apply for assistance under AKPK's Financial Resilience Support Scheme ('FIRST'), which includes features such as reduced instalments, extended financing tenures and financial resilience support programmes. In addition, for eligible B50 customers who have signed up for the Bank's flood relief assistance programmes, the URUS application closing date has been extended to 31 July 2022, or upon the expiry of the flood relief assistance programme, whichever is earlier.

(B) JOINT ARRANGEMENTS

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

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

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

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

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

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

(C) ASSOCIATES

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

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

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

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 interest 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.

(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.

(D) INTANGIBLE ASSETS (continued)

Computer Software (continued)

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 appliying 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).

<u>Al-Bai' Bithaman Ajil</u>

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.

<u>Ijarah Muntahiyah bi Tamlik</u>

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.

<u>Murabahah</u>

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

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

Musyarakah Mutanaqisah (diminishing partnership)

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.

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.

(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.

(H) FINANCIAL ASSETS (continued)

(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 profit ('SPPI').

Financial instruments

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

During the financial year, AFFIN Islamic Bank Berhad ('AiBB') has taken actions to improve the Group and the Bank's approach to liquidity risk management, balance sheet management and capital management. Arising the actions taken, there has been a change in business model, resulting the Bank reclassifying the financial investments at FVOCI to financial investments at AC, as at 31 December 2021. The amount reclassified from financial investments at FVOCI to financial investments at AC is RM3,356 million for the Bank.

There are three measurement categories into which the Bank classifies its financial 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.

(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.

(H) FINANCIAL ASSETS (continued)

Financial instruments (continued)

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. For financial assets which are held by the Bank for the purposes of capital preservation and to generate returns on a longer term basis, they are generally classified within the hold to collect business model, and are measured at Amortised Cost. 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.

(d) Subsequent measurement – Impairment

Impairment for financial instruments and financial guarantee contracts

The Bank assesses on a forward looking basis the expected credit loss ('ECL') associated with its financial 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 financial instrument less any amounts that the Bank expects to receive from the holder, the customer or any other party.

(H) FINANCIAL ASSETS (continued)

(d) Subsequent measurement – Impairment (continued)

Impairment for financial instruments and financial guarantee contracts (continued)

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 financial 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 economic conditions that are expected to
- 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.

(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 or when they fall due;
- Rescheduled and/or Restructured ('R&R') due to Impairment Symptoms or Corporate Debt Restructuring Committee ('CDRC');
- Internal rating deteriorated to Credit Grade 15 or worse;
- Rating downgrade to default grade 'D';
- Distressed restructuring or rescheduling of coupon and/or principal redemption resulting in an extended grace period to service coupon or even capitalise coupon;
- Primary repayment source is terminated indefinitely, or business model is deemed no longer viable, and no other alternative source of repayment is available;
- Cessation of business operations and business operation is unlikely able to resume;
- Customer is adjudicated bankrupt;
- Winding-up order issued against the company;
- Receiver and manager appointed;
- Corporate Rescue Mechanism, implementation of Corporate Voluntary Arrangement ('CVA') or Order for Judicial Management ('JM') granted by Court;
- Classification by Bursa Malaysia as distressed company due to credit deterioration e.g. PN17, GN3 and failing to comply with the timeline for remedial action, and/or evidence of business failure; and
- Account classified as Fraud.

(ii) Judgmental indicators
- Other debts including Treasury Instruments default and/or transferred to Stage 3 (Cross Default).

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.

(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 customer 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.

(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.

(H) FINANCIAL ASSETS (continued)

(f) IBOR modification

When the basis to determine the future contractual cash flows of the financial assets measured as amortised cost or FVOCI are modified entirely as a result of IBOR reform, the Bank applies the reliefs provided by the Phase 2 amendments related to IBOR reform to adjust the effective interest rate with no modification gain or loss is recognised.

In situations where some or all of a change in the basis for determining the contractual cash flows of financial assets classified as amortised cost or FVOCI does not meet the criteria of the Phase 2 amendments, the Bank first applies the practical expedient to the changes required by IBOR reform, including updating the effective interest rate. Any additional changes are accounted for as modification of financial assets in accordance with the requirement in MFRS 9 (that is, assessed for modification or derecognition, with the resulting modification gain/loss recognised immediately in profit or loss where the financial assets are not derecognised).

(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 speficied 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 customer fails to make payments when due, in accordance with the terms of a financial instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure financing, overdrafts and other banking facilities.

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

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

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

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

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

(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.

(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.

Covid-19 Related Rent Concession

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.

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.

If a rent 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 rent 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.

(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 have 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.

(Q) CURRENT AND DEFERRED INCOME TAXES (continued)

Deferred tax

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

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

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

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

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

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

(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 depositor

(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

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 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.

(X) EMPLOYEE BENEFITS (continued)

Defined contribution plan (continued)

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.

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.

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

for the financial year ended 31 December 2021

(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 2021.

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 early 2022.

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 repayment 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.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2021

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	
	2021	2020
	RM'000	RM'000
Cash and bank balances with banks and other financial institutions	**16,514**	23,747
Money at call and interbank placements with remaining maturity not exceeding one month	**2,223,913**	2,770,531
	2,240,427	2,794,278

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Economic Entity and The Bank	
	2021	2020
	RM'000	RM'000
Licensed banks	**50,008**	50,058

4 DERIVATIVE FINANCIAL ASSETS

	Economic Entity and The Bank			
	2021		2020	
	Contract/ notional amount	**Assets**	Contract/ notional amount	Assets
	RM'000	**RM'000**	RM'000	RM'000
At fair value				
Foreign exchange derivatives				
- Currency forwards	**678,459**	**11,436**	392,631	11,558
	678,459	**11,436**	392,631	11,558

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

	Economic Entity and The Bank	
	2021	2020
At fair value	**RM'000**	RM'000
Malaysian Government investment issues	**-**	1,187,871
Unquoted securities:		
Corporate Sukuk in Malaysia	**-**	1,640,295
	-	2,828,166

During the financial year 2021, the Bank has reclassified its previous financial investments at FVOCI to AC. Refer to Summary of Significant Accounting Policies Note H(c) to the financial statements.

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

	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**
Economic Entity and The Bank				
2021				
At beginning of the financial year	**3,120**	-	-	**3,120**
Financial assets derecognised (other than write-off)	**(55)**	-	-	**(55)**
New financial assets originated or purchased	**95**	-	-	**95**
Changes due to change in credit risk	**(1,414)**	-	-	**(1,414)**
Reclassification to Amortised Cost	**(1,746)**	-	-	**(1,746)**
At end of the financial year	**-**	**-**	**-**	**-**
Economic Entity and The Bank				
2020				
At beginning of the financial year	283	-	-	283
Financial assets derecognised (other than write-off)	(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
At end of the financial year	3,120	-	-	3,120

Movement in the gross carrying amount of financial investments at FVOCI that contributed to changes in the ECL:

	Stage 1 RM'000	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
Economic Entity and The Bank				
2021				
At beginning of the financial year	**2,828,166**	**-**	**-**	**2,828,166**
Financial assets derecognised (other than write-off)	**(225,926)**	**-**	**-**	**(225,926)**
New financial assets originated or purchased	**769,483**	**-**	**-**	**769,483**
Changes in profit accrual/discount/premium	**(25,496)**	**-**	**-**	**(25,496)**
Changes in fair value	**10,578**	**-**	**-**	**10,578**
Reclassification to Amortised Cost	**(3,356,805)**	-	-	**(3,356,805)**
At end of the financial year	**-**	**-**	**-**	**-**
Economic Entity and The Bank				
2020				
At beginning of the financial year	2,390,806	-	-	2,390,806
Financial assets derecognised (other than write-off)	(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)
At end of the financial year	2,828,166	-	-	2,828,166

6 FINANCIAL ASSETS AT AMORTISED COST ('AC')

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
At amortised cost		
Malaysian Government treasury bills	**97,747**	-
Malaysian Government investment issues	**1,569,676**	-
BNM sukuk	**10,299**	-
Unquoted securities:		
Corporate bonds/Sukuk in Malaysia	**1,791,047**	-
Less: Expected credit losses	**(3,788)**	-
	3,464,981	-

During the financial year 2021, the Bank has reclassified its previous financial investments at FVOCI to AC. Refer to Summary of Significant Accounting Policies Note H(c) to the financial statements.

Movements in expected credit losses for financial investments at AC are as follows:

	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
Economic Entity and The Bank				
2021				
At beginning of the financial year	**-**	**-**	**-**	**-**
Financial assets derecognised (other than write-off)	**(44)**	**-**	**-**	**(44)**
New financial assets originated or purchased	**642**	**-**	**-**	**642**
Changes due to change in credit risk	**1,444**	**-**	**-**	**1,444**
Reclassification from FVOCI	**1,746**	**-**	**-**	**1,746**
At end of the financial year	**3,788**	**-**	**-**	**3,788**

Movement in the gross carrying amount of financial investments at AC that contributed to changes in the ECL:

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Economic Entity and The Bank				
2021				
At beginning of the financial year	**-**	**-**	**-**	**-**
New financial assets originated or purchased	**100,730**	**-**	**-**	**100,730**
Changes in profit accrual/discount/premium	**11,234**	**-**	**-**	**11,234**
Reclassification from FVOCI	**3,356,805**	**-**	**-**	**3,356,805**
At end of the financial year	**3,468,769**	**-**	**-**	**3,468,769**

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2021

7 FINANCING AND OTHER FINANCING

(i) By type

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
Cash line	**651,183**	466,589
Term financing		
- House financing	**8,443,386**	7,732,796
- Hire purchase receivables	**4,561,420**	4,022,480
- Syndicated financing	**869,857**	759,504
- Business term financing	**6,221,332**	4,954,997
Bills receivables	**92,878**	8,429
Trust receipts	**13,142**	13,140
Claims on customers under acceptance credits	**701,318**	508,029
Staff financing (of which RM Nil to Directors)	**104,165**	85,141
Credit/charge cards	**44,830**	38,076
Revolving credit	**1,070,514**	975,306
Gross financing and other financing	**22,774,025**	19,564,487
Less: Expected credit losses ('ECL')	**(203,702)**	(184,397)
Total net financing and other financing	**22,570,323**	19,380,090

Included in business term financing as at reporting date is RM56.5 million (2020: RM55.2 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 2021 RM'000	2020 RM'000
Maturing within one year	**2,720,697**	2,167,842
One year to three years	**632,881**	497,543
Three years to five years	**2,454,747**	2,493,251
Over five years	**16,965,700**	14,405,851
	22,774,025	19,564,487

7 FINANCING AND OTHER FINANCING (continued)

(iii) By contract

Economic Entity and The Bank
2021

	Al-Bai Bithaman Ajil	Ijarah	Al-Ijarah Thumma Al-Bai	Murabahah	Tawarruq	Musyarakah	Istisna'	Others	Total
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cashline	-	-	-	-	**639,969**	-	-	**11,214**	**651,183**
Term financing									
- House financing	**576,717**	-	-	-	**147,531**	**7,719,138**	-	-	**8,443,386**
- Hire purchase receivables	-	-	**4,561,420**	-	-	-	-	-	**4,561,420**
- Syndicated financing	-	**298,147**	-	-	**571,710**	-	-	-	**869,857**
- Business term financing	**76,711**	**535,848**	-	**194,001**	**3,788,670**	**1,088,634**	**537,468**	-	**6,221,332**
Bills receivables	-	-	-	**71,614**	-	-	-	**21,264**	**92,878**
Trust receipts	-	-	-	**13,142**	-	-	-	-	**13,142**
Claims on customers under acceptances credits	-	-	-	**701,318**	-	-	-	-	**701,318**
Staff financing	**3,140**	-	-	**20,822**	**29,706**	**50,497**	-	-	**104,165**
Credit/charge cards receivables	-	-	-	-	-	-	-	**44,830**	**44,830**
Revolving financing	-	-	-	-	**1,070,451**	-	-	**63**	**1,070,514**
Gross financing and other financing	**656,568**	**833,995**	**4,561,420**	**1,000,897**	**6,248,037**	**8,858,269**	**537,468**	**77,371**	**22,774,025**

Economic Entity and The Bank
2020

	Al-Bai Bithaman Ajil	Ijarah	Al-Ijarah Thumma Al-Bai	Murabahah	Tawarruq	Musyarakah	Istisna'	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cashline	-	-	-	-	443,131	-	-	23,458	466,589
Term financing									
- House financing	624,289	-	-	-	109,272	6,999,235	-	-	7,732,796
- Hire purchase receivables	-	-	4,022,480	-	-	-	-	-	4,022,480
- Syndicated financing	-	-	-	-	759,504	-	-	-	759,504
- Business term financing	121,298	861,733	-	226,018	2,245,939	966,271	533,018	720	4,954,997
Bills receivables	-	-	-	3,261	-	-	-	5,168	8,429
Trust receipts	-	-	-	13,140	-	-	-	-	13,140
Claims on customers under acceptances credits	-	-	-	508,029	-	-	-	-	508,029
Staff financing	3,865	-	-	18,751	22,177	40,348	-	-	85,141
Credit/charge cards receivables	-	-	-	-	38,076	-	-	-	38,076
Revolving financing	-	-	-	-	975,306	-	-	-	975,306
Gross financing and other financing	749,452	861,733	4,022,480	769,199	4,593,405	8,005,854	533,018	29,346	19,564,487

(iv) By type of customer

	Economic Entity and The Bank	
	2021	2020
	RM'000	RM'000
Domestic non-banking institutions		
- Others	**44,632**	48,305
Domestic business enterprises		
- Small medium enterprises	**2,550,698**	2,100,434
- Others	**4,472,997**	4,011,059
Government and statutory bodies	**753,625**	710,245
Individuals	**14,792,334**	12,427,101
Other domestic entities	**222**	508
Foreign entities	**159,517**	266,835
	22,774,025	19,564,487

7 FINANCING AND OTHER FINANCING (continued)

(v) By profit rate sensitivity

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
Fixed rate		
- House financing	**41,326**	41,875
- Hire purchase receivables	**4,561,420**	4,022,480
- Other fixed rate financing	**1,023,189**	707,099
Variable rate		
- BFR plus	**14,169,939**	12,143,474
- Cost plus	**2,978,151**	2,649,559
	22,774,025	19,564,487

(vi) By economic sectors

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
Primary agriculture	**736,883**	778,346
Mining and quarrying	**146,541**	242,201
Manufacturing	**1,128,004**	881,806
Electricity, gas and water supply	**384,412**	381,561
Construction	**615,576**	574,845
Real estate	**1,554,651**	1,564,841
Wholesale & retail trade and restaurants & hotels	**1,121,415**	749,260
Transport, storage and communication	**519,323**	334,878
Finance, takaful/insurance and business services	**597,901**	392,124
Education, health & others	**1,122,737**	1,181,146
Household	**14,846,582**	12,483,479
	22,774,025	19,564,487

(vii) By economic purpose

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
Purchase of securities	**641,100**	390,285
Purchase of transport vehicles	**4,767,396**	4,078,560
Purchase of landed property of which:		
- Residential	**8,610,977**	7,910,750
- Non-residential	**2,360,103**	2,303,988
Fixed assets other than land and building	**75,975**	79,361
Personal use	**1,077,910**	203,042
Credit/charge cards	**44,830**	38,076
Consumer durable	**-**	72
Construction	**901,544**	922,421
Working capital	**3,755,424**	3,248,466
Others	**538,766**	389,466
	22,774,025	19,564,487

7 FINANCING AND OTHER FINANCING (continued)

(viii) By geographical distribution

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
Perlis	**100,396**	163,132
Kedah	**967,657**	821,156
Pulau Pinang	**1,276,419**	997,635
Perak	**674,639**	576,561
Selangor	**7,576,803**	6,558,963
Wilayah Persekutuan	**4,426,864**	3,898,850
Negeri Sembilan	**1,172,100**	1,012,321
Melaka	**373,759**	275,943
Johor	**2,712,627**	2,394,578
Pahang	**827,390**	670,627
Terengganu	**791,523**	518,449
Kelantan	**420,398**	270,662
Sarawak	**623,299**	576,670
Sabah	**810,158**	802,649
Labuan	**19,989**	26,287
Outside Malaysia	**4**	4
	22,774,025	19,564,487

(ix) Movements of impaired financing

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
At beginning of the financial year	**315,471**	607,312
Classified as impaired	**314,867**	121,621
Reclassified as non-impaired	**(113,207)**	(103,492)
Amount recovered	**(115,731)**	(214,880)
Amount written-off	**(19,814)**	(95,090)
At end of the financial year	**381,586**	315,471
Ratio of gross impaired financing and other financing to gross financing and other financing *	**1.11%**	1.77%

* For the Bank, RIA excluded in the ratio calculation amounting to RM1,834.6 million (2020: RM1,754.9 million) with impaired financing amounting to RM149.9 million (2020: RM Nil million).

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 2021 for the Bank is RM19,814,000 (2020: RM95,090,000). 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.

7 FINANCING AND OTHER FINANCING (continued)

(x) Impaired financing by economic sectors

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
Primary agriculture	**184**	145
Mining and quarrying	**24,342**	31
Manufacturing	**2,319**	60,136
Electricity, gas and water supply	**-**	45
Construction	**2,990**	3,131
Real estate	**41,109**	12,039
Wholesale & retail trade and restaurants & hotels	**2,577**	1,380
Transport, storage and communication	**200,429**	75,334
Finance, takaful/insurance and business services	**872**	431
Education, health & others	**619**	192
Household	**106,145**	162,607
	381,586	315,471

(xi) Impaired financing by economic purpose

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
Purchase of securities	**95**	34
Purchase of transport vehicles	**169,737**	22,533
Purchase of landed property of which:		
- Residential	**82,848**	136,711
- Non-residential	**67,927**	18,953
Personal use	**3,429**	1,276
Credit card	**280**	131
Construction	**1,236**	57,183
Working capital	**56,034**	78,640
Others	**-**	10
	381,586	315,471

(xii) Impaired financing by geographical distribution

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
Perlis	**2,590**	2,461
Kedah	**7,207**	7,298
Pulau Pinang	**7,314**	6,522
Perak	**55,052**	81,627
Selangor	**76,670**	80,662
Wilayah Persekutuan	**18,182**	90,039
Negeri Sembilan	**11,792**	17,180
Melaka	**2,220**	2,019
Johor	**43,030**	17,183
Pahang	**1,732**	1,600
Terengganu	**151,892**	3,519
Kelantan	**2,143**	3,245
Sarawak	**44**	338
Sabah	**1,718**	1,778
	381,586	315,471

7 FINANCING AND OTHER FINANCING (continued)

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

Economic Entity and The Bank 2021	**12 - Month 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	**47,261**	**54,706**	**82,430**	**184,397**
Total transfer between stages due to change in credit risk :-	**18,194**	**11,148**	**(29,342)**	**-**
- Transfer to 12-month ECL (Stage 1)	**22,251**	**(16,921)**	**(5,330)**	**-**
- Transfer to Lifetime ECL not credit impaired (Stage 2)	**(3,934)**	**33,849**	**(29,915)**	**-**
- Transfer to Lifetime ECL credit impaired (Stage 3)	**(123)**	**(5,780)**	**5,903**	**-**
Financing derecognised (other than write-off)	**(33,764)**	**(1,221)**	**(2,145)**	**(37,130)**
New financing originated or purchased	**40,560**	**687**	**-**	**41,247**
Changes due to change in credit risk	**676**	**11,539**	**22,499**	**34,714**
Write-off	**-**	**-**	**(19,527)**	**(19,527)**
Other adjustments	**1**	**-**	**-**	**1**
At the end of financial year	**72,928**	**76,859**	**53,915**	**203,702**

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	172,570
Total transfer between stages due to change in credit risk :-	10,438	14,072	(24,510)	-
- 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 derecognised (other than write-off)	(26,531)	(2,557)	(2,595)	(31,683)
New 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-off	-	-	(82,488)	(82,488)
Other adjustments	-	-	113	113
At the end of financial year	47,261	54,706	82,430	184,397

7 FINANCING 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 2021	**12 - Month 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	**17,578,362**	**1,670,654**	**315,471**	**19,564,487**
Total transfer between stages due to change in credit risk :-	**(76,206)**	**27,798**	**48,408**	**-**
- Transfer to 12-month ECL (Stage 1)	**1,156,745**	**(1,134,872)**	**(21,873)**	**-**
- Transfer to Lifetime ECL not credit impaired (Stage 2)	**(1,201,559)**	**1,292,893**	**(91,334)**	**-**
- Transfer to Lifetime ECL credit impaired (Stage 3)	**(31,392)**	**(130,223)**	**161,615**	**-**
Financing derecognised (other than write-off)	**(9,524,304)**	**(123,938)**	**(32,150)**	**(9,680,392)**
New financing originated or purchased	**13,468,088**	**85,624**	**-**	**13,553,712**
Changes due to change in credit risk	**(736,820)**	**10,243**	**67,348**	**(659,229)**
(Modification loss)/unwinding of modification loss during the year (Note)	**14,755**	**1,582**	**837**	**17,174**
Write-off	**-**	**-**	**(19,814)**	**(19,814)**
Other adjustments	**(1,178)**	**(2,221)**	**1,486**	**(1,913)**
At the end of financial year	**20,722,697**	**1,669,742**	**381,586**	**22,774,025**

Note: The amount of financing and other financing whose cash flows were modified in 2021 was RM2,180,362,764.

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 due to change in credit risk :-	(946,530)	946,029	501	-
- 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 derecognised (other than write-off)	(9,279,821)	(171,446)	(16,762)	(9,468,029)
New 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)
(Modification loss)/unwinding of modification loss during the year (Note)	(51,797)	(8,425)	(6)	(60,228)
Write-off	-	-	(95,090)	(95,090)
Other adjustments	(496)	(2,059)	4,048	1,493
At the end of financial year	17,578,362	1,670,654	315,471	19,564,487

Note: The amount of financing and other financing whose cash flows were modified in 2020 was RM2,895,950,660.

7 FINANCING AND OTHER FINANCING (continued)

IBOR Reform

As at 31 December 2021, the Bank hold the following financing and other financing which are referenced to the current benchmark profit rates and have yet to transition to an alternative benchmark profit rate.

	Economic Entity and The Bank 2021	
	Total RM'000	**Of which contract yet to transition to an alternative benchmark profit rate RM'000**
Financing and other financing		
- London Interbank Offered Rate denomiated in USD ('USD LIBOR')	**57,576**	**57,576**
- Kuala Lumpur Interbank Offered Rate ('KLIBOR')	**218,863**	**218,863**
	276,439	**276,439**

8 OTHER ASSETS

	Economic Entity and The Bank	
	2021 RM'000	2020 RM'000
Other debtors	**57,834**	58,902
Deposits and prepayments	**638**	788
Cheque clearing accounts	**14,366**	-
Foreclosed properties (i)	**4,873**	4,873
	77,711	64,563

(i) Foreclosed properties

At beginning/end of the financial year	**4,873**	4,873

9 AMOUNT DUE FROM JOINT VENTURES

	Economic Entity and The Bank	
	2021 RM'000	2020 RM'000
Advances to joint ventures	**60,000**	59,060
Less: Expected credit losses ('ECL')(i)	**(44,263)**	(43,987)
	15,737	15,073

	Lifetime ECL credit impaired (Stage 3)	
	2021	2020
(i) Movement of expected credit losses	**RM'000**	RM'000
At beginning of the financial year	**43,987**	28,738
Charge for the year	**276**	15,249
At end of the financial year	**44,263**	43,987

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 2021 RM'000	2020 RM'000
Advances to an associate	**1,257**	1,257
Less: Expected credit losses ("ECL")	**(1,257)**	(1,257)
	-	-

	Lifetime ECL credit impaired (Stage 3) 2021 RM'000	2020 RM'000
Movement of expected credit losses		
At beginning of the financial year	**1,257**	-
Charge for the year	**-**	1,257
At end of the financial year	**1,257**	1,257

The advances to associate 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:

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
Deferred tax assets/(liabilities)	**22,484**	12,390
Deferred tax assets/(liabilities)		
- settled more than 12 months	**1,596**	-
- settled within 12 months	**21,196**	15,250
Deferred tax liabilities:		
- settled more than 12 months	**22**	(2,860)
- settled within 12 months	**(330)**	-
Deferred tax assets/(liabilities)	**22,484**	12,390
At beginning of the financial year	**12,390**	(2,604)
Charged to income statements (Note 39)	**12,633**	6,389
Credited to equity	**(2,539)**	8,605
At end of the financial year	**22,484**	12,390

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 2021	**Lease Rental RM'000**	**Property and equipment RM'000**	**Intangible assets RM'000**	**Other liabilities RM'000**	**Financing and other financing RM'000**	**Financial investments at FVOCI RM'000**	**Financial investments at AC RM'000**	**Total RM'000**
At beginning of the financial year	**323**	**(111)**	**(83)**	**3,681**	**5,355**	**3,225**	**-**	**12,390**
Recognised income statement								
- Tax expenses	**(315)**	**(31)**	**7**	**215**	**5,811**	**(686)**	**1,596**	**6,597**
- Deferred tax impact arising from Cukai Makmur	**-**	**(65)**	**(31)**	**1,587**	**4,545**	**-**	**-**	**6,036**
Recognised in equity	**-**	**-**	**-**	**-**	**-**	**(2,539)**	**-**	**(2,539)**
At end of the financial year	**8**	**(207)**	**(107)**	**5,483**	**15,711**	**-**	**1,596**	**22,484**

Economic Entity and The Bank 2020	Lease Rental RM'000	Property and equipment RM'000	Intangible assets RM'000	Other liabilities RM'000	Financing and other financing RM'000	Financial investments at 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
At end of the financial year	323	(111)	(83)	3,681	5,355	3,225	12,390

^ The average tax rate is the expected rate to be applied to taxable profits in the year of assessment ('YA') 2022 due to the effect of 'Cukai Makmur' that was imposed by the government on the portion of YA 2022's chargeable income in excess of RM100 million.

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. The Statutory Reserve Requirement ('SRR') rate for banking industries is 2.0% of eligible liabilities.

13 INVESTMENT IN JOINT VENTURES

	Economic Entity		**The Bank**	
	2021	2020	**2021**	2020
	RM'000	RM'000	**RM'000**	RM'000
Unquoted shares at cost	**650**	650	**650**	650
Economic Entity's share of post acquisition retained losses	**(650)**	(650)	**-**	-
Impairment made	**-**	-	**(650)**	(650)
	-	-	**-**	-

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 2021**	2020
AFFIN-i Nadayu Sdn Bhd	Property development	**1,000**	**50**	50
KL South Development Sdn Bhd	Property development	**500**	**30**	30

	AFFIN-i Nadayu Sdn Bhd		**KL South Development Sdn Bhd**	
	2021	2020	**2021**	2020
	RM'000	RM'000	**RM'000**	RM'000
The summarised financial information of joint ventures is as follows:				
Non-current assets	-	3	-	4
Current assets	**98,316**	97,893	**61,615**	65,266
Current liabilities	**(65,197)**	(63,290)	**(107,045)**	(107,101)
Non-current liabilities	**(53,382)**	(53,383)	-	-
Net (liabilities)/assets	**(20,263)**	(18,777)	**(45,430)**	(41,831)
Net liabilities				
At beginning of the financial year	**(18,764)**	(15,484)	**(39,859)**	(38,440)
Loss for the financial year	**(3,083)**	(3,280)	**(525)**	(1,419)
At end of the financial year	**(21,847)**	(18,764)	**(40,384)**	(39,859)
The above amounts of assets and liabilities include the following:				
Cash and cash equivalents	**22**	134	**634**	1,866
Revenue	**-**	-	-	767
Loss for the financial year	**(3,083)**	(3,280)	**(525)**	(1,419)
The above profit for the financial year include the following:				
Finance income	**12**	496	**1**	23
Finance expense	**(3,027)**	(3,188)	**-**	-
Taxation	**-**	-	**-**	-
Depreciation and amortisation	**(3)**	(7)	**-**	(5)
Issued and paid up share capital	**1,000**	500	**500**	500
Investment in joint venture (%)	**50**	50	**30**	30
Share of loss in joint venture (RM'000)	**(10,924)**	(9,382)	**(12,115)**	(11,958)

As the Bank's share of cumulative loss of RM23.0 million (2020: cumulative loss of RM21.3 million) as at 31 December 2021 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 of six (6) Islamic Banks in Malaysia namely Affin Islamic Bank Berhad, Bank Islam Malaysia Berhad, Bank Muamalat Malaysia Berhad, Maybank Islamic Berhad, Bank Kerjasama Rakyat Malaysia Berhad and Bank Simpanan Nasional.

In 2015, Raeed formed a wholly-owned subsidiary, IAP Integrated Sdn Bhd ('IAP Integrated') to develop and operate a website-based multi-bank investment portal known as Investment Account Platform ('IAP').

IAP faciltates efficient intermediation by the Sponsoring Banks to match financing requirement of ventures with investment from retail and institutional investors via Investment Account ('IA') product. IA products are governed and supervised by BNM under Islamic Financial Service Act ('IFSA') 2013.

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

Name	Principal Activities	Issued and Paid up share capital	Percentage of equity held 2021	2020
RAEED Holdings Sdn Bhd	Investment Holding	**4,500**	**17**	17

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
Unquoted share at cost	**750**	750
Economic Entity's share of post acquisition retained losses	**(750)**	(750)
	-	-
The summarised financial information of associate are as follows:		
Revenue	**196**	144
Loss after tax	**(1,631)**	(2,346)
Non-current assets	**323**	632
Current assets	**1,816**	4,917
Current liabilities	**(9,953)**	(7,529)
Net liabilities		
At beginning of the financial year	**(2,761)**	(415)
Issuance of share capital	**-**	-
Loss for the financial year	**(1,631)**	(2,346)
At end of the financial year	**(4,392)**	(2,761)
Issued and paid up share capital	**4,500**	4,500
Investment in associate (%)	**17**	17
Share of loss in associate (RM'000)	**(2,028)**	(1,756)

15 PROPERTY AND EQUIPMENT

Economic Entity and The Bank 2021	**Renovation RM'000**	**Office equipment and furniture RM'000**	**Computer equipment and software RM'000**	**Motor vehicles RM'000**	**Capital work-in progress RM'000**	**Total RM'000**
Cost						
At beginning of the financial year	**2,367**	**1,410**	**2,318**	**836**	**93**	**7,024**
Additions	**8**	**-**	**-**	**-**	**388**	**396**
Write-off	**-**	**(2)**	**(3)**	**-**	**-**	**(5)**
Reclassification from holding company	**14**	**-**	**2**	**-**	**-**	**16**
At end of the financial year	**2,389**	**1,408**	**2,317**	**836**	**481**	**7,431**
Accumulated depreciation						
At beginning of the financial year	**2,255**	**1,072**	**1,896**	**418**	**-**	**5,641**
Charge for the financial year	**47**	**113**	**141**	**166**	**-**	**467**
Write-off	**-**	**(1)**	**(3)**	**-**	**-**	**(4)**
Reclassification from holding company	**-**	**-**	**(1)**	**-**	**-**	**(1)**
At end of the financial year	**2,302**	**1,184**	**2,033**	**584**	**-**	**6,103**
Net book value at end of the financial year	**87**	**224**	**284**	**252**	**481**	**1,328**

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
Cost						
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	(1,506)	(1,031)	(1,318)	-	-	(3,855)
At end of the financial year	2,367	1,410	2,318	836	93	7,024
Accumulated depreciation						
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	(1,426)	(968)	(1,020)	-	-	(3,414)
At end of the financial year	2,255	1,072	1,896	418	-	5,641
Net book value at end of the financial year	112	338	422	418	93	1,383

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16 INTANGIBLE ASSETS

	Economic Entity and The Bank	
	2021	2020
Computer software	**RM'000**	RM'000
Cost		
At beginning/end of the financial year	**7,466**	7,466
Less: Accumulated amortisation		
At beginning of the financial year	**6,908**	6,695
Charge for the financial year	**213**	213
At end of the financial year	**7,121**	6,908
Net book value at end of the financial year	**345**	558

17 RIGHT-OF-USE ASSETS

	Economic Entity and The Bank	
	2021	2020
Properties	**RM'000**	RM'000
Cost		
At beginning of the financial year	**2,152**	2,901
Additions	**-**	1,932
Reclassification to holding company	**-**	(2,681)
At end of the financial year	**2,152**	2,152
Less: Accumulated depreciation		
At beginning of the financial year	**1,067**	1,347
Charge for the financial year	**453**	1,019
Reclassification to holding company	**-**	(1,299)
At end of the financial year	**1,520**	1,067
Net book value at end of the financial year	**632**	1,085

18 DEPOSITS FROM CUSTOMERS

(i) By type of deposit

	Economic Entity and The Bank	
	2021	2020
	RM'000	RM'000
Qard		
Demand deposits	**4,476,588**	3,539,236
Savings deposits	**952,617**	1,005,821
	5,429,205	4,545,057
Mudarabah		
General investment deposits	**41,235**	57,313
Tawarruq		
Murabahah term deposits	**14,669,830**	13,333,675
Commodity Murabahah	**1,122,215**	516,492
Savings deposits	**159,324**	102,574
Demand deposit	**568,320**	110,880
	16,519,689	14,063,621
	21,990,129	18,665,991

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18 DEPOSITS FROM CUSTOMERS (continued)

(ii) By maturity structure of Murabahah term deposits and general investment deposits

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
Due within six months	**9,160,116**	8,831,048
Six months to one year	**4,980,812**	3,731,511
One year to three years	**567,584**	822,817
Three years to five years	**2,553**	5,612
	14,711,065	13,390,988

(iii) By type of customer

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
Government and statutory bodies	**8,583,944**	6,651,501
Business enterprises	**4,919,831**	4,215,444
Individuals	**7,448,586**	6,972,875
Domestic banking institutions	**259**	7,826
Domestic non-banking financial institutions	**682,330**	484,295
Foreign entities	**111,313**	133,648
Others entities	**243,866**	200,402
	21,990,129	18,665,991

19 INVESTMENT ACCOUNTS OF CUSTOMERS

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
(i) By type of deposit		
Mudarabah	**1,329**	2,151
(ii) By maturity structure		
Six months to one year	**-**	377
One year to three years	**-**	-
Three years to five years	**1,329**	1,774
	1,329	2,151
(iii) By type of customer		
Individuals	**631**	1,085
Other entities	**698**	1,066
	1,329	2,151
(iv) By contract		
Business term financing	**1,329**	2,151
(v) Movement in investment accounts		
At beginning of the financial year	**2,151**	1,447
New placement during the year	**-**	1,905
Redemption during the year	**(818)**	(1,201)
Finance expense on RIA	**90**	285
Profit distributed	**(94)**	(285)
At end of the financial year	**1,329**	2,151

19 INVESTMENT ACCOUNTS OF CUSTOMERS (continued)

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

	Economic Entity and The Bank			
	Average Profit Sharing Ratio (PSR)		Average Rate of Return (ROR)	
	2021	2020	**2021**	2020
	%	%	**%**	%
Due within:				
Six months to one year	**-**	85	**-**	5.70
One year to three years	**85**	-	**5.58**	-
Three years to five years	**-**	85	**-**	5.58

20 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Economic Entity and The Bank	
	2021	2020
	RM'000	RM'000
Qard		
Licensed banks	**-**	201,505
Tawarruq		
Licensed banks	**-**	200,912
Licensed investment banks	**14,106**	3,115
Other financial institutions	**343,944**	820,341
	358,050	1,225,873
Maturity structure of deposits		
Due within six months	**358,050**	1,225,873
	358,050	1,225,873

21 INVESTMENT ACCOUNTS DUE TO DESIGNATED FINANCIAL INSTITUTIONS

	Economic Entity and The Bank	
	2021	2020
	RM'000	RM'000
Mudarabah		
Licensed banks	**1,831,585**	1,751,038
Movement in Mudarabah		
At beginning of the financial year	**1,751,039**	1,918,295
New placement	**234,689**	196,746
Redemption	**(158,296)**	(356,601)
Finance expense on RIA	**67,627**	74,203
Profit distributed	**(66,958)**	(75,807)
Exchange differences	**3,484**	(5,798)
At end of the financial year	**1,831,585**	1,751,038

21 INVESTMENT ACCOUNTS DUE TO DESIGNATED FINANCIAL INSTITUTIONS (continued)

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

	Economic Entity and The Bank			
	Average Profit Sharing Ratio (PSR)		Average Rate of Return (ROR)	
	2021	2020	**2021**	2020
	%	%	**%**	%
Due within:				
One to three months	-	70	-	0.89
Six months to one year	-	89	-	5.56
One year to three years	**78**	70	**4.45**	2.68
Three years to five years	**95**	84	**4.71**	4.49
Five years and above	**89**	89	**4.73**	4.85

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 RM1,831.6 million (2020: RM1,751.0 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 borned by the investor.

22 RECOURSE OBLIGATION ON FINANCING SOLD TO CAGAMAS BERHAD

	Economic Entity and The Bank	
	2021	**2020**
	RM'000	RM'000
Recourse obligation on financing sold to Cagamas Berhad	**50,033**	50,034

Movements in recourse obligation on financing sold to Cagamas Berhad:

At beginning of financial year	**50,034**	-
Proceeds	**-**	50,000
Profit payment	**(1,238)**	-
Profit expense	**1,237**	34
At end of the financial year	**50,033**	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 financial liability on the statements of financial position and stated at amortised cost.

23 DERIVATIVE FINANCIAL LIABILITIES

	Economic Entity and The Bank			
	2021		2020	
	Contract/ notional amount	**Liabilities**	Contract/ notional amount	Liabilities
	RM'000	**RM'000**	RM'000	RM'000
At fair value				
Foreign exchange derivatives				
- Currency forwards	**1,071,727**	**10,659**	819,530	25,572
	1,071,727	**10,659**	819,530	25,572

24 OTHER LIABILITIES

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
Bank Negara Malaysia and Credit Guarantee Corporation Funding programmes	**9,941**	1,599
Margin and collateral deposits	**18,056**	18,263
Other creditors and accruals	**4,247**	10,909
Sundry creditors	**137,397**	18,692
Provision for zakat	**2,337**	1,925
Defined contribution plan (a)	**1,214**	1,415
Accrued employee benefits	**4,893**	4,746
Charity funds (b)	**14**	35
Unearned income	**4,688**	6,346
Financing commitments (c)	**5,666**	3,982
	188,453	67,912

(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 2021 RM'000	2020 RM'000
At beginning of the financial year	**35**	52
Sources of charity funds		
- Non-Islamic/prohibited income	**5**	-
- AFFIN Barakah Charity Account-i	**4**	24
Uses of charity funds		
- Contribution to medical aid	**-**	30
- Contribution to education	**10**	-
- Contribution to program/event	**-**	11
- Contribution to program/event - Covid-19	**20**	-
	30	41
At end of the financial year	**14**	35

The source of charity funds come from the following categories:

a) Sources from Shariah non-compliant events.

b) 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.
(*Hibah refers to the historical Hibah paid to the depositor at the Bank's discretion.)

c) 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 2021 RM'000	2020 RM'000
At beginning of the financial year	**3,982**	6,515
Net remeasurement of loss allowance	**1,490**	799
New financing commitments and financial guarantees	**1,714**	940
Financing commitment/financial guarantees derecognised	**(1,520)**	(4,493)
Change in model/risk parameters	**-**	221
At end of the financial year	**5,666**	3,982

25 AMOUNT DUE TO HOLDING COMPANY

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
Intersystem balances due to holding company	**758,812**	299,815

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

26 LEASE LIABILITIES

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
At beginning of financial year	**2,433**	1,568
Addition	**-**	1,932
Finance expense	**38**	91
Lease payment	**(1,805)**	(1,158)
At end of the financial year	**666**	2,433

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 2021 RM'000	2020 RM'000
Lease liabilities recognised (discounted)	**666**	2,433
Potential future lease payments not included in lease liabilities		
- Payable in 2021	**-**	82
- Payable in 2022 to 2026	**3,342**	3,511
	3,342	3,593

27 SUBORDINATED TERM FINANCING AND MEDIUM TERM NOTES

	Economic Entity and The Bank 2021 RM'000	2020 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
	1,111,034	1,111,034

2021	**At beginning of financial year RM'000**	**Cash flow RM'000**	**Profit expense RM'000**	**At end of financial year 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**
	1,111,034	**(57,350)**	**57,350**	**1,111,034**
2020				
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
	1,111,034	(57,350)	57,350	1,111,034

(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.

28 SHARE CAPITAL

	Economic Entity and the Bank			
	2021		2020	
	Number of ordinary shares '000	**RM'000**	Number of ordinary shares '000	RM'000
Ordinary share issued and fully paid:				
At beginning of the financial year	**1,060,000**	**1,060,000**	1,060,000	1,060,000
At end of the financial year	**1,060,000**	**1,060,000**	1,060,000	1,060,000

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29 RESERVES

	Economic Entity		The Bank	
	2021	2020	**2021**	2020
	RM'000	RM'000	**RM'000**	RM'000
Retained profits	**981,016**	768,941	**981,016**	768,941
FVOCI revaluation reserves (a)	**-**	(4,919)	**-**	(4,919)
Regulatory reserves (b)	**105,613**	127,093	**105,613**	127,093
	1,086,629	891,115	**1,086,629**	891,115

(a) 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 NIL in 2021 (2020: Net unrealised loss RM8,780,247).

(b) 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.

30 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Economic Entity and The Bank	
	2021	2020
	RM'000	RM'000
Income derived from investment of:		
- General investment deposits (a)	**603,664**	672,568
- Other deposits (b)	**302,194**	279,405
	905,858	951,973

a) Income derived from investment of general investment deposits

	2021 RM'000	2020 RM'000
Finance income and hibah		
Financing and other financing	**490,008**	507,130
Financial investments at FVOCI	**54,529**	56,845
Financial investments at AC	**7,877**	-
Money at call and deposits with financial institutions	**27,578**	32,305
	579,992	596,280
Accretion of discount less amortisation of premium	**(10,851)**	(7,120)
Total finance income and hibah	**569,141**	589,160
Other operating income		
Fee income:		
Commission	**6,582**	3,001
Service charges and fees	**5,986**	6,890
Guarantee fees	**3,310**	2,540
	15,878	12,431
Commission paid on will/wasiat	**(9)**	(10)
Income from financial instruments:		
Gain on sale of financial investments at FVOCI	**1,227**	60,047
	1,227	60,047
Other income:		
Foreign exchange (loss)/profit		
- realised	**(1,789)**	13,049
- unrealised	**8,400**	(4,842)
Other non-operating income	**10,816**	2,733
	17,427	10,940
Total income derived from investment of general investment deposits	**603,664**	672,568

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

b) Income derived from investment of other deposits

	Economic Entity and The Bank	
	2021	2020
	RM'000	RM'000
Finance income and hibah		
Financing and other financing	**245,298**	210,676
Financial investments at FVOCI	**27,297**	23,616
Financial investments at AC	**3,943**	-
Money at call and deposits with financial institution	**13,806**	13,420
	290,344	247,712
Accretion of discount less amortisation of premium	**(5,432)**	(2,958)
Total finance income and hibah	**284,912**	244,754
Other operating income		
Fee income:		
Commission	**3,295**	1,247
Service charges and fees	**2,997**	2,862
Guarantee fees	**1,657**	1,056
	7,949	5,165
Commission paid on will/wasiat	**(5)**	(4)
Income from financial instruments:		
Gain on sale of financial investments at FVOCI	**614**	24,945
	614	24,945
Other income:		
Foreign exchange (loss)/profit		
- realised	**(895)**	5,421
- unrealised	**4,205**	(2,011)
Other non-operating income	**5,414**	1,135
	8,724	4,545
Total income derived from investment of other deposits	**302,194**	279,405

31 INCOME DERIVED FROM INVESTMENT OF INVESTMENT ACCOUNTS

	Economic Entity and The Bank	
	2021	2020
	RM'000	RM'000
Finance income and hibah		
Financing and other financing	**60,226**	72,637
Financial investments at FVOCI	**6,702**	8,142
Financial investments at AC	**968**	-
Money at call and deposits with financial institution	**3,390**	4,627
	71,286	85,406
Accretion of discount less amortisation of premium	**(1,334)**	(1,020)
Total finance income and hibah	**69,952**	84,386
Other operating income		
Fee income:		
Commission	**809**	430
Service charges and fees	**736**	987
Guarantee fees	**407**	364
	1,952	1,781
Commission paid on will/wasiat	**(1)**	(1)
Income from financial instruments:		
Gain on sale of financial investments at FVOCI	**151**	8,601
	151	8,601
Other income:		
Foreign exchange (loss)/profit		
- realised	**(220)**	1,869
- unrealised	**1,032**	(694)
Other non-operating income	**1,329**	391
	2,141	1,566
Total income derived from investment of investment accounts	**74,195**	96,333

32 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	Economic Entity and The Bank	
	2021	2020
	RM'000	RM'000
Finance income and hibah		
Financing and other financing	**67,301**	74,280
Financial investments at FVOCI	**7,489**	8,326
Financial investments at AC	**1,082**	-
Money at call and deposits with financial institutions	**3,788**	4,732
	79,660	87,338
Accretion of discount less amortisation of premium	**(1,491)**	(1,043)
Total finance income and hibah	**78,169**	86,295
Other operating income		
Fee income:		
Commission	**904**	440
Service charges and fees	**822**	1,009
Guarantee fees	**455**	372
	2,181	1,821
Commission paid on will/wasiat	**(1)**	(1)
Income from financial instruments:		
Gain on sale of financial investments at FVOCI	**169**	8,795
	169	8,795
Other income:		
Foreign exchange (loss)/profit		
- realised	**(246)**	1,911
- unrealised	**1,154**	(709)
Other non-operating income	**1,486**	400
	2,394	1,602
Total income derived from investment of shareholders' funds	**82,912**	98,512

33 MODIFICATION LOSS

	Economic Entity and The Bank	
	2021	2020
	RM'000	RM'000
Loss on modification of cash flows	**2,495**	90,176
Benefits recognised under the various government schemes	**-**	(59,110)
Net effect	**2,495**	31,066

The modification loss represents the cost of deferring cashflows of the financing impacted by the payment moratorium. The modification financing is shown net of benefits from various government financing schemes to support measures to assist SMEs that are adversely impacted by Covid-19 in order to sustain their business operations.

The moratorium does not automatically result in stage transfer under MFRS 9 in the absence of other factors relevant to the assessment.

During the current financial year, the Bank has granted repayment/payment moratorium on selected individual and small and medium enterprises (SMEs) affected by the Covid-19 pandemic who have opted in under the government's various financing schemes, reduction in instalments and other packages, including to reschedule and restructure financing to suit the specific financial circumstances of customers.

In financial year 2020, the Bank granted an automatic moratorium on certain financing repayments/payments, by individuals and SMEs for a period of six months from 1 April 2020. In 2021, the Bank have granted multiple repayment assistance on selected customers including PERMAI, PERMAKASA+ and PEMULIH.

33 MODIFICATION LOSS (continued)

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.

In 2020, the Bank also received funding from the BNM and/or the Government, for the purpose of financing to SMEs at a concessionary rate. The financing by the Bank is to provide support for SMEs 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 AND OTHER FINANCING

	Economic Entity and The Bank	
	2021	2020
	RM'000	RM'000
Expected credit losses ('ECL') made/(written-back) on:		
- financing and other financing	**38,832**	94,202
- securities	**668**	2,837
- financing commitments and financial guarantees	**1,684**	(2,533)
Bad financing:		
- recovered	**(4,034)**	(3,821)
- written-off	**369**	376
	37,519	91,061

35 ALLOWANCE FOR IMPAIRMENT LOSSES ON OTHER ASSETS

	Economic Entity		**The Bank**	
	2021	2020	**2021**	2020
	RM'000	RM'000	**RM'000**	RM'000
Allowance for impairment on:				
- amount due from joint ventures	**276**	15,249	**276**	15,249
- amount due from associate	**-**	1,257	**-**	1,257
Allowance for impairment on:				
- investment in joint ventures	**-**	-	**-**	650
- investment in associate	**-**	-	**-**	750
Allowance for impairment on other assets	**1,057**	-	**1,057**	-
	1,333	16,506	**1,333**	17,906

36 INCOME ATTRIBUTABLE TO THE DEPOSITORS AND OTHERS

	Economic Entity and The Bank	
	2021	2020
	RM'000	RM'000
Deposits from customers		
- mudarabah	**967**	1,348
- non-mudarabah	**379,228**	503,350
Deposits and placement of banks and other financial institutions		
- mudarabah	**17,246**	16,628
Finance expense - Subordinated term financing and medium term notes	**57,350**	57,350
Others	**1,299**	134
	456,090	578,810

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37 OTHER OPERATING EXPENSES

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
Personnel costs (a)	**152,423**	162,061
Establishment costs (b)	**77,859**	64,529
Marketing expenses (c)	**2,903**	4,806
Administrative and general expenses (d)	**13,026**	14,139
	246,211	245,535
(a) Personnel costs		
Wages, salaries and bonuses	**117,156**	125,002
Defined contribution plan ('EPF')	**19,810**	20,840
Other personnel costs	**15,457**	16,219
	152,423	162,061
(b) Establishment costs		
Equipment rental	**4,181**	574
Repair and maintenance	**28,407**	25,603
Depreciation of property and equipment	**467**	654
Depreciation of right-of-use assets	**453**	1,019
Amortisation of intangible assets	**213**	213
IT consultancy fees	**18,477**	17,343
Dataline rental	**7,155**	5,658
Security services	**6,554**	2,800
Electricity, water and sewerage	**4,847**	5,958
Licence fees	**278**	348
Insurance/takaful and indemnities	**4,579**	2,102
Other establishment costs	**2,248**	2,257
	77,859	64,529
(c) Marketing expenses		
Business promotion and advertisement	**683**	585
Entertainment	**270**	454
Traveling and accommodation	**948**	1,262
Commissions expenses	**-**	340
Brokerage expenses	**898**	938
Other marketing expenses	**104**	1,227
	2,903	4,806
(d) Administration and general expenses		
Telecommunication expenses	**1,400**	1,986
Auditors' remuneration	**319**	363
Professional fees	**2,237**	2,819
Property and equipment written-off	**1**	2
Mail and courier charges	**1,953**	895
Stationery and consumables	**3,161**	3,002
Directors' fees and allowances	**1,507**	1,868
Shariah fees	**431**	429
Donations	**208**	353
Settlement, clearing and bank charges	**1,756**	1,591
Stamp duties	**2**	5
GST input tax-non recoverable	**-**	11
Other administration and general expenses	**51**	815
	13,026	14,139

37 OTHER OPERATING EXPENSES (continued)

The expenditure includes the following statutory disclosures:

	Economic Entity and The Bank	
	2021	2020
	RM'000	RM'000
Directors' remuneration (Note 38)	**2,623**	3,038
Auditors' remuneration (a)		
- statutory audit fees	**240**	247
- regulatory related fees	**41**	41
Tax fees	**26**	26
Non audit fees	**12**	49

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

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

Dato' Mohd Ali bin Mohd Tahir (Appointed as Chairman w.e.f 2.1.2021, Deceased on 12.2.2022)
Associate Professor Dr. Said Bouheraoua
En. Musa bin Abdul Malek
En. Suffian Bin Baharuddin
YBhg. Datuk Mohd Farid Bin Mohd Adnan
Ms. Tan Ler Chin, Cindy
En. Mohd Haniz bin Mohd Nazlan (Resigned w.e.f. 12.3.2021)
YBhg. Dato' Bakarudin Bin Ishak (Chairman) (Resigned w.e.f 2.1.2021)

38 CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION (continued)

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

	Economic Entity and The Bank	
	2021	2020
	RM'000	RM'000
CEO		
Salaries	**723**	645
Bonuses	**160**	290
Defined contribution plan ('EPF')	**148**	156
Other employee benefits	**42**	44
Benefits-in-kind	**43**	35
	1,116	1,170
Non-executive Directors		
Fees	**1,507**	1,508
Benefits-in-kind	**-**	360
	1,507	1,868
Directors' remuneration (Note 37)	**2,623**	3,038
Shariah committee remuneration		
Fees	**431**	**429**

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

Economic Entity and The Bank 2021	**Salaries RM'000**	**Bonuses RM'000**	**Fees RM'000**	**Other emoluments RM'000**	**Benefits-in-kind RM'000**	**Total RM'000**
CEO						
Nazlee bin Khalifah	**723**	**160**	**-**	**190**	**43**	**1,116**
Total	**723**	**160**	**-**	**190**	**43**	**1,116**
Non-executive Directors						
Dato' Mohd Ali bin Mohd Tahir (Interim Chairman)	**-**	**-**	**322**	**-**	**-**	**322**
Dato' Bakaruddin Ishak	**-**	**-**	**1**	**-**	**-**	**1**
En. Mohd Suffian bin Haji Haron	**-**	**-**	**-**	**-**	**-**	**-**
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Retired)	**-**	**-**	**-**	**-**	**-**	**-**
Associate Professor Dr. Said Bouheraoua	**-**	**-**	**290**	**-**	**-**	**290**
En. Musa bin Abdul Malek	**-**	**-**	**312**	**-**	**-**	**312**
En. Suffian Bin Baharuddin	**-**	**-**	**310**	**-**	**-**	**310**
YBhg. Datuk Mohd Farid Bin Mohd Adnan	**-**	**-**	**220**	**-**	**-**	**220**
Ms. Tan Ler Chin, Cindy	**-**	**-**	**50**	**-**	**-**	**50**
En. Mohd Haniz bin Mohd Nazlan	**-**	**-**	**2**	**-**	**-**	**2**
Total	**-**	**-**	**1,507**	**-**	**-**	**1,507**
Shariah Committee						
Associate Professor Dr. Said Bouheraoua	**-**	**-**	**64**	**-**	**-**	**64**
Associate Professor Dr. Ahmad bin Othman	**-**	**-**	**18**	**-**	**-**	**18**
Associate Professor Dr. Zulkifli bin Hasan	**-**	**-**	**18**	**-**	**-**	**18**
Associate Professor Datin Dr. Nurdianawati Irwani Abdullah	**-**	**-**	**71**	**-**	**-**	**71**
Dr. Mohammad Mahbubi Ali	**-**	**-**	**81**	**-**	**-**	**81**
Dr. Nor Fahimah Mohd Razif	**-**	**-**	**71**	**-**	**-**	**71**
En. Mohamad Salihin Deris	**-**	**-**	**54**	**-**	**-**	**54**
En. Ahmad Husni Abd Rahman	**-**	**-**	**54**	**-**	**-**	**54**
Total	**-**	**-**	**431**	**-**	**-**	**431**
Grand total	**723**	**160**	**1,938**	**190**	**43**	**3,054**

38 CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION (continued)

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
CEO						
Nazlee bin Khalifah	645	290	-	200	35	1,170
Total	645	290	-	200	35	1,170
Non-executive Directors						
Dato' Bakaruddin Ishak (Chairman)	-	-	319	-	-	319
En. Mohd Suffian bin Haji Haron	-	-	118	180	-	298
Laksamana Madya Tan Sri Dato' Seri Ahmad Ramli bin Mohd Nor (Retired)	-	-	123	180	-	303
Associate Professor Dr. Said Bouheraoua	-	-	301	-	-	301
Dato' Mohd Ali bin Mohd Tahir	-	-	255	-	-	255
En. Musa bin Abdul Malek	-	-	282	-	-	282
En. Suffian Bin Baharuddin	-	-	96	-	-	96
En. Mohd Haniz Bin Mohd Nazlan	-	-	14	-	-	14
Total	-	-	1,508	360	-	1,868
Shariah Committee						
Associate Professor Dr. Said Bouheraoua	-	-	82	-	-	82
Associate Professor Dr. Ahmad 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
Total	-	-	429	-	-	429
Grand total	645	290	1,937	560	35	3,467

During the financial year, Directors and Officers of the Bank are covered under the Directors' & Officers' Liability Takaful 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 Takaful effected for the Directors & Officers of the Bank was RM40 million. The total amount of takaful contribution paid for the Directors' & Officers' Liability Takaful paid by the Company was RM79,510 (2020: RM65,200).

39 TAXATION

	Economic Entity and The Bank	
	2021	2020
Malaysian income tax	**RM'000**	RM'000
Current tax	**70,559**	41,570
(Over)/under provision in prior year	**(29)**	5,175
Deferred tax (Note 11)	**(12,633)**	(6,389)
	57,897	40,356

Numerical reconciliation between the average effective tax rate and the Malaysian tax rate:	**%**	%
Statutory tax rate in Malaysia	**24.00**	24.00
Tax effect in respect of:		
Non-allowable expenses	**1.37**	3.96
(Over)/under provision in prior year	**(0.01)**	5.22
Effect of different tax rate	**(2.39)**	7.53
Average effective tax rate	**22.97**	40.71

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	
	2021	2020	**2021**	2020
Net profit attributable to ordinary equity holders (RM'000)	**190,595**	56,892	**190,595**	56,242
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)	**18.0**	5.4	**18.0**	5.3

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: - Directors - Chief Executive Officer - Member of Senior Management team
Related parties of key management personnel (deemed as related to the Bank)	- Close family members and dependents of key management personnel - Entities that are controlled, jointly controlled or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

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

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

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41 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Related parties transactions and balances

	Ultimate holding corporate body		Holding company		Other related companies		Companies in which certain Directors have substantial interest		Key management personnel	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Economic Entity and The Bank	**RM'000**	RM'000	**RM'000**	RM'000	**RM'000**	RM'000	**RM'000**	RM'000	**RM'000**	RM'000
					RM'000	RM'000	**RM'000**	RM'000	**RM'000**	RM'000
Income										
Income on financing and other financing	**-**	-	**-**	-	**15,542**	16,149	**711**	685	**111**	85
	-	-	**-**	-	**15,542**	16,149	**711**	685	**111**	85
Expenditure										
Profit paid on Murabahah term deposit	**-**	-	**-**	-	**114**	2,371	**63**	1,982	**7**	92
Profit paid on general investment deposits	**-**	-	**-**	-	**1**	6	**-**	-	**-**	-
Profit paid on Commodity murabahah	**47**	87	**67**	57	**408**	96	**-**	-	**-**	-
Profit paid on deposits and placement of banks and other financial institutions	**-**	-	**462**	678	**-**	-	**-**	-	**-**	-
Profit paid on Restricted Invesment Account (RIA)	**-**	-	**67,063**	83,186	**-**	-	**-**	-	**-**	-
Finance expense - Subordinated term financing and medium term notes	**-**	-	**3,337**	998	**-**	-	**-**	-	**-**	-
Other expenditure	**-**	-	**201,577**	186,908	**-**	27	**-**	-	**-**	-
	47	87	**272,506**	271,827	**523**	2,500	**63**	1,982	**7**	92

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41 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Related parties transactions and balances

	Ultimate holding corporate body		Holding company		Other related companies		Companies in which certain Directors have substantial interest		Key management personnel	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Economic Entity and The Bank	**RM'000**	RM'000	**RM'000**	RM'000	**RM'000**	RM'000	**RM'000**	RM'000	**RM'000**	RM'000
Amount due from										
Financing and other financing	**-**	-	**-**	-	**631,702**	629,097	**30,826**	29,419	**3,463**	3,821
Intercompany balances	**-**	-	**-**	-	**15,737**	15,073	**-**	-	**-**	-
	-	-	**-**	-	**647,439**	644,170	**30,826**	29,419	**3,463**	3,821
Amount due to										
Demand and saving deposits	**130**	167	**22,306**	-	**16,391**	19,973	**2,051**	5,823	**8,316**	5,535
Murabahah term deposit	**-**	-	**-**	-	**96,603**	107,072	**35,574**	4,043	**3,489**	3,260
General investment deposits	**-**	-	**-**	-	**305**	299	**-**	-	**-**	-
Commodity Murabahah	**10,002**	78,463	**14,106**	-	**2,000**	5,620	**-**	-	**-**	-
Restricted Invesment Account (RIA)	**-**	-	**1,832,893**	1,751,038	**-**	-	**-**	-	**-**	-
Intercompany balances	**-**	-	**758,812**	299,813	**-**	-	**-**	-	**-**	-
Subordinated term financing and medium term notes	**-**	-	**301,922**	302,913	**-**	-	**-**	-	**-**	-
	10,132	78,630	**2,930,039**	2,353,764	**115,299**	132,964	**37,625**	9,866	**11,805**	8,795
Commitments and contingencies	**1,910**	1,018	**-**	-	**214,641**	193,528	**890**	748	-	-

ECL were made according to MFRS 9 in 2021 and 2020 for financing and other financing made to key management personnel.

41 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) Key management personnel compensation

	Economic Entity and The Bank 2021 RM'000	2020 RM'000
Directors' fees and allowances		
Fees	**1,507**	1,508
Benefits-in-kind	**-**	360
Shariah committee fees	**64**	82
	1,571	1,950
Short-term employment benefits		
Salaries	**1,253**	1,150
Bonuses	**306**	482
Defined contribution plan ('EPF')	**273**	283
Other employee benefits	**158**	161
Benefits-in-kind	**67**	54
	2,057	2,130
	3,628	4,080

Included in the above table are CEO and directors' remuneration as disclosed in Note 38.

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 2021 RM'000	Principal amount 2020 RM'000
Direct credit substitutes *	**91,921**	68,709
Transaction-related contingent items	**409,317**	368,737
Short-term self-liquidating trade related contingencies	**260,650**	294,032
Irrevocable commitments to extend credit:		
- maturity less than one year	**1,522,266**	1,372,672
- maturity more than one year	**826,881**	831,745
Unutilised credit card lines	**214,449**	209,755
Foreign exchange related contracts #		
- less than one year	**1,750,186**	1,212,161
	5,075,670	4,357,811

* Included in direct credit substitutes as above are financial guarantee contracts of RM91.9 million at the Bank (2020: RM68.7million), 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 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.

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 sukuk 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 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.

43 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Risk limit control and mitigation policies (continued)

Collateral

Credits are established against customer's capacity to pay rather than to rely solely on security. However, collateral may be taken to mitigate credit risk.

The main collateral types accepted and ascribed value by the Bank are:
- Mortgages over residential real estate;
- Charges over commercial real estate or vehicles financed;
- Charges over business assets such as business properties, equipment and fixed deposits;
- Charges over financial instruments such as marketable securities; and
- Debentures, personal guarantees and corporate guarantees.

Where relevant, the Bank undertake a valuation of the collateral obtained as part of the financing origination process. This assessment is reviewed periodically.

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 and other financing depends on the nature of the instrument. Sukuk, 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:

Economic Entity and The Bank	**Gross financing and other financing**	**Expected credit losses**	**Net financing and other financing**	**Fair value of collateral held**
2021	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Community Banking				
- Cash Line-i	**753**	**242**	**511**	**1,810**
- Credit cards	**280**	**-**	**280**	**-**
- Term financing	**10,416**	**4,267**	**6,149**	**14,069**
- Mortgages	**82,609**	**27,344**	**55,265**	**84,921**
- Hire purchase	**19,836**	**14,498**	**5,338**	**56,530**
Corporate & Public Sector	**232,011**	**3,760**	**228,251**	**257,108**
Enterprise Banking	**35,681**	**3,804**	**31,877**	**52,437**
Total credit-impaired assets	**381,586**	**53,915**	**327,671**	**466,875**

Economic Entity and The Bank				
2020				
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
Total credit-impaired assets	315,471	82,430	233,041	404,419

The financial effect of collateral held for financing and other financing of the Bank is 83.3% (2020: 82.4%). The financial effects of collateral for the other financial assets are insignificant.

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 loans/financing, guarantees or letters of credit. Unutilised credits give rise to potential or contingent credit lossess to the Bank in an amount equal to the total unutilised commitments. The Bank manages and mitigates the amount of potential and contingent losses arising from unutilised credit lines by imposing minimum specific credit standards on customers.

The Bank monitors the term to maturity of credit commitments as 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 possesion of collateral held as security or calling upon other credit enhancements.

	Economic Entity and The Bank	
	2021	2020
	RM'000	RM'000
Nature of assets		
Industrial and residential properties	**4,873**	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 8.

Credit risk measurement

Credit risk grades

The Bank allocates a credit risk grade to each exposure. Credit risk grades are indicative of the risk of default and are generated using qualitative and quantitative factors which are supplemented by experienced credit judgement. These inputs 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.

Determining whether credit risk has increased significantly

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

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

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

As a backstop, the Bank consider that a significant increase in credit risk is presumed if a issuer is more than 30 days or 1 month past due. Days or months past due are determined by the number of days or month since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the customer.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
- the criteria are capable of identifying significant increases in credit risk before an exposure is in default; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

43 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Credit risk measurement (continued)

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)	- Financial assets that do not have significant increase in credit risk since initial recognition of the asset and therefore, less likely to default; - Performing accounts with credit grade 13 or better; - Accounts past due less than or equal to 30 days or; - 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.	12 - Month ECL
Underperforming accounts (Stage 2)	- 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; - Accounts past due more than 30 days or 1 month but less than 90 days or 3 months; - Account demonstrates critical level of risk and therefore, credit graded to 14 and place under Watchlist;	Lifetime ECL - not credit impaired
Impaired accounts (Stage 3)	- Impaired credit; - Credit grade 15 or worse; - Accounts past due more than 90 days or 3 months; - All restructure and rescheduling (R&R) accounts due to credit deterioration are to be classified as impaired.	Lifetime ECL - credit impaired
Write-off	- Evidence indicating that there is no reasonable expectation of recovery based on unavailability of customer's sources of income or; - Assets unable to generate sufficient future cash flows to pay the amount.	Asset is written off

The Bank has not used the low credit risk exemption for any financial instrument for the year ended 31 December 2021.

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 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, 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 relating to its credit risk exposures which are analysed by type of product and customer as well as by credit risk grading. For some portfolios, information from external credit assessment institutions 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 with time.

43 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Credit risk measurement (continued)

Measurement of expected credit losses ('ECL') (continued)

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile is used to determine 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 loss in an event of 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 exposure outstanding 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 exposures, or collective segments, 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 repayment 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 which 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.

43 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Credit risk measurement (continued)

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. 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 pessimistic outcomes. Periodically, the Bank carries out stress testing which involves 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.

The economic screnarios used for the expected credit losses ('ECL') estimate and the effect to the ECL estimate due to the changes in the macro economic variables ('MEVs') by % are set out as below:

	2021	2020
Measurement variables - MEV change	**%**	%
House Price Index	**0.58**	0.88
Private Consumption Expenditure	**36.68**	2.38
USD Dollar to Malaysian Ringgit Exchange Rate	**0.36**	0.21
Malaysia Economic Indicator Leading Index ('MEILI') 2015	**0.69**	1.41
Automative Association Malaysia Total Car Sales Growth ('AAM')	**25.90**	39.78
Overnight Policy Rate	**5.83**	6.52
Malaysia Debt Service Ratio	**0.31**	*N/A
Current Account (as a precentage of Gross Domestic Product)	**10.04**	*N/A
Unemployment Rate	**0.40**	*N/A
Average Funding Rate	**4.19**	*N/A
Kuala Lumpur Interbank Offered Rate ('KLIBOR') (3-Month)	***N/A**	11.40
M1 Money Supply	***N/A**	2.37

* Not applicable as a result of change in model/risk parameters during the financial year.

The impact on ECL based on 3 years historical MEV are as follows:

	2021		2020	
	RM'000	**RM'000**	RM'000	RM'000
	+	-	+	-
Economic Entity and The Bank				
Impact on expected credit losses	**(8,062)**	**9,403**	(7,051)	8,684

43 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Credit risk monitoring

Corporate credits and large individual accounts are subject to ongoing monitoring. This is to ensure that the credit grades remain appropriate and to detect any signs of weaknesses or deterioration in the credit quality. Appropriate remedial action is taken where evidence of deterioration exists.

The credit monitoring process is also to identify significant increase in credit risk as a means to pro-actively identify, report and manage deteriorating credit quality. Watchlist accounts are closely reviewed and monitored with appropriate corrective measures employed to prevent further credit deterioration into non-performing status. Watchlist accounts are either managed up or managed 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 reportings are in place to identify, analyze and managed the overall risk profile to 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. The findings are lessons learned which are used to assist in formulating appropriate remedial actions or measures to minimize potential or future credit loss from similar or repeat events.

In addition, post-approval independent credit review is undertaken by the Bank to ensure that credit decision-making is consistent with the 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	
	2021	2020
	Maximum credit risk exposure	Maximum credit risk exposure
	RM'000	RM'000
Credit risk exposures of on-balance sheet assets:		
Other assets ^	**73,132**	59,238
Credit risk exposure of off-balance sheet items:		
Financial guarantees	**91,921**	68,709
Financing commitments and other credit related commitments	**3,233,563**	3,076,941
Total maximum credit risk exposure	**3,398,616**	3,204,888

^ Excluded prepayment and foreclosed properties

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.

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NOTES TO THE FINANCIAL STATEMENTS *for the financial year ended 31 December 2021*

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 tangible collateral, corporate and personal guarantees.

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

Economic Entity and The Bank 2021	Short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Derivative financial assets RM'000	Financial investments at AC RM'000	Financing and other financing RM'000	^ Other assets RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	-	-	733,782	-	733,782	56,113
Mining and quarrying	-	-	-	-	146,523	-	146,523	174,591
Manufacturing	-	-	391	50,318	1,120,646	-	1,171,355	352,999
Electricity, gas and water supply	-	-	-	75,175	383,585	-	458,760	7,003
Construction	-	-	-	91,141	597,908	-	689,049	636,907
Real estate	-	-	-	173,609	1,520,148	-	1,693,757	78,616
Transport, storage and communication	-	-	-	133,072	515,706	-	648,778	130,214
Finance, takaful/insurance and business services	108,609	50,008	9,208	2,620,352	589,677	-	3,377,854	87,374
Government and government agencies	2,131,818	-	-	291,288	1,118,066	-	3,541,172	593,924
Wholesale & retail trade and restaurants & hotels	-	-	1,837	-	1,104,424	-	1,106,261	419,337
Others	-	-	-	30,026	14,739,858	88,869	14,858,753	788,406
Total assets	**2,240,427**	**50,008**	**11,436**	**3,464,981**	**22,570,323**	**88,869**	**28,426,044**	**3,325,484**

^ Others include amount due from joint ventures and other assets.

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43 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Credit risk concentration (continued)

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	Financial investments at AC RM'000	Financing and other financing RM'000	^ Other 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
Total assets	2,794,278	50,058	11,558	2,828,166	-	19,380,090	74,311	25,138,461	3,145,650

^ Others include amount due from joint ventures and other assets.

43 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Total financing and other financing - credit quality

All financing and other financing are categorised into 'neither past due nor impaired', 'past due but not impaired' and 'impaired'.

Past due financing refers to financing and other financing that are overdue by one day or more.

Financing and other financing are classified as 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 meet' its credit obligations; or

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

Distribution of financing and other financing by credit quality

	12 - Month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Economic Entity and The Bank	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
2021	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Neither past due nor impaired	**20,076,062**	**1,192,065**	**-**	**21,268,127**
Past due but not impaired	**646,635**	**477,677**	**-**	**1,124,312**
Impaired	**-**	**-**	**381,586**	**381,586**
Gross financing and other financing	**20,722,697**	**1,669,742**	**381,586**	**22,774,025**
Less : Expected credit losses	**(72,928)**	**(76,859)**	**(53,915)**	**(203,702)**
Net financing and other financing	**20,649,769**	**1,592,883**	**327,671**	**22,570,323**

	12 - Month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Economic Entity and The Bank	RM'000	RM'000	RM'000	RM'000
2020				
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 and other financing	17,578,362	1,670,654	315,471	19,564,487
Less : Expected credit losses	(47,261)	(54,706)	(82,430)	(184,397)
Net financing and other financing	17,531,101	1,615,948	233,041	19,380,090

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43 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Total financing and other financing - credit quality (continued)

Distribution of financing and other financing by 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	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
2021	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Credit grade				
Satisfactory	**6,555,820**	**91,171**	**-**	**6,646,991**
Special mention	**2,816**	**454,327**	**-**	**457,143**
Default/impaired	**-**	**-**	**381,586**	**381,586**
Unrated	**14,164,061**	**1,124,244**	**-**	**15,288,305**
Gross financing and other financing	**20,722,697**	**1,669,742**	**381,586**	**22,774,025**
Less : Expected credit losses	**(72,928)**	**(76,859)**	**(53,915)**	**(203,702)**
Net financing and other financing	**20,649,769**	**1,592,883**	**327,671**	**22,570,323**

Economic Entity and The Bank	Stage 1	Stage 2	Stage 3	Total
2020	RM'000	RM'000	RM'000	RM'000
Credit grade				
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 and other financing	17,578,362	1,670,654	315,471	19,564,487
Less : Expected credit losses	(47,261)	(54,706)	(82,430)	(184,397)
Net financing and other financing	17,531,101	1,615,948	233,041	19,380,090

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').

43 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Deposits and short-term funds, corporate sukuk, treasury bills and derivatives - credit quality

Corporate sukuk, treasury bills and other eligible bills included in 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 Group and the Bank mainly uses external credit ratings provided by recognised External Credit Rating Institutions ('ECAIs').

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 2021	**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**
Short-term funds, deposits and placements with banks and other financial institutions				
Sovereigns	**2,131,818**	**-**	**-**	**2,131,818**
AAA	**-**	**-**	**-**	**-**
AA- to AA+	**508**	**-**	**-**	**508**
A- to A+	**68,008**	**-**	**-**	**68,008**
Lower than A-	**90,101**	**-**	**-**	**90,101**
Unrated	**-**	**-**	**-**	**-**
	2,290,435	**-**	**-**	**2,290,435**
Derivative financial assets				
AAA	**-**	**-**	**-**	**-**
AA- to AA+	**4,071**	**-**	**-**	**4,071**
A- to A+	**5,136**	**-**	**-**	**5,136**
Lower than A-	**-**	**-**	**-**	**-**
Unrated	**2,229**	**-**	**-**	**2,229**
	11,436	**-**	**-**	**11,436**
Financial investments at AC				
Sovereigns	**3,043,237**	**-**	**-**	**3,043,237**
AAA	**136,592**	**-**	**-**	**136,592**
AA- to AA+	**111,845**	**-**	**-**	**111,845**
A- to A+	**10,022**	**-**	**-**	**10,022**
Lower than A-	**-**	**-**	**-**	**-**
Unrated	**167,073**	**-**	**-**	**167,073**
	3,468,769	**-**	**-**	**3,468,769**
Expected credit losses ('ECL')	**(3,788)**	**-**	**-**	**(3,788)**

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43 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Deposits and short-term funds, corporate sukuk, treasury bills and derivatives - credit quality (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 (continued):

Economic Entity and The Bank 2020	12 - Month ECL 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
Short-term funds, deposits and placements with banks and other financial institutions				
Sovereigns	2,775,041	-	-	2,775,041
AAA	-	-	-	-
AA- to AA+	16,883	-	-	16,883
A- to A+	1,705	-	-	1,705
Lower than A-	50,707	-	-	50,707
Unrated	-	-	-	-
	2,844,336	-	-	2,844,336
Derivative financial assets				
AAA	1,721	-	-	1,721
AA- to AA+	4,777	-	-	4,777
A- to A+	234	-	-	234
Lower than A-	-	-	-	-
Unrated	4,826	-	-	4,826
	11,558	-	-	11,558
Financial investments at FVOCI				
Sovereigns	2,454,132	-	-	2,454,132
AAA	114,544	-	-	114,544
AA- to AA+	100,299	-	-	100,299
A- to A+	15,358	-	-	15,358
Lower than A-	-	-	-	-
Unrated	143,833	-	-	143,833
	2,828,166	-	-	2,828,166
Expected credit losses ('ECL')	(3,120)	-	-	(3,120)

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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 and impaired are summarised as below:

	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000
Economic Entity and The Bank			
2021			
Neither past due nor impaired			
Other assets	**73,132**	**-**	**73,132**
Impaired			
Amount due from joint ventures	**-**	**60,000**	**60,000**
Amount due from an associate	**-**	**1,257**	**1,257**
Allowance for impairment	**-**	**(45,520)**	**(45,520)**
	-	**15,737**	**15,737**
Economic Entity and The Bank			
2020			
Neither past due nor impaired			
Other assets	59,238	-	59,238
Impaired			
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

Other financial assets that are past due but not impaired or impaired are not significant.

The following table contains an analysis of the credit risk exposure of financing commitments and financial guarantees for which an ECL is recognised.

	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
Economic Entity and The Bank				
2021				
Financing commitments and financial guarantees				
Satisfactory	**2,726,949**	**526,071**	**-**	**3,253,020**
Special mention	**-**	**57,643**	**-**	**57,643**
Default/impaired	**-**	**-**	**14,821**	**14,821**
	2,726,949	**583,714**	**14,821**	**3,325,484**
Expected credit losses	**3,850**	**1,151**	**665**	**5,666**
Economic Entity and The Bank				
2020				
Financing commitments and financial guarantees				
Satisfactory	3,090,702	51,783	-	3,142,485
Default/impaired	-	-	3,165	3,165
	3,090,702	51,783	3,165	3,145,650
Expected credit losses	2,895	236	851	3,982

43 FINANCIAL RISK MANAGEMENT (continued)

(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:
(i) Code of Conduct for Malaysia Wholesale Financial Markets; and
(ii) Principles for a Fair and Effective Financial Market for Malaysian Financial Market.

Risk measures

(i) Mark-to-market valuation tracks the current market value of the outstanding financial instruments.
(ii) Stress tests are conducted to attempt to quantify market risk arising from abnormal market movements. Stress tests measure the changes in values arising from extreme movements in profit rates and foreign exchange rates based on past experiences and simulated stress scenarios.

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.

43 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Profit rate sensitivity (continued)

Economic Entity and The Bank 2021	**+100 basis point RM million**	**-100 basis point RM million**
Impact on profit after taxation	**33.2**	**(33.2)**
Impact on equity	**-**	**-**

Economic Entity and The Bank 2020	+100 basis point RM million	-100 basis point RM million
Impact on profit after taxation	24.0	(24.0)
Impact on equity	(150.0)	166.9

Foreign exchange risk sensitivity analysis

The following table sets out the analysis of the exposure to assess the impact of a 1% change in exchange rate to the profit after taxation

	Economic Entity and The Bank	
	2021	2020
	RM'000	RM'000
+1%		
Euro	**1,486**	1,388
United States Dollar	**6,904**	5,223
Great Britain Pound	**5**	3
Australian Dollar	**88**	2
Japanese Yen	**4**	2
Others	**79**	129
	8,566	6,747
-1%		
Euro	**(1,486)**	(1,388)
United States Dollar	**(6,904)**	(5,223)
Great Britain Pound	**(5)**	(3)
Australian Dollar	**(88)**	(2)
Japanese Yen	**(4)**	(2)
Others	**(79)**	(129)
	(8,566)	(6,747)

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.

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43 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Foreign exchange risk (continued)

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 2021	Euro RM'000	United States Dollar RM'000	Great Britain Pound RM'000	Australian Dollar RM'000	Japanese Yen RM'000	Others RM'000	Total RM'000
Assets							
Cash and short-term funds	**506**	**13,463**	**731**	**508**	**523**	**783**	**16,514**
Derivative financial assets	**24**	**6,993**	**-**	**6**	**-**	**-**	**7,023**
Financing and other financing	**-**	**181,191**	**-**	**-**	**-**	**-**	**181,191**
Total financial assets	**530**	**201,647**	**731**	**514**	**523**	**783**	**204,728**
Liabilities							
Deposits from customers	**1,937**	**523,031**	**16**	**314**	**-**	**9**	**525,307**
Investment accounts due to designated financial institutions	**-**	**102,163**	**-**	**-**	**-**	**-**	**102,163**
Derivative financial liabilities	**5,964**	**4,225**	**-**	**455**	**-**	**-**	**10,644**
Total financial liabilities	**7,901**	**629,419**	**16**	**769**	**-**	**9**	**638,114**
Net on-balance sheet financial position	**(7,371)**	**(427,772)**	**715**	**(255)**	**523**	**774**	**(433,386)**
Off balance sheet commitments	**202,846**	**1,336,140**	**-**	**11,862**	**-**	**9,624**	**1,560,472**

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43 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Foreign exchange risk (continued)

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 (continued).

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
Assets							
Cash and short-term funds	586	17,531	409	246	204	260	19,236
Derivative financial assets	3,602	-	-	-	-	-	3,602
Financing and other financing	-	203,387	-	-	-	-	203,387
Total financial assets	4,188	220,918	409	246	204	260	226,225
Liabilities							
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
Total financial liabilities	1,884	655,169	7	4	-	3	657,067
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

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.

The objective of profit rate risk management is to achieve a stable and sustainable net interest/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 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 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 Bank's strategy and risk appetite. These thresholds are reviewed regularly to ensure relevance in the context of prevailing market conditions.

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43 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Profit rate risk

The following table represents the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates as at reporting date.

	Non-trading book								
Economic Entity and The Bank 2021	**Up to 1 month RM'000**	**>1-3 months RM'000**	**>3-12 months RM'000**	**>1-5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**		**Trading book RM'000**	**Total RM'000**
Assets									
Cash and short-term funds	2,223,000	-	-	-	-	17,427		-	2,240,427
Deposits and placements with banks and other financial institutions	-	50,000	-	-	-	8		-	50,008
Derivative financial assets	-	-	-	-	-	-		11,436	11,436
Financial investments at AC	-	-	283,169	771,271	2,380,839	29,702		-	3,464,981
Financing and other financing									
- non-impaired	12,771,143	1,372,159	1,053,626	4,240,178	2,955,333	(149,787)	^	-	22,242,652
- impaired	-	-	-	-	-	327,671	#	-	327,671
Others [1]	-	-	-	-	-	88,869		-	88,869
Total assets	14,994,143	1,422,159	1,336,795	5,011,449	5,336,172	313,890		11,436	28,426,044

^ The negative balance represents ECL for financing and other financing in accordance with the Bank's accounting policy on allowance for unimpaired financing and other financing

\# Net of individual impairment allowance.

[1] Others include other assets and amount due from joint ventures.

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43 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Profit rate risk (continued)

	Non-trading book							
Economic Entity and The Bank 2021	**Up to 1 month RM'000**	**> 1-3 months RM'000**	**>3-12 months RM'000**	**>1-5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
Liabilities								
Deposits from customers	8,491,083	4,872,781	7,526,249	566,736	-	533,280	-	21,990,129
Investment accounts of customers	-	-	-	1,324	-	5	-	1,329
Deposits and placements of banks and other financial institutions	353,509	4,500	-	-	-	41	-	358,050
Investment accounts due to designated financial institutions	-	81,554	-	626,341	1,123,673	17	-	1,831,585
Recourse obligation on financing sold to Cagamas Berhad	-	-	50,002	-	-	31	-	50,033
Derivative financial liabilities	-	-	-	-	-	-	10,659	10,659
Amount due to holding company	-	-	-	-	-	758,812	-	758,812
Other liabilities	-	-	-	-	-	182,346	-	182,346
Lease liabilities	-	-	263	403	-	-	-	666
Subordinated term financing and medium term notes	-	-	-	-	1,100,000	11,034	-	1,111,034
Total liabilities	8,844,592	4,958,835	7,576,514	1,194,804	2,223,673	1,485,566	10,659	26,294,643
Net profit sensitivity gap	6,149,551	(3,536,676)	(6,239,719)	3,816,645	3,112,499			

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43 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Profit rate risk (continued)

Economic Entity and The Bank 2020	Non-trading book							
	Up to 1 month RM'000	> 1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
Assets								
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 and other financing								
- non-impaired	11,155,645	652,490	1,533,896	3,833,101	2,073,884	(101,967) ^	-	19,147,049
- impaired						233,041 #	-	233,041
Others [1]	-	-	-	-	-	74,311	-	74,311
Total assets	13,924,595	796,193	1,569,446	4,184,752	4,396,290	255,627	11,558	25,138,461

^ The negative balance represents ECL for financing and other financing in accordance with the Bank's accounting policy on allowance for unimpaired financing and other financing
# Net of individual impairment allowance.
[1] Others include other assets and amount due from joint ventures.

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43 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Profit rate risk (continued)

	Non-trading book							
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	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
Liabilities								
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
Total liabilities	8,768,768	4,152,953	5,778,725	1,503,448	2,167,260	798,966	25,572	23,195,692
Net profit sensitivity gap	5,155,827	(3,356,760)	(4,209,279)	2,681,304	2,229,030			

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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') 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 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.

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.

	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**
Economic Entity and The Bank						
2021						
Deposits from customers	**8,913,934**	**4,947,845**	**7,714,497**	**640,593**	**-**	**22,216,869**
Invesment accounts of customers	**6**	**12**	**56**	**1,442**	**-**	**1,516**
Deposits and placements of banks and other financial institutions	**353,590**	**4,542**	**-**	**-**	**-**	**358,132**
Investment accounts due to designated financial institutions	**6,064**	**92,916**	**52,158**	**862,343**	**1,296,445**	**2,309,926**
Recourse obligation on financing sold to Cagamas Berhad	**-**	**-**	**51,241**	**-**	**-**	**51,241**
Other liabilities	**-**	**-**	**166,740**	**9,944**	**5,662**	**182,346**
Lease liabilities	**88**	**177**	**587**	**304**	**-**	**1,156**
Subordinated term financing and medium term notes	**-**	**-**	**57,107**	**479,247**	**881,907**	**1,418,261**
	9,273,682	**5,045,492**	**8,042,386**	**1,993,873**	**2,184,014**	**26,539,447**

	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
Economic Entity and The Bank						
2020						
Deposits from customers	8,392,159	3,800,907	5,795,595	923,439	-	18,912,100
Invesment 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
	9,108,852	4,242,893	6,102,846	2,340,917	2,196,035	23,991,543

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43 FINANCIAL RISK MANAGEMENT (continued)

(iii) Liquidity risk (continued)

Derivative financial liabilities

Derivative financial liabilities based on contractual undiscounted cash flow:

	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**
Economic Entity and The Bank						
2021						
Derivatives settled on gross basis						
Foreign exchange derivatives:						
Outflow	**(172,594)**	**(751,090)**	**(105,420)**	**(43,265)**	**-**	**(1,072,369)**
Inflow	**172,482**	**750,560**	**105,420**	**43,265**	**-**	**1,071,727**
	(112)	**(530)**	**-**	**-**	**-**	**(642)**

	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
Economic Entity and The Bank						
2020						
Derivatives settled on gross basis						
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)

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.

Maturities of assets and liabilities of the Bank by remaining contractual maturities profile are as follows:

Economic Entity 2021	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	2,240,427	-	-	-	-	-	2,240,427
Deposits and placements with banks and other financial institutions	-	50,008	-	-	-	-	50,008
Derivative financial assets	2,673	7,727	1,036	-	-	-	11,436
Financial investments at AC	-	-	284,098	779,817	2,401,066	-	3,464,981
Financing and other financing	572,193	925,380	300,149	3,086,771	17,685,830	-	22,570,323
Other assets	72,794	-	-	311	27	-	73,132
Amount due from joint ventures	15,737	-	-	-	-	-	15,737
Others [(1)]	22,427	-	-	395	-	6,546	29,368
	2,926,251	983,115	585,283	3,867,294	20,086,923	6,546	28,455,412

[(1)] Others include deferred tax assets, property and equipment, intangible assets, right-of-use assets prepayments, and foreclosed properties.

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43 FINANCIAL RISK MANAGEMENT (continued)

(iii) Liquidity risk (continued)

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

Economic Entity 2021	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	8,910,936	4,930,091	7,578,965	570,137	-	-	21,990,129
Investment accounts of customers	-	-	-	1,329	-	-	1,329
Deposits and placements of banks and other financial institutions	353,527	4,523	-	-	-	-	358,050
Investment accounts due to designated financial institutions	-	81,554	-	626,357	1,123,674	-	1,831,585
Recourse obligation on financing sold to Cagamas Berhad	-	-	50,033	-	-	-	50,033
Derivative financial liabilities	1,664	7,670	1,325	-	-	-	10,659
Other liabilities	-	-	166,740	9,944	5,662	-	182,346
Lease liabilities	-	-	263	403	-	-	666
Amount due to holding company	758,812	-	-	-	-	-	758,812
Subordinated term financing and medium term notes	-	-	11,034	-	800,000	300,000	1,111,034
Other non-financial liabilities [2]	6,107	-	-	-	-	8,033	14,140
	10,031,046	5,023,838	7,808,360	1,208,170	1,929,336	308,033	26,308,783
Net liquidity gap	(7,104,795)	(4,040,723)	(7,223,077)	2,659,124	18,157,587	(301,487)	

[2] Other non-financial liabilities include provision for taxation, defined contribution plan and accrued employee benefits.

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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
Assets							
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 investments at FVOCI	7,573	105,546	40,990	351,651	2,322,406	-	2,828,166
Financing 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
Others [(1)]	-	-	452	1,086	-	19,203	20,741
	3,650,634	669,735	299,648	3,357,852	17,162,130	19,203	25,159,202

[(1)] Others include deferred tax assets, property and equipment, intangible assets, right-of-use assets prepayments, and foreclosed properties.

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NOTES TO THE FINANCIAL STATEMENTS *for the financial year ended 31 December 2021*

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
Liabilities							
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
Net liquidity gap	(5,757,863)	(3,558,542)	(5,583,013)	1,846,677	15,290,887	(287,031)	

[2] Other non-financial liabilities include provision for taxation, defined contribution plan and accrued employee benefits.

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43 FINANCIAL RISK MANAGEMENT (continued)

(iii) Liquidity risk (continued)

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

The Bank 2021	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	2,240,427	-	-	-	-	-	2,240,427
Deposits and placements with banks and other financial institutions	-	50,008	-	-	-	-	50,008
Derivative financial assets	2,673	7,727	1,036	-	-	-	11,436
Financial investments at FVOCI	-	-	-	-	-	-	-
Financial investments at AC	-	-	284,098	779,817	2,401,066	-	3,464,981
Financing and other financing	572,193	925,380	300,149	3,086,771	17,685,830	-	22,570,323
Other assets	72,794	-	-	311	27	-	73,132
Amount due from joint ventures	15,737	-	-	-	-	-	15,737
Others [1]	22,427	-	-	395	-	6,546	29,368
	2,926,251	983,115	585,283	3,867,294	20,086,923	6,546	28,455,412

[1] Others include deferred tax assets, property and equipment, intangible assets, right-of-use assets prepayments, and foreclosed properties.

43 FINANCIAL RISK MANAGEMENT (continued)

(iii) Liquidity risk (continued)

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

The Bank 2021	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	8,910,936	4,930,091	7,578,965	570,137	-	-	21,990,129
Investment accounts of customers	-	-	-	1,329	-	-	1,329
Deposits and placements of banks and other financial institutions	353,527	4,523	-	-	-	-	358,050
Investment accounts due to designated financial institutions	-	81,554	-	626,357	1,123,674	-	1,831,585
Recourse obligation on financing sold to Cagamas Berhad	-	-	50,033	-	-	-	50,033
Derivative financial liabilities	1,664	7,670	1,325	-	-	-	10,659
Other liabilities	-	-	166,740	9,944	5,662	-	182,346
Lease liabilities	-	-	263	403	-	-	666
Amount due to holding company	758,812	-	-	-	-	-	758,812
Subordinated term financing and medium term notes	-	-	11,034	-	800,000	300,000	1,111,034
Other non-financial liabilities [(2)]	6,107	-	-	-	-	8,033	14,140
	10,031,046	5,023,838	7,808,360	1,208,170	1,929,336	308,033	26,308,783
Net liquidity gap	(7,104,795)	(4,040,723)	(7,223,077)	2,659,124	18,157,587	(301,487)	

[(2)] Other non-financial liabilities include provision for taxation, defined contribution plan and accrued employee benefits.

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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
Assets							
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 investments at FVOCI	7,573	105,546	40,990	351,651	2,322,406	-	2,828,166
Financing 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
Others [1]	-	-	452	1,086	-	19,853	21,391
	3,650,634	669,735	299,648	3,357,852	17,162,130	19,853	25,159,852

[1] Others include deferred tax assets, property and equipment, intangible assets, right-of-use assets prepayments, and foreclosed properties.

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
Liabilities							
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
Net liquidity gap	(5,757,863)	(3,558,542)	(5,583,013)	1,846,677	15,290,887	(286,381)	

[(2)] Other non-financial liabilities include provision for taxation, defined contribution plan and accrued employee benefits.

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.

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 Bank employs the following standard operational risk tools for risk and control identification and assessment:

- Risk Control Self Assessment ('RCSA')
- Control Self Testing ('CST')
  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.

(v) Technology Risk

Technology risk refers to any risks emanating from technology failures and cyber threats that may disrupt the Group's 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. Failures or errors in any of the elements above could also lead to adverse reputational impact to the Group.

The Group Technology Risk Management Framework and Cyber Resilience 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. GBCMC 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.

Technology Risk Management reports are produced periodically for the respective stakeholders and committees.

43 FINANCIAL RISK MANAGEMENT (continued)

(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 (BNM/RH/GL_028-100) which supercedes the Shariah Governance Framework (BNM/RH/GL_012_3) 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 annnually or as and when there is occurrence of significant events either internal or external;
3. Key Risk Indicator (KRI) to predict and highlight any potential high risk area. These indicators will be reviewed on a periodic basis (monthly or quarterly) to alert Management to changes that may have risk concerns; and
4. Control Self Testing ('CST') to validate the effectiveness of control measures.

(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. GBCMC 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 including facilitation of the crisis management.

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.

43 FINANCIAL RISK MANAGEMENT (continued)

(viii) Interest rate benchmark reform

Interest rate benchmarks such as interbank offered rates (IBORs) has play an important role in global financial markets. These benchmarks index trillions of dollars in a wide variety of financial products, ranging from mortgages to derivatives. With recent market developments, question has been brought in on the long-term reliability of such benchmarks. In some jurisdictions, it is now a clear steer towards replacing existing benchmarks with alternative, nearly risk-free rates (referred to as 'IBOR reform'). The introduction of new alternative reference rate ('ARR') or IBOR reform aims to facilitate usage of benchmarks rates that are more robust and based upon transaction in active, liquid markets. As at 31 December 2021, the Bank has exposure to Kuala Lumpur Interbank Offered Rate ('KLIBOR') and London Interbank Offered Rate denominated in USD ('USD LIBOR') on its financial instruments.

On 27 September 2021, in line with the London Interbank Offered Rate ('LIBOR') reforms after the Global Financial Crisis, BNM has announced the launch of the MYOR as the new ARR for Malaysia. Globally, ARRs are being introduced to improve the integrity of financial benchmark rates as part of a transition to transaction-based rates. The MYOR will run in parallel to the existing Kuala Lumpur Interbank Offered Rate ('KLIBOR') with periodic reviews to ensure that the financial benchmark rates remain robust and reflective of an active underlying market. The availability of two financial benchmark rates provides market participants with the flexibility to choose the rate that best suits their needs and facilitates the development of MYOR-based products.

The BNM will also discontinue the publication of the 2- and 12-month KLIBOR tenors, which are the least referenced rates in the market for financial contracts, on 1 January 2023. The remaining 1-, 3- and 6-month KLIBOR tenors, which continue to reflect an active underlying market, will be reviewed in the second half of 2022. The BNM has also indicated that it is in the midst of developing a new Islamic benchmark rate to replace the Kuala Lumpur Islamic Reference Rate ('KLIRR'), by the first half of 2022.

There remain key differences between KLIBOR and MYOR. KLIBOR is a 'term rate', which means it is published for a borrowing period (i.e. 3- or 6-month tenor) and is 'forward looking', because it is published at the beginning of the borrowing period. MYOR likewise, is a 'backward-looking' rate, based on unsecured overnight Malaysian Ringgit interbank transactions in the Malaysian financial market, and it is published on the next business day (i.e. at the end of the overnight borrowing period). Furthermore, KLIBOR includes a credit spread over the risk-free rate, while MYOR currently does not. On transition existing contracts and agreements that reference KLIBOR to MYOR, adjustments for term and credit differences might need to be applied to MYOR, to enable the two benchmark rates to be economically equivalent on transition.

MYOR would run in parallel with the existing KLIBOR with periodic review to ensure that the financial benchmark rates remain robust and reflective of an active underlying market. The availability of two financial benchmark rates provides market participants with the flexibility to choose the rate that best suits their needs and facilitates the development of MYOR-based products.

BNM will discontinue the publication of the two- and twelve-month KLIBOR tenors, which are the least referenced rates in the market for financial contracts, on 1 January 2023. The remaining 1-, 3- and 6-month KLIBOR tenors, which continue to reflect an active underlying market, will be reviewed in the second half of 2022.

The Bank has set up an internal working group and the key objectives of the internal working group include the followings:

- identifying contracts in scope of benchmark reform;
- considering changes to internal systems, processes, risk management and valuation models;
- allocation of roles and responsibilities and identification of relevant responsible parties to execute and implement the transition; and
- managing any related tax and accounting implications.

The main risks to which the Bank has been exposed as a result of IBOR reform are operational. The operational risks will arise during the renegotiation of financial contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves and revision of operational controls related to the reform and regulatory risks. Financial risk is predominantly limited to interest rate risk.

As at 31 December 2021, changes required to systems, processes and models have been identified and have been partially implemented. The Bank has identified all KLIBOR-linked contracts as at 31 December 2021 and all contracts was referenced to 3-month KLIBOR. The Bank will closely monitor the regulators' announcements on MYOR or discontinuation of publication of the KLIBOR for the relevant tenors and continues to engage with industry participants, to ensure an orderly transition to MYOR and to minimise the risks arising from transition, and it will continue to identify and assess risks associated with KLIBOR replacement.

In 2021, it was announced that the LIBOR was going to be discontinued. It was noted that publication of the 1-week and 2-month USD LIBOR maturities and all non-USD LIBOR maturities would cease immediately after 31 December 2021, with the remaining USD LIBOR maturities ceasing immediately after 30 June 2023. During the previous financial year, the Bank has identified a USD term loan which was referenced to 3-month USD LIBOR, payable quarterly on stepped up basis. As the Bank applied the practical expedient, whereby the Bank did not derecognise or adjust the carrying amount of the USD term loan for modifications required by IBOR reform, but instead updated the effective interest rate to reflect the change in the interest rate benchmark.

43 FINANCIAL RISK MANAGEMENT (continued)

(ix) 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 quoted 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.

43 FINANCIAL RISK MANAGEMENT (continued)

(ix) 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 (2020: Nil).

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

Economic Entity and The Bank 2021	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Financial Assets				
Derivative financial assets	**-**	**11,436**	**-**	**11,436**
Total	**-**	**11,436**	**-**	**11,436**
Financial Liabilities				
Derivative financial liabilities	**-**	**10,659**	**-**	**10,659**
Total	**-**	**10,659**	**-**	**10,659**

Economic Entity and The Bank 2020	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial Assets				
Derivative financial assets	-	11,558	-	11,558
Financial investments at FVOCI				
- Money market instruments	-	1,187,871	-	1,187,871
- Corporate bonds/Sukuk	-	1,640,295	-	1,640,295
	-	2,828,166	-	2,828,166
Total	-	2,839,724	-	2,839,724
Financial Liabilities				
Derivative financial liabilities	-	25,572	-	25,572
Total	-	25,572	-	25,572

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2021

43 FINANCIAL RISK MANAGEMENT (continued)

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

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.

	Carrying amount RM'000	**Fair value**			
		Level 1 RM'000	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Economic Entity and The Bank					
2021					
Financial assets					
Financial investments at AC	**3,464,981**	**-**	**3,283,625**	**-**	**3,283,625**
Financing and other financing	**22,570,323**	**-**	**22,621,603**	**-**	**22,621,603**
	26,035,304	**-**	**25,905,228**	**-**	**25,905,228**
Financial liabilities					
Deposits from customers	**21,990,129**	**-**	**22,010,090**	**-**	**22,010,090**
Investment accounts due to designated financial institutions	**1,831,585**		**1,854,907**	**-**	**1,854,907**
Recourse obligation on financing sold to Cagamas Berhad	**50,033**	**-**	**49,276**	**-**	**49,276**
Subordinated term financing and medium term notes	**1,111,034**	**-**	**1,138,864**	**-**	**1,138,864**
	24,982,781	**-**	**25,053,137**	**-**	**25,053,137**

	Carrying amount RM'000	Fair value			
		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Economic Entity and The Bank					
2020					
Financial assets					
Financing and other financing	19,380,090	-	19,389,218	-	19,389,218
	19,380,090	-	19,389,218	-	19,389,218
Financial liabilities					
Deposits from customers	18,665,991	-	18,687,533	-	18,687,533
Investment accounts 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

43 FINANCIAL RISK MANAGEMENT (continued)

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

Other than as disclosed above, the total fair value of each financial assets and liabilities presented on the 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 and other financing

Financing 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 and other financing with similar credit ratings and maturities.

The fair values of impaired financing and other financing whether fixed or floating are represented by their carrying values, net of expected credit losses, being the reasonable estimate of recoverable amount.

Other assets and liabilities

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

Deposits from customers, banks and other financial institutions, financing sold to Cagamas and investment accounts

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 enforeable netting arrangements (offsetting arrangements and financial collateral) but do not qualify for netting under the requirements of MFRS 132 described above.

44 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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.

	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**
Economic Entity and The Bank						
2021						
Financial assets						
Derivative financial assets	**11,436**	**-**	**11,436**	**(4,042)**	**-**	**7,394**
Total assets	**11,436**	**-**	**11,436**	**(4,042)**	**-**	**7,394**
Financial liabilities						
Derivative financial liabilities	**10,659**	**-**	**10,659**	**(4,042)**	**-**	**6,617**
Total liabilities	**10,659**	**-**	**10,659**	**(4,042)**	**-**	**6,617**
Economic Entity and The Bank						
2020						
Financial assets						
Derivative financial assets	11,558	-	11,558	(9,764)	-	1,794
Total assets	11,558	-	11,558	(9,764)	-	1,794
Financial liabilities						
Derivative financial liabilities	25,572	-	25,572	(9,764)	-	15,808
Total liabilities	25,572	-	25,572	(9,764)	-	15,808

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'), Tier 1 Capital Ratio and Total Capital Ratio are 7.00%, 8.50% and 10.50% respectively for the financial year ended 31 December 2021.

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 2021.

46 CAPITAL ADEQUACY

The capital adequacy ratios are as follows:

	Economic Entity		The Bank	
	2021	2020	**2021**	2020
	RM'000	RM'000	**RM'000**	RM'000
Paid-up share capital	**1,060,000**	1,060,000	**1,060,000**	1,060,000
Retained profits	**981,016**	768,941	**981,016**	768,941
FVOCI revaluation reserves	**-**	(4,919)	**-**	(4,919)
	2,041,016	1,824,022	**2,041,016**	1,824,022
Less:				
- Intangible assets	**(345)**	(558)	**(345)**	(558)
- Deferred tax assets	**(22,484)**	(12,390)	**(22,484)**	(12,390)
- Other CET1 transitional adjustment	**81,108**	31,418	**81,108**	31,418
Total CET1 Capital	**2,099,295**	1,842,492	**2,099,295**	1,842,492
Additional Tier 1 capital	**300,000**	300,000	**300,000**	300,000
Total Tier 1 Capital	**2,399,295**	2,142,492	**2,399,295**	2,142,492
Subordinated medium term financing	**800,000**	800,000	**800,000**	800,000
Expected loss provisions #	**91,378**	110,509	**91,378**	110,509
Total Tier 2 Capital	**891,378**	910,509	**891,378**	910,509
Total Capital	**3,290,673**	3,053,001	**3,290,673**	3,053,001
<u>With transitional arrangements</u>				
CET 1 capital ratio	**12.138%**	12.234%	**12.138%**	12.234%
Tier 1 capital ratio	**13.873%**	14.226%	**13.873%**	14.226%
Total capital ratio	**19.027%**	20.271%	**19.027%**	20.271%
<u>Without transitional arrangements</u>				
CET 1 capital ratio	**11.669%**	12.025%	**11.669%**	12.025%
Tier 1 capital ratio	**13.404%**	14.017%	**13.404%**	14.017%
Total capital ratio	**19.027%**	20.271%	**19.027%**	20.271%
The breakdown of risk-weighted assets:				
Credit risk	**16,484,875**	14,342,941	**16,484,875**	14,342,941
Market risk	**31,243**	19,079	**31,243**	19,079
Operational risk	**778,585**	698,564	**778,585**	698,564
Total risk-weighted assets	**17,294,703**	15,060,584	**17,294,703**	15,060,584

Qualifying loss provisions are restricted to allowances on the unimpaired portion of the financing 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 2021, RIA assets excluded from Total Capital Ratio calculation amounted to RM1,834,566,464 (2020: RM1,754,875,226)

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	
		2021	**2020**
(i)	The aggregate value of outstanding credit exposures with connected parties (RM'000)	1,574,984	1,152,420
(ii)	The percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	5%	4%
(iii)	The percentage of outstanding credit exposures with connected parties which is impaired or in default	Nil	Nil

48 SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

The Government of Malaysia reintroduced the movement control order and introduced the national recovery plan in order to curb the soaring number of Covid-19 cases in 2021. The movement control order and the national recovery plan, have a negative impact on the Bank’s results. The Bank is not able to predict the potential future direct or indirect effects resulting 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.

49 SIGNIFICANT EVENT SUBSEQUENT TO THE FINANCIAL YEAR

The are no material events subsequent to the balance sheet date.

50 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 28 March 2022.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, MUSA BIN ABDUL MALEK and SUFFIAN BIN BAHARUDDIN, two of the Directors of AFFIN ISLAMIC BANK BERHAD, state that, in the opinion of the Directors, the accompanying financial statements set out on pages 9 to 117 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 2021 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:

MUSA BIN ABDUL MALEK
Independent Non-Executive Director

SUFFIAN BIN BAHARUDDIN
Independent Non-Executive Director

Kuala Lumpur

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 9 to 117 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 28 March 2022, before me.

Commissioner for Oaths

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

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 2021. 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 three interactive sessions and discussions with the directors and regular engagements with the senior management to enhance the understanding in Islamic finance principles and practices and appreciation of Shariah. Periodic staff trainings have been conducted to provide adequate knowledge and build competency in undertaking related tasks for the Islamic banking 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 2021 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 2021;

4. There was one (1) Shariah non-compliant event discovered involving a Tawarruq financing i.e., disbursement was made prior to Tawarruq trading. The rectification has successfully been done by reversing the profit charged to the customer and recognizing the profit after the completion of Tawarruq trading. The Bank has also subsequently taken an additional preventive measure to avoid a similar event in the future i.e., reconciliation of the disbursement and trading on a daily basis and via the adoption of Straight Through Processing (STP) arrangement in the future;

5. The calculation of zakat is based on 2.5775% of the prior year’s working capital method, in accordance with the Shariah principles. The zakat fund is distributed through various channels i.e. payment to State Zakat Collection Centres, non-governmental organizations and individuals.

SHARIAH COMMITTEE'S REPORT (continued)

During the financial year ended 31 December 2021, a total of 9 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**
Dr. Mohammad Mahbubi Ali *Chairman*	9/9
Associate Professor Dr. Said Bouheraoua *Member (reappointed w.e.f. 1.6.2021)*	8/8
Professor Datin Dr. Nurdianawati Irwani binti Abdullah *Member*	8/9
Dr. Nor Fahimah binti Mohd Razif *Member*	8/9
Encik Mohamad Salihin bin Deris *Member (appointed w.e.f. 1.4.2021)*	7/7
Encik Ahmad Husni bin Abd Rahman *Member (appointed w.e.f. 1.4.2021)*	7/7
Associate Professor Dr. Ahmad Azam bin Othman *Member (completed tenure w.e.f. 31.3.2021)*	2/2
Associate Professor Dr. Zulkifli bin Hasan *Member (completed tenure w.e.f. 31.3.2021)*	2/2

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

SHARIAH COMMITTEE'S REPORT (continued)

As the Shariah Committee of AFFIN Islamic Bank Berhad, we do hereby confirm that the operations, businesses, affairs and activities of the Bank for the financial year ended 31 December 2021 have been conducted in conformity with the Shariah principles.

Chairman of the Shariah Committee:

Dr. Mohammad Mahbubi Ali

Member:

Associate Professor Dr. Said Bouheraoua

Member:

Professor Datin Dr. Nurdianawati Irwani binti Abdullah

Member:

Dr. Nor Fahimah binti Mohd Razif

Member:

Encik Mohamad Salihin bin Deris

Member:

Encik Ahmad Husni bin Abd Rahman

Kuala Lumpur, Malaysia
28 March 2022

INDEPENDENT AUDITORS' REPORT

TO THE MEMBER OF AFFIN ISLAMIC BANK BERHAD
(Incorporated in Malaysia)
(Registration 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 2021, 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 2021 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 9 to 117.

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 Directors' Report 2021, 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)
(Registration 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)
(Registration 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

LEE TZE WOON KELVIN
03482/01/2024 J
Chartered Accountant

Kuala Lumpur, Malaysia
28 March 2022