Registration No: 200501027372 (709506-V)

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

Reports and financial statements for the financial year ended 31 December 2022

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Reports and financial statements for the financial year ended 31 December 2022

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AFFIN Islamic Bank Berhad

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Musa bin Abdul Malek
(Appointed as Chairman w.e.f. 22.6.2022)

Dato' Mohd Ali bin Mohd Tahir
(Chairman, deceased on 12.2.2022)
Associate Professor Dr. Said Bouheraoua
(Completion of tenure on 2.7.2022)
Suffian bin Baharuddin
Datuk Mohd Farid bin Mohd Adnan
Tan Ler Chin, Cindy
Muhammad Fitri bin Othman
(appointed w.e.f. 21.3.2022)

CHIEF EXECUTIVE OFFICER

Dato' Paduka Syed Mashafuddin Syed Badarudin
(appointed w.e.f. 8.11.2022)
Nazlee bin Khalifah
(completed his contract of service w.e.f 31.5.2022)

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 2022

The Directors hereby submit their report together with the audited financial statements of the Bank for the financial year ended 31 December 2022.

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	177,063	177,063
Zakat	(4,000)	(4,000)
Profit before taxation	173,063	173,063
Taxation	(72,379)	(72,379)
Net profit for the financial year	100,684	100,684

DIVIDENDS

No dividends have been paid by the Bank in respect of the financial year ended 31 December 2022.

The Directors do not recommend any final dividends to be paid for the financial year ended 31 December 2022.

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 49 to the financial statements.

SUBSEQUENT EVENTS

Subsequent events after the financial year are disclosed in Note 50 to the financial statements.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

DIRECTORS' REPORT
for the financial year ended 31 December 2022

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:

Musa bin Abdul Malek
Chairman/Independent Non-Executive Director (appointed w.e.f. 22.6.2022)

Dato' Mohd Ali bin Mohd Tahir
Chairman/Independent Non-Executive Director (deceased on 12.2.2022)

Associate Professor Dr. Said Bouheraoua
Independent Non-Executive Director (completion of tenure on 2.7.2022)

Suffian bin Baharuddin
Independent Non-Executive Director

Datuk Mohd Farid bin Mohd Adnan
Independent Non-Executive Director

Tan Ler Chin, Cindy
Independent Non-Executive Director

Muhammad Fitri bin Othman
Non-Independent Non-Executive Director (appointed w.e.f. 21.3.2022)

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

DIRECTORS' REPORT

for the financial year ended 31 December 2022

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 2022 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 115 of the financial statements.

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 39 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 2022

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 2022

ECONOMIC AND BUSINESS OUTLOOK FOR 2023

The Malaysian Banking sector is expected to face challenges in 2023 as the IMF, World Bank and other international organizations have lowered their global growth forecast for the year 2023. As many countries are still struggling with the economic fallout from the pandemic the global economy of further impacted by rising interest rates and inflation, increasing trade tensions impact of the Russian-Ukraine War and political uncertainty. Malaysia's economic growth is expected to slow in 2023 to between 4% to 5% for similar reasons, in tandem with the forecasted slowdown in the global economy.

The Bank remains cautiously optimistic of its prospects for 2023 as the Malaysian economic recovery following the end of the COVID-19 pandemic has spurred domestic demand and resulted in an improvement in the local labour market. This is expected to remain the key driver for growth in 2023. As the Government continues its efforts to enhance investment, stimulate growth and protect the lives and livelihood of Malaysians, there is an expectation that while the Malaysian economy growth may be lower, a recession is not expected.

BUSINESS STRATEGY MOVING FORWARD

2022 saw the satisfactory conclusion to AFFIN Group's 2 year Metamorphosis Plan termed AIM22 where the plan culminated in the strengthening of the Bank's core revenue and profits, overall asset quality and capital levels. The Bank will continue on its transformation journey under the new AFFIN Group A25 Plan ('A25') which will run from 2023 to 2025. The next 3 years will see the Bank focus on 3 key strategic objectives as part of A25 namely, Unrivalled Customer Service, Digital Leadership and Responsible Banking with Impact with the vision of the Group and the Bank's optimistic to be the most creative financial company in Malaysia. A25 will see a continued focus on growing the Community Banking and Enterprise Banking businesses, with new strategies for the Bank's Corporate Banking and Treasury Business where the growth aspirations of the various businesses which will be supported by the increase in synergistic cooperation within the Group.

Despite the challenges faced by the banking industry, the Bank's strong focus on customer service and innovation, as well as its robust risk management practices, will help it to continue to grow and improve the services offered to its customers.

The Bank will play a significant role in the Group's 2023 plan as it continues to increase its overall contribution to the Group. Various key strategic initiatives will be in place throughout the year to expand its CASA base and to further strengthen its liquidity position. AFFIN Islamic will increase efforts in setting up various key strategic partnerships to unlock value added and digital-driven Islamic product offerings to maximise its business proposition and opportunities. AFFIN Islamic also plans to roll-out various shariah compliant initiatives as it continues to realise the benefits of a shared value organisation.

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

DIRECTORS' REPORT

for the financial year ended 31 December 2022

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:	14 November 2022
Rating classifications:	
- Long term:	AA_3
- Short term:	P1

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

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

DIRECTORS' REPORT
for the financial year ended 31 December 2022

DIRECTORS' REMUNERATION

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

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
Directors of the Bank		
Director fees	**1,840**	1,507
Directors' other emoluments	**71**	-

There was no amount paid to or receivable by any third party for services provided by Directors of the Bank.

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 capacity as, inter alia, Directors and Officers of the 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 Bank was RM83,485 (2021: RM79,510).

There were no professional fees paid to Directors or any firms, of which the Directors are members, for services rendered and no amount was paid to or receivable by any third party for services provided by Directors, except for director's fees paid and payable to AFFIN Bank Berhad ('ABB') amounting to RM1,133,000 for services provided by Nazlee bin Khalifah (completed his contract of service w.e.f. 31.5.2022) and Dato' Paduka Syed Mashafuddin Syed Badarudin during the financial year 2022 (2021: RM1,116,000).

The holding company, ABB maintained on a group basis, a Directors and Officers Liability Insurance against any Legal Liability incurred by the Directors in the discharge of their duties while holding office for the Bank. The Directors shall not be indemnified by such insurance for any deliberate negligence, fraud, intentional breach of law or breach of trust proven against them.

Details of Directors' remuneration and the total amount of indemnity given are set out in Note 39 to the financial statements.

ISSUANCE OF SHARES

During the financial year ended 31 December 2022, the Bank increased its issued ordinary shares from 1,060.0 million to 1,128.8 million via issuance of 68.8 million new ordinary shares amounting to RM150.0 million.

AUDITORS' REMUNERATION

Auditors' remuneration of the Bank is RM334,000 (2021: RM319,000). Details of auditors' remuneration are set out in Note 38 to the financial statements.

AFFIN Islamic Bank Berhad
(Incorporated in Malaysia)

DIRECTORS' REPORT
for the financial year ended 31 December 2022

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
Chairman/Independent Non-Executive Director

SUFFIAN BIN BAHARUDDIN
Independent Non-Executive Director

Kuala Lumpur

3 April 2023

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AFFIN Islamic Bank Berhad
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STATEMENTS OF FINANCIAL POSITION
as at 31 December 2022

		Economic Entity		The Bank	
		2022	2021	**2022**	2021
	Note	**RM'000**	RM'000	**RM'000**	RM'000
ASSETS					
Cash and short-term funds	2	**3,227,179**	2,240,427	**3,227,179**	2,240,427
Deposits and placements with banks and other financial institutions	3	**50,049**	50,008	**50,049**	50,008
Derivative financial assets	4	**14,985**	11,436	**14,985**	11,436
Financial investments at fair value through other comprehensive income ('FVOCI')	5	**-**	-	**-**	-
Financial investments at amortised cost ('AC')	6	**4,849,793**	3,464,981	**4,849,793**	3,464,981
Financing and other financing	7	**25,803,930**	22,570,323	**25,803,930**	22,570,323
Other assets	8	**159,967**	77,711	**159,967**	77,711
Amount due from holding company	9	**297,504**	-	**297,504**	-
Amount due from joint ventures	10	**455**	15,737	**455**	15,737
Amount due from an associate	11	**-**	-	**-**	-
Tax recoverable		**21,603**	-	**21,603**	-
Deferred tax assets	12	**45,332**	22,484	**45,332**	22,484
Statutory deposits with Bank Negara Malaysia	13	**400,000**	-	**400,000**	-
Investment in joint ventures	14	**-**	-	**-**	-
Investment in an associate	15	**-**	-	**-**	-
Property and equipment	16	**1,570**	1,328	**1,570**	1,328
Intangible assets	17	**133**	345	**133**	345
Right-of-use assets	18	**524**	632	**524**	632
TOTAL ASSETS		**34,873,024**	28,455,412	**34,873,024**	28,455,412
LIABILITIES AND EQUITY					
Deposits from customers	19	**25,175,621**	21,990,129	**25,175,621**	21,990,129
Investment accounts of customers	20	**859**	1,329	**859**	1,329
Deposits and placements of banks and other financial institutions	21	**2,098,939**	358,050	**2,098,939**	358,050
Investment accounts due to designated financial institutions	22	**2,720,263**	1,831,585	**2,720,263**	1,831,585
Recourse obligation on financing sold to Cagamas Berhad	23	**-**	50,033	**-**	50,033
Derivative financial liabilities	24	**37,736**	10,659	**37,736**	10,659
Other liabilities	25	**579,144**	188,453	**579,144**	188,453
Amount due to holding company	26	**-**	758,812	**-**	758,812
Provision for taxation		**-**	8,033	**-**	8,033
Lease liabilities	27	**573**	666	**573**	666
Subordinated and Senior Sukuk	28	**1,862,576**	1,111,034	**1,862,576**	1,111,034
TOTAL LIABILITIES		**32,475,711**	26,308,783	**32,475,711**	26,308,783
Share capital	29	**1,210,000**	1,060,000	**1,210,000**	1,060,000
Reserves	30	**1,187,313**	1,086,629	**1,187,313**	1,086,629
TOTAL EQUITY		**2,397,313**	2,146,629	**2,397,313**	2,146,629
TOTAL LIABILITIES AND EQUITY		**34,873,024**	28,455,412	**34,873,024**	28,455,412
COMMITMENTS AND CONTINGENCIES	43	**5,069,740**	5,075,670	**5,069,740**	5,075,670

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 2022

	Note	Economic Entity 2022 RM'000	Economic Entity 2021 RM'000	The Bank 2022 RM'000	The Bank 2021 RM'000
Income derived from investment of depositors' funds and others	31	**1,141,282**	905,858	**1,141,282**	905,858
Income derived from investment of investment accounts	32	**88,746**	74,195	**88,746**	74,195
Income derived from investment of shareholders' funds	33	**104,499**	82,912	**104,499**	82,912
Modification loss	34	**-**	(2,495)	**-**	(2,495)
Allowances for impairment losses on financing and other financing	35	**(243,213)**	(37,519)	**(243,213)**	(37,519)
Allowance for impairment losses on other assets	36	**(5,117)**	(1,333)	**(5,117)**	(1,333)
Total distributable income		**1,086,197**	1,021,618	**1,086,197**	1,021,618
Income attributable to the depositors and others	37	**(580,072)**	(456,090)	**(580,072)**	(456,090)
Income attributable to the investment accounts holders		**(78,677)**	(67,165)	**(78,677)**	(67,165)
Total net income		**427,448**	498,363	**427,448**	498,363
Other operating expenses	38	**(250,385)**	(246,211)	**(250,385)**	(246,211)
Profit before zakat and taxation		**177,063**	252,152	**177,063**	252,152
Zakat		**(4,000)**	(3,660)	**(4,000)**	(3,660)
Profit before taxation		**173,063**	248,492	**173,063**	248,492
Taxation	40	**(72,379)**	(57,897)	**(72,379)**	(57,897)
Net profit after zakat and taxation		**100,684**	190,595	**100,684**	190,595
Attributable to:					
Equity holder of the Bank		**100,684**	190,595	**100,684**	190,595
Earnings per share (sen):					
- Basic	41	**9.4**	18.0	**9.4**	18.0

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 2022

		Economic Entity		The Bank	
		2022	2021	**2022**	2021
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Profit after zakat and taxation		**100,684**	190,595	**100,684**	190,595
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Net fair value change in financial investments at FVOCI		-	12,801	-	12,801
Net credit impairment losses change in financial investments at FVOCI		-	(3,120)	-	(3,120)
Net gains on financial investments at FVOCI reclassified to profit or loss on disposal		-	(2,223)	-	(2,223)
Deferred tax on financial investments at FVOCI	12	-	(2,539)	-	(2,539)
Other comprehensive income for the financial year, net of tax		-	4,919	-	4,919
Total comprehensive income for the financial year		**100,684**	195,514	**100,684**	195,514
Attributable to equity holder of the Bank:					
Total comprehensive income for the financial year		**100,684**	195,514	**100,684**	195,514

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 2022

		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 2022		**1,060,000**	**-**	**105,613**	**981,016**	**2,146,629**
Net profit for the financial year		-	-	-	100,684	100,684
Other comprehensive income (net of tax)						
- Financial investments at FVOCI		-	-	-	-	-
Total comprehensive income for the financial year		-	-	-	100,684	100,684
Issued during the financial year	29	150,000	-	-	-	150,000
Transfer from regulatory reserves	30(b)	-	-	(59,144)	59,144	-
At 31 December 2022		**1,210,000**	**-**	**46,469**	**1,140,844**	**2,397,313**
Economic Entity						
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 for the financial year		-	4,919	-	190,595	195,514
Transfer from regulatory reserves	30(b)	-	-	(21,480)	21,480	-
At 31 December 2021		1,060,000	-	105,613	981,016	2,146,629

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

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AFFIN Islamic Bank Berhad

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STATEMENTS OF CHANGES IN EQUITY
for the financial year ended 31 December 2022

			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 2022		**1,060,000**	**-**	**105,613**	**981,016**	**2,146,629**
Net profit for the financial year		-	-	-	**100,684**	**100,684**
Other comprehensive income (net of tax)						
- Financial investments at FVOCI		-	-	-	-	-
Total comprehensive income for the financial year		-	-	-	**100,684**	**100,684**
Issued during the financial year	29	**150,000**	-	-	-	**150,000**
Transfer from regulatory reserves	30(b)	-	-	**(59,144)**	**59,144**	-
At 31 December 2022		**1,210,000**	**-**	**46,469**	**1,140,844**	**2,397,313**

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 for the financial year		-	4,919	-	190,595	195,514
Transfer from regulatory reserves	30(b)	-	-	(21,480)	21,480	-
At 31 December 2021		1,060,000	-	105,613	981,016	2,146,629

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

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AFFIN Islamic Bank Berhad
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STATEMENTS OF CASH FLOWS
for the financial year ended 31 December 2022

	Note	Economic Entity 2022 RM'000	Economic Entity 2021 RM'000	The Bank 2022 RM'000	The Bank 2021 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		**173,063**	248,492	**173,063**	248,492
Adjustments for items not involving the movement of cash and cash equivalents:					
Finance income and hibah from:					
- financial investments at FVOCI		**-**	(79,545)	**-**	(79,545)
- financial investments at AC		**(144,490)**	(11,234)	**(144,490)**	(11,234)
Gain on sale/redemption:					
- financial investments at FVOCI		**-**	(2,161)	**-**	(2,161)
Loss/(Profit) on unrealised foreign exchange		**23,527**	(14,791)	**23,527**	(14,791)
Depreciation of property and equipment	38	**314**	467	**314**	467
Property and equipment written-off	38	**-**	1	**-**	1
Amortisation of intangible assets	38	**212**	213	**212**	213
Depreciation of right-of-use assets	38	**500**	453	**500**	453
Expected credit losses ('ECL') made on:					
- financing and other financing	35	**268,536**	38,832	**268,536**	38,832
- securities	35	**3,065**	668	**3,065**	668
- financing commitments and financial kafalah	35	**701**	1,684	**701**	1,684
Impaired financing written-off	35	**3,520**	369	**3,520**	369
Allowance for impairment losses on other assets	36	**5,117**	1,333	**5,117**	1,333
Modification loss on contractual cash flows arising from financial assets	34	**-**	2,495	**-**	2,495
Profit expense - Subordinated and Senior Sukuk	28	**58,891**	57,350	**58,891**	57,350
Finance expense on lease liabilities	27	**24**	38	**24**	38
Profit expense - Recourse obligation on financing sold to Cagamas Berhad	23	**1,209**	1,237	**1,209**	1,237
Zakat		**4,000**	3,660	**4,000**	3,660
Operating profit before changes in working capital		**398,189**	249,561	**398,189**	249,561
(Increase)/Decrease in operating assets:					
Deposits and placements with banks and other financial institutions		**(41)**	50	**(41)**	50
Financing and other financing		**(3,505,662)**	(3,231,929)	**(3,505,662)**	(3,231,929)
Other assets		**(84,102)**	15,358	**(84,102)**	15,358
Statutory deposits with Bank Negara Malaysia	13	**(400,000)**	-	**(400,000)**	-
Amount due from holding company	9	**(297,504)**	-	**(297,504)**	-
Amount due from joint ventures	10	**11,727**	(940)	**11,727**	(940)
Derivative financial instruments		**23,528**	(14,791)	**23,528**	(14,791)

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS (CONTINUED)
for the financial year ended 31 December 2022

	Note	Economic Entity 2022 RM'000	Economic Entity 2021 RM'000	The Bank 2022 RM'000	The Bank 2021 RM'000
(Decrease)/Increase in operating liabilities:					
Deposits from customers		**3,185,490**	3,324,138	**3,185,490**	3,324,138
Investment accounts of customers		**(470)**	(822)	**(470)**	(822)
Deposits and placements of banks and other financial institutions		**1,740,889**	(867,823)	**1,740,889**	(867,823)
Investment accounts due to designated financial institutions		**888,678**	80,547	**888,678**	80,547
Amount due to holding company		**(758,812)**	458,997	**(758,812)**	458,997
Other liabilities		**389,243**	118,447	**389,243**	118,447
Cash generated from operations		**1,591,153**	130,793	**1,591,153**	130,793
Zakat paid		**(3,254)**	(3,248)	**(3,254)**	(3,248)
Tax refund		**-**	4,000	**-**	4,000
Tax paid		**(124,863)**	(72,731)	**(124,863)**	(72,731)
Net cash generated from operating activities		**1,463,036**	58,814	**1,463,036**	58,814
CASH FLOWS FROM INVESTING ACTIVITIES					
Finance income and hibah received from:					
- financial investments at FVOCI		**-**	105,041	**-**	105,041
- financial investments at AC		**156,982**	-	**156,982**	-
Purchase of	5				
- financial investments at FVOCI		**-**	(769,483)	**-**	(769,483)
- financial investments at AC		**(1,748,103)**	(100,730)	**(1,748,103)**	(100,730)
Redemption/Disposal of:					
- financial investments at FVOCI		**-**	228,087	**-**	228,087
- financial investments at AC		**347,942**	-	**347,942**	-
Proceed from disposal of property and equipment		**181**	-	**181**	-
Purchase of property and equipment	16	**(659)**	(396)	**(659)**	(396)
Net cash used in investing activities		**(1,243,657)**	(537,481)	**(1,243,657)**	(537,481)
CASH FLOWS FROM FINANCING ACTIVITIES					
Issuance of Senior Sukuk	28	**750,000**	-	**750,000**	-
Issuance of new shares	29	**150,000**	-	**150,000**	-
Repayment of recourse obligation on financing sold to Cagamas Berhad	23	**(50,003)**	-	**(50,003)**	-
Profit payment from recourse obligation on financing sold to Cagamas Berhad	23	**(1,239)**	(1,238)	**(1,239)**	(1,238)
Profit payment from Subordinated and Senior Sukuk	28	**(57,349)**	(57,350)	**(57,349)**	(57,350)
Lease payments	27	**(509)**	(1,805)	**(509)**	(1,805)
Net cash generated from/(used in) financing activities		**790,900**	(60,393)	**790,900**	(60,393)
Net increase/(decrease) in cash and cash equivalents		**1,010,279**	(539,060)	**1,010,279**	(539,060)
Effects of foreign exchange		**(23,527)**	(14,791)	**(23,527)**	(14,791)
Cash and cash equivalents at beginning of the financial year		**2,240,427**	2,794,278	**2,240,427**	2,794,278
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR		**3,227,179**	2,240,427	**3,227,179**	2,240,427
CASH AND CASH EQUIVALENTS COMPRISE:					
Cash and short-term funds	2	**3,227,179**	2,240,427	**3,227,179**	2,240,427

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 2022

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 financial year. It also requires Directors to exercise their judgement in the process of applying the Bank's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement 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

Below are the annual improvements and amendments to MFRS effective for the financial year beginning 1 January 2022:

- Amendments to MFRS 16 'COVID-19 Related Rent Concessions beyond 30 June 2021'
- Amendments to MFRS 116 'Proceeds Before Intended Use'
- Amendments to MFRS 137 'Onerous Contracts - Cost of Fulfilling a Contract'
- Annual Improvements to MFRS 9 'Fees in the 10% Test for Derecognition of Financial Liabilities'
- Annual Improvements to MFRS 1 'Subsidiary as First-time Adopter'
- Annual Improvements to Illustrative Examples accompanying MFRS 16 'Leases: Lease Incentives'
- Annual Improvements to MFRS 141 'Taxation in Fair Value Measurements'
- Amendments to MFRS 3 'Reference to Conceptual Framework'

The Bank has adopted Amendment to Amendments to MFRS 116 'Proceeds before Intended Use', Amendments to MFRS 137 'Onerous Contracts – Cost of Fulfilling a Contract', Annual Improvements to MFRS 9 'Fees in the 10% Test for Derecognition of Financial Liabilities' and Amendments to MFRS 3 'Reference to the Conceptual Framework' for the first time in the December 2022 financial statements.

Amendments to MFRS 116 'Proceeds Before Intended Use'

The amendments prohibit the Bank from deducting from the cost of a property, plant and equipment the proceeds received from selling items produced by the property and equipment before it is ready for its intended use. The sales proceeds are instead 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. In accordance with the transition provisions, the Bank applied the amendments retrospectively and had no impact on the amounts recognised in the current or prior period as there were no sales of such items produced by property, plant and equipment made available for use on or after 1 January 2021.

Amendments to MFRS 137 'Onerous Contracts – Cost of Fulfilling a Contract'

The amendments 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. Before recognising a separate provision for an onerous contract, the Bank recognises any impairment loss that has occurred on assets used in fulfilling the contract.

The Bank applies the amendments to the contracts for which it has not yet fulfilled all of its obligations at the date of initial application of 1 January 2022.

These amendments had no impact on the amounts recognised in the current or prior period as the Bank had not identified any contracts as being onerous.

(A) BASIS OF PREPARATION (continued)

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

Annual Improvements to MFRS 9 'Fees in the '10% test for Derecognition of Financial Liabilities'

The amendment clarifies that only fees paid or received between the borrower and customer, 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 for derecognition of financial liabilities.

The Bank applied the amendment to financial liabilities that are modified or exchanged on or after the date of initial application of 1 January 2022. There were no modifications of financial instruments during the financial year.

Amendments to MFRS 3 'Reference to the Conceptual Framework'

The amendments replace the reference to Framework for Preparation and Presentation of Financial Statements with 2018 Conceptual Framework. The Bank adopted the amendments, which did not change its current accounting for business combinations on the acquisition date.

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

The Bank applied the amendments prospectively to business combinations for which the acquisition date is on or after 1 January 2022.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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

- Amendments on disclosure of accounting policies (Amendments to MFRS 101 'Presentation of Financial Statements' and MFRS Practice Statement 2). The amendments to MFRS 101 require companies to disclose material accounting policies rather than significant accounting policies. Entities are expected to make disclosure of accounting policies specific to the entity and not generic disclosures on MFRS applications. The amendment explains an accounting policy is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Also, accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. Accordingly, immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. MFRS Practice Statement 2 was amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

- Amendments on definition of accounting estimates (Amendments to MFRS 108 'Accounting Policies'). The amendments to MFRS 108, redefined accounting estimates as 'monetary amounts in financial statements that are subject to measurement uncertainty'. To distinguish from changes in accounting policies, the amendments clarify that effects of a change in an input or measurement technique used to develop an accounting estimate is a change in accounting estimate, if they do not arise from prior period errors. Examples of accounting estimates include expected credit losses; net realisable value of inventory; fair value of an asset or liability; depreciation for property, plant and equipment; and provision for warranty obligations.

Both amendments are effective for the annual reporting periods beginning on or after 1 January 2023.

(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 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.

- There are two amendments to MFRS 101 'Presentation of Financial Statements'. The first amendments, 'Classification of liabilities as current or non-current' clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the entity's expectations or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). In addition, the amendments clarify that when a liability could be settled by the transfer of an entity's own equity instruments (e.g. a conversion option in a convertible bond), conversion option meeting the definition of an equity instrument in MFRS 132 'Financial Instruments: Presentation' does not impact the current or non-current classification of the convertible instrument.

  The second amendments, 'Non-current Liabilities with Covenants' specify that covenants of loan arrangements which an entity must comply with only after the reporting date would not affect classification of a liability as current or non-current at the reporting date. However, those covenants that an entity is required to comply with on or before the reporting date would affect classification of a liability as current or non-current, even if the covenant is only assessed after the reporting date.

  Both amendments are effective for the annual reporting periods beginning on or after 1 January 2024.

  The amendments shall be applied retrospectively.

- Amendments to MFRS 16 'Lease Liability in a Sale and Leaseback' (effective 1 January 2024) specify the measurement of the lease liability arises in a sale and leaseback transaction that satisfies the requirements in MFRS 15 'Revenue from Contracts with Customers' to be accounted for as a sale. In accordance with the amendments, the seller-lessee shall determine the "lease payments" or "revised lease payments" in a way that it does not result in the seller-lessee recognising any amount of the gain or loss that relates to the right of use it retains.

  The amendments shall be applied retrospectively to sale and leaseback transactions entered into after the date when the seller-lessee initially applied MFRS 16.

The adoption of the above new accounting standards, amendments to published standards, and interpretations are not expected to give rise to any material financial impact on the Bank.

(B) JOINT ARRANGEMENTS

A joint arrangement is an arrangement of which there is contractually agreed sharing of control by the Bank 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.

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.

(D) INTANGIBLE ASSETS (continued)

Computer Software (continued)

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.

<u>Musyarakah Mutanaqisah (diminishing partnership)</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.

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

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 kafalah 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.
- Net gain or loss from debt instruments at FVOCI is recognised in profit or loss upon disposal of the securities, as the difference between net disposal proceeds and the carrying amount of the securities.
- Income from bancatakaful agreements are recognised based on time apportionment method throughout the exclusive services agreement period.
- Other income are recognised on an accrual basis.

(H) FINANCIAL ASSETS

(a) Classification

The Bank classifies its financial assets in the following measurement categories:
- those to be measured at amortised cost, and
- those to be measured subsequently at fair value (either through other comprehensive income ('OCI') or through profit or loss)

(b) Recognition and derecognition

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

(c) Measurement

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and 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 ended 31 December 2021, AFFIN Islamic Bank Berhad ('AiBB') has taken actions to improve 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.

(H) FINANCIAL ASSETS (continued)

(c) Measurement (continued)

Financial instruments (continued)

There are three measurement categories into which the Bank classifies its financial instruments (continued):

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

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

Business model

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objectives are solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVTPL. 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.

(H) FINANCIAL ASSETS (continued)

(d) Subsequent measurement – Impairment

Impairment for financial instruments and financial kafalah 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 kafalah 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.

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 cause a
- 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 kafalah 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).

(H) FINANCIAL ASSETS (continued)

(d) Subsequent measurement – Impairment (continued)

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 Bank 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.

(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 profit 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 profit 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 kafalah 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 KAFALAH CONTRACTS AND FINANCING COMMITMENTS

Financial kafalah 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 kafalah are given to banks, financial institutions and others on behalf of customers to secure financing, overdrafts and other banking facilities.

Financial kafalah 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 KAFALAH CONTRACTS AND FINANCING COMMITMENTS (continued)

For financing commitments and financial kafalah 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 replaced 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;
- Payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option; and
- 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the financial year ended 31 December 2022

(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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
for the financial year ended 31 December 2022

(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 kafalah contracts.

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

(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 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 financial 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.

(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 44, 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 the levels of ECL with sufficient reliability in view of the impact 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 financial year ended as at 31 December 2022.

These overlays and post-model adjustments were taken to reflect the latest macro-economic outlook not captured in the modelled outcome and the potential impact to delinquencies and defaults when the various relief and support measures expired in 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 support 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 made at the account and portfolio level.

During the year, the Bank have partially reversed the overlays and post-model adjustments after observing the satisfactory repayment trend of the customers over a reasonable observation period.

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 31 December 2022

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 other 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	
	2022	2021
	RM'000	RM'000
Cash and bank balances with banks and other financial institutions	**20,479**	16,514
Money at call and interbank placements with maturing within one month	**3,206,908**	2,223,913
	3,227,387	2,240,427
Less: Expected credit losses ('ECL')	**(208)**	-
	3,227,179	2,240,427

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
Licensed banks	**50,049**	50,008

4 DERIVATIVE FINANCIAL ASSETS

	Economic Entity and The Bank			
	2022		2021	
	Contract/ notional amount	**Assets**	Contract/ notional amount	Assets
	RM'000	**RM'000**	RM'000	RM'000
At fair value				
Foreign exchange derivatives				
- Currency forwards	**529,907**	**14,985**	678,459	11,436
	529,907	**14,985**	678,459	11,436

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

	Economic Entity and The Bank	
	2022	2021
At fair value	**RM'000**	RM'000
Malaysian Government investment issues	-	-
Unquoted securities:		
Corporate Sukuk in Malaysia	-	-
	-	-

Movements in expected credit losses ('ECL') for financial investments at FVOCI 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				
2022				
At beginning/end of the financial year	-	-	-	-
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 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	-	-	-	-

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				
2022				
At beginning/end of the financial year	-	-	-	-
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 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	-	-	-	-

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for the financial year ended 31 December 2022

6 FINANCIAL INVESTMENTS AT AMORTISED COST ('AC')

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
At amortised cost		
Malaysian Government treasury bills	**49,822**	97,747
Malaysian Government investment issues	**2,525,096**	1,569,676
Cagamas Sukuk	**90,647**	-
BNM Sukuk	**10,139**	10,299
Unquoted securities:		
Corporate Sukuk in Malaysia	**2,180,734**	1,791,047
	4,856,438	3,468,769
Less: Expected credit losses ('ECL')	**(6,645)**	(3,788)
	4,849,793	3,464,981

Movements in expected credit losses ('ECL') 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				
2022				
At beginning of the financial year	**3,788**	-	-	**3,788**
Financial assets derecognised (other than write-off)	**(204)**	-	-	**(204)**
New financial assets purchased	**546**	-	-	**546**
Changes due to change in credit risk	**2,515**	-	-	**2,515**
At end of the financial year	**6,645**	-	-	**6,645**
Economic Entity and The Bank				
2021				
At beginning of the financial year	-	-	-	-
Financial assets derecognised (other than write-off)	(44)	-	-	(44)
New financial assets 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				
2022				
At beginning of the financial year	**3,468,769**	-	-	**3,468,769**
Financial assets derecognised (other than write-off)	**(347,942)**	-	-	**(347,942)**
New financial assets purchased	**1,748,103**	-	-	**1,748,103**
Changes in profit accrual and accretion/amortisation	**(12,492)**	-	-	**(12,492)**
At end of the financial year	**4,856,438**	-	-	**4,856,438**
Economic Entity and The Bank				
2021				
At beginning of the financial year	-	-	-	-
New financial assets purchased	100,730	-	-	100,730
Changes in profit accrual and accretion/amortisation	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

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for the financial year ended 31 December 2022

6 FINANCIAL INVESTMENTS AT AMORTISED COST ('AC') (continued)

IBOR Reform

The Bank hold the following financial investments at AC 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 2022		Economic Entity and The Bank 2021	
	Total RM'000	**Of which contract yet to transition to an alternative benchmark profit rate RM'000**	Total RM'000	Of which contract yet to transition to an alternative benchmark profit rate RM'000
Corporate Sukuk				
- Kuala Lumpur Interbank Offered Rate ('KLIBOR')	**50,355**	**50,355**	-	-

7 FINANCING AND OTHER FINANCING

	Economic Entity and The Bank 2022 RM'000	2021 RM'000
(i) By type		
Cash Line-i	**700,519**	651,183
Term financing		
- House financing	**9,329,247**	8,443,386
- Hire purchase receivables	**5,189,938**	4,561,420
- Syndicated financing	**1,167,643**	869,857
- Other term financing	**7,692,656**	6,221,332
Bills receivables	**151,248**	92,878
Trust receipts	**13,969**	13,142
Claims on customers under acceptance credits	**787,059**	701,318
Staff financing (of which RM Nil to Directors)	**119,698**	104,165
Credit/charge cards	**60,857**	44,830
Revolving credit	**1,046,211**	1,070,514
Gross financing and other financing	**26,259,045**	22,774,025
Less: Expected credit losses ('ECL')	**(455,115)**	(203,702)
Total net financing and other financing	**25,803,930**	22,570,323

Included in other term financing before expected credit losses as at reporting date is RM57.4 million (2021: RM56.5 million) of term financing disbursed by the Bank to a joint venture with AFFIN-i Nadayu Sdn Bhd.

(ii) By maturity structure		
Maturing within one year	**3,058,976**	2,720,697
One year to three years	**1,500,036**	632,881
Three years to five years	**1,772,498**	2,454,747
Over five years	**19,927,535**	16,965,700
	26,259,045	22,774,025

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7 FINANCING AND OTHER FINANCING (continued)

(iii) By contract

	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
Economic Entity and The Bank									
2022									
Cash Line-i	-	-	-	-	689,216	-	-	11,303	700,519
Term financing									
- House financing	519,875	-	-	-	212,267	8,597,105	-	-	9,329,247
- Hire purchase receivables	-	-	5,189,938	-	-	-	-	-	5,189,938
- Syndicated financing	-	259,768	-	-	907,875	-	-	-	1,167,643
- Other term financing	65,102	521,493	-	149,719	5,324,275	1,110,364	521,703	-	7,692,656
Bills receivables	-	-	-	122,919	-	-	-	28,329	151,248
Trust receipts	-	-	-	13,969	-	-	-	-	13,969
Claims on customers under acceptances credits	-	-	-	787,059	-	-	-	-	787,059
Staff financing	2,498	-	-	25,401	34,355	57,444	-	-	119,698
Credit/charge cards	-	-	-	-	60,857	-	-	-	60,857
Revolving credit	-	-	-	-	1,046,211	-	-	-	1,046,211
Gross financing and other financing	587,475	781,261	5,189,938	1,099,067	8,275,056	9,764,913	521,703	39,632	26,259,045
Economic Entity and The Bank									
2021									
Cash Line-i	-	-	-	-	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
- Other 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	-	-	-	-	-	-	-	44,830	44,830
Revolving credit	-	-	-	-	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

AFFIN Islamic Bank Berhad
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7 FINANCING AND OTHER FINANCING (continued)

		Economic Entity and The Bank	
		2022	2021
		RM'000	RM'000
(iv)	**By type of customer**		
	Domestic non-banking institutions		
	- Others	**89,793**	44,632
	Domestic business enterprises		
	- Small medium enterprises	**2,813,760**	2,550,698
	- Others	**4,732,456**	4,472,997
	Government and statutory bodies	**789,216**	753,625
	Individuals	**17,683,064**	14,792,334
	Other domestic entities	**155**	222
	Foreign entities	**150,601**	159,517
		26,259,045	22,774,025
(v)	**By profit rate sensitivity**		
	Fixed rate		
	- House financing	**45,708**	41,326
	- Hire purchase receivables	**5,189,938**	4,561,420
	- Other fixed rate financing	**953,277**	1,023,189
	Variable rate		
	- Base funding rate and base rate plus	**14,719,826**	12,401,485
	- Cost plus	**3,339,716**	2,978,151
	- Other variable rate	**2,010,580**	1,768,454
		26,259,045	22,774,025
(vi)	**By economic sectors**		
	Primary agriculture	**678,695**	736,883
	Mining and quarrying	**146,125**	146,541
	Manufacturing	**1,240,932**	1,128,004
	Electricity, gas and water supply	**448,985**	384,412
	Construction	**766,506**	615,576
	Real estate	**1,370,660**	1,554,651
	Wholesale & retail trade and restaurants & hotels	**1,296,654**	1,121,415
	Transport, storage and communication	**515,576**	519,323
	Finance, takaful and business services	**635,038**	597,901
	Education, health & others	**1,425,677**	1,122,737
	Household	**17,734,197**	14,846,582
		26,259,045	22,774,025
(vii)	**By economic purpose**		
	Purchase of securities	**988,452**	641,100
	Purchase of transport vehicles	**5,400,433**	4,767,396
	Purchase of landed property of which:		
	- Residential	**9,511,006**	8,610,977
	- Non-residential	**2,341,509**	2,360,103
	Fixed assets other than land and building	**295,752**	75,975
	Personal use	**2,118,240**	1,077,910
	Credit/charge cards	**60,857**	44,830
	Consumer durable	**330**	-
	Construction	**910,356**	901,544
	Working capital	**3,970,793**	3,755,424
	Others	**661,317**	538,766
		26,259,045	22,774,025

7 FINANCING AND OTHER FINANCING (continued)

	Economic Entity and The Bank 2022 RM'000	2021 RM'000
(viii) By geographical distribution		
Perlis	**105,134**	100,396
Kedah	**1,175,260**	967,657
Pulau Pinang	**1,411,158**	1,276,419
Perak	**821,719**	674,639
Selangor	**8,644,404**	7,576,803
Wilayah Persekutuan	**5,330,826**	4,426,864
Negeri Sembilan	**1,306,760**	1,172,100
Melaka	**456,600**	373,759
Johor	**3,105,863**	2,712,627
Pahang	**987,340**	827,390
Terengganu	**873,387**	791,523
Kelantan	**583,330**	420,398
Sarawak	**647,965**	623,299
Sabah	**791,239**	810,158
Labuan	**18,051**	19,989
Outside Malaysia	**9**	4
	26,259,045	22,774,025
(ix) Movements of impaired financing		
At beginning of the financial year	**381,586**	315,471
Classified as impaired	**238,197**	314,867
Reclassified as non-impaired	**(143,264)**	(113,207)
Amount recovered	**(95,333)**	(115,731)
Amount written-off	**(38,331)**	(19,814)
Other movements	**14,567**	-
At end of the financial year	**357,422**	381,586
Ratio of gross impaired financing and other financing to gross financing and other financing *	**0.90%**	1.11%

* For the Bank, RIA excluded in the ratio calculation amounting to RM2,723.1 million (2021: RM1,834.6 million) with impaired financing amounting to RM145.6 million (2021: RM149.9 million).

The outstanding contractual amounts of such assets written off during the financial year ended 31 December 2022 for the Bank is RM38,331,000 (2021: RM19,814,000).

7 FINANCING AND OTHER FINANCING (continued)

	Economic Entity and The Bank 2022 RM'000	2021 RM'000
(x) Impaired financing by economic sectors		
Primary agriculture	**298**	184
Mining and quarrying	**18,497**	24,342
Manufacturing	**4,124**	2,319
Construction	**9,349**	2,990
Real estate	**46,710**	41,109
Wholesale & retail trade and restaurants & hotels	**6,075**	2,577
Transport, storage and communication	**158,951**	200,429
Finance, takaful and business services	**3,520**	872
Education, health & others	**827**	619
Household	**109,071**	106,145
	357,422	381,586

	Economic Entity and The Bank 2022 RM'000	2021 RM'000
(xi) Impaired financing by economic purpose		
Purchase of securities	**552**	95
Purchase of transport vehicles	**177,622**	169,737
Purchase of landed property of which:		
- Residential	**78,293**	82,848
- Non-residential	**72,213**	67,927
Personal use	**8,970**	3,429
Credit card	**195**	280
Construction	**-**	1,236
Working capital	**19,541**	56,034
Others	**36**	-
	357,422	381,586

	Economic Entity and The Bank 2022 RM'000	2021 RM'000
(xii) Impaired financing by geographical distribution		
Perlis	**3,491**	2,590
Kedah	**11,454**	7,207
Pulau Pinang	**9,721**	7,314
Perak	**5,082**	55,052
Selangor	**64,297**	76,670
Wilayah Persekutuan	**28,242**	18,182
Negeri Sembilan	**8,293**	11,792
Melaka	**18,410**	2,220
Johor	**54,539**	43,030
Pahang	**2,031**	1,732
Terengganu	**147,767**	151,892
Kelantan	**2,378**	2,143
Sarawak	**414**	44
Sabah	**1,303**	1,718
	357,422	381,586

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7 FINANCING AND OTHER FINANCING (continued)

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

Economic Entity and The Bank 2022	**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	**72,928**	**76,859**	**53,915**	**203,702**
Total transfer between stages due to change in credit risk :-	**18,847**	**17,588**	**(36,435)**	**-**
- Transfer to 12-month ECL (Stage 1)	**38,579**	**(33,206)**	**(5,373)**	**-**
- Transfer to Lifetime ECL not credit impaired (Stage 2)	**(19,690)**	**55,256**	**(35,566)**	**-**
- Transfer to Lifetime ECL credit impaired (Stage 3)	**(42)**	**(4,462)**	**4,504**	**-**
Financing derecognised (other than write-off)	**(34,265)**	**(12,981)**	**(3,580)**	**(50,826)**
New financing originated or purchased	**54,564**	**-**	**-**	**54,564**
Changes due to change in credit risk	**(46,861)**	**220,986**	**90,668**	**264,793**
Write-off	**-**	**-**	**(31,690)**	**(31,690)**
Other adjustments	**5**	**-**	**14,567**	**14,572**
At the end of financial year	**65,218**	**302,452**	**87,445**	**455,115**

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
At beginning of the financial year	47,261	54,706	82,430	184,397
Total transfer between stages due to change in credit risk :-	17,507	11,835	(29,342)	-
- Transfer to 12-month ECL (Stage 1)	22,251	(16,921)	(5,330)	-
- Transfer to Lifetime ECL not credit impaired (Stage 2)	(4,621)	34,536	(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	41,247	-	-	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

AFFIN Islamic Bank Berhad
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NOTES TO THE FINANCIAL STATEMENTS
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7 FINANCING AND OTHER FINANCING (continued)

(xiv) Movement in the gross carrying amount of financing and other financing that contributed to changes in the expected credit losses.

Economic Entity and The Bank 2022	**Stage 1 RM'000**	**Stage 2 RM'000**	**Stage 3 RM'000**	**Total RM'000**
At beginning of the financial year	**20,722,697**	**1,669,742**	**381,586**	**22,774,025**
Total transfer between stages due to change in credit risk :-	**(684,474)**	**590,095**	**94,379**	**-**
- Transfer to 12-month ECL (Stage 1)	**1,487,239**	**(1,464,371)**	**(22,868)**	**-**
- Transfer to Lifetime ECL not credit impaired (Stage 2)	**(2,150,659)**	**2,271,055**	**(120,396)**	**-**
- Transfer to Lifetime ECL credit impaired (Stage 3)	**(21,054)**	**(216,589)**	**237,643**	**-**
Financing derecognised (other than write-off)	**(12,712,403)**	**(364,721)**	**(16,788)**	**(13,093,912)**
New financing originated or purchased	**17,698,859**	**-**	**-**	**17,698,859**
Changes due to change in credit risk	**(897,957)**	**(130,352)**	**(77,994)**	**(1,106,303)**
Unwinding of modification loss during the financial year	**11,781**	**1,842**	**3**	**13,626**
Write-off	**-**	**-**	**(38,331)**	**(38,331)**
Other adjustments	**(741)**	**(2,745)**	**14,567**	**11,081**
At the end of financial year	**24,137,762**	**1,763,861**	**357,422**	**26,259,045**

Note: The amount of financing and other financing whose cash flows were modified in 2022 was RM1,442,366,022.

Economic Entity and The Bank 2021	Stage 1 RM'000	Stage 2 RM'000	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 :-	(161,830)	113,422	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)	(1,287,183)	1,378,517	(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	13,553,712	-	-	13,553,712
Changes due to change in credit risk	(736,820)	10,243	67,348	(659,229)
Unwinding of modification loss during the financial year	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.

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7 FINANCING AND OTHER FINANCING (continued)

IBOR Reform

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 2022		Economic Entity and The Bank 2021	
	Total RM'000	**Of which contract yet to transition to an alternative benchmark profit rate RM'000**	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 denominated in USD ('USD LIBOR')	**58,484**	**58,484**	57,576	57,576
- KLIBOR	**206,941**	**206,941**	218,863	218,863
	265,425	**265,425**	276,439	276,439

8 OTHER ASSETS

	Economic Entity and The Bank 2022 RM'000	2021 RM'000
Other debtors	**58,970**	57,834
Deposits and prepayments	**24,079**	638
Cheque clearing accounts	**61,453**	14,366
Foreclosed properties (i)	**15,465**	4,873
	159,967	77,711

(i) Foreclosed properties

	2022	2021
At beginning of the financial year	**4,873**	4,873
Addition	**13,240**	-
Diminution in value	**(2,648)**	-
At end of the financial year	**15,465**	4,873

9 AMOUNT DUE FROM HOLDING COMPANY

	Economic Entity and The Bank 2022 RM'000	2021 RM'000
Intersystem balances due from holding company	**297,504**	-

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

10 AMOUNT DUE FROM JOINT VENTURES

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
Advances to joint ventures	**48,273**	60,000
Less: Expected credit losses ('ECL')	**(47,818)**	(44,263)
	455	15,737
Movements of expected credit losses		
At beginning of the financial year	**44,263**	43,987
Charge during the financial year	**3,555**	276
At end of the financial year	**47,818**	44,263

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

11 AMOUNT DUE FROM AN ASSOCIATE

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
Advances to an associate	**1,257**	1,257
Less: Expected credit losses ('ECL')	**(1,257)**	(1,257)
	-	-
Movements of expected credit losses		
At beginning/end of the financial year	**1,257**	1,257

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

12 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	
	2022	2021
	RM'000	RM'000
Deferred tax assets/(liabilities)	**45,332**	22,484
Deferred tax assets/(liabilities)		
- settled more than 12 months	**2,332**	1,618
- settled within 12 months	**43,150**	21,196
Deferred tax liabilities:		
- settled more than 12 months	**(43)**	-
- settled within 12 months	**(107)**	(330)
Deferred tax assets/(liabilities)	**45,332**	22,484
At beginning of the financial year	**22,484**	12,390
Recognised in income statement (Note 40)		
- Tax expenses	**28,884**	6,597
- Deferred tax impact arising from Prosperity Tax ^	**(6,036)**	6,036
Recognised in equity	**-**	(2,539)
At end of the financial year	**45,332**	22,484

^ 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 'Prosperity Tax' that was imposed by the government on the portion of YA 2022's chargeable income in excess of RM100 million.

12 DEFERRED TAX ASSETS/(LIABILITIES)

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

Economic Entity and The Bank 2022	**Property and equipment RM'000**	**Intangible assets RM'000**	**Lease Rental 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	**(207)**	**(107)**	**8**	**5,483**	**15,711**	-	**1,596**	**22,484**
Recognised in income statement								
- Tax expenses	**130**	**(32)**	**83**	**189**	**27,828**	-	**686**	**28,884**
- Deferred tax impact arising from Prosperity Tax ^	**65**	**31**	-	**(1,587)**	**(4,545)**	-	-	**(6,036)**
Recognised in equity	-	-	-	-	-	-	-	-
At end of the financial year	**(12)**	**(108)**	**91**	**4,085**	**38,994**	-	**2,282**	**45,332**

Economic Entity and The Bank 2021	Property and equipment RM'000	Intangible assets RM'000	Lease Rental RM'000	Other temporary differences 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	(111)	(83)	323	3,681	5,355	3,225	-	12,390
Recognised in income statement								
- Tax expenses	(31)	7	(315)	215	5,811	(686)	1,596	6,597
- Deferred tax impact arising from Prosperity Tax ^	(65)	(31)	-	1,587	4,545	-	-	6,036
Recognised in equity	-	-	-	-	-	(2,539)	-	(2,539)
At end of the financial year	(207)	(107)	8	5,483	15,711	-	1,596	22,484

^ 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 'Prosperity Tax' that was imposed by the government on the portion of YA 2022's chargeable income in excess of RM100 million.

13 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 the banking industry is 2.0% of eligible liabilities.

On 15 May 2020, BNM has issued Statutory Reserve Requirement ('SRR') guideline and with effect from 16 May 2020, banking institutions are allowed to recognise Malaysian Government Securities and Malaysian Government Issues to fully meet the SRR requirement of 2%. This flexibility is available until 31 December 2022.

14 INVESTMENT IN JOINT VENTURES

	Economic Entity		The Bank	
	2022	2021	**2022**	2021
	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 RM'000	Percentage of equity held 2022 %	2021 %
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	
	2022	2021	**2022**	2021
	RM'000	RM'000	**RM'000**	RM'000
The summarised financial information of joint ventures is as follows:				
Total assets	**98,910**	98,316	**6,400**	61,615
Total liabilities	**(123,468)**	(119,579)	**(47,158)**	(101,999)
Net liabilities	**(24,558)**	(21,263)	**(40,758)**	(40,384)
The above amounts of assets and liabilities include the following:				
Cash and cash equivalents	**484**	22	**381**	634
Revenue	**-**	-	**54,370**	-
Loss for the financial year	**(3,295)**	(3,083)	**(374)**	(525)
The above profit for the financial year include the following:				
Finance income	**1**	12	**-**	1
Finance expense	**(3,191)**	(3,027)	**-**	-
Depreciation and amortisation	**-**	(3)	**-**	-
Net liabilities				
At beginning of the financial year	**(21,263)**	(18,180)	**(40,384)**	(39,859)
Loss for the financial year	**(3,295)**	(3,083)	**(374)**	(525)
At end of the financial year	**(24,558)**	(21,263)	**(40,758)**	(40,384)
Issued and paid up share capital	**1,000**	1,000	**500**	500
Investment in joint venture (%)	**50**	50	**30**	30
Share of loss in joint venture (RM'000)	**(12,279)**	(10,632)	**(12,227)**	(12,115)

As the Bank's share of cumulative loss of RM24.5 million (2021: cumulative loss of RM22.7 million) as at 31 December 2022 has exceeded its investment in the joint ventures, the Bank does not recognise further losses in its Economic Entity financial statements.

15 INVESTMENT IN AN ASSOCIATE

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
Unquoted share at cost	750	750
Economic Entity's share of post acquisition retained losses	(750)	(750)
	-	-

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 facilitates 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 company is in the process of winding up.

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

Name	Principal Activities	Issued and Paid up share capital	Percentage of equity held 2022	2021
		RM'000	%	%
RAEED Holdings Sdn Bhd	Investment Holding	-	-	17

The summarised financial information of the associate for the financial year ended 31 December 2021 is set out below.

	2021
	RM'000
Revenue	196
Loss after tax	(1,631)
Non-current assets	323
Current assets	1,816
Current liabilities	(9,953)
Net liabilities	
At beginning of the financial year	(2,761)
Loss for the financial year	(1,631)
At end of the financial year	(4,392)
Issued and paid up share capital	4,500
Investment in associate (%)	17
Share of loss in associate (RM'000)	(2,028)

16 PROPERTY AND EQUIPMENT

Economic Entity and The Bank 2022	**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	**2,389**	**1,408**	**2,317**	**836**	**481**	**7,431**
Additions	**28**	**18**	**58**	**-**	**555**	**659**
Disposals	**-**	**-**	**-**	**(351)**	**-**	**(351)**
Write-off	**(2)**	**-**	**(3)**	**-**	**-**	**(5)**
Reclassification (to)/from holding company	**(13)**	**(6)**	**(26)**	**-**	**8**	**(37)**
At end of the financial year	**2,402**	**1,420**	**2,346**	**485**	**1,044**	**7,697**
Accumulated depreciation						
At beginning of the financial year	**2,302**	**1,184**	**2,033**	**584**	**-**	**6,103**
Charge for the financial year	**46**	**70**	**102**	**96**	**-**	**314**
Disposal	**-**	**-**	**-**	**(252)**	**-**	**(252)**
Write-off	**(2)**	**-**	**(3)**	**-**	**-**	**(5)**
Reclassification to holding company	**(6)**	**(1)**	**(26)**	**-**	**-**	**(33)**
At end of the financial year	**2,340**	**1,253**	**2,106**	**428**	**-**	**6,127**
Net book value at end of the financial year	**62**	**167**	**240**	**57**	**1,044**	**1,570**

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

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17 INTANGIBLE ASSETS

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
Computer software		
Cost		
At beginning/end of the financial year	**7,466**	7,466
Less: Accumulated amortisation		
At beginning of the financial year	**7,121**	6,908
Charge for the financial year	**212**	213
At end of the financial year	**7,333**	7,121
Net book value at end of the financial year	**133**	345

18 RIGHT-OF-USE ASSETS

			2022	2021
	Properties	**Equipment**	**Total**	Properties
Economic Entity and The Bank	**RM'000**	**RM'000**	**RM'000**	RM'000
Cost				
At beginning of the financial year	**2,152**	**-**	**2,152**	2,152
Additions	**180**	**212**	**392**	-
At end of the financial year	**2,332**	**212**	**2,544**	2,152
Less: Accumulated depreciation				
At beginning of the financial year	**1,520**	**-**	**1,520**	1,067
Charge for the financial year	**453**	**47**	**500**	453
At end of the financial year	**1,973**	**47**	**2,020**	1,520
Net book value at end of the financial year	**359**	**165**	**524**	632

19 DEPOSITS FROM CUSTOMERS

(i) By type of deposit

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
Qard		
Demand deposits	**4,209,633**	4,476,588
Savings deposits	**850,109**	952,617
	5,059,742	5,429,205
Mudarabah		
General investment deposits	**32,895**	41,235
Tawarruq		
Murabahah term deposits	**17,512,129**	14,669,830
Commodity Murabahah	**1,238,215**	1,122,215
Savings deposits	**625,502**	159,324
Demand deposit	**707,138**	568,320
	20,082,984	16,519,689
	25,175,621	21,990,129

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19 DEPOSITS FROM CUSTOMERS (continued)

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
(ii) By maturity structure of Murabahah term deposits and general investment deposits		
Due within six months	**12,124,186**	9,160,116
Six months to one year	**5,088,536**	4,980,812
One year to three years	**252,362**	567,584
Three years to five years	**79,940**	2,553
	17,545,024	14,711,065

(iii) By type of customer		
Government and statutory bodies	**9,333,579**	8,583,944
Business enterprises	**6,528,720**	4,919,831
Individuals	**8,578,857**	7,448,586
Domestic banking institutions	**281**	259
Domestic non-banking financial institutions	**359,472**	682,330
Foreign entities	**111,640**	111,313
Others entities	**263,072**	243,866
	25,175,621	21,990,129

20 INVESTMENT ACCOUNTS OF CUSTOMERS

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
(i) By type of deposit		
Mudarabah	**859**	1,329
(ii) By maturity structure		
One year to three years	**859**	1,329
(iii) By type of customer		
Individuals	**404**	631
Other entities	**455**	698
	859	1,329
(iv) By contract		
Business term financing	**859**	1,329
(v) Movement in investment accounts		
At beginning of the financial year	**1,329**	2,151
Redemption during the year	**(469)**	(818)
Finance expense on Restricted Investment Account ('RIA')	**64**	90
Profit distributed	**(65)**	(94)
At end of the financial year	**859**	1,329

20 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)	
	2022	2021	**2022**	2021
	%	%	**%**	%
Due within:				
One year to three years	**85**	85	**5.58**	5.58

21 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
Tawarruq		
Licensed banks	**472,690**	-
Licensed investment banks	**48,587**	14,106
Other financial institutions	**1,577,662**	343,944
	2,098,939	358,050
Maturity structure of deposits		
Due within six months	**1,877,639**	358,050
Six months to one year	**221,300**	-
	2,098,939	358,050

22 INVESTMENT ACCOUNTS DUE TO DESIGNATED FINANCIAL INSTITUTIONS

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
Mudarabah		
Licensed banks	**2,720,263**	1,831,585
Movement in Mudarabah		
At beginning of the financial year	**1,831,585**	1,751,039
New placement	**1,067,848**	234,689
Redemption	**(177,959)**	(158,296)
Finance expense on RIA	**78,313**	67,627
Profit distributed	**(74,965)**	(66,958)
Exchange differences	**(4,559)**	3,484
At end of the financial year	**2,720,263**	1,831,585

22 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)	
	2022	2021	**2022**	2021
Due within:	**%**	%	**%**	%
One month	**70**	-	**3.16**	-
One year to three years	**92**	78	**4.99**	4.45
Three years to five years	**84**	95	**5.08**	4.71
Five years and above	**88**	89	**3.82**	4.73

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 RM2,720.3 million (2021: RM1,831.6 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.

23 RECOURSE OBLIGATION ON FINANCING SOLD TO CAGAMAS BERHAD

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
Recourse obligation on financing sold to Cagamas Berhad	**-**	50,033

Movements in recourse obligation on financing sold to Cagamas Berhad:

	2022	2021
At beginning of financial year	**50,033**	50,034
Repayment	**(50,003)**	-
Profit payment	**(1,239)**	(1,238)
Profit expense	**1,209**	1,237
At end of the financial year	**-**	50,033

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.

24 DERIVATIVE FINANCIAL LIABILITIES

	Economic Entity and The Bank			
	2022		2021	
	Contract/ notional amount RM'000	**Liabilities RM'000**	Contract/ notional amount RM'000	Liabilities RM'000
At fair value				
Foreign exchange derivatives				
- Currency forwards	**798,594**	**37,736**	1,071,727	10,659
	798,594	**37,736**	1,071,727	10,659

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25 OTHER LIABILITIES

	Economic Entity and The Bank 2022 RM'000	2021 RM'000
Bank Negara Malaysia and Credit Guarantee Corporation Funding programmes	**18,305**	9,941
Margin and collateral deposits	**19,599**	18,056
Other creditors and accruals	**3,428**	4,247
Sundry creditors	**65,117**	33,490
Clearing accounts	**451,311**	103,907
Provision for zakat	**3,083**	2,337
Defined contribution plan (a)	**1,342**	1,214
Accrued employee benefits	**5,437**	4,893
Charity funds (b)	**24**	14
Unearned income	**5,131**	4,688
Expected credit losses : Financing commitments and financial kafalah (c)	**6,367**	5,666
	579,144	188,453

(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 2022 RM'000	2021 RM'000
At beginning of the financial year	**14**	35
<u>Sources of charity funds</u>		
- Non-Islamic/prohibited income	**4**	5
- AFFIN Barakah Charity Account-i	**6**	4
<u>Uses of charity funds</u>		
- Contribution to education	**-**	10
- Contribution to program/event - COVID-19	**-**	20
	-	30
At end of the financial year	**24**	14

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) Movements in expected credit losses

Economic Entity and the Bank **2022**	**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	**3,850**	**1,151**	**665**	**5,666**
Net remeasurement of loss allowance	**(86)**	**(520)**	**127**	**(479)**
New financing commitments and financial kafalah	**2,267**	**611**	**-**	**2,878**
Financing commitments/financial kafalah derecognised	**(1,360)**	**(280)**	**(58)**	**(1,698)**
At end of the financial year	**4,671**	**962**	**734**	**6,367**

25 OTHER LIABILITIES (continued)

(c) Movements in expected credit losses (continued)

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
At beginning of the financial year	2,895	236	851	3,982
Net remeasurement of loss allowance	483	1,018	(11)	1,490
New financing commitments and financial kafalah	1,689	25	-	1,714
Financing commitments/financial kafalah derecognised	(1,217)	(128)	(175)	(1,520)
At end of the financial year	3,850	1,151	665	5,666

26 AMOUNT DUE TO HOLDING COMPANY

	Economic Entity and The Bank 2022 RM'000	2021 RM'000
Intersystem balances due to holding company	-	758,812

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

27 LEASE LIABILITIES

	Economic Entity and The Bank 2022 RM'000	2021 RM'000
At beginning of financial year	**666**	2,433
Addition	**392**	-
Finance expense	**24**	38
Lease payment	**(509)**	(1,805)
At end of the financial year	**573**	666

Potential future rental payments relating to periods following the exercise date of termination options are summarised below:		
Lease liabilities recognised (discounted)	**573**	666
Potential future lease payments not included in lease liabilities		
- Payable in 2023 to 2027	**2,809**	3,342
- Payable in 2028 to 2032	**257**	-
	3,066	3,342

The Bank has not included 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.

28 SUBORDINATED AND SENIOR SUKUK

	Economic Entity and The Bank 2022 RM'000	2021 RM'000
(a) Medium Term Notes Tier-2 Sukuk Murabahah ('MTN')	**807,610**	807,609
(b) Additional Tier-1 Sukuk Wakalah ('AT1S')	**303,425**	303,425
(c) Senior Sukuk	**751,541**	-
	1,862,576	1,111,034

2022	At beginning of financial year RM'000	Repayment/ Redemption RM'000	Profit expense RM'000	At end of financial year RM'000
Medium Term Notes Tier-2 Sukuk Murabahah ('MTN')	**807,609**	**(40,399)**	**40,400**	**807,610**
Additional Tier-1 Sukuk Wakalah ('AT1S')	**303,425**	**(16,950)**	**16,950**	**303,425**
Senior Sukuk	**-**	**750,000**	**1,541**	**751,541**
	1,111,034	**692,651**	**58,891**	**1,862,576**
2021				
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.

(c) The Bank had, on 16 December 2022, issued two Senior Sukuk of RM230.0 million for a tenure of 3 years from the issue date, at a coupon rate of 4.55% and RM520.0 million for a tenure of 5 years from the issue date, at a coupon rate of 4.75%. The Senior Sukuk was issued for the purpose of general banking business and working capital requirements of the Bank.

29 SHARE CAPITAL

	Economic Entity and the Bank 2022 Number of ordinary shares '000	2022 RM'000	2021 Number of ordinary shares '000	2021 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
Issued during the financial year	**68,807**	**150,000**	-	-
At end of the financial year	**1,128,807**	**1,210,000**	1,060,000	1,060,000

During the financial year ended 31 December 2022, the Bank increased its issued ordinary shares from 1,060.0 million to 1,128.8 million via issuance of 68.8 million new ordinary shares amounting to RM150.0 million.

30 RESERVES

	Economic Entity		The Bank	
	2022	2021	**2022**	2021
	RM'000	RM'000	**RM'000**	RM'000
Retained profits	**1,140,844**	981,016	**1,140,844**	981,016
FVOCI revaluation reserves (a)	**-**	-	**-**	-
Regulatory reserves (b)	**46,469**	105,613	**46,469**	105,613
	1,187,313	1,086,629	**1,187,313**	1,086,629

(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. The gain or losses are transferred to the income statement upon disposal or when the securities become impaired.

(b) Pursuant to BNM Financial Reporting policy dated 29 April 2022, the Bank must maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserves of no less than 1% all credit exposures, net of loss allowance for credit-impaired exposures.

31 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
Income derived from investment of:		
- General investment deposits (a)	**741,719**	603,664
- Other deposits (b)	**399,563**	302,194
	1,141,282	905,858

a) Income derived from investment of general investment deposits

	2022	2021
Finance income and hibah		
Financing and other financing	**597,370**	490,008
Financial investments at FVOCI	**-**	54,529
Financial investments at AC	**94,155**	7,877
Money at call and deposits with financial institutions	**24,165**	27,578
	715,690	579,992
Accretion of discount less amortisation of premium	**(13,848)**	(10,851)
Total finance income and hibah	**701,842**	569,141
Other operating income		
Fee income:		
Commission	**9,200**	6,582
Service charges and fees	**6,389**	5,986
Kafalah fees	**2,906**	3,310
	18,495	15,878
Commission paid on will/wasiat	**(7)**	(9)
Income from financial instruments:		
Gain on sale of financial investments at FVOCI	**-**	1,227
Other income:		
Foreign exchange (loss)/profit		
- realised	**22,689**	(1,789)
- unrealised	**(13,074)**	8,400
Other non-operating income	**11,774**	10,816
	21,389	17,427
Total income derived from investment of general investment deposits	**741,719**	603,664

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

b) Income derived from investment of other deposits

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
Finance income and hibah		
Financing and other financing	**321,802**	245,298
Financial investments at FVOCI	**-**	27,297
Financial investments at AC	**50,721**	3,943
Money at call and deposits with financial institution	**13,018**	13,806
	385,541	290,344
Accretion of discount less amortisation of premium	**(7,460)**	(5,432)
Total finance income and hibah	**378,081**	284,912
Other operating income		
Fee income:		
Commission	**4,956**	3,295
Service charges and fees	**3,442**	2,997
Kafalah fees	**1,566**	1,657
	9,964	7,949
Commission paid on will/wasiat	**(4)**	(5)
Income from financial instruments:		
Gain on sale of financial investments at FVOCI	**-**	614
Other income:		
Foreign exchange (loss)/profit		
- realised	**12,223**	(895)
- unrealised	**(7,043)**	4,205
Other non-operating income	**6,342**	5,414
	11,522	8,724
Total income derived from investment of other deposits	**399,563**	302,194

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32 INCOME DERIVED FROM INVESTMENT OF INVESTMENT ACCOUNTS

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
Finance income and hibah		
Financing and other financing	**71,474**	60,226
Financial investments at FVOCI	**-**	6,702
Financial investments at AC	**11,266**	968
Money at call and deposits with financial institution	**2,891**	3,390
	85,631	71,286
Accretion of discount less amortisation of premium	**(1,657)**	(1,334)
Total finance income and hibah	**83,974**	69,952
Other operating income		
Fee income:		
Commission	**1,101**	809
Service charges and fees	**765**	736
Kafalah fees	**348**	407
	2,214	1,952
Commission paid on will/wasiat	**(1)**	(1)
Income from financial instruments:		
Gain on sale of financial investments at FVOCI	**-**	151
Other income:		
Foreign exchange (loss)/profit		
- realised	**2,715**	(220)
- unrealised	**(1,565)**	1,032
Other non-operating income	**1,409**	1,329
	2,559	2,141
Total income derived from investment of investment accounts	**88,746**	74,195

33 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
Finance income and hibah		
Financing and other financing	**84,157**	67,301
Financial investments at FVOCI	**-**	7,489
Financial investments at AC	**13,265**	1,082
Money at call and deposits with financial institutions	**3,404**	3,788
	100,826	79,660
Accretion of discount less amortisation of premium	**(1,952)**	(1,491)
Total finance income and hibah	**98,874**	78,169
Other operating income		
Fee income:		
Commission	**1,298**	904
Service charges and fees	**901**	822
Kafalah fees	**410**	455
	2,609	2,181
Commission paid on will/wasiat	**(1)**	(1)
Income from financial instruments:		
Gain on sale of financial investments at FVOCI	**-**	169
Other income:		
Foreign exchange (loss)/profit		
- realised	**3,201**	(246)
- unrealised	**(1,845)**	1,154
Other non-operating income	**1,661**	1,486
	3,017	2,394
Total income derived from investment of shareholders' funds	**104,499**	82,912

34 MODIFICATION LOSS

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
Loss on modification of cash flows	**-**	2,495

In light of the COVID-19 outbreak, the Central Bank and Ministry of Finance of respective countries have introduced several relief measures to assist customers affected by the pandemic. These measures aim to ensure that the financial intermediation function of the financial sector remains intact, accessibility to financial services continues to be available, and banking institutions remain focused on supporting the economy during these exceptional circumstances.

During the previous financial year, the Bank granted various payment moratorium, repayment assistance, restructuring and rescheduling programmes to the customers affected by COVID-19. As a result, the Bank have recognised a loss arising from the modification of contractual cash flows of financing and other financing.

35 ALLOWANCES FOR/(WRITE-BACK OF) CREDIT IMPAIRMENT LOSSES

	Economic Entity and The Bank 2022 RM'000	2021 RM'000
Expected credit losses ('ECL') made on:		
- financing and other financing	**268,536**	38,832
- securities	**3,065**	668
- financing commitments and financial kafalah	**701**	1,684
Impaired financing:		
- recovered	**(32,609)**	(4,034)
- written-off	**3,520**	369
	243,213	37,519

36 ALLOWANCE FOR IMPAIRMENT LOSSES ON OTHER ASSETS

	Economic Entity and The Bank 2022 RM'000	2021 RM'000
Allowance for impairment on:		
- amount due from joint ventures	**3,555**	276
- other assets	**1,562**	1,057
	5,117	1,333

37 INCOME ATTRIBUTABLE TO THE DEPOSITORS AND OTHERS

	Economic Entity and The Bank 2022 RM'000	2021 RM'000
Deposits from customers		
- mudarabah	**865**	967
- non-mudarabah	**499,197**	379,228
Deposits and placement of banks and other financial institutions		
- mudarabah	**19,866**	17,246
Finance - Subordinated and Senior Sukuk	**58,891**	57,350
Others	**1,253**	1,299
	580,072	456,090

38 OTHER OPERATING EXPENSES

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
Personnel costs	**159,288**	152,423
Establishment costs	**72,754**	77,859
Marketing expenses	**4,110**	2,903
Administrative and general expenses	**14,233**	13,026
	250,385	246,211
Personnel costs		
Wages, salaries and bonuses	**131,780**	117,156
Defined contribution plan ('EPF')	**22,345**	19,810
Other personnel costs	**5,163**	15,457
	159,288	152,423
Establishment costs		
Equipment rental	**1,058**	4,181
Repair and maintenance	**28,329**	28,407
Depreciation of property and equipment	**314**	467
Depreciation of right-of-use assets	**500**	453
Amortisation of intangible assets	**212**	213
IT consultancy fees	**15,123**	18,477
Dataline rental	**7,783**	7,155
Security services	**5,662**	6,554
Electricity, water and sewerage	**6,133**	4,847
Licence fees	**206**	278
Takaful and indemnities	**6,334**	4,579
Other establishment costs	**1,100**	2,248
	72,754	77,859
Marketing expenses		
Business promotion and advertisement	**524**	683
Entertainment	**201**	270
Traveling and accommodation	**860**	948
Brokerage expenses	**1,005**	898
Other marketing expenses	**1,520**	104
	4,110	2,903
Administration and general expenses		
Telecommunication expenses	**485**	1,400
Auditors' remuneration	**334**	319
Professional fees	**4,774**	2,237
Property and equipment written-off	**-**	1
Mail and courier charges	**1,098**	1,953
Stationery and consumables	**3,386**	3,161
Directors' fees and allowances	**1,911**	1,507
Shariah fees	**383**	431
Donations	**156**	208
Settlement, clearing and bank charges	**1,624**	1,756
Stamp duties	**3**	2
Other administration and general expenses	**79**	51
	14,233	13,026

Included in other operating expenses of the Economic Entity and the Bank are CEO and Directors' remuneration totalling RM3,044,000 (2021: RM2,623,000).

38 OTHER OPERATING EXPENSES (continued)

The expenditure includes the following statutory disclosures:

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
Directors' remuneration (Note 39)	**1,911**	1,507
Auditors' remuneration ^ :		
- statutory audit fees	**262**	240
- regulatory related fees	**45**	41
Tax fees	**27**	26
Non audit fees	**-**	12

^ There was no indemnity given to or takaful effected for the Bank during the financial year.

39 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
Dato' Paduka Syed Mashafuddin Syed Badarudin (Appointed w.e.f. 8.11.2022)
Nazlee bin Khalifah (completed his contract of service w.e.f 31.5.2022)

Non-Executive Directors
Musa bin Abdul Malek (Appointed as Chairman w.e.f. 22.6.2022)
Dato' Mohd Ali bin Mohd Tahir (Deceased on 12.2.2022)
Associate Professor Dr. Said Bouheraoua (Completion of tenure on 3.7.2022)
Suffian Bin Baharuddin
YBhg. Datuk Mohd Farid Bin Mohd Adnan
Tan Ler Chin, Cindy
Muhammad Fitri bin Othman (Appointed w.e.f. 21.3.2022)

39 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 2022 RM'000	2021 RM'000
CEO		
Salaries	480	723
Bonuses	369	160
Defined contribution plan ('EPF')	166	148
Other employee benefits	45	42
Benefits-in-kind	73	43
CEO remuneration	1,133	1,116
Non-executive Directors		
Fees	1,840	1,507
Benefits-in-kind	71	-
	1,911	1,507
Directors' remuneration (Note 39)	3,044	2,623
Shariah committee remuneration		
Fees	383	431

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

Economic Entity and The Bank 2022	Salaries RM'000	Bonuses RM'000	Fees RM'000	Other emoluments RM'000	Benefits-in-kind RM'000	Total RM'000
CEO						
Dato' Paduka Syed Mashafuddin Syed Badarudin	159	-	-	72	3	234
Nazlee bin Khalifah (completed his contract of service w.e.f 31.5.2022)	321	369	-	139	70	899
Total	480	369	-	211	73	1,133
Non-executive Directors						
Musa bin Abdul Malek (Chairman)	-	-	437	-	71	508
Dato' Mohd Ali bin Mohd Tahir (Interim Chairman)	-	-	80	-	-	80
Associate Professor Dr. Said Bouheraoua	-	-	301	-	-	301
Suffian Bin Baharuddin	-	-	343	-	-	343
YBhg. Datuk Mohd Farid Bin Mohd Adnan	-	-	319	-	-	319
Tan Ler Chin, Cindy	-	-	321	-	-	321
Muhammad Fitri bin Othman	-	-	39	-	-	39
Total	-	-	1,840	-	71	1,911
Shariah Committee						
Associate Professor Dr. Said Bouheraoua	-	-	19	-	-	19
Associate Professor Datin Dr. Nurdianawati Irwani Abdullah	-	-	19	-	-	19
Dr. Mohammad Mahbubi Ali	-	-	86	-	-	86
Dr. Nor Fahimah Mohd Razif	-	-	74	-	-	74
Mohamad Salihin Deris	-	-	74	-	-	74
Ahmad Husni Abd Rahman	-	-	74	-	-	74
Associate Professor Dr. Asmak Ab Rahmad	-	-	37	-	-	37
Total	-	-	383	-	-	383
Grand total	480	369	2,223	211	144	3,427

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

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
Associate Professor Dr. Said Bouheraoua	-	-	290	-	-	290
Musa bin Abdul Malek	-	-	312	-	-	312
Suffian Bin Baharuddin	-	-	310	-	-	310
YBhg. Datuk Mohd Farid Bin Mohd Adnan	-	-	220	-	-	220
Tan Ler Chin, Cindy	-	-	50	-	-	50
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
Mohamad Salihin Deris	-	-	54	-	-	54
Ahmad Husni Abd Rahman	-	-	54	-	-	54
Total	-	-	431	-	-	431
Grand total	723	160	1,938	190	43	3,054

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 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 Bank was RM83,485 (2021: RM79,510).

40 TAXATION

	Economic Entity and The Bank **2022**	2021
Malaysian income tax	**RM'000**	RM'000
Current tax	**92,805**	70,559
Under/(Over) provision in prior year	**2,422**	(29)
Deferred tax (Note 12)	**(22,848)**	(12,633)
	72,379	57,897

	%	%
Statutory tax rate in Malaysia	**24.00**	24.00
Tax effect in respect of:		
Non-allowable expenses	**2.55**	1.37
Under/(Over) provision in prior year	**1.42**	(0.01)
Effect of different tax rate ^	**14.58**	(2.39)
Average effective tax rate	**42.55**	22.97

^ One-off tax known as Cukai Makmur for non-Micro, Small and Medium Enterprises companies having chargeable income exceeding RM100 million for the year of assessment ('YA') 2022.

41 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 equity holders of the Economic Entity and the Bank by the weighted average number of shares in issue during the financial year.

	Economic Entity and The Bank	
	2022	2021
Net profit attributable to ordinary equity holders (RM'000)	**100,684**	190,595
Weighted average number of shares in issue ('000)	**1,071,844**	1,060,000
Basic/Diluted earnings per share (sen)	**9.4**	18.0

There were no dilutive potential ordinary shares outstanding as at 31 December 2022. As a result, the diluted EPS equal to the basic EPS for the financial year ended 31 December 2022 and 31 December 2021.

42 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 14	Joint ventures with AFFIN Islamic Bank Berhad
Associate as disclosed in Note 15	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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42 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	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
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
Income										
Income on financing and other financing	-	-	-	-	11,445	15,542	1,767	711	68	111
	-	-	-	-	11,445	15,542	1,767	711	68	111
Expenditure										
Profit paid on Murabahah term deposit	-	-	-	-	258	114	633	63	8	7
Profit paid on general investment deposits	-	-	-	-	1	1	-	-	-	-
Profit paid on Commodity murabahah	14	47	32	67	1	408	-	-	-	-
Profit paid on deposits and placement of banks and other financial institutions	-	-	5,608	462	-	-	-	-	-	-
Profit paid on Restricted Invesment Account (RIA)	-	-	68,270	67,063	-	-	-	-	-	-
Finance expense - Subordinated term financing and medium term notes	-	-	18,154	3,337	-	-	-	-	-	-
Other expenditure	-	-	197,618	201,577	-	-	-	-	-	-
	14	47	289,682	272,506	260	523	633	63	8	7

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42 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Related parties transactions and balances

Economic Entity and The Bank	Ultimate holding corporate body 2022 RM'000	2021 RM'000	Holding company 2022 RM'000	2021 RM'000	Other related companies 2022 RM'000	2021 RM'000	Companies in which certain Directors have substantial interest 2022 RM'000	2021 RM'000	Key management personnel 2022 RM'000	2021 RM'000
Amount due from										
Financing and other financing	-	-	**304,213**	200,384	**598,457**	631,702	**30,471**	30,826	**2,191**	3,463
Intercompany balances	-	-	**297,395**	147,486	-	15,737	-	-	-	-
	-	-	**601,608**	347,870	**598,457**	647,439	**30,471**	30,826	**2,191**	3,463
Amount due to										
Demand and saving deposits	**28,641**	130	**26,041**	22,306	**39,092**	16,391	**3,952**	2,051	**10,824**	8,316
Murabahah term deposit	-	-	-	-	**128,077**	96,603	**245,921**	35,574	**2,584**	3,489
General investment deposits	-	-	-	-	**312**	305	-	-	-	-
Commodity Murabahah	-	10,002	-	14,106	-	2,000	-	-	-	-
Restricted Invesment Account (RIA)	-	-	**2,721,106**	1,832,893	-	-	-	-	-	-
Intercompany balances	-	-	-	758,812	-	-	-	-	-	-
Subordinated term financing and medium term notes	-	-	**296,892**	301,922	-	-	-	-	-	-
	28,641	10,132	**3,044,039**	2,930,039	**167,481**	115,299	**249,873**	37,625	**13,408**	11,805
Commitments and contingencies	**1,910**	1,910	**791,987**	-	**222,366**	214,641	**902**	890	-	-

ECL were made according to MFRS 9 in 2022 and 2021 for financing and other financing made to key management personnel.

42 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) Key management personnel compensation

	Economic Entity and The Bank	
	2022	2021
	RM'000	RM'000
Directors' fees and allowances		
Fees	**1,840**	1,507
Benefits-in-kind	**71**	-
Shariah committee fees	**19**	64
	1,930	1,571
Short-term employment benefits		
Salaries	**1,009**	1,253
Bonuses	**640**	306
Defined contribution plan ('EPF')	**315**	273
Other employee benefits	**1,895**	158
Benefits-in-kind	**130**	67
	3,989	2,057
	5,919	3,628

Included in the above table are CEO and directors' remuneration as disclosed in Note 39.

43 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	Principal amount
	2022	2021
	RM'000	RM'000
Direct credit substitutes - financial kafalah contracts	**119,067**	91,921
Transaction-related contingent items	**412,540**	409,317
Short-term self-liquidating trade related contingencies	**300,962**	260,650
Irrevocable commitments to extend credit:		
- maturity less than one year	**1,708,544**	1,522,266
- maturity more than one year	**975,622**	826,881
Unutilised credit card lines	**224,504**	214,449
Foreign exchange related contracts #		
- less than one year	**1,328,501**	1,750,186
	5,069,740	5,075,670

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 24 to the financial statements.

44 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/sukuk 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 veto the approval of GMCC on 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 are supportive of credit officers in pursuing credit certification programmes offered by the Asian Institute of Chartered Bankers ('AICB'). Upon attaining the Chartered Banker 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 a prospective counterparty against the Bank's underwriting criteria and the ability of the Bank to make a return commensurate to the level of risk undertaken. Apart from conducting a holistic risk assessment on the prospective counterparty, 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. 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 financial strength and management strength. The Bank has developed internal rating models to support the assessment and quantification of credit risk.

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 are 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.

44 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 collateral. 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 undertakes 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 that are credit-impaired, as it becomes more likely that the Bank will realise the 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**
2022	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Community Banking				
- Cash Line-i	**1,742**	**615**	**1,127**	**1,842**
- Credit cards	**195**	**134**	**61**	**-**
- Term financing	**16,107**	**6,073**	**10,034**	**34,102**
- Housing financing	**78,907**	**33,079**	**45,828**	**75,767**
- Hire purchase	**31,988**	**16,521**	**15,467**	**75,068**
Corporate & Public Sector	**176,434**	**9,540**	**166,894**	**147,855**
Enterprise Banking	**52,049**	**21,483**	**30,566**	**83,257**
Total credit-impaired assets	**357,422**	**87,445**	**269,977**	**417,891**
Economic Entity and The Bank				
2021				
Community Banking				
- Cash Line-i	753	242	511	1,810
- Credit cards	280	183	280	-
- Term financing	10,416	4,084	6,149	14,069
- Housing financing	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

The financial effect of collateral held for financing and other financing of the Bank is 84.6% (2021: 83.3%). The financial effects of collateral for the other financial assets are insignificant.

44 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Risk limit control and mitigation policies (continued)

Collateral (continued)

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	
	2022	2021
Nature of assets	**RM'000**	RM'000
Industrial and residential properties	**15,465**	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 Related Commitments

Commitment to extend credit represents unutilised portion of approved credit in the form of 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 counterparties.

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.

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 probability of default ('PD') 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 considers that a significant increase in credit risk is presumed if a borrower/issuer/customer 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).

44 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Credit risk measurement (continued)

Measurement of expected credit losses ('ECL')

The Bank uses three categories on financial instruments at FVOCI and AC 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 one that has risk or potential weakness which if left unchecked, may result in significant deterioration of repayment 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 grade 14 and placed under Watchlist or; - Restructuring and rescheduling ('R&R') due to significant increase in credit risk.	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 or; - R&R which warrants a reclassification to Stage 3.	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 2022 and 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.

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 as a result of the passage of time.

44 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 original 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 kafalah, 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 EAD 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 kafalah.

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; and
- 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.

44 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.

The Bank have also identified the key economic variables and carried out sensitivity assessment of ECL for financing and other financing, financing commitments and guarantees, treasury bonds and placements in relation to the changes in these key economic variables while all other variables remain constant. The sensitivity factors used are derived based on expected standard deviation determined for each key economic variable to assess the impact on the ECL of the Bank.

The economic scenario 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 percentage are set out as below:

	2022	2021
Measurement variables - MEV change	**%**	%
House Price Index	**0.10**	0.58
Private Consumption Expenditure	**14.67**	36.68
USD Dollar to Malaysian Ringgit Exchange Rate	**0.10**	0.36
Malaysia Economic Indicator Leading Index ('MEILI') 2015	**3.86**	0.69
Automative Association Malaysia Total Car Sales Growth ('AAM')	**5.94**	25.90
Overnight Policy Rate	**9.65**	5.83
Malaysia Debt Service Ratio	**0.82**	0.31
Current Account (as a precentage of Gross Domestic Product)	**18.84**	10.04
Unemployment Rate	**0.97**	0.40
Average Funding Rate	**4.44**	4.19

	2022		2021	
	(Write-back)/made		(Write-back)/made	
	RM'000	**RM'000**	RM'000	RM'000
	+	**-**	+	-
Economic Entity and The Bank				
Impact on expected credit losses	**(10,154)**	**11,158**	(8,062)	9,403

44 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 report and manage potentially 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, analyse and manage 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 communicated at both management and Board levels as lessons learned which are used to assist in formulating appropriate remedial actions or measures to minimise 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	
	2022	2021
	Maximum credit risk exposure	Maximum credit risk exposure
	RM'000	RM'000
Credit risk exposures of on-balance sheet assets:		
Other assets ^	**144,436**	73,132
Credit risk exposure of off-balance sheet items:		
Financial kafalah	**119,067**	91,921
Financing commitments and other credit related commitments	**3,622,172**	3,233,563
Total maximum credit risk exposure	**3,885,675**	3,398,616

^ 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 kafalah, 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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44 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 contractual obligations. Exposure to credit risk is managed through portfolio management. The credit portfolio's risk profiles and exposures are reviewed and monitored regularly to ensure that an acceptable level of risk diversification is maintained. Exposure to credit risk is also managed in part by obtaining collateral, security, 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 2022	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	-	-	-	-	677,164	-	677,164	172,413
Mining and quarrying	-	-	-	5,094	146,008	-	151,102	159,248
Manufacturing	-	-	8,290	65,638	1,223,156	-	1,297,084	379,382
Electricity, gas and water supply	-	-	-	138,916	448,687	-	587,603	118,626
Construction	-	-	-	35,488	754,025	-	789,513	596,650
Real estate	-	-	-	190,788	1,317,214	-	1,508,002	79,300
Transport, storage and communication	-	-	-	15,065	506,991	-	522,056	135,439
Finance, takaful and business services	721,302	50,049	2,753	3,337,454	623,802	-	4,735,360	91,984
Government and government agencies	2,505,877	-	-	1,031,324	788,987	-	4,326,188	478,493
Wholesale & retail trade and restaurants & hotels	-	-	3,942	-	1,253,413	-	1,257,355	473,253
Others	-	-	-	30,026	18,064,483	442,395	18,536,904	1,056,451
Total assets	3,227,179	50,049	14,985	4,849,793	25,803,930	442,395	34,388,331	3,741,239

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

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44 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Credit risk concentration (continued)

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

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

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 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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44 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 90 days or 3 months from the first day of default;
ii) where the account is in arrears for less than 90 days or 3 months, there is evidence of impairment to indicate that the customer 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 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				
2022				
Neither past due nor impaired	**23,028,145**	**843,476**	**-**	**23,871,621**
Past due but not impaired	**1,109,617**	**920,385**	**-**	**2,030,002**
Impaired	**-**	**-**	**357,422**	**357,422**
Gross financing and other financing	**24,137,762**	**1,763,861**	**357,422**	**26,259,045**
Less : Expected credit losses	**(65,218)**	**(302,452)**	**(87,445)**	**(455,115)**
Net financing and other financing	**24,072,544**	**1,461,409**	**269,977**	**25,803,930**

	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				
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

44 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.

	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				
2022				
Credit grade				
Satisfactory	**6,849,952**	**714,275**	**-**	**7,564,227**
Special mention	**2,772**	**64,114**	**-**	**66,886**
Default/impaired	**-**	**-**	**357,422**	**357,422**
Unrated	**17,285,038**	**985,472**	**-**	**18,270,510**
Gross financing and other financing	**24,137,762**	**1,763,861**	**357,422**	**26,259,045**
Less : Expected credit losses	**(65,218)**	**(302,452)**	**(87,445)**	**(455,115)**
Net financing and other financing	**24,072,544**	**1,461,409**	**269,977**	**25,803,930**

	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				
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

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').

44 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

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

Most listed and some unlisted securities are rated by external rating agencies. 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:

	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				
2022				
Short-term funds, deposits and placements with banks and other financial institutions				
Sovereigns	2,505,877	-	-	2,505,877
AAA	230,338	-	-	230,338
AA- to AA+	347,427	-	-	347,427
A- to A+	193,794	-	-	193,794
Expected credit losses ('ECL')	(208)	-	-	(208)
	3,277,228	-	-	3,277,228
Financial investments at AC				
Sovereigns	3,994,131	-	-	3,994,131
AAA	287,311	-	-	287,311
AA- to AA+	278,650	-	-	278,650
A- to A+	20,248	-	-	20,248
Unrated	276,098	-	-	276,098
Expected credit losses ('ECL')	(6,645)	-	-	(6,645)
	4,849,793	-	-	4,849,793
Amount due from holding company				
AA- to AA+	297,504	-	-	297,504
Amount due from joint ventures				
Unrated	-	49,530	-	49,530
Expected credit losses ('ECL')	-	(49,075)	-	(49,075)
	-	455	-	455

44 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

Deposits and short-term funds, corporate sukuk and treasury bills - 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):

	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				
Short-term funds, deposits and placements with banks and other financial institutions				
Sovereigns	2,131,818	-	-	2,131,818
AA- to AA+	508	-	-	508
A- to A+	68,008	-	-	68,008
Lower than A-	90,101	-	-	90,101
	2,290,435	-	-	2,290,435
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
Unrated	167,073	-	-	167,073
Expected credit losses ('ECL')	(3,788)	-	-	(3,788)
	3,464,981	-	-	3,464,981
Amount due from joint ventures				
Unrated	-	61,257	-	61,257
Expected credit losses ('ECL')	-	(45,520)	-	(45,520)
	-	15,737	-	15,737

44 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:

Simplified approach

	Current RM'000	Current to less than 90 days past due RM'000	More than 90 days past due RM'000	Total RM'000	Provision for credit loss RM'000
Economic Entity and The Bank					
2022					
Other assets	**144,436**	**-**	**-**	**144,436**	**-**
Economic Entity and The Bank					
2021					
Other assets	73,132	-	-	73,132	-

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 kafalah 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				
2022				
Financing commitments and financial kafalah				
Satisfactory	**3,606,215**	**132,306**	**-**	**3,738,521**
Special mention	**-**	**120**	**-**	**120**
Default/Impaired	**-**	**-**	**2,598**	**2,598**
	3,606,215	**132,426**	**2,598**	**3,741,239**
Expected credit losses	**4,085**	**1,384**	**898**	**6,367**
Economic Entity and The Bank				
2021				
Financing commitments and financial kafalah				
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

44 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk

Market risk is defined as changes in the market value of financial instrument position arising from movements in market factors such as profit rate, foreign exchange rates and implied volatility rates. The Bank's exposure to market risk results largely from profit rate and foreign exchange rate risks.

Market risk may arise from proprietary trading position and investment activities (including those for liquidity requirement purposes) in the Trading and Investment Book respectively.

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.

Market risk arising from the Trading Book is primarily controlled through the imposition of Stop-loss, Value-at-Risk ('VaR') and sensitivity limits.

Periodic stress tests are conducted to quantify market risk arising from probability of abnormal market movements.

Risk Management Policies and Procedures

Value-at-Risk ('VaR')

VaR estimates the potential loss of a Trading portfolio from adverse market price movements which may occur over a specified holding period of the Trading portfolio.

It measures the risk of losses arising from potential adverse movements in profit rates, implied volatility rates and foreign exchange rates that could affect values of financial instruments.

Backtesting of the VaR results is conducted to validate and reassess the accuracy of the risk measurement systems.

Other 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 Marco-economic Variables ('MEV') provided by in-house research team.

44 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Profit rate sensitivity analysis

The table below shows the interest/profit 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 on equity represents the changes in fair value of fixed income instruments held in financial investments at FVOCI portfolio arising from the shifts in profit rate.

	2022		2021	
	+100 basis point RM million	**-100 basis point RM million**	+100 basis point RM million	-100 basis point RM million
Economic Entity and The Bank				
Impact on profit after taxation	**35.8**	**(35.8)**	33.2	(33.2)

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	
	2022 RM'000	2021 RM'000
+1%		
Euro	**58**	(56)
United States Dollar	**(2,236)**	(3,251)
Great Britain Pound	**8**	5
Australian Dollar	**1**	(2)
Japanese Yen	**-**	4
Others	**2**	6
	(2,167)	(3,294)
-1%		
Euro	**(58)**	56
United States Dollar	**2,236**	3,251
Great Britain Pound	**(8)**	(5)
Australian Dollar	**(1)**	2
Japanese Yen	**-**	(4)
Others	**(2)**	(6)
	2,167	3,294

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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44 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 2022	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	909	17,716	1,043	490	-	321	20,479
Derivative financial assets	3,787	17	-	2	1	-	3,807
Financing and other financing	3,244	174,193	-	-	-	-	177,437
Total financial assets	7,940	191,926	1,043	492	1	321	201,723
Liabilities							
Deposits from customers	257	127,007	53	310	28	16	127,671
Deposits and placements of banks and other financial institutions	-	221,300	-	-	-	-	221,300
Investment accounts due to designated financial institutions	-	100,190	-	-	-	-	100,190
Derivative financial liabilities	-	37,626	-	1	-	-	37,627
Total financial liabilities	257	486,123	53	311	28	16	486,788
Net on-balance sheet financial position	7,683	(294,197)	990	181	(27)	305	(285,065)
Off balance sheet commitments	205,280	1,062,173	-	224	442	21,700	1,289,819

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44 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 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

44 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 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.

44 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 2022	**Up to 1 month RM'000**	**>1-3 months RM'000**	**>3-12 months RM'000**	**>1-5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
Assets								
Cash and short-term funds	3,205,500	-	-	-	-	21,679	-	3,227,179
Deposits and placements with banks and other financial institutions	-	50,000	-	-	-	49	-	50,049
Derivative financial assets	-	-	-	-	-	-	14,985	14,985
Financial investments at AC	-	109,570	486,429	1,404,873	2,813,425	35,496	-	4,849,793
Financing and other financing								
- non-impaired	16,580,992	958,749	460,985	2,621,980	5,278,917	(367,670) ^	-	25,533,953
- impaired	-	-	-	-	-	269,977 #	-	269,977
Others [1]	-	-	-	-	-	442,395	-	442,395
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	400,000	-	400,000
Total assets	19,786,492	1,118,319	947,414	4,026,853	8,092,342	801,926	14,985	34,788,331

^ 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 holding company and joint ventures.

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44 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Profit rate risk (continued)

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 (continued).

	Non-trading book							
Economic Entity and The Bank 2022	**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	11,231,329	5,154,117	8,392,733	250,780	-	146,662	-	25,175,621
Investment accounts of customers	-	-	-	855	-	4	-	859
Deposits and placements of banks and other financial institutions	626,784	1,194,306	220,225	-	48,580	9,044	-	2,098,939
Investment accounts due to designated financial institutions	235,302	53,684	-	1,069,795	1,361,470	12	-	2,720,263
Derivative financial liabilities	-	-	-	-	-	-	37,736	37,736
Other liabilities	-	-	-	-	-	572,365	-	572,365
Lease liabilities	-	-	198	375	-	-	-	573
Subordinated and Senior Sukuk	-	-	1,100,000	750,000	-	12,576	-	1,862,576
Total liabilities	12,093,415	6,402,107	9,713,156	2,071,805	1,410,050	740,663	37,736	32,468,932
Net profit sensitivity gap	7,693,077	(5,283,788)	(8,765,742)	1,955,048	6,682,292			

44 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Profit rate risk (continued)

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 (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
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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44 FINANCIAL RISK MANAGEMENT (continued)

(ii) Market risk (continued)

Profit rate risk (continued)

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 (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 and Senior Sukuk	-	-	-	1,100,000	-	11,034	-	1,111,034
Total liabilities	8,844,592	4,958,835	7,576,514	2,294,804	1,123,673	1,485,566	10,659	26,294,643
Net profit sensitivity gap	6,149,551	(3,536,676)	(6,239,719)	2,716,645	4,212,499			

44 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 Bank to respond to an unexpected liquidity disruption in an effective and efficient manner.

The Group Board Risk Management Committee ('GBRMC') is responsible for the Bank's liquidity policy and the strategic management of liquidity has been delegated to the Group Asset Liability Management Committee ('GALCO').The GBRMC is informed regularly on the liquidity position of the Bank.

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44 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						
2022						
Deposits from customers	**11,262,580**	**5,234,981**	**8,645,280**	**264,851**	**-**	**25,407,692**
Invesment accounts of customers	**-**	**-**	**-**	**933**	**-**	**933**
Deposits and placements of banks and other financial institutions	**627,016**	**1,203,179**	**222,550**	**-**	**48,597**	**2,101,342**
Investment accounts due to designated financial institutions	**235,303**	**53,684**	**3,451**	**1,066,610**	**1,361,470**	**2,720,518**
Other liabilities	**-**	**-**	**547,693**	**18,305**	**6,367**	**572,365**
Lease liabilities	**42**	**83**	**289**	**263**	**-**	**677**
Subordinated and Senior Sukuk	**-**	**-**	**1,394,042**	**866,493**	**-**	**2,260,535**
	12,124,941	**6,491,927**	**10,813,305**	**2,217,455**	**1,416,434**	**33,064,062**

	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 and Senior Sukuk	-	-	57,107	1,361,154	-	1,418,261
	9,273,682	5,045,492	8,042,386	2,875,780	1,302,107	26,539,447

44 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						
2022						
Derivatives settled on gross basis						
Foreign exchange derivatives:						
Outflow	**(256,323)**	**(433,346)**	**(110,199)**	**-**	**-**	**(799,868)**
Inflow	**245,101**	**411,940**	**104,850**	**-**	**-**	**761,891**
	(11,222)	**(21,406)**	**(5,349)**	**-**	**-**	**(37,977)**

	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	(172,375)	(750,652)	(148,701)	(43,265)	-	(1,114,993)
Inflow	170,725	742,956	147,367	43,265	-	1,104,313
	(1,650)	(7,696)	(1,334)	-	-	(10,680)

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44 FINANCIAL RISK MANAGEMENT (continued)

(iii) Liquidity risk (continued)

Liquidity risk for assets and liabilities based on remaining contractual maturities

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

Economic Entity and The Bank 2022	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	3,227,179	-	-	-	-	-	3,227,179
Deposits and placements with banks and other financial institutions	-	50,049	-	-	-	-	50,049
Derivative financial assets	4,989	5,105	4,891	-	-	-	14,985
Financial investments at AC	-	109,473	492,856	1,414,099	2,833,365	-	4,849,793
Financing and other financing	880,694	761,154	283,648	3,203,382	20,675,052	-	25,803,930
Other assets	120,662	-	23,363	384	27	-	144,436
Amount due from holding company	297,504	-	-	-	-	-	297,504
Amount due from joint ventures	455	-	-	-	-	-	455
Statutory deposits with Bank Negara Malaysia	400,000	-	-	-	-	-	400,000
Other non-financial assets [(1)]	-	-	43,108	2,719	95	38,771	84,693
	4,931,483	925,781	847,866	4,620,584	23,508,539	38,771	34,873,024

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

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44 FINANCIAL RISK MANAGEMENT (continued)

(iii) Liquidity risk (continued)

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

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 (continued).

Economic Entity and The Bank 2022	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	11,256,220	5,208,260	8,458,332	252,809	-	-	25,175,621
Investment accounts of customers	-	-	-	859	-	-	859
Deposits and placements of banks and other financial institutions	626,850	1,202,126	221,383	-	48,580	-	2,098,939
Investment accounts due to designated financial institutions	235,302	53,684	-	1,069,807	1,361,470	-	2,720,263
Derivative financial liabilities	11,180	21,281	5,275	-	-	-	37,736
Other liabilities	-	-	547,693	18,305	6,367	-	572,365
Lease liabilities	-	-	30	443	100	-	573
Subordinated and Senior Sukuk	-	-	1,112,576	750,000	-	-	1,862,576
Other non-financial liabilities [2]	6,779	-	-	-	-	-	6,779
	12,136,331	6,485,351	10,345,289	2,092,223	1,416,517	-	32,475,711
Net liquidity gap	(7,204,848)	(5,559,570)	(9,497,423)	2,528,361	22,092,022	38,771	

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

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44 FINANCIAL RISK MANAGEMENT (continued)

(iii) Liquidity risk (continued)

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

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 (continued).

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	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
Other non-financial assets [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] Other non-financial assets include deferred tax assets, property and equipment, intangible assets, right-of-use assets, prepayments and foreclosed properties.

44 FINANCIAL RISK MANAGEMENT (continued)

(iii) Liquidity risk (continued)

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

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 (continued).

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	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 and Senior Sukuk	-	-	11,034	1,100,000	-	-	1,111,034
Other non-financial liabilities [(2)]	6,107	-	-	-	-	8,033	14,140
	10,031,046	5,023,838	7,808,360	2,308,170	1,129,336	8,033	26,308,783
Net liquidity gap	(7,104,795)	(4,040,723)	(7,223,077)	1,559,124	18,957,587	(1,487)	

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

44 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 and reputational risks. Management of operational risk also encompasses outsourcing and business continuity risk.

The Group Operational Risk Management Policy governs the management of operational risk across the Bank. GBRMC endorses all policies changes relating to operational risk prior to Board's approval. Group Management Committee - Governance Risk and Compliance ('GMC-GRC') supports GBRMC in the review and monitoring of operational risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

The Group Operational Risk Management ('GORM') function within Group Risk Management ('GRM') operates in independent capacity to facilitate business/support units managing the risks in activities associated with the operational function of the Bank.

Operational risks are managed daily through established systems and processes to ensure compliance with policies, guidelines and control procedures.

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

- Risk Control Self Assessment ('RCSA')
- Control Self Testing ('CST')
  Note: Process to assist Business/Support Unit to identify and assess their key operational risks and controls, inherent risk rating, control effectiveness and residual risk level.
- 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 business disruption and system failure, data breaches and Shariah Non-Compliance ('SNC').
- Scenario Analysis ('ScAn')
  Note: Process to develop plausible operational risk scenarios under which the identified major operational risks could materialize, evaluate the control effectiveness and estimate the probability of occurrence as well as severity of the impact.

Introduction of new or enhanced products or services are evaluated to assess, potential operational risks, mitigating controls and the operational readiness.

The Bank adopts the Three Lines of Defence ('3-LOD') model to ensure segregation of key roles and responsibilities between Business/Support Units and Group Operation Risk Management ('GORM') as the independent oversight function in managing operational risk. As part of the 1st Line of Defence, Business Risk and Compliance Manager ('BRCM') are appointed at Business/Support Units as champions of Operational Risk Management ('ORM') activities within their respective unit. The BRCM is responsible for the reporting of ORM activities and to liaise with GORM on all operational lapses and results.

(v) Technology Risk

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

The technology risk management function within GRM manages the risks associated with technology risk of the Bank. GBCMC supports GBRMC in the review and monitoring of technology risks and provides the forum to discuss and manage all aspects of technology risk. GBRMC is responsible to provide oversight of overall technology related matters of the Bank.

The Group Technology Risk Management Framework and Cyber Resilience Framework governs the management of technology risk across the Bank.

GBITC represents the Board committee to oversee and review the formulation of IT and Digital strategies, costs and planning, including the financial, tactical and strategic benefits of proposed major IT and operational related initiatives.

44 FINANCIAL RISK MANAGEMENT (continued)

(v) Technology Risk (continued)

This includes oversight, guidance and endorsement in the formulation of Technology Risk Management/Cyber Resilience Framework, risk appetite, key risk indicators, other associated information technology/cyber security policies, major IT initiatives, technology architecture decisions, IT expenditure and IT priorities as well as overall IT performance for the Bank.

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 non-technical 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). Non-technical 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.

(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's policy document on Shariah governance together with the Bank's internal guidelines on Shariah Supervision & Compliance Framework and Shariah Risk Management Policy are the main references for the Shariah risk management process within the Bank.

Affin Islamic Bank's Shariah committee is established to provide objective and sound advice to the management to ensure that the aims and operations, business, affairs and activities are in compliance with Shariah.

Shariah Risk Management is part of an integrated risk management that systematically identify, measure, monitor and report Shariah non-compliance risks in the operations, business, affairs and activities of the Bank.

SNC risk is proactively managed via the following risk tools:

1. SNC Loss Event Reporting ('LER') ensure effective and timely SNC internal reporting process;
2. SNC Risk and Control Self-Assessment ('RCSA') assists business/support unit within the Bank to identify and assess key SNC risks and controls;
3. SNC Key Risk Indicator ('KRI') facilitates business/support unit within the Bank to measure and monitor a residual risk from the Risk and Control Self-Assessment; and
4. SNC Key Control Self-Asessment ('KCSA') facilitates business/support unit within the Bank to assess the effectiveness of control measures.

44 FINANCIAL RISK MANAGEMENT (continued)

(vii) Business Continuity Risk

Business continuity risk is the risk of losses in assets, revenue, reputation and stakeholder/customer confidence due to the discontinuation of services in both business and technology operations.

The Group Business Continuity Management Policy governs the management of business continuity issues, in line with BNM and PayNet Guidelines on Business Continuity Management ('BCM').

GBRMC 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. Group Business Continuity Management Committee ('GBCMC') supports GBRMC in the review and monitoring of Business Continuity Risk and provides the forum to discuss and manage all aspects of operational risk including control lapses.

The BCM function is responsible 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.

(viii) Profit rate benchmark reform

Profit 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 of 31 December 2022, the Bank has exposure to Kuala Lumpur Interbank Offered Rate ('KLIBOR') and London Interbank Offered Rate denominated in USD ('USD LIBOR') based financial instruments.

On 24 September 2021, in line with the IBOR reform, BNM introduced the Malaysia Overnight Rate ('MYOR') as the new ARR, which will run in parallel with the existing KLIBOR, providing the market with the flexibility to choose either MYOR or KLIBOR as the reference rate for pricing of financial instruments. The publication of the 2- and 12-month KLIBOR tenors, which are the least referenced rates in the market for financial contracts will be discontinued on 1 January 2023. The Malaysia Islamic Overnight Rate ('MYOR-i') was launched by BNM on 25 March 2022 to replace the Kuala Lumpur Islamic Reference Rate ('KLIRR').

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.

Operational risk is the main risk of IBOR reform for the Bank. Operational risk may 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. Beside regulatory risk, financial risk is predominantly limited to profit rate risk.

As of 31 December 2022, changes required to systems, processes and models have been identified and have been partially implemented. The Bank has identified all KLIBOR-linked contracts as of 31 December 2022 and all contracts that were referenced to 3-month KLIBOR and 6-month KLIBOR. The Bank will closely monitor the regulators' announcements on MYOR or discontinuation of publication of the KLIBOR for the relevant tenors and continue 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.

44 FINANCIAL RISK MANAGEMENT (continued)

(viii) Profit rate benchmark reform (continued)

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. The strategy to ensure smooth transition from IBOR to RFRs are as follows:

- Business strategy - to prepare an action plan to re-assess the impact of outstanding contracts that expire beyond the 30 June 2023 timeframe to mitigate disadvantages to both the customer and the Bank.
- Product - to strategize for introduction of new or enhance products where the pricing will be in reference to RFRs.
- System - to reconfigure the existing system revaluation curves upon confirmation of the methodology for RFRs.
- Legal - to assess the legal implication on existing contracts that expire beyond the 30 June 2023 timeframe.

(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.

44 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 (2021: Nil).

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

	Level 1 RM'000	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Economic Entity and The Bank				
2022				
Financial Assets				
Derivative financial assets	**-**	**14,985**	**-**	**14,985**
Total	**-**	**14,985**	**-**	**14,985**
Financial Liabilities				
Derivative financial liabilities	**-**	**37,736**	**-**	**37,736**
Total	**-**	**37,736**	**-**	**37,736**

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Economic Entity and The Bank				
2021				
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

44 FINANCIAL RISK MANAGEMENT (continued)

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

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	**Fair value**			
		Level 1	**Level 2**	**Level 3**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Economic Entity and The Bank					
2022					
Financial assets					
Financial investments at AC	**4,849,793**	-	**4,586,399**	-	**4,586,399**
Financing and other financing	**25,803,930**	-	**26,052,436**	-	**26,052,436**
	30,653,723	-	**30,638,835**	-	**30,638,835**
Financial liabilities					
Deposits from customers	**25,175,621**	-	**25,196,233**	-	**25,196,233**
Investment accounts due to designated financial institutions	**2,720,263**	-	**2,730,494**	-	**2,730,494**
Subordinated and Senior Sukuk	**1,862,576**	-	**1,875,351**	-	**1,875,351**
	29,758,460	-	**29,802,078**	-	**29,802,078**

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000	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 and Senior Sukuk	1,111,034	-	1,138,864	-	1,138,864
	24,982,781	-	25,053,137	-	25,053,137

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.

44 FINANCIAL RISK MANAGEMENT (continued)

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

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

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

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

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

Financial investments at AC

The fair values of financial investments at AC are reasonable estimates based on quoted market prices. In the absence of such quoted prices, the fair values are based on the expected cash flows of the instruments discounted by indicative market yields for the similar instruments as at reporting date.

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.

Subordinated and Senior Sukuk

For fixed rate subordinated and senior sukuk, the estimate of fair value is based on discounted cash flows model using prevailing financing rates for subordinated and senior sukuk with similar risks and remaining term to maturity.

For floating rate subordinated and senior sukuk, the carrying value is generally a reasonable estimate of their fair values.

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45 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 below.

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 and Global Master Repurchase 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.

The 'Net amount' 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.

	Effects of offsetting on the statements of financial position			Related amounts not offset in the balance sheet		
	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						
2022						
Financial assets						
Derivative financial assets	**14,985**	**-**	**14,985**	**(6,423)**	**-**	**8,562**
	14,985	**-**	**14,985**	**(6,423)**	**-**	**8,562**
Financial liabilities						
Derivative financial liabilities	**37,736**	**-**	**37,736**	**(6,423)**	**-**	**31,313**
	37,736	**-**	**37,736**	**(6,423)**	**-**	**31,313**
Economic Entity and The Bank						
2021						
Financial assets						
Derivative financial assets	11,436	-	11,436	(4,042)	-	7,394
	11,436	-	11,436	(4,042)	-	7,394
Financial liabilities						
Derivative financial liabilities	10,659	-	10,659	(4,042)	-	6,617
	10,659	-	10,659	(4,042)	-	6,617

46 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 2022.

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 47 below summarises the composition of regulatory capital and the ratios of the Bank for the financial year ended 31 December 2022.

47 CAPITAL ADEQUACY

The capital adequacy ratios are as follows:

	Economic Entity		The Bank	
	2022	2021	**2022**	2021
	RM'000	RM'000	**RM'000**	RM'000
Paid-up share capital	**1,210,000**	1,060,000	**1,210,000**	1,060,000
Retained profits	**1,140,844**	981,016	**1,140,844**	981,016
	2,350,844	2,041,016	**2,350,844**	2,041,016
Less:				
- Intangible assets	**(133)**	(345)	**(133)**	(345)
- Deferred tax assets	**(45,332)**	(22,484)	**(45,332)**	(22,484)
- Other CET1 transitional adjustment	**224,719**	81,108	**224,719**	81,108
Total CET1 Capital	**2,530,098**	2,099,295	**2,530,098**	2,099,295
Additional Tier 1 capital	**300,000**	300,000	**300,000**	300,000
Total Tier 1 Capital	**2,830,098**	2,399,295	**2,830,098**	2,399,295
Subordinated and Senior Sukuk	**800,000**	800,000	**800,000**	800,000
Expected loss provisions #	**148,587**	91,378	**148,587**	91,378
Total Tier 2 Capital	**948,587**	891,378	**948,587**	891,378
Total Capital	**3,778,685**	3,290,673	**3,778,685**	3,290,673
<u>With transitional arrangements</u>				
CET 1 capital ratio	**12.965%**	12.138%	**12.965%**	12.138%
Tier 1 capital ratio	**14.502%**	13.873%	**14.502%**	13.873%
Total capital ratio	**19.363%**	19.027%	**19.363%**	19.027%
<u>Without transitional arrangements</u>				
CET 1 capital ratio	**11.813%**	11.669%	**11.813%**	11.669%
Tier 1 capital ratio	**13.351%**	13.404%	**13.351%**	13.404%
Total capital ratio	**18.635%**	19.027%	**18.635%**	19.027%
The breakdown of risk-weighted assets:				
Credit risk	**18,492,670**	16,484,875	**18,492,670**	16,484,875
Market risk	**28,624**	31,243	**28,624**	31,243
Operational risk	**993,564**	778,585	**993,564**	778,585
Total risk-weighted assets	**19,514,858**	17,294,703	**19,514,858**	17,294,703

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 2022, RIA assets excluded from Total Capital Ratio calculation amounted to RM2,723,107,000 (2021: RM1,834,566,464).

48 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	
	2022	2021
(i) The aggregate value of outstanding credit exposures with connected parties (RM'000)	1,585,900	1,574,984
(ii) The percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	5%	5%
(iii) The percentage of outstanding credit exposures with connected parties which is impaired or in default	Nil	Nil

49 SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

There is no significant event during the financial year.

50 SIGNIFICANT EVENT SUBSEQUENT TO THE FINANCIAL YEAR

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

51 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 3 April 2023.

52 AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The Financial Statements have been authorised for issue by the Board of Directors in accordance with a resolution of the Directors date 3 April 2023.

Registration No: 200501027372 (709506-V)

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 114 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 2022 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
Chairman/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 114 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 3 April 2023, before me.

PESURUHJAYA SUMPAH
No. W790
ZAINUL ABIDIN
BIN AHMAD
1 JAN 2023 - 31 DIS 2025
MALAYSIA

COMMISSIONER FOR OATHS

No. 59, Jalan Telawi
Bangsar Baru
59100 Kuala Lumpur

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

Introduction

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 year ended 31 December 2022. We have also conducted our review to form an opinion as to whether the Bank has complied with the Shariah principles and rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.

Management's Responsibility

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

Shariah Review and Shariah Audit

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.

Engagement Sessions for Board of Directors and Shariah Committee

We conducted two interactive sessions with the directors and senior management. The engagement sessions would be an avenue for discussion on, among others, the Bank's strategic direction, understanding key Shariah Committee resolutions, and issues in operationalizing Shariah Committee resolutions.

Key Research and Training of the Shariah Committee

Two Shariah Committee members presented research papers at the 14th Muzakarah Cendekiawan Syariah Nusantara 2022 ('MCSN 2022'), organised by International Shari'ah Research Academy for Islamic Finance ('ISRA').

The Shariah Committee also attended various conferences and seminars which includes 14th Muzakarah Cendekiawan Syariah Nusantara 2022 ('MCSN 2022'), 17th Kuala Lumpur Islamic Finance Forum 2022 ('KLIFF 2022'), Muzakarah Penasihat Syariah Kewangan Islam Kali Ke-15 ('KLIFF 2022'), and 17th International Shariah Scholar Forum 2022 ('ISSF 2022').

The Shariah Committee members enroll into a certification programme i.e., Certified Shariah Advisors ('CSA') under the Association of Shariah Advisors in Islamic Finance ('ASAS'). Three (3) of the Bank's Shariah Committee members have completed the certification and the rest are in progress.

Key Shariah/Islamic Finance Trainings Attended by Staff

Periodic training for the Bank's staff (including staff of Affin Bank) has been conducted in order to provide adequate knowledge and competence in undertaking tasks for the Bank i.e., Shariah e-Learning and Assessment on Fundamentals of Islamic Banking. The Bank's staff (including staff of Affin Bank) also enrolled in certification programmes, i.e. Certified Professional Shariah Advisor ('CPSA'), Islamic Professional Credit Certification ('IPCC'), Fundamental of Shariah in Islamic Finance (FOSIF), Associate Qualification in Islamic Finance ('AQIF'), Intermediate Qualification in Islamic Finance ('IQIF'), i-Contract Series: Tawarruq and Certified Shariah Advisor ('CSA').

SHARIAH COMMITTEE'S REPORT (continued)

Zakat and Charity Fund

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. States Zakat Authorities, non-governmental organizations and individuals under *asnaf* categories of poor, needy, *amil, riqab, gharimin, muallaf* and *fisabilillah*.

We have performed an oversight function over the management and distribution of the Bank's charity fund. The charity fund is allocated for individuals (Muslim or non-Muslims) which includes poor/needy, orphan and eligible beneficiaries not limited to asnaf zakat as well as charitable society, organization and institution.

Shariah Opinion:

1. The overall operations, business, affairs and activities carried out by the Bank during the fianancial year ended 31 December 2022 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 the Shariah principles for the financial year ended 31 December 2022;
4. There are two (2) Shariah non-compliant events discovered involving Tawarruq financing and opening of Shariah non-compliant business accounts:

   i. Non-execution of Tawarruq trading prior to availability of the facility and profit has been charged on the utilization. The rectification has successfully been carried out by immediately performing Tawarruq trading for the accounts involved. The Bank has also subsequently taken an additional preventive measure via the automation of Tawarruq trading by adoption of Straight Through Processing (STP) through the platform provider.

   ii. The opening of three (3) non-individual current accounts for Shariah non-compliant business activities. The rectification measure was successfully carried out, i.e., closure of accounts. In addition to that, a preventive measure has been carried out to avoid similar events occuring in the future i.e., issuance of reminder to relevant staff on adherence to the applicable Guidelines on Deposit and Financing.

AFFIN Islamic Bank Berhad

(Incorporated in Malaysia)

SHARIAH COMMITTEE'S REPORT (continued)

During the financial year ended 31 December 2022, a total of 12 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*	12/12
Dr. Nor Fahimah binti Mohd Razif *Member*	12/12
Mohamad Salihin bin Deris *Member*	12/12
Ahmad Husni bin Abd Rahman *Member*	12/12
Associate Professor Dr. Asmak Ab Rahman *Member (appointed w.e.f. 1.7.2022)*	6/6
Associate Professor Dr. Said Bouheraoua *Member (completed tenure w.e.f. 31.3.2022)*	3/3
Professor Datin Dr. Nurdianawati Irwani binti Abdullah *Member (completed tenure w.e.f. 31.3.2022)*	3/3

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 2022 have been conducted in conformity with the Shariah principles.

Chairman of the Shariah Committee:

Dr. Mohammad Mahbubi Ali

Member:

Associate Professor Dr. Asmak Ab Rahman

Member:

Dr. Nor Fahimah binti Mohd Razif

Member:

Mohamad Salihin bin Deris

Member:

Ahmad Husni bin Abd Rahman

Kuala Lumpur, Malaysia

3 APRIL 2023

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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 2022, 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 2022 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 114.

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 2022, but does not include the financial statements of the Economic Entity and of the Bank and our auditors' report thereon.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Our opinion on the financial statements of the Economic Entity and of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Economic Entity and of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Economic Entity and of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors of the Bank are responsible for the preparation of the financial statements of the Economic Entity and of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Economic Entity and of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Economic Entity and of the Bank, the Directors are responsible for assessing the Economic Entity's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Economic Entity or the Bank or to cease operations, or have no realistic alternative but to do so.

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.

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF AFFIN ISLAMIC BANK BERHAD (CONTINUED)
(Incorporated in Malaysia)
Registration No. 200501027372 (709506-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF AFFIN ISLAMIC BANK BERHAD (CONTINUED)
(Incorporated in Malaysia)
Registration No. 200501027372 (709506-V)

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
3 April 2023