

SUSTAINABILITY STATEMENT

SUSTAINABILITY MISSION STATEMENT

The AFFINBANK Group has internalised our commitment to holistically balance Economic, Environmental and Social (EES) issues in our day to day operations through the following sustainability mission statement:

“We will work together with the Government in developing the nation and in promoting economic growth, mindful that business activities within the country will have a favourable impact towards the country’s economic stability as well as the Group’s well-being. We will conduct our business in a socially responsible and ethical manner by respecting the law, supporting human rights and protecting the environment. Our business will be conducted with a view towards long-term environmental sustainability and preserving the eco-system and will balance the demand for innovation with the responsibility to not harm the environment. Potential environmental impact will be considered when making business decisions and when managing our resources. As people are assets to our organization, we will strive to provide a conducive working environment for our employees and grow as a caring employer. We will recognise and reward outstanding performance as well as provide training and personnel development to attract and retain the most talented and committed employees.”



Pupils of SK Beliong enjoying themselves at the Karnival Kewangan 2017 at CityOne Exhibition Centre, Kuching

We are mindful that we still have much to do in embedding sustainability across the business, and are committed to continue with efforts and initiatives that will help align our mission statement with products and services that offer value and enrich the lives of our customers and the community as a whole. This statement applies throughout the Group and governs our approach to all our sustainability activities. The subsidiaries’ sustainability efforts will as much as possible be aligned to the Group’s sustainability strategies.

As of 31 December 2017, the Group has not established a sustainability framework as yet. In our journey forward, corporate governance principles and practices are set to be defined as a framework of rules and procedures for the way business is governed and controlled in all our business units and subsidiaries. This governance framework will then be used as a platform to better integrate material sustainability issues into our business strategies, daily operations and relationship with stakeholders.

This Sustainability Statement covers the sustainability practices of AFFIN Bank Group. The reporting period is from 1 January 2017 to 31 December 2017, unless otherwise stated. This Report has been prepared with reference to the Sustainability Reporting Guide and Toolkits, issued by Bursa Malaysia Securities Berhad.

Roles & responsibilities of governing bodies

The Board is providing formal oversight of our corporate sustainability strategy and in ensuring sustainability considerations are integrated into our strategic decisions. The Board is ultimately accountable for the oversight of management of sustainability



AXA Hearts in Action Run 2017 is an annual charity run organized with the aim of educating the community on health awareness and all proceeds were donated to selected NGOs

matters, and responsible for setting and embedding sustainability related strategies into our business operations.

Roles & responsibilities of the relevant governing bodies within the Group to ensure accountability, oversight and review of sustainability performance & disclosures are as follows:-

- a) **Board** - Accountable for reviewing, adopting and monitoring the implementation of the Group’s overall sustainability strategies, by taking into account the economic, environmental and social impacts (“sustainability matters”) arising from the business operation and strategic decisions.
- b) **Group Chief Executive Officer** - Responsible for the overall implementation and management of the Group’s sustainability performance. This includes the process of identifying, implementing and monitoring key activities related to managing the sustainability matters across the Group’s day-to-day operations.

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The Group's corporate governance principles and practices define a framework of rules and procedures for the way business is governed and controlled in all AFFIN Bank business units. Each business unit adopts the relevant governing documents on sustainability. The governance framework is used as a platform to integrate material sustainability issues into its business strategies daily operations and relationship with stakeholders.

AFFIN Bank's corporate values and ethical standards represent an important foundation for articulating and implementing the governance framework. The Bank works continuously to improve its governance regime. Information on the Bank's principles and practices for corporate governance can be found in the Statement on Corporate Governance of this Annual Report.

The Bank's commitment to integrity and transparency is clearly stated in its 'Code of Conduct'. The Code of Conduct is owned and approved by the Board and signed by all employees in the Group.

The fundamental purpose of our current sustainability reporting is, we believe, to communicate non-financial information, as well as financial information to all parties that may be affected by our actions. This is why, we choose to voluntarily report on our corporate responsibility and familiarize our stakeholders of our progress in sustainable business behaviour. This will in turn allow us to improve our internal processes. We also feel that the report reaches different stakeholders than those we normally attract with corporate publications such as financial reporting. We welcome feedback on our reporting and sustainability efforts.

CURRENT SCOPE OF SUSTAINABILITY REPORTING

Following Bursa's Sustainability boundary guidelines, our financial and human resource data is reported for the entire Group. Occupational Health and Safety information and environment figures are collected and managed in dedicated management systems.

The material aspects reflect the Group's strategic priorities and concerns raised at subsidiary management level with some input from stakeholders such as investors, employees and regulatory authorities.

The scope of the sustainability reporting has not changed from the previous year's reporting. All sustainability disclosures include all operations and extend to their value chain. Any exclusions or omissions by entities, if applicable, are supported with strong basis and justifications.

UNDERSTANDING OUR MATERIAL SUSTAINABILITY ISSUES

This sustainability statement serves to gauge the level of progress of our initiatives on a yearly basis in the areas where we operate. Our day to day business operation does have a bearing on our stakeholders who include employees, customers, shareholders, regulatory bodies and the media amongst others. We are therefore duty bound to provide a clear and accurate assessment of our undertakings to our stakeholders that extend beyond just numbers to include the manner in which we conduct our business as an organization.

We understand the importance of key operational, financial and reputational issues that have a bearing on our day to day business and how we engage with our customers and the community at large.

MATERIALITY ASSESSMENT

Materiality assessment has become a strategic business tool to identify, review and prioritise our current material EES risks and opportunities as well as the emerging risks that affect the business and the operations.

For financial year 2017, the Group has adopted a materiality assessment approach guided by Sustainability Reporting Guide and Toolkits issued by Bursa Malaysia Securities Berhad. In identifying relevant sustainability matters, we have considered the operating environment and emerging risks associated with the financial services industry.

Examples of internal and external sources are sustainability disclosures by peer organizations, industry-specific publications, feedback from regulators in addressing specific regulatory issues, regular discussions with internal employees & senior management team, Group risk registers and internal policies & procedures. This is a group-wide effort involving inputs from all business and support units and takes into account feedback from the other stakeholders. The identified sustainability matters are further categorised into the following themes:

Theme 1: Sustainable Financial Services

We are committed towards integrating sustainability practices in delivering our products and services, as well as in making strategic or investment decisions

Theme 2: Socially Responsible Employer

We are committed towards making our Company a talent factory that supports talent development and acts in the best interests of our employees by maintaining an inclusive workplace

Theme 3: Sustainable Community Development

We are committed towards minimising the environmental impact of our business activities and engaging positively with the society at large

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From the list of identified matters, we conducted a materiality assessment to identify matters that have significant impact on our business and relationships with our stakeholders through engagement with the various stakeholders. Our material sustainability matters are summarised in the table below:

Material sustainability matters	Why is it material	How do we manage?
Ethics, Governance and Compliance	<ul style="list-style-type: none"> • A strong corporate culture, known for ethics, values, fairness and transparency. Simple and understandable products and communications (product disclosure, including fees and charges) and appropriate hardship/ collections policies. • Appropriate governance frameworks in place (processes and policies, including those relating to risk management, executive remuneration and accountability) to ensure the Group is managed in the long-term interests of stakeholders. • Compliance with international sanctions, anti-money laundering and terrorism financing requirements • Financial system stability and regulation of the banking sector, including government policy relating to access to markets and bank licenses. 	Theme 1: Sustainable Financial Services
Data Security, IT Infrastructure and Digital Transformation	<ul style="list-style-type: none"> • Policies and processes in place to prevent fraud and protect customer data and privacy, including customer access to personal data. • Keeping pace with digital innovation to ensure that we are offering our customers competitive and convenient products and services in a rapidly changing market 	Theme 1: Sustainable Financial Services
Financial Inclusion and Responsible Lending	<ul style="list-style-type: none"> • Social and environmental impacts (including those relating to climate change) that may result from our business lending, particularly our lending to large business customers (lending to sensitive sectors such as mining, military). Includes our due diligence processes in relation to our customers' human rights obligations. • Promoting and enabling access to safe and affordable products and services, particularly for lower-income and vulnerable consumers. • Investment with cross-sector partners in the building of financial skills, confidence and wellbeing for vulnerable groups in the communities in which we operate. • Managing the business risks and opportunities associated with climate change. Includes the role we play in supporting our customers to transition to a low carbon economy. • Process established to gauge the level of customer satisfaction and providing prompt responses in addressing issues raised by customers. 	Theme 1: Sustainable Financial Services
Conducive and Inclusive Workplace	<ul style="list-style-type: none"> • Attracting and retaining an engaged, diverse and inclusive workforce to help us serve our customers better and drive strong business performance across the markets in which we operate • Fair and equitable wages, freedom of association, safe working conditions (including effective policies to maintain physical and mental health and wellbeing), fair hours, no discrimination, regular work and whistleblowing policies. 	Theme 2: Socially responsible employer
Environmentally and Socially Responsible	<ul style="list-style-type: none"> • Supporting the communities in which we operate through workplace giving and volunteering, and providing support to recover from natural disasters. • Efforts undertaken to create awareness and minimise environmental impacts. 	Theme 3: Sustainable Community Development
Responsible Sourcing and Procurement Policy	<ul style="list-style-type: none"> • Environmental and social impacts of our procurement practices (identifying and managing the risks and opportunities associated with our supply chain). 	Theme 1: Sustainable Financial Services

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In Table below, each material sustainability matter is mapped against the relevant part of the Group's business value chain that are impacted the most:

Our Stakeholders	Directors and Employees			Suppliers/ vendors/ contractors		Shareholders/ investors		Local Community		How do we respond?
	Regulators	Customers								
Sustainability Matters										
Ethics, Governance and Compliance	✓	✓	✓			✓				Theme 1: Sustainable Financial Services
Data Security, IT Infrastructure and Digital Transformation	✓		✓	✓		✓				Theme 1: Sustainable Financial Services
Financial Inclusion and Responsible Lending	✓	✓	✓			✓		✓		Theme 1: Sustainable Financial Services
Conducive and Inclusive Workplace	✓	✓				✓				Theme 2: Socially responsible employer
Environmentally and Socially Responsible	✓	✓	✓					✓		Theme 3: Sustainable Community Development
Responsible Sourcing and Procurement Policy	✓				✓	✓				Theme 1: Sustainable Financial Services

ENGAGING STAKEHOLDERS

We are always mindful of the constant need to engage our stakeholders on material issues that impact the business. How we prioritise these issues may differ from those of our stakeholders and it is essential that we value and understand their needs and perceptions in order to arrive at an optimal balance that mutually benefits the business, communities and stakeholders alike. We will continue to focus and improve on this important aspect of the business with a more in-depth approach in engaging the various parties within the realm of our business.

Building on our close relationship with our stakeholders through the years, we have institutionalised various channels to reach out to different parties. Ours is an ongoing commitment to reinforce relationships while working in tandem with stakeholders to seek out the best possible avenues in addressing not only current issues affecting our products and services but also being mindful of the future as well.

Stakeholder Group	Type of engagements	Remarks
Employees	Employee surveys, performance assessment and feedback, intranet, team meetings, town halls and engagement with employees	<ul style="list-style-type: none"> Talent and succession planning Mutual/voluntary separation schemes
Customers	Customer surveys and focus groups	Customer service and complaints management and ATM downtime
Investors	Briefings to analysts and fund managers, road shows and investor engagement sessions	<ul style="list-style-type: none"> Announcement of quarterly financial results Annual Reports Regular meetings with existing shareholders and potential investors
Regulatory bodies	Meetings	Meetings on capital strength, strategic plans and Group reorganization
Media	Briefings and meetings	Transparency and accessibility
NGOs	Forums and meetings	Community development and nation-building
Suppliers	Supplier assessment and meetings	Timely payment and engagement meetings with suppliers

BUSINESS DRIVEN SUSTAINABILITY INITIATIVES FOR 2017

For the purpose of this statement, and in continuity with our Corporate Social Responsibility practices; the Group's CORE AREAS FOR SUSTAINABILITY has been divided into the following themes:

- 1) Sustainable Financial Services
- 2) Socially Responsible Employer
- 3) Sustainable Community Development



Annual Buka Puasa session with children from four selected orphanages around Klang Valley



SUSTAINABLE FINANCIAL SERVICES

The topics covered under this section touches upon:

- Ethics, Governance and Compliance
- Data Security, IT Infrastructure and Digital Transformation
- Financial Inclusion and Responsible Lending
- Responsible Sourcing and Procurement Policy

The promotion of the strong ethical business culture by the Group promotes a healthy marketplace. As a financial services group, our success must be built upon the trust placed in 'doing the right thing' through values embedded in a culture of integrity, ethical behavior, honesty and zero tolerance of fraud for the achievement of continuous corporate governance excellence.

We firmly believe in adhering to best practices in all our dealings with our customers, vendors and other stakeholders to ensure long term sustainability for the business. Various ethical and business policies and procedures have been put in place to provide the framework to effectively manage and conduct our business in a responsible and transparent manner.

WHISTLE BLOWING POLICY

The Group has enhanced the policy and processes to provide an avenue for all Bank employees and members of the public to report any serious concern or improper conduct committed by the employees, without fear of victimization, harassment, discrimination or intimidation. The Group will protect the confidentiality of all concerns raised in good faith by the Whistle-blower by treating all disclosures in a confidential and sensitive manner.

CORPORATE DISCLOSURE POLICY AND PROCEDURES

The corporate disclosure policy provides accurate, clear, timely and complete disclosure of material information pertaining to the Group's performance and operations to shareholders, stakeholders, analysts, the investing public or other persons in conformity with applicable legal and regulatory requirements as well as ensuring equal access to such information to avoid individual or selective disclosure.

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The objectives of this policy are:-

- To raise awareness and provide guidance to the Board, management, officers and employees on the Group's disclosure requirements and practices;
- To provide guidelines and policies in disseminating corporate information and in dealing with shareholders, stakeholders, analysts, media, regulators and investing public;
- To ensure compliance with all applicable legal and regulatory requirements on disclosure of material information; and
- To build good investor relations with the investing public that inspire trust and confidence.

FIT AND PROPER POLICY FOR KEY RESPONSIBLE PERSONS

Formalising a Fit and Proper Policy for Key Responsible Persons in line with guidelines set out by Bank Negara Malaysia (BNM) to ensure key positions in the Group are led by personnel who fulfil the following criteria:-

- Probity, personal integrity and reputation – possesses the personal quality such as honesty, integrity, diligence, independence of mind and fairness;
- Competence and capability – have the relevant knowledge, skills, experience, ability and commitment to carry out the person's role; and
- Financial integrity – able to manage his financial affairs and prudently.

This Policy specifies the following:-

- The definition of key responsible persons;
- The conditions to be observed in the assessment and appointment of Key Responsible Persons;
- The responsibilities of the Board, Nomination and Remuneration Committee and the Financial Institutions in establishing and applying fit and proper policies and procedures; and
- The minimum factors that need to be considered in assessing whether the fit and proper criteria by Key Responsible Persons have been met.

CODE OF ETHICS

Adopting the Code of Ethics under BNM's guidelines on the Code of Conduct for Directors, Officers and Employees in the Banking Industry (BNM/GP7) as part of Rules and Regulations by the banking subsidiaries to guide its employees based on the following key principles:-

- Avoid conflict of interest, misuse of position and prevent misuse of information.
- Ensure integrity and completeness of records.

- Ensure confidentiality of communication and transactions with customers.
- Fair and equitable treatment of customers.

ANTI-FRAUD POLICY

Establishing the Anti-Fraud Policy which spells out the roles and responsibilities of each employee in the Group in preventing, detecting and reporting any defalcations, misappropriations and irregularities as well as disciplinary actions on employees involved in fraudulent acts. The Anti-Fraud Policy seeks to:-

- Ensure the Group's business is conducted in accordance with the law.
- Nurture an environment of honesty and integrity.
- Promote awareness of the Group's stand on improper, illegal and dishonest acts and the consequences of such acts.
- Create staff awareness of their roles, rights and responsibilities in relation to improper, illegal and dishonest acts.

ANTI-MONEY LAUNDERING POLICY

To corroborate with the Government's and BNM's initiatives in preventing the use of the banking system for illicit and money laundering activities as well as the financing of terrorist activities, the Group has set up an extensive infrastructure and processes to support such efforts. A key component of this infrastructure is the Group's Anti-Money Laundering Policy which sets out the following:-

- Expectations of employees in implementing the anti- money laundering policy.
- Accountability of employees in the detection and prevention of money laundering.
- Education and training in preventing and detecting money laundering.
- Extensive procedures covering customer identification, account opening, record keeping and recognition and reporting of suspicious transactions. Some of the key policies and procedures that enable us to manage sustainability effectively are as follows:-

No	Category	Policy and System
1	Economic	Anti-fraud policy
		Risk Management Policy
		Anti-money laundering policy
		Counter Terrorism Financing
2	Environment	Sustainability Policy
3	Social	Code of Ethics
		Human Resource Policy
		Staff Welfare Policy & Procedures
		Sexual Harassment Policy & Procedures
		Employees guidelines and Handbook

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RISK CULTURE

The inculcation of a risk awareness culture is a key aspect of an effective enterprise-wide risk management framework. The Group risk culture is premised on the following key factors:

- Strong corporate governance
- Organizational structure with clearly defined roles and responsibilities
- Effective communication and training
- Commitment to compliance with laws, regulations and internal controls
- Integrity in fiduciary responsibilities
- Clear policies, procedures and guidelines

Recognising the importance of a healthy risk culture in an organization, the Group introduced the Risk & Compliance Management Pillar as a key part of the AFFINITY programme. This is intended to embed deep appreciation and understanding of Ethics, Risk and Compliance into day-to-day business activities and processes. To ensure effectiveness, Group has collaborated with Asian Banking School to conduct a customised in-house training program entitled “Ethics, Risk and Compliance Culture Awareness”.

MANAGING REGULATORY CHANGE

As we operate in an ever-changing environment, managing regulatory change is inevitable. We aim to continue embedding regulatory best practices in our operations. To do this, we have operationalised Group-wide risk and regulatory professionals who will not only address issues but work together to prevent issues in order to ensure long-term stability and growth of the markets we operate in and achieve our own growth aspirations.

PROACTIVE INVESTOR RELATIONS

For proactive investor relation practices, the Group actively engages with its shareholders and investors through the media, Annual General Meeting/Extraordinary General Meeting, meetings with analysts/investors, corporate briefings and road shows. We will continue to practice active communications with the investors and public through various communication channels such as events, advertisements, media releases, public relations and our corporate website.

CUSTOMER EXPERIENCE ENHANCEMENT

As part of AFFINITY Programme, AFFINBANK has put in place a Customer Experience (CX) Department in August 2017. The department is responsible to drive Customer Focus mindset, end-to-end customer journey oversight and implementation of the AFFIN's Customer Experience Models and Frameworks across the Bank

Some of the initiatives that were rolled out in 2017 included a CX Dialogue Session, an initiative to raise Customer Focus awareness amongst all Head of Departments and staff. The Bank also launched its CX Attributes to create a Customer Focus culture amongst AFFINBANKers and to ensure consistent customer experience across all AFFINBANK.



In conjunction with the International Women's Day, female leaders in AFFIN Hwang Capital (AHC) share their insights on what it takes to be lady bosses in the Bank

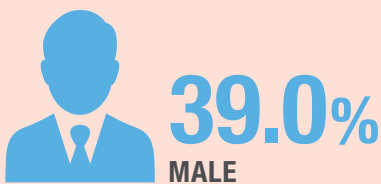
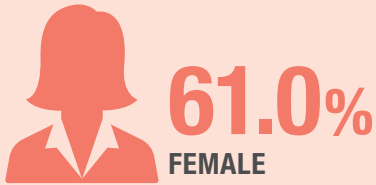
Enhancing the customer experience is an ongoing priority and AXA AFFIN General Insurance Berhad (AXA AFFIN General Insurance) conducts the CXT satisfaction and Net Promoter Score surveys quarterly and annually respectively. While results have been consistent, there is active engagement with customers to further improve the overall experience. AXA AFFIN Life Insurance Berhad (AXA AFFIN Life Insurance) evaluates customer satisfaction through a survey called 'Customer Scope', conducted twice a year. The online survey, successfully launched in 2016 revolves around 'I am New Customer' which applies to new customers who bought a policy in the past 6 months and 'I have General Request' targeted at existing customers who interacted with AXA AFFIN Life Insurance in the past 6 months. Feedback received will provide important information in addressing and solving issues that our customers are facing. Other transformation initiatives launched to improve the overall customer experience, included the 'Learn My Protection' portal, a community portal dedicated to health protection, preventive measures and promoting life skills and the setting up of a live web chat on the AXA AFFIN Life Insurance website offering easy information access on various products.

INDUSTRY EMPOWERMENT EVENTS

Making a positive impact on the marketplace, the Group believes in sharing knowledge and expertise. On 20 May 2017, Affin Hwang Asset Management (Affin Hwang AM) has successfully hosted its annual investment forum for the year titled 'Navigating through a Changing World'. Running for its third consecutive year, the Forum was well received with more than 650 participants eager to gain insights into the investment landscape against increasingly fluid developments in the markets. Affin Hwang AM also designed Beyond the Classroom, a series of edutainment workshop organized to instil awareness surrounding Financial Literacy among children to young adults. Affin Hwang Investment Bank (Affin Hwang IB) marked International Women's Day by celebrating the contributions of women, the bank through the organization of Women Circle – an event where female leaders in the bank shared their insights on what it takes to be the lady bosses of the Bank.

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HEADCOUNT BY GENDER



SOCIALLY RESPONSIBLE EMPLOYER

The topics covered under this section touches upon:

- Talent development
- Fair employment practices

The Group regards its workforce as key assets and stakeholders and continues to advance workplace transformation. In 2017, the Bank catalyzed various key areas of capacity building, and provided opportunities for all levels of staff to grow their careers with the Bank, whilst ensuring a supportive workplace that prioritized staff welfare and offered rewarding career experiences.

Various policies and procedures are in place in AFFINBANK to ensure the well-being of employees namely talent management acquisition policy and procedures, managing compensation and benefits including insurance coverage, Performance Management System, term and conditions of employment and employee relations as well as the Occupational Safety and Health Act. Policies on health and safety, sexual harassment and workplace violence have also been introduced for the betterment of staff.



AFFINBANK Group spreads Deepavali cheer to the underprivileged and children at Persatuan Kebajikan Sweet Care Selangor & Kuala Lumpur (PKSC)

We constantly review current and future business requirements and its impact on resourcing, training and talent needs. More than RM9.3 million was spent by AFFINBANK during the financial year on training and development to increase the knowledge and skills of employees in performing specific jobs as well as continued professional development training for licensing, compliance, technical, soft skills, leadership as well as teambuilding in striving towards achieving professional excellence in the long term.

PROFICIENCY & CAPACITY BUILDING

Learning and development initiatives have been implemented at AFFINBANK and AFFIN ISLAMIC to enhance capabilities range from enhancing knowledge on compliance, ethics & risks, accelerating accreditation & certification and building technical & professional abilities to soft skills and leadership competencies. For the year, 355 training sessions were conducted, which involved 470 training days and 12,759 participations.



Compliance ethics & risks

AFFINBANK and AFFIN ISLAMIC intensified compliance training programs and related initiatives in collaboration with Compliance and business divisions, to instill and strengthen knowledge to ensure adherence to regulatory requirements. More than 40.0% of the Group's training programmes were related to this area in 2017.

Accreditation & certification

The Bank collaborates with Asian Institute of Chartered Bankers (AICB) and other professional bodies towards professionalizing our workforce in the respective areas of banking. Staff are enrolled for suitable certification programs which are aligned with the banking and industry competency framework and requirement.

Technical & professional skills

Need based programs towards building the right proficiency in serving customers and demand for competent workforce in the Bank was also increased during the year. About 50.0% of the Group's overall learning & development programs involved enhancement of these skills in 2017.

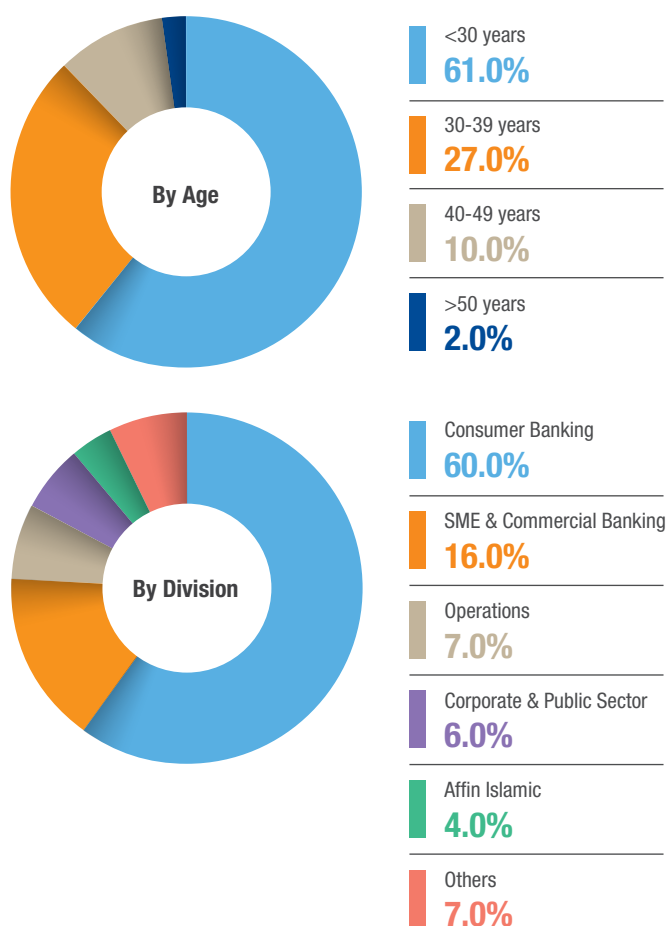
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ORGANIZATIONAL RENEWAL AND REJUVENATION

As part of its renewal and rejuvenation process, the management had been and will continue to identify and recruit new talents to fill some of the critical areas. This building of workforce capacity is regarded as a crucial and necessary investment to ensure sustainability and competitiveness of the Group.

The majority of new hires to date are for the Business Divisions, with 60.0% hired for Consumer Banking and 16.0% for SME & Commercial. Corporate & Public Sector Banking (CPSB) and AFFIN ISLAMIC accounted for 6.0% and 4.0% of new hires each. IT also saw a significant growth in workforce to support the business and the Bank's aspiration towards digital banking. The increase in headcount for 2017 was also attributed to recruitment of staff in the control functions, both at first and second lines of defense.

Strategic Recruitment of New Hires



Strategic Recruitment

Towards elevating the quality of our workforce skillsets, a strategic balance was set in hiring those with tertiary education, experience and increasing intake of younger demographics. With the infusion of younger talent into the Bank, its demographics is now more balanced with 50.0% of the workforce below 40 and another 50.0% above 40 years of age. More than 94.0% of new hires have tertiary qualifications, of which 5.0% have Masters/Professional Qualifications, 60.0% with Degree and 29.0% with Diplomas. New hires without tertiary qualifications bring with

them years of relevant experience and necessary licenses/certifications which add value to quality of Affin's workforce. 89.0% of new joiners are experienced hires, of which 41.0% are from Banks/Financial Institutions, and 48.0% are from non-banking organizations.

Young Talent Program

Comprehensive experiential development programs helped nurture talents towards career development opportunities within the Group. A holistic curriculum has been designed to ensure quality, competitiveness and retention of the young talents in the organization. Extra-curricular activities have been included in their programs which include participation in CSR initiatives, sales and marketing campaigns and carnivals, cross-functional projects and assignments. Affin's Young Talent Programs are based on a combination of experiential, mentoring and classroom training interventions.

Affin supports the nation's aspiration to enhance employability of fresh graduates through several graduate trainee programs, which include:

- Affin Management Trainee Program
- Affin Financial Sector Talent Enrichment Program (FSTEP)
- Affin Customer Service & Department Executives (CSDE) Trainee Program
- Affin Small and Medium Enterprise (SME) Trainee Program

Each of these graduate trainee programs have specific selection criteria, customized training curriculum, and career path plans. Affin is committed to ensuring trainees are guided, coached and ready for a career in banking. In 2017 all graduate trainees have been absorbed in employment with the Bank and well on their way to a fulfilling banking career with Affin.

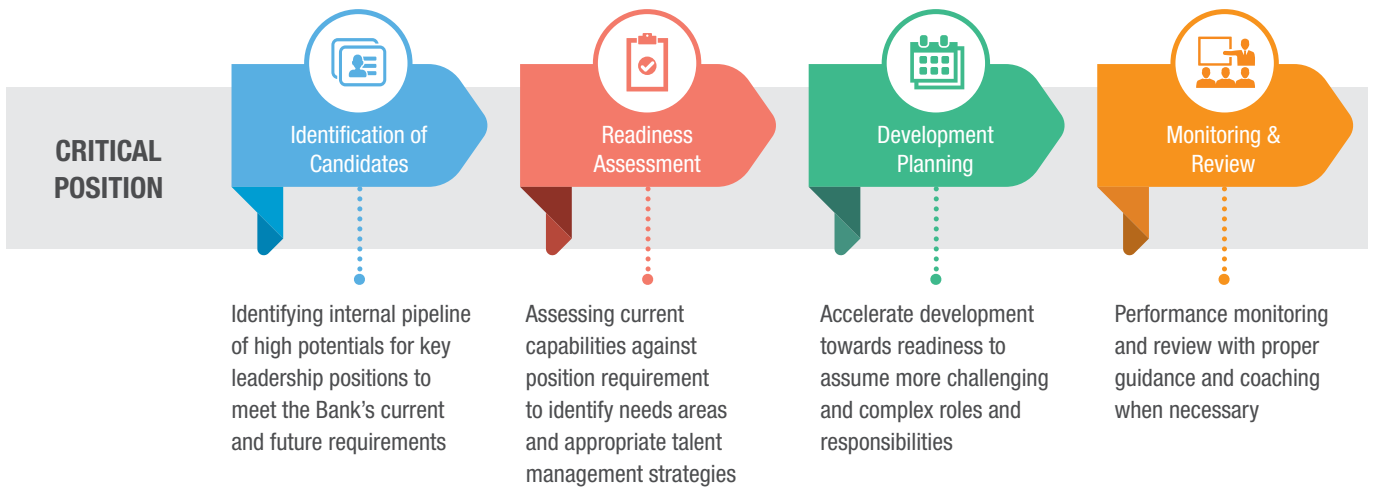
High-Potential Talent Pool

Specific initiatives and customized development plans have also been put in place to support growth of high-potential staff within the Group. This was done by identifying an internal pipeline of high potentials for key leadership positions to meet the Group's current and future requirements. Capabilities of selected talents will be assessed to identify need areas and appropriate talent management strategies together with performance monitoring and review with proper guidance and coaching when necessary. This will help accelerate development towards selected candidate's readiness to assume more challenging and complex roles and responsibilities.



Community Projects as part of the Bank's Young Talent Program curriculum to instill compassion and community leadership skills

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SUCCESSION PLANNING

Succession Planning is the identification and readiness assessment of capable staff to progress into key and critical positions in the Bank. A succession planning program which identifies the competency requirements of critical positions, assesses potential candidates and develops required competencies through planned learning and development initiatives, has been rolled out in the Bank.

The Bank's succession planning is steered by the 3 key guiding principles: Compliance to the regulatory requirement, Proactive Planning of identifying critical positions that would put the Group at risk if left vacant, and People Development culture that supports knowledge and employee development for its high potentials.

Voluntary Separation Scheme (VSS)

In July 2017 the Bank had offered VSS to eligible staff, which comprised confirmed staff in permanent employment in the Bank. There is no redundancy in the Bank, as such, there was no compulsion for staff to apply.

The VSS was proposed to give an opportunity for staff who have been with the Bank for a very long time to do pursue different interests, for staff who have reached 50 years of age and have access to their savings to take a career break, for staff who are tired of working in a competitive banking environment to seek a less stressful work environment, and for staff who suffer ailments such as hypertension, diabetes among others, to manage their health issues at home.

A total of 524 applications for VSS was received prior to closing date, of which 332 (63.0%) were approved by the VSS Committee. The VSS provided the Bank to rejuvenate the workforce with the appropriate qualifications, skills and experience to drive Affin forward.

INCULCATING A PERFORMANCE-DRIVEN CULTURE

In assessing competencies and monitoring performance, the Group has fortified a more structured performance management system that also assures fair and equitable reward management.

The Bank's Performance Management System is currently stable and robust, in line with industry best practices, having undergone several enhancements over the years to ensure relevance and impact on the Bank's Performance.

The Bank has introduced among others risk-based KPIs, negative KPIs for non-compliance, disciplinary issues including misconduct and gross negligence. Input from the control functions of Audit, Risk and Compliance are incorporated in performance assessments as well as in formulation of Key Performance Indicators.

The Bank continues to benchmark its rewards and remuneration policies and practices to ensure competitiveness and fair compensation for its employees.

The Bank participates in annual salary surveys with renowned compensation practitioners and annually reviews its total Remuneration and Benefits against market.

Adjustments to salary bands and enhancements to benefits are regularly made. 2017 saw the adjustment of 53.0% of middle and senior management staff to ensure their salaries are competitive and at-par with their peers in the industry.

Top talents in the Bank are recognized and rewarded through promotions. On an annual basis, the Bank promotes an average of 8.0% of employees who are identified as key contributors to the Bank. In 2017 the Bank promoted 407 employees, a record 10.0% of total headcount. A number of employees filled vacancies which are of greater job scope and responsibilities, while others had their existing job scope expanded and assumed increased accountabilities.

EMPLOYEE WELFARE

An area of constant concentration is the well-being of the employees and their families. We help our employees to achieve their full potential by engaging with them openly, honestly and with respect. We are committed to providing a workplace that protects employee safety and promotes their health and well-being as well as inculcate a spirit of volunteerism.

Health talks, blood donation drives, festive celebrations, sports carnivals and staff recreational activities are featured in the Group's staff calendar during the year. These events help encourage the management to interact and engage with staff on a casual setting, besides promoting staff-to-staff bonding as well. We also promote well-being of our staff through attractive remuneration and benefits.

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AFFINBANK's staff in Penang, together with colleagues from HQ, organized a community outreach programme on 10 November 2017 for those affected by the floods in Penang, as part of the Bank's corporate social responsibility initiative

Employee benefits are important factors to attract and retaining talent in the Bank. The Bank regularly reviews and enhances its benefits for employees to remain competitive in the industry. Interest rates/cost of financing for staff loans, medical benefits, insurance coverage continue to be among the most competitive in the industry.

In 2017, the Bank had introduced new benefits and enhanced several benefits for staff, including those for children of staff.

FOR AFFINBANKERS' FINANCIAL WELL-BEING	FOR AFFINBANKERS' GENERAL WELL-BEING	FOR AFFINBANKERS IN THEIR TIME OF NEED	FOR CHILDREN OF STAFF:
<ul style="list-style-type: none"> New Staff Loans <ul style="list-style-type: none"> Personal Loans Enhanced Loans <ul style="list-style-type: none"> Staff Housing Financing-i Staff Vehicle Financing-i Staff Sundry Financing-i New Credit Card Benefits <ul style="list-style-type: none"> Increase in credit limits for all categories of staff Waiver of annual fees for supplementary cards 	<ul style="list-style-type: none"> Young Mothers Room for nursing mothers. Extended hours at the Fitness Centre New equipment and renovated facilities at the Fitness Centre Refurbished staff holiday apartments Quarterly basic medical check-ups for staff at Menara Affin. Increase in health talks from quarterly to bi-monthly for staff general awareness on health and wellness 	<ul style="list-style-type: none"> Increase in Financial Assistance for Staff for Flood and Fire relief Increase in Donation for Bereavement <ul style="list-style-type: none"> For staff's beneficiaries upon death of staff For staff upon death of spouse, children or parents 	<p>New Benefit</p> <ul style="list-style-type: none"> Education Loans <p>Enhanced Benefits</p> <ul style="list-style-type: none"> Increase in value of scholarship and number of recipients Increase in value of Education Excellence Award Increase in value of 'Back to School Subsidy' for eligible staff with school-going children Medical coverage for children of staff extended to 23 years of age

PROMOTING GENDER DIVERSITY AT AFFIN BANK GROUP

Women account for more than 60.0% of its total workforce. Women leaders are well represented in the Bank with 50.0% of middle management and 32.0% of senior management are women. Key roles at the Bank are assumed equally by men and women. Meritocracy is key.

The Bank encourages women in its workforce through many avenues. Equal opportunities are given for promotion and upgrading, for training and development and for childcare responsibilities. Apart from the increased 3-month paid maternity leave, the Bank has established a Young Mothers Room at Menara Affin specifically for nursing mothers.

SUSTAINABILITY STATEMENT



SUSTAINABLE COMMUNITY DEVELOPMENT

The topics covered under this section touches upon:

- Community development
- Environmental sustainability

The society is where the Group draws its customer base from. The Group believes that every organization should return to the community what it has been able to draw from it. Given that the Group's major shareholder is Lembaga Tabung Angkatan Tentera (LTAT), its sustainability initiatives are much in line with the efforts of helping to improve the well-being of retired and serving armed forces personnel and their families. There is no expectation of returns from these activities as the objective is to promote and assist in the education and welfare of the members and children of the serving and retired Armed Forces personnel who are in need.

The Group has a tradition of contributing to retired and serving Armed Forces personnel and families. In 2017, AFFINBANK continued its yearly contribution of RM3 million cash to Yayasan Warisan Perajurit, a foundation established with LTAT to raise funds to provide scholarships and education assistance to the children of retired Malaysian Armed Forces and those currently in service.

In conjunction with the Hari Raya festive celebration, AFFINBANK contributed RM100,000 worth of gift packages to the Welfare Fund of the Malaysian Armed Forces. The contribution was to show the Bank's appreciation and honour for the sacrifices and services of the Malaysian Armed Forces.

RUNNING FOR A CAUSE

Supporting running events is another way the group has come together to support various causes. In 2017, the Bank once again become the main sponsor of the Malaysia's first military themed obstacle run named, Warriors Challenge 2017. The run was organized by Persatuan Veteran Angkatan Tentera Malaysia as part of the celebration of Hari Pahlawan that was observed on 31 July every year and to inculcate patriotism among the younger generation as well as to commemorate the sacrifices of the armed forces. This year a total of 30 bank's staff as well as about 20 media representatives from various companies were sponsored to join in the fun with almost 1,000 other fitness enthusiasts.

Staff from the Group's subsidiaries also took part in Bursa Malaysia's Bursa Bull Charge which consists of a 5 km run through Kuala Lumpur's Capital Market Trail that passes the headquarters of a number of Malaysia's capital market players. Other runs supported during the year included cash sponsorship for the BHPetrol Orange Run 2017, a 12-km long run organized to raise funds for selected charities. Running in its 12th consecutive year, the entry fees collected from participants of this year's event were donated to three selected charity homes.

Affin Hwang AM together with Chee Siah Le Kee & Partners organized a charity run on 12 November 2017, to raise funds to aid four beneficiaries which are Wings Melaka Centre for Developmental Disabilities, Joy Workshop Melaka, Taiwan Buddhist Tzu Chi Foundation Malaysia and Noah's Ark Natural Animal Shelter. The run was also intended to promote public awareness of learning disabilities in the country. Over 1,000 participants attended the run in Melaka and crossed the finish line despite the rain.

AXA HEARTS IN ACTION RUN 2017 is an annual charity run event organized for brand affinity and engagement with various stakeholders such as intermediaries, customers, staff and general public. The run was also part of AXA Affin General Insurance's corporate responsibility program to educate the community on health awareness and donate the proceeds to several identified NGOs.



AFFINBANK Group contributes RM100,000 as 'Sumbangan Bungkus Hari Raya Tabung Kebajikan Angkatan Tentera' annually



AFFINBANK Group once again became the main sponsor for Warriors Challenge 2017, a military-themed obstacle run that was held at Universiti Pertahanan Nasional Malaysia, Sungai Besi, Kuala Lumpur



AFFINBANK Group supported the BHPetrol Orange Run 2017 which was held on 1 October 2017

SUSTAINABILITY STATEMENT



Affin Hwang IB staff came together to restore the Raja Musa Forest Reserve, Selangor by planting seedlings in conjunction with Earth Day

PROVIDING EDUCATIONAL RESOURCES AND SUPPORT

The Bank participated in the Karnival Kewangan 2017, organized by Bank Negara Malaysia held at Suria Sabah Mall, Sabah in August 2017 and at CityOne Exhibition Centre, Kuching in August 2017. These events reached out to students from rural communities with financial awareness and understanding in building a brighter future. During the 3-day event, the Bank arranged for 60 primary school students and 13 teachers from SK Beliong; and 100 students from SK Astana to attend the event in Kuching; and brought 100 students from SJK Lok Yuk Menggatal to attend the event at Sabah. Some of these students had to travel by boat and bus and endure a 2-hour journey but they were excited to participate in the financial awareness programme, activities and talks.

The Bank also partnered with Multimedia University (MMU) for the Sekolah@MMU Programme titled “Program Sekolah @ Perdana Darul Aman” that was held in Kuala Terengganu from 2 to 4 November 2017. Sekolah@MMU was aimed at exposing secondary school students to Information Technology & Multimedia, as well as entrepreneurship knowledge. This programme also supports the government’s agenda which includes upskilling future generations in areas of identified skills such as Digital Technology, Entrepreneurship and Digital Innovation. A total of 400 Form Four and Form Five students from five boarding schools in Kuala Terengganu attended the three-day workshop during which they were exposed to IT programmes such as Adobe Photoshop, Website Development and many more.

AFFIN ISLAMIC also collaborated with AFFINBANK on several corporate sustainability initiatives to engage the communities at large. These included a ‘Majlis Berbuka Puasa Bersama Anak-Anak Yatim’, jointly sponsoring Utusan Malaysia’s Tutor Pull-out Programme where specially prepared Tutor Pull-outs were distributed to primary and secondary school students as alternative learning material besides the usual reference books in schools.

AFFINBANK sponsored the publication of the book called “Wirid Terpilih Untuk Dhuyufurrahman”, as part of a charity programme called “Sahabat Korporat Tabung Haji 1435H” organized by Lembaga Tabung Haji. These books were distributed to pilgrims during their stay at the holy land.

COMMUNITY CARE PRODUCTS & SERVICES

AXA AFFIN Life Insurance continued its strategic partnership with the National Cancer Society of Malaysia (NCSM) by introducing cancer related products incorporating CSR elements. 110 Cancer Care products were launched and sold online while 110 CI Care were sold by distributors. For each of the two products sold, single usage of the Chemotherapy Day Care Unit per patient at NCSM’s cancer treatment Centre was sponsored by AXA AFFIN Life Insurance.

FESTIVE CONTRIBUTIONS

Affin Hwang Capital empowers underprivileged communities and support their means of livelihood by engaging them as vendors for activities such as festive hampers to clients, catering for events, and other related entrepreneurial activities. During Ramadhan, Affin Hwang Capital handed out zakat to 14 eligible beneficiaries at our zakat giving ceremony. The zakat beneficiaries included schools, associations, orphanages and other benevolent bodies. During the year, Affin Hwang Capital also collaborated with the creative young talents from the National Autism Society of Malaysia (NASOM) for Raya. The autistic kids produced beautiful artworks that became part of the money packets, and distributed to all. Additionally, monetary donations were made to NASOM in support of their charitable cause.

In conjunction with Chinese New Year festive season, AFFINBANK visited the Old Folks Home at Jalan Ampang on 8 February 2017. During the visit, “Ang Pow”, festive gifts and dry food were distributed to the residents of the home. In conjunction with the Festival of Light, AFFINBANK management and staff took their time to spread Deepavali cheers to the underprivileged and children of Persatuan Kebajikan Sweet Care Selangor & Kuala Lumpur (PKSC). At the visit, 105 underprivileged and children were entertained by clowns and treated to a scrumptious lunch, pop corn, cotton candy and ice cream.



Chinese New Year visit to Ampang Old Folks Home

SUSTAINABILITY STATEMENT

CARING FOR THE DISADVANTAGED

Some 100 staff of the Group volunteered at the Pertubuhan Tindakan Wanita Islam (Pertiwi) Soup Kitchen over three separate nights in August. The staff organized themselves in an assembly line to pass out the food and drinks at food stations set up by Pertiwi to the homeless and needy at the Medan Tuanku area in Kuala Lumpur. Members of Senior Management joined the volunteers in making sardine sandwiches, while others served ice-cream, nasi bungkus, drinks and buns.

Affin Hwang IB ran a Feed the Homeless programme on 18 August 2017, in conjunction with the Hari Kebangsaan Celebration. The bank sponsored and distributed 300 packed food to the homeless. The food was sourced from Suri Salam, an NGO that provides livelihood to single mothers. Twenty of Affin Hwang IB volunteers who were passionate about animals also visited PAWS Animal Welfare Society to help out in cleaning cages, washing animals' bowls and bathing the animals. It was a fun and fulfilling experience for all as they got to make a difference in the lives of these friendly, furry creatures.

AFFINBANK continued to sponsor and supported BHPetrol in the running of the TV programme called "Di Celah-Celah Kehidupan" by providing a convenient platform in the opening of an operating/savings account for the recipients of the DCKK programme. DCKK is a community lifestyle TV programme organized by BHPetrol in collaboration with RTM and features selected Malaysians who are in need of help and assistance. Besides donations being conveniently contributed to the account, each of the 20 recipients received RM1,000 each from the Bank.

At that time when Penang was hit by flood following heavy downpour in the month of November AFFINBANK's staff in Penang, together with colleagues from its Headquarters organized a community outreach programme for those who were affected. The aid, in the form of daily essentials, cleaning items and dry food items like biscuits, instant noodles and more were distributed to 150 families from Tasek Gelugor, Penang.



AFFIN ISLAMIC gives zakat contribution to provide school essentials for underprivileged children

ZAKAT INITIATIVES

In 2017, AFFIN ISLAMIC contributed more than RM3.0 million in zakat to different causes and sectors of the underserved population. AFFIN ISLAMIC contributed a total of RM1.0 million to deserving individuals and charitable organizations. The Bank contributed a total of RM1.4 million to all 14 states zakat centres. A total of RM838,095 was channelled towards knowledge causes (Fisabilillah), inclusive of Muallaf activities and educational aid. AFFIN ISLAMIC contributed zakat to support deserving students pursuing tertiary education at local universities of higher learning such as Universiti Teknologi MARA (UiTM), Management & Science University (MSU) and Universiti Pertahanan Nasional Malaysia (UPNM). In addition, AFFIN ISLAMIC contributed RM500,000 to Tabung Zakat Angkatan Tentera Malaysia, which manages funds to be allocated to deserving members of the armed forces.



Some 100 staff of AFFINBANK Group volunteered at the Pertubuhan Tindakan Wanita Islam (PERTIWI) Soup Kitchen

SUSTAINABILITY STATEMENT



Affin Hwang AM team sailed over to Pulau Tioman and participated in the Project AWARE's Programme where they dived to the bottom of the ocean to remove marine debris



Senior Management of AFFINBANK Group handing free potted plants to staff



MANAGING ENVIRONMENTAL IMPACTS AND INCREASING ENERGY EFFICIENCY

We involve our employees in our efforts to improve our performance in the protection of environment and society and to encourage them to meet high sustainability standards. As a responsible Group, we are committed to manage the impact of our operations on the environment by enabling our staff and business to become more environmentally friendly. The Bank distributed about 400 of free plants to staff and customers at a few selected branches around Klang Valley as part of its initiatives to commemorate Earth Day on 22 April 2017.

This was preceded by Affin Hwang IB's celebration of Earth Month when the staff came together to restore the Raja Musa Forest Reserve by planting seedlings in conjunction with Earth Day. On 18 August 2017, the Affin Hwang AM team sailed over to Pulau Tioman and participated in Project AWARE's program, Dive Against Debris to remove marine debris from the ocean. A team of 21 volunteer divers were sent to the bottom of the ocean with mesh bags to remove marine debris while some also cleaned up the beach after the dive. A total of 30kgs of waste and debris were collected and removed from the beach and ocean floor.

There has also been a Group wide effort to reduce our environmental footprint. To date efforts have been made in reducing the use paper by pushing customers to e-statementing, enabling recycling campaigns as well as promoting eco-friendly efforts among staff in 2017.

Various eco-friendly measures have been initiated and encouraged by subsidiaries as part of sustainability efforts in the workplace. Affin Hwang Capital management and staff actively participated in "green" policies efforts such as to reduce paper use by going digital and adopting e-statements for both staff and customers. On top of that, several recycling campaigns were conducted to promote proper waste disposal such as separating the waste according to materials, campaigns to reduce water wastage for the toilets, as well as other green campaigns to increase staff awareness in protecting the environment. AXA AFFIN Life Insurance launched several internal environment friendly programs involving the collection of recycled papers and materials to reduce paper printing and reducing the use of plastic bottles and cups, while AXA AFFIN General Insurance partnered with WWF Malaysia to support their conversation activities.

Finally for every initiative reported to provide quantifiable results about effectiveness of the initiative preferably with comparisons to 2016 or from 2014 to 2017 so trends and improvements can be assessed.

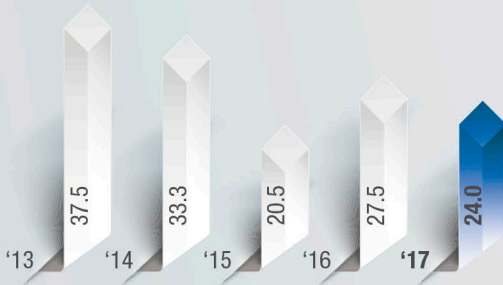
MOVING FORWARD

Moving forward, in setting future sustainability focus areas for the Group, we plan to embark on internal exercises with subsidiary representatives and identify our key baseline strategy including readiness to report, data management and work towards identifying a more structured governance process. We will align the Group's vision, purpose and strategy, with the multiple areas that our value chain can impact. We hope that this will allow us to set a clearer path in becoming a Group that has sustainability at its core operations benefiting all stakeholders in the long run.

FIVE-YEAR GROUP FINANCIAL SUMMARY

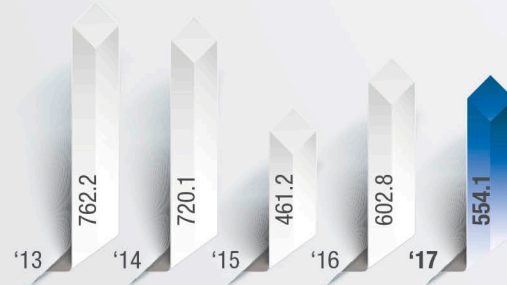
EARNINGS PER SHARE (EPS)

(Sen)



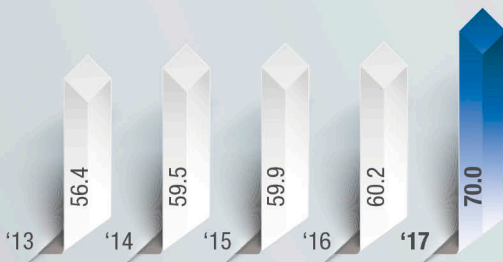
PROFIT BEFORE ZAKAT AND TAXATION

(RM'million)



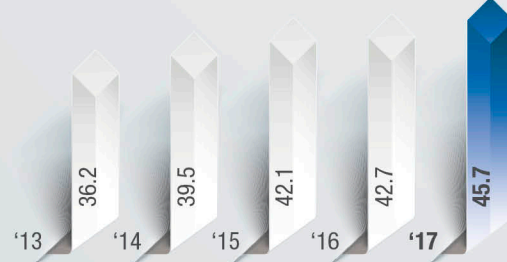
TOTAL ASSETS

(RM'billion)



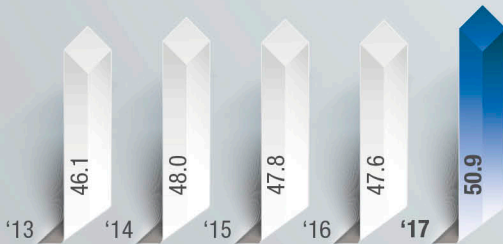
NET LOANS, ADVANCES & FINANCING

(RM'billion)



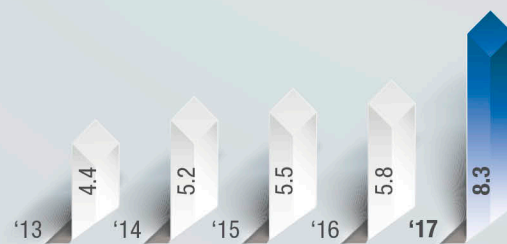
DEPOSITS FROM CUSTOMERS

(RM'billion)



SHAREHOLDERS' EQUITY

(RM'billion)



CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors (“Board”) of Affin Bank Berhad (“Bank” or the “Company”) is fully committed to integrity and fair dealing in all the Bank’s activities, and always strive to uphold the highest standards of corporate governance, which promotes the long-term interests of shareholders, strengthens the Board and management accountability and helps build public trust in the Bank. The Bank adopts corporate governance practices that conform to the Bank Negara Malaysia (“BNM”) Policy Document on Corporate Governance (“BNM CG”); Bursa Malaysia Securities Berhad (“Bursa Securities”) Main Market Listing Requirements (“MMLR”) and Malaysian Code on Corporate Governance (“MCCG”).

CORPORATE GOVERNANCE FRAMEWORK

The Bank has established a set of Corporate Governance Framework to set out broad principles, minimum standards and requirements for sound corporate governance and practices to be adopted by the Bank in ensuring its businesses are managed in a sound and prudent manner with due regard to the interests of all its shareholders and stakeholders as well as ensuring the long term viability of the Bank.

The Bank’s corporate governance arrangements represent a fundamental component of the regulator’s supervisory assessments and a key factor in determining the process and structure used to direct and manage the business and affairs of the Bank towards enhancing its business and corporate accountability with the ultimate objective of realising long-term shareholders’ value, whilst taking into account the interests of other stakeholders.

Following the completion of the Re-organization of Affin Group of companies on 2 February 2018, the Bank has become the Bank holding company listed on the Main Market of Bursa Malaysia Securities Berhad. As an apex entity, the Bank has the overall responsibility for ensuring the establishment and operation of a clear governance structure appropriate to the nature, size and complexity of the Bank and its subsidiaries.

This Corporate Governance Overview Statement sets out the principal features of the Bank and its subsidiaries (collectively referred to as “Group”) corporate governance approach, summary of corporate governance practices during the financial year as well as key focus areas and future priorities in relation to corporate governance. The Corporate Governance Overview Statement is made pursuant to paragraph 15.25(1) of MMLR and guidance was drawn from Practice Note 9 of the MMLR and the Corporate Governance Guide (3rd edition) issued by Bursa Malaysia Berhad.

This Corporate Governance Overview Statement is supported with a Corporate Governance Report, based on a prescribed format as outlined in paragraph 15.25(2) of the MMLR so as to provide the detailed application of the Bank’s corporate governance practices during the financial year 2017 against the BNM CG and MCCG. The Corporate Governance Report is available on the Bank’s website at www.affinbank.com.my as well as via an announcement on the website of Bursa Securities.

A summary of corporate governance practices are described as follows:

PRINCIPLE A : BOARD LEADERSHIP AND EFFECTIVENESS

I. BOARD RESPONSIBILITIES

1. Clear roles and responsibilities

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

The Board is primarily responsible for overseeing the implementation of strategies and plans by the Management, overseeing the conduct of the Bank’s businesses, monitoring the implementation of appropriate systems to manage principal risks, reviewing the adequacy and integrity of the Bank’s system of internal controls, and ensuring effective communications with stakeholders.

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

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

The Board Charter will be reviewed by the Board from time to time in tandem with the Bank’s Corporate Governance Framework as well as changes to the MMLR, BNM CG, MCCG and Companies Act 2016 to ensure its relevance and effectiveness in the light of the ever changing environment in which the Bank operates.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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

The key responsibilities of the Board are as follows:-

- (i) Approving the Bank's risk appetite, annual business plan and other initiatives which would have material impact on the Bank's risk profile.
- (ii) Overseeing the selection, performance, remuneration and succession plans of the Chief Executive Officer, control function heads and other members of the Senior Management, such that the Board is satisfied with the collective competence of Senior Management to effectively lead the operations of the Bank.
- (iii) Overseeing the implementation of the Bank's governance framework and internal control framework, and periodically ascertaining whether they remain appropriate in the light of material changes to the size, nature and complexity of the Bank's operations.
- (iv) Promoting, together with Senior Management, a sound corporate culture within the Bank which reinforces ethical, prudent and professional behaviour.
- (v) Promoting sustainability through appropriate economic, environmental and social considerations in the Bank's business strategies.
- (vi) Overseeing and approving the recovery and resolution as well as business continuity plans of the Bank to restore its financial strength and maintain or preserve critical operations and critical services when it comes under stress.
- (vii) Promoting timely and effective communication between the Bank and BNM on matters affecting, or that may affect, the safety and soundness of the Bank.
- (viii) Undertaking various functions and responsibilities as specified in the policy documents and directives issued by BNM and other relevant laws from time to time.

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

The roles of Chief Executive Officer (CEO) and Chairman are strictly separated and distinct. The respective roles of the Chairman and the CEO are clearly defined, so as to promote accountability and facilitate division of responsibilities between them and to further ensure a balance of power and authority.

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

- (i) The smooth functioning of the Board, the governance structure and inculcating positive culture in the Board.
- (ii) Guidelines and procedures are in place to govern the Board's operation and conduct.
- (iii) All relevant issues are on agenda for Board meetings and all Directors are able to participate fully in the Board's activities.
- (iv) Board debates strategic and critical issues.
- (v) Provides avenues for all Directors to participate openly in the discussion.
- (vi) Provides leadership to the Board and responsible for the developmental needs of the Board.

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

- (i) Develop the strategic direction of the Bank.
- (ii) Ensure that the Bank's strategies and corporate policies are effectively implemented.
- (iii) Ensure that Board's decisions are implemented and Board's directions are responded to.
- (iv) Provide directions in the implementation of short and long-term business plans.
- (v) Provide strong leadership that effectively communicates sound and viable vision, management philosophy and business strategy to the employees.
- (vi) Keep the Board fully informed of all important aspects of the Bank's operations and ensuring sufficient information is distributed to Board members.
- (vii) Ensure the day-to-day business affairs of the Bank are effectively managed.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

3. Supported by Competent Company Secretary

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

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

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

4. Code of Ethics/Conduct

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

The Code of Conduct is to ensure that staff is fully committed to uphold, maintain and demonstrate a high level of integrity and professionalism at all times so as not to bring the Bank into dispute. The Bank prescribes certain values and principles which staff is expected to uphold and abide. The Code of Conduct specifies the minimum standards of conduct expected of staff of the Bank.

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

5. Whistle Blowing

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

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

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

II. BOARD COMPOSITION

1. Board Composition and Balance

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

The Board comprises eight (8) Directors, four (4) of whom are Non-Independent Non-Executive Directors and the remaining four (4) are Independent Non-Executive Directors. The current Board composition of which half comprise Independent Directors exceeds the MMLR. In addition, a potential candidate has been identified for appointment as an additional Independent Director, pending the approval from BNM. Subsequent to this, the Board is expected to comprise majority of Independent Directors.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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

Board Independence

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

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

Represented on the Board are four (4) Independent Non-Executive Directors who bring their independent advice, views and judgement to bear on the decision-making process of the Bank to ensure that a balanced, robust and unbiased deliberation process is in place to safeguard the interests of other stakeholders.

Board Diversity

The Bank promotes diversity in Board as it recognises values the unique contribution from Directors with diversified individual background, skills, experiences and perspectives.

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

The Board currently has no female Director. However, the Board/Board Nomination and Remuneration Committee (BNRC) is actively searching for suitable female candidate(s) for appointment as Director.

Appointments and Removals

New Appointment of Directors

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

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

In identifying candidates for appointment of Directors, the BNRC has the right to utilize independent sources at the cost of the Company to identify suitably qualified candidates.

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

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

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

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Re-Appointment of Directors

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

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

Removal of Directors

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

2. Board Evaluation

The Board conducts annual Board evaluation to objectively assess the performance and effectiveness of each Director and the Board as a whole, as well as its Board Committees.

BNRC reviews the criteria to be used in the evaluation process and the results will assist the BNRC to assess the required mix of skills and experience and other qualities, including core competencies which Directors should bring to the Board.

The purpose of the Board Evaluation is to assess the processes by which the Board fulfils its responsibilities. Regardless of whether all or some of these responsibilities have been delegated to Board committees, the responsibilities would form part of the Board Evaluation as the Board is ultimately accountable.

Assessing Individual Director's Contributions

The evaluation of individual Directors assists the Directors in maximising their contribution to the governance of the Bank through focused discussion, effective planning and achievement of professional performance and development objectives.

In considering a Director's contributions to the Board, the Directors and the BNRC consider the following key elements:

- Integrity, Commitment and Ethic
- Governance
- Strategic Perspective
- Business Acumen
- Judgment and Decision Making
- Teamwork
- Communication
- Leadership

Board Committee Assessment

In line with the assessment of Board effectiveness, an assessment of the Board Committees as a function of the Board is also carried out to evaluate the effectiveness of the Committees in meeting the objectives for which they are established. Committee members will assess their roles in assisting the Board to fulfill its responsibilities as delegated to the Committee by its terms of reference.

3. Delegation by the Board

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

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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

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

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

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

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

- (i) To critically review loans and other credit facilities upon recommendation by the Group Credit Management Division;
- (ii) To provide an independent oversight of credits by ensuring that there are adequate lending policies, procedures and operating strategies are adhered to;
- (iii) Generally to ensure that the GMCC has discharged its responsibilities in a proper manner; and
- (iv) To monitor the progress of recovery efforts.

The GBCRRC is scheduled to meet on a fortnightly basis.

(b) Board Nomination and Remuneration Committee (“BNRC”)

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

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

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

The main activities of the BNRC in 2017 included the following:

- Assessment of fitness and propriety of Directors for re-appointment.
- Assessment of fitness and propriety of new candidates for proposed appointment as new Directors.
- Review mechanism and evaluation form for annual assessment of effectiveness of the Board as a whole and annual assessment of effectiveness of each individual Director and Board Committees.
- Review mechanism for annual fit and proper assessment of Senior Management.
- Review the remuneration of Directors and Senior Management.
- Recommendation to the Board on promotion and appointment of key responsible persons.

The BNRC meets as and when required, and at least once a year.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

(c) Board Oversight Transformation Committee (“BOTC”)

BOTC is established in view of the Transformation Blueprint and Implementation Masterplan – AFFINITY Program.

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

The delegation of authority to the BOTC is intended to be sufficiently broad so that the issues which remain with the Board or which would be referred by Management Committee to the Board would generally be as follows:-

- (i) High level strategic, budgetary and stewardship policy issues or matters of significant risk to the Group;
- (ii) Any matter involving alteration(s) to the mandate, terms of reference, membership or structure of the BOTC;
- (iii) Matters which the BOTC considers to be of major strategic significance with long term impact on the Group;
- (iv) Matters which, in the opinion of the Chairman of BOTC, have seen a strong division of opinion within the BOTC; and
- (v) Issues in which there is lack of clarity as to the responsibility and authority of the BOTC.

The BOTC meets on a bi-monthly basis.

(d) Management Committees

The Bank has established the following Management Committees to assist in overseeing the daily operation of the Bank:-

- (i) Management Committee
- (ii) Group Management Credit Committee
- (iii) Credit Resolution Committee
- (iv) Group Operational Risk Management Committee
- (v) Group Asset Liability Management Committee
- (vi) Planning and Technology Steering Committee

4. Supply of Information to Board

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

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

5. Access to Third Party Experts

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

Independent professional advice shall include legal, accounting or other professional financial advice. Independent professional advice shall exclude any advice concerning the personal interests of the Directors (such as with respect to their contracts or disputes with the Bank), unless these are matters affecting the Board as a whole and have the unanimous agreement of the Board.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

6. Time Commitment

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

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

The Board is satisfied that each Director has committed sufficient time to the Bank as evident from the Directors' record of attendance at Board meetings held in the financial year ended 31 December 2017. The details of Board and Board Committee meetings attended are as set out in Corporate Governance Report.

7. Continuing Education and Development

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

All new Directors are required to attend the Mandatory Accreditation Programme organized by Bursa Malaysia within four (4) months from the date of appointment and Financial Institutions Directors' Education Programme (FIDE) organized by BNM within one (1) year from the date of appointment.

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

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

- (i) their roles and responsibilities;
- (ii) the nature of the Bank's business;
- (iii) overview of risks on the Bank's business and the risk management strategy; and
- (iv) legal requirements and compliance controls.

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

During the financial year ended 31 December 2017, the Directors have attended the following courses/training programmes:

GEN. DATO' SERI DIRAJA TAN SRI (DR.) MOHD ZAHIDI BIN HAJI ZAINUDDIN		
Trainer/Organizer	Course Title	Date
MINDA/ICLIF	Breakfast Talk on CG Watch 2016 Entitled "Ecosystems Matter"	7 March 2017
Aram Global Sdn Bhd	The New Companies Act 2017 "Raising the Bar For Directors"	29 March 2017
Aram Global Sdn Bhd	Latest Updates on Directors' Remuneration in Compliance with the Companies Act and the Upcoming Amendments to the Listing Requirements 2017	6 June 2017
Aram Global Sdn Bhd	A Seminar on Implementing A Risk Management & Internal Control Framework Based on The Malaysian Code Of Corporate Governance 2017	26 July 2017
Affin Holdings Berhad	International Forum on Asia Pacific Retailers Convention & Exhibition 2017 (APRCE)	25 August 2017
Affin Holdings Berhad	Code of Corporate Governance and the Companies Act 2016	14 September 2017
PricewaterhouseCoopers	Building a Cyber Resilient Organization & Strategic Impact of MFRS 9	28 November 2017
Affin Bank Berhad	Risk Governance Framework for Islamic Banks	12 December 2017

CORPORATE GOVERNANCE OVERVIEW STATEMENT

ENCIK MOHD SUFFIAN HAJI HARON		
Trainer/Organizer	Course Title	Date
MINDA/ICLIF	Breakfast Talk on CG Watch 2016 Entitled “Ecosystems Matter”	7 March 2017
Bursa Malaysia	Sustainability Engagement Series for Directors / Chief Executive Officers	13 March, 2017
Bank Negara Malaysia	Compliance Conference 2017	28 May 2017
Bank Negara Malaysia	FIDE forum on Fintec: Opportunities for the Financial Services Industry in Malaysia	12 July 2017
Securities Commission	Boards in the Digital Economy	17 July 2017
FIDE	Cryptocurrency and Blockchain Technology	10 August 2017
Affin Holdings Berhad	Code of Corporate Governance & The Companies Act 2016	14 September 2017
Kuala Lumpur Islamic Finance Forum	14th Kuala Lumpur Islamic Finance Forum 2017 “Real Finance For Real Economy”	3 – 5 October 2017
Affin Hwang Capital	Conference Series 2017: “Opportunities Amidst Geopolitical Shift”	5 October 2017
Bursa Malaysia/MINDA	CG Breakfast Series with Directors: “Integrating an Innovation Mindset with Effective Governance”	7 October 2017
PricewaterhouseCoopers	Building a Cyber Resilient Organization and Strategic Impact of MFRS 9	28 November 2017
Affin Bank Berhad	AMLATFPUAA: Risk, Challenges & Vulnerabilities towards Regulatory Compliance	29 November 2017
Affin Bank Berhad	Risk Governance Framework for Islamic Banks	12 December 2017

TAN SRI MOHD GHAZALI BIN MOHD YUSOFF		
Trainer/Organizer	Course Title	Date
MINDA/ICLIF	Breakfast Talk on CG Watch 2016 Entitled “Ecosystems Matter”	7 March 2017
ICLIF	Mandatory Accreditation Programme (MAP)	6 – 7 April 2017
Bank Negara Malaysia	BNM Value - Compliance Conference 2017	18 May 2017
Affin Holdings Berhad	Code of Corporate Governance & The Companies Act 2016	14 September 2017
Affin Hwang Capital	Conference Series 2017: “Opportunities Amidst Geopolitical Shift”	5 October 2017
FIDE	2nd Securities Commission – FIDE Forum Dialogue – Leveraging Technology For Growth	14 November 2017
PricewaterhouseCoopers	Building a Cyber Resilient Organization & Strategic Impact of MFRS 9	28 November 2017
FIDE	2nd Securities Commission – Leveraging Technology for Growth	29 November 2017
Affin Bank Berhad	Risk Governance Framework for Islamic Banks	12 December 2017

ENCIK ABD MALIK BIN A RAHMAN		
Trainer/Organizer	Course Title	Date
Bursa Malaysia	Forum for Directors/CEO's: The Velocity of Global Change & Sustainability – The New Business Model	10 January 2017
Aram Global Sdn Bhd	The New Companies Act 2016 “Raising the Bar For Directors”	29 March 2017
Bursatra Sdn Bhd	What Directors Need To Know on Reporting & Disclosure Obligations to Prevent Public Reprimand & Fines by the Regulators	20 April 2017
FIDE	Efficient Inefficiency: Making Boards Effective in a Changing World	4 May 2017
Bank Negara Malaysia	Compliance Conference 2017	18 May 2017
Affin Hwang Capital	Companies Act 2016: Key Changes and Implications to Board	17 July 2017
Affin Hwang Capital	AMLATFPUAA 2001: Risk, Challenges & Vulnerabilities Towards Risk Based Approach & Partners	6 September 2017
Affin Holdings Bhd	Code of Corporate Governance 2016 & Companies Act 2016	14 September 2017
Affin Hwang Capital	Conference Series 2017 – Opportunities Amidst Geopolitical Shifts	5 October 2017
Bursa Malaysia	CG Breakfast Series for Directors: Leading in a Volatile, Uncertain, Complex, Ambiguous (VUCA) World	13 October 2017

CORPORATE GOVERNANCE OVERVIEW STATEMENT

MR. TANG PENG WAH		
Trainer/Organizer	Course Title	Date
BEA-Risk Management Dept	Enterprise Risk Management	17 February 2017
Thomson Reuters	BEA IT Securities Awareness	8 April 2017
Thomson Reuters	Preventing Financial Crime (Global)	8 April 2017
BEA-Risk Management Dept	KPMG Powerpoint Presentation for IFRS 9	19 April 2017
Thomson Reuters	Market Conduct (Global)	29 May 2017
Thomson Reuters	Personal Data Protection Act (Singapore)	15 July 2017
Thomson Reuters	Anti Bribery and Anti Corruption (AP)	15 July 2017
Thomson Reuters	Information Security and Cyber Risk Awareness	15 July 2017
Thomson Reuters	Fraud Prevention (Global 2016)	16 July 2017
Thomson Reuters	FATCA Essentials FY 16-17	19 July 2017
Angelia Sam and Lini Widjaja	Oversight/Errors in Credit Proposal to avoid	25 July 2017
ICLIF	Current Issues in Corporate Governance	14 – 15 August 2017
Bank of America Merrill Lynch	Financial Institution Forum Singapore 2017	17 August 2017
Yong Soon Kiat Alvin	“Manage Self” Post-Workshop Sharing	25 August 2017

DATO' ABDUL AZIZ BIN ABU BAKAR		
Trainer/Organizer	Course Title	Date
PricewaterhouseCoopers	Building a Cyber Resilient Organization & Strategic Impact of MFRS 9	28 November 2017
FIDE Forum	2nd Securities Commission – Leveraging Technology for Growth	29 November 2017
Affin Bank Berhad	Risk Governance Framework for Islamic Banks	12 December 2017

DATO' MOHD HATA BIN ROBANI		
Trainer/Organizer	Course Title	Date
Malaysian Institute of Corporate Governance (MICG)	Drafting the Statement On Corporate Governance on Risk and Internal Control – Critical Success Factors & Pitfalls to Avoid	14 March 2017
Aram Global Sdn Bhd	The New Companies Act 2016 “Raising the Bar For Directors”	29 March 2017
Bursatra	Highlights of the Companies Act 2016 – Changes and Implications	28 March 2017
ICLIF	Mandatory Accreditation Programme (MAP)	6 – 7 April 2017
MICG	Assessment of the Board, Board Committees and Individual Directors – Taking Stock of Performance	11 April 2017
Bursatra Sdn Bhd	Changing Expectations of Board Committees – What a Director Must Know	12 April 2017
Aram Global Sdn Bhd	National Seminar on Malaysian Code on Corporate Governance (New) – “An Overview”	19 April 2017
FIDE	Efficient Inefficiency: Making Boards Effective in a Changing World	4 May 2017
Aram Global Sdn Bhd	Latest Updates on Directors’ Remuneration in Compliance with the Companies Act and the Upcoming Amendments to the Listing Requirements 2017.	6 June 2017
Securities Industry Development Corporation (SIDC)	Board in the Digital Economy	17 July 2017
Bursatra Sdn Bhd	Raising the Bar in Board Performance & Effectiveness	18 September 2017
Affin Bank Berhad	Half Day Session on AML/CFT	29 November 2017
Affin Bank Berhad	Risk Governance Framework for Islamic Banks	12 December 2017

MR. IGNATIUS CHAN TZE CHING		
Trainer/Organizer	Course Title	Date
The Bank of East Asia, Limited	Economic & Market Outlook 2017	9 January 2017
The Government of the HKSAR and Hong Kong Trade Development Council	Asian Financial Forum	16-17 January 2017
PricewaterhouseCoopers Limited	Non-Executive Director Programme: Global Development of Climate Risk Disclosure by Ms Paula DiPerna	21 March 2017

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Erste Group Bank AG in Vienna	Financial Institutions Day 2017 "Excellence"	4 May 2017
The Hong Kong Polytechnic University	Open Forum on the University's 2018/19 to 2023/24 Strategic Plan	6 June 2017
Hong Kong Exchanges and Clearing Limited	HKEX 4th Annual RMB Fixed Income & Currency Conference 2017	6 June 2017
PricewaterhouseCoopers China Holding Limited	Non-Executive Director Programme: Are Independent Non-Executive Directors in Hong Kong Performing Their Roles Effectively?	12 June 2017
The Hong Kong Polytechnic University	2nd Open Forum on the University's 2018/19 to 2023/24 Strategic Plan	28 July 2017
JA Asia Pacific, J.P. Morgan and Asia Society Hong Kong Centre	One Step Ahead Series Luncheon Forum: Advancing Opportunity for Hong Kong's Youth: Pathways to Economic Growth and Inclusion	6 September 2017
Hong Kong Trade Development Council and Chinese People's Political Consultative Conference Shanghai Committee (CPPCC)	High Level Roundtable Meeting with the Chinese People's Political Consultative Conference (CPPCC) Shanghai Committee on Belt and Road Cooperation	6 September 2017
PricewaterhouseCoopers	Building a Cyber Resilient Organization & Strategic Impact of MFRS 9	28 November 2017
Asia Pacific Institute for Strategy	Innovation and Leadership in Finance	28 November 2017
KPMG Hong Kong	The KPMG Independent Non-Executive Directors Forum	5 December 2017
Hong Kong Economic Journal and Metro Finance Radio	Hong Kong Economic Summit	8 December 2017

The Directors are also updated and apprised on a continuing basis by the Company Secretary on new and revised requirements to the Companies Act 2016, the MMLR and the MCCG ("Continuing Updates").

III. REMUNERATION

1. Board Remuneration

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

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

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

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

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

During deliberations pertaining to the individual Directors' remuneration, the interested parties should excuse themselves from both the deliberations and voting.

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

The details of the Directors' remuneration are set out in Note 37 to the Financial Statements in this Annual Report.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

2. Senior Management Appointments and Removals

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

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

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

Senior Management appointments and removal are governed by the standards in BNM CG which stipulates that member of Senior Management must fulfill the minimum requirements at the time of appointment and on a continuing basis.

3. Senior Management Remuneration

The Bank's Remuneration Policy considers the role of each staff. The objective of the Remuneration Policy is to ensure that the remuneration system in the Bank:-

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

The Bank's remuneration policy is developed based on the following guiding principles:-

- (i) **Support for Strategic Objectives:** Remuneration and reward frameworks and decisions shall be developed in a manner that is consistent with, supports and reinforces the achievement of the Bank's vision and strategy.
- (ii) **Transparency:** The process of remuneration management shall be transparent, conducted in good faith and in accordance with appropriate levels of confidentiality.
- (iii) **Internal Equity:** The Bank shall remunerate all staff fairly in terms of their roles within the organization.
- (iv) **Market-Related Remuneration:** The Bank shall measure its remuneration practices against both the local and national market through the use of remuneration surveys and through benchmarking with other similar institutions.
- (v) **Flexibility:** Remuneration and reward offerings shall be sufficiently flexible to meet both the needs of individuals and those of the institution whilst complying with relevant tax and other legislation.
- (vi) **Performance-Driven Remuneration:** The Bank shall entrench a culture of performance driven remuneration through the implementation of the Performance Management System.
- (vii) **Affordability and Sustainability:** The Bank shall ensure that remuneration is affordable on a sustainable basis.

The Remuneration Policy and practices will evolve over time, reflecting Bank's priorities but will always adhere to the BNM CG and at the same time promoting sound and effective risk management.

The Bank ensures that overall remuneration system for the Bank (as per the BNM CG) shall:-

- (i) be subject to Board's active oversight to ensure that the system operates as intended;
- (ii) be in line with the business and risk strategies, corporate values and long-term interests of the Bank;
- (iii) promote prudent risk-taking behavior and encourage individuals to act in the interests of the Bank as a whole, taking into account the interests of its customers; and be designed and implemented with input from the control functions and the Group Board Risk Management and Compliance Committee to ensure that risk exposures and risk outcomes are adequately considered.

The remuneration of Senior Management and Other Material Risk Taker (OMRT) must be approved by the Board and the Bank will maintain and regularly review the list of officers who fall within the definition of Senior Management and OMRT.

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The Bank's remuneration comprised of fixed pay and variable pay rewards as follows:-

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

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

The Deferred Discretionary Performance Bonus will be subject to claw back. Any unvested element under the deferred plan can be forfeited / adjusted or the delivered variable remuneration payout be recovered in certain circumstances.

PRINCIPLE B : EFFECTIVE AUDIT AND RISK MANAGEMENT

1. Group Board Audit Committee ("GBAC")

The Board recognises the value of an effective GBAC in ensuring the integrity in financial reporting and effective internal control framework.

The roles and responsibilities of the GBAC are set out under the GBAC report on pages 91 to 96 of this Annual Report.

The GBAC comprises solely of Independent Non-Executive Directors as stipulated on page 91 of this Annual Report. The Chairman of the GBAC is not the Chairman of the Board.

The GBAC possesses a wide range of necessary skills to discharge their duties effectively. The members are financially literate and are able to understand matters under the purview of the GBAC including the financial reporting standards. The members had attended relevant professional trainings during the year and will continue to keep themselves abreast of the relevant developments in accounting and auditing standards, practices and rules.

2. Group Board Risk Management Committee ("GBRMC")

The GBRMC is responsible for overseeing the risk management and compliance function of the Group. The GBRMC ensures that the Management has in place risk and compliance management policies, processes, procedures and framework to adequately protect the Group against risks.

The details are set out under the Statement of Internal Control and Risk Management on pages 76 to 80 of this Annual Report.

3. Independence of External Auditors

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

The GBAC meets with the External Auditors at least twice a year to discuss their audit plans, significant issues if any, new accounting standards, emerging risk and audit findings in relation to the Group's financial statements. The private sessions between the GBAC and the External Auditor were held without the presence of the CEO and the Management to discuss the audit findings and any other observations they may have had during the audit process. In addition, the External Auditors are invited to attend the AGM of the Bank and be available to answer shareholders' queries on the conduct of the statutory audit and the preparation and content of their audit report.

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

The amount of non-audit services fees paid to the external auditors, their associates and any other third parties during the financial year 2017 is RM643,000.

4. Risk Management and Internal Control Framework

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

The Bank's Statement on Risk Management and Internal Control which provides an overview of the state of internal controls of the Bank is set out on pages 76 to 80 of this Annual Report.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

5. Internal Audit Function

The Bank's internal audit provides independent and objective assurance of the adequacy and effectiveness of the internal controls framework. The Internal Audit Department reports to the GBAC. Details of the Internal Audit function, together with the state of the Group's internal controls, are set out in the Group Board Audit Committee Report on pages 91 to 96 and Statement on Risk Management and Internal Control as set out on pages 76 to 80 of this Annual Report.

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

1. Effective Communication With Shareholders

The Board and Management recognised the importance of maintaining good relationship with both the shareholders and the stakeholders and will take the responsibility to always improve the communication with the shareholders and the stakeholders.

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

Annual General Meeting is an important platform for the shareholders to interact and communicate directly with the Board and Management. Shareholders are furnished with the Bank's Annual Report which include amongst others, Directors' Report, Financial Statements and operational performance of the Bank.

The notice of the Annual General Meeting together with the Annual Report are sent to the shareholders 28 days ahead before the Annual General Meeting so as to give sufficient time for the shareholders to consider the resolutions that will be discussed and voted at the Annual General Meeting. During the Annual General Meeting, shareholders are given the opportunity to raise questions or seek clarifications on the agenda items as well as other matters concerning the Bank.

All resolutions deliberated during the General Meetings will be put to vote by way of poll and the voting results will be released to Bursa Securities on the same day.

2. Focus Areas on Corporate Governance

2017 brought forth key regulatory changes within the domestic corporate governance realm. The Board, against a challenging business backdrop, focused its attention on the foundational aspects of its roles as they relate to the creation of long-term value for stakeholders.

Against the aforementioned setting, during the year under review, the Board directed its focus on the core duties of the Board which is grounded on the creation of long-term value for stakeholders.

Corporate governance areas which gained heightened attention from the Board during the financial year ended 31 December 2017 are as follows:-

Board Composition

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

The profile of each Director is set out on pages 4 to 14 of this Annual Report.

The Board believes that having objectivity in the boardroom extends beyond quantitative measures such as number of Independent Directors. In order to harness the collective wisdom and benefit from the greater participation of Independent Directors, the Board has set a policy to limit the tenure of Independent Directors to nine (9) years. Private sessions were held between Independent Directors, Management and key gatekeepers of the Group such as external and internal auditors. These sessions provided Independent Directors with the opportunity to candidly share concerns about the Group and exchange views on potential improvements in governance. The Independent Directors who are of high caliber and wide experience ensure that there is robust discussions during the Board or Board committee meetings. They exercise strong independent judgement and do not shy away from asking hard and uncomfortable questions during deliberations and willing to challenge Management if answers provided are not satisfactory.

Furthermore, the Directors are subject to rotation every 3 years and key Senior Management do not sit on the Board or Board Committees.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Code of Conduct

The Bank's Code of Conduct ("Code") has been adopted by the Board to support the Group's objectives, vision and values which reflects the Group's vision and core values of integrity, respects, trust and openness. The basic principles have been carried out by having appropriate regard to the interests of the Bank's customers, shareholders, business partners and the broader community in which the Group operates.

The Bank encourages its employees to provide feedback with any concerns regarding misconduct and/or wrong doing by the employees. Any non-compliance and failure to report non-compliance to the Code may lead to disciplinary action.

Sustainability Report

The Bank has a sustainability report and internalized its commitment to holistically balance economic, environmental and social issues in its day to day operations. The sustainability report of the Bank is as set out on pages 46 to 59 of this Annual Report.

Review of Board Charter, Board Committees' Terms of Reference, Policies and Procedures

During the year under review, the Board undertook a review and updated its Board Charter alongside the Terms of Reference for each of the Board Committees, Policies and Procedures. Changes were made to reflect the revised regulatory expectations as well as the expectations of stakeholders for Directors to exercise greater vigilance and scepticism in understanding and shaping the direction of the Group. These authoritative documents serve to guide the governance and conduct of the Board and Board Committees.

CORPORATE GOVERNANCE PRIORITIES

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

Board Diversity

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

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

Integrated Reporting

The Company has yet to adopt an integrated reporting. The Board acknowledges that integrated reporting goes beyond a mere combination of the reports in the Annual Report into a single document.

Nevertheless, there are coordination efforts among cross-functional departments in preparing the various statements and reports in the Annual Report. The Board may consider adopting integrated reporting in future.

Disclosure of Directors and Senior Management's Remuneration

The Board wishes to give assurance that the remuneration of Directors and Senior Management commensurate with their individual performance, taking into consideration of the Bank's performance as it is benchmarked against the market. The remuneration packages of Senior Management are based on experience, expertise, skills and industry benchmark. Total remuneration of its employees are also set out in the Audited Financial Statements for financial year ended 31 December 2017 which allow shareholders to assess whether the remuneration of Directors and Senior Management commensurate with their performance taking into consideration, the Bank's performance.

The Board may consider disclosing the aggregate of the top 5 Senior Management's remuneration component including salary, bonus, benefits in-kinds and other emoluments.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

The Statement on Risk Management and Internal Control is made pursuant to Bursa Malaysia Securities Berhad Listing Requirements which require the Board of Directors (“the Board”) to disclose in its Company Annual Report a statement on key features of the risk management and internal control system of the Group during the year under review.

1. CORPORATE GOVERNANCE & BOARD’S OVERSIGHT

- a. The Board recognises and exercises overall responsibilities in promoting good corporate governance and ensuring sound system of internal controls and risk management practices are maintained throughout the Group.
- b. The Group’s Corporate Governance Framework is consistent and complies with the following requirements and guidelines:
 - Malaysian Code of Corporate Governance 2017 (MCCG 2017)
 - Bank Negara Malaysia (BNM)’s Corporate Governance Policy (BNM CG Policy 2016)
- c. The Board is of the view that the system of internal controls instituted by the Group’s operating units for the year under review and up to the date of annual report is sound and sufficient to safeguard shareholders’ investment, customers’ interests and the Group’s assets.
- d. Notwithstanding this, there are on-going reviews to ensure the effectiveness, adequacy and integrity of the system. The control procedures are designed to manage rather than to eliminate completely all risks of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material errors, losses, fraud or the occurrence of unforeseeable circumstances.
- e. The Board meets regularly to discuss matters related to system of internal controls which cover inter alia financial, operational, compliance controls and risk management procedures.
- f. The Board extended the responsibilities of the Group Board Audit Committee (“GBAC”) and Group Board Risk Management and Compliance Committee (“GBRMC”) to include the role of oversight on internal controls, compliance and risk management strategies, policies and other risk related matters.
- g. GBAC and GBRMC comprised majority Independent Non-Executive Directors.
- h. Regular reports received from the Group’s management on financial performance, key operating statistics, legal and regulatory compliance, breach of law or regulations unauthorized activities and fraud are reviewed by the Board.
- i. The Board received assurance from Chief Executive Officers of the subsidiaries that the Group’s risk management, compliance and system of internal controls is operating adequately and effectively in all material aspects based on the risk management, compliance and internal control system.

2. BUSINESS AND CAPITAL PLAN INCLUDING BUDGET

- a. The significant operating entities’ annual business plan and financial budget is tabled and approved at their respective Boards.
- b. A structured framework and processes with regards to capital expenditure and revenue is in place.
- c. The internal capital targets are being set on a yearly basis.
- d. The variances between the actual and targeted results are presented to the Board on a periodic basis to allow for timely responses and corrective actions to be taken to mitigate risks.

3. GROUP BOARD AUDIT COMMITTEE (“GBAC”) AND GROUP INTERNAL AUDIT (“GIA”)

- a. Group Internal Audit carries out regular reviews of the business processes and activities to assess the effectiveness of internal control and highlight significant risks impacting the Group. The GBAC of the respective subsidiary conduct annual reviews on the adequacy of the scope of work and resources of Group Internal Audit Division.
- b. The GBAC of the respective subsidiary regularly review and hold discussions with management on the action taken on internal control issues identified by Group Internal Audit, external auditors and regulatory authorities.
- c. All significant and material findings by GIA, external auditors and regulators are reported to GBAC for reviews and deliberation and subsequently escalated to the Board.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

- d. The GBAC of the respective subsidiary, through GIA, follow up and monitor the status of actions on recommendations made by Group Internal Audit, the external auditors and regulatory authorities. In addition, it can direct investigations in respect of any specific instances or events, which are deemed to have violated internal policies pertaining to confidentiality or financial impropriety which have material impact on the Group.
- e. Shariah related findings are escalated to the Shariah Committee.
- f. GIA continuously conduct awareness programs/training on controls and compliance including controls certification programs to further strengthen staff knowledge (inter & intra department) in creating a robust control and compliance environment.
- g. The management of business and support departments that are rated “Needs Improvement” and “Unsatisfactory” by GIA are counseled by GBAC.
- h. All related party transactions and audit and non-audit related fees proposed by external auditors or Chief Financial Officer (“CFO”) are reviewed by GBAC.

4. RISK MANAGEMENT FRAMEWORK

The risk management approach of the Group is underpinned by a sound and robust Group Risk Management Framework (“GRMF”), which is continuously enhanced to remain relevant and resilient in ensuring effective management of risk. The GRMF is supported by the following elements:

- a. Governance
 - A robust risk governance structure is in place to proactively manage risk within the Group through the establishment of risk appetite and risk management policy as well as the implementation of risk management policy and risk compliance.
 - GRMF is governed by a strong oversight function comprising of the Board, Board and Management Committees.
 - The governance of risk is further supported by the Three Line of Defense Model which outlines the functional segregation and key responsibilities of the independent oversight functions and business units.
- b. Risk Appetite & Strategic Goals
 - The Group’s risk appetite defines the amount and types of risk that the Group is able and willing to accept in pursuit of its business objectives.
 - It sets out the level of risk tolerance and limits to govern, manage and control the Group’s risk taking activities.
 - The strategic objectives, business plans, desired risk profile and capital plans are aligned to the risk appetite.
 - The processes for assessing, setting, controlling, monitoring and reporting risk appetite are outlined in the Risk Appetite Framework.
- c. Risk Limits and Controls
 - Risk Limits and Controls are mitigation measures.
 - Establishment of risk control parameters by risk type is based on the approved risk appetite and set in accordance with regulatory limits, internal prudential thresholds and management action triggers.
- d. Risk Management Process
 - The management of risk is facilitated by Risk Management Process which sets out the methodology for management of inherent risks across the Group.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

- e. Risk Culture & Awareness
 - The effective implementation of the framework is further grounded on a robust and healthy risk culture and awareness program.
 - The inculcation of risk culture and awareness is driven with a strong tone from the top.
 - The Risk & Compliance Management Pillar of the AFFINITY Transformation Program is intended to embed deep appreciation and understanding of ethics, risk and compliance into day-to-day business activities and processes.

5. COMPLIANCE FRAMEWORK

The respective significant operating entities have put in place a Compliance Framework. The compliance main function is to facilitate advice, monitor and educate the business and support units/entities to act in accordance with laws, regulations and guidelines. In line with good governance, Compliance Division reports independently to the Board.

- a. Compliance Framework : Policies and Procedures
 - Policies and Procedures are reviewed on a periodic basis or as and when required to reflect current practices and the applicable legal/regulatory requirements.
- b. Compliance Culture
 - The compliance culture is driven with a strong tone from the top, complemented by the tone from the middle, to embed the expected values and principles of conduct that shape the behavior and attitude of employees at all level of business and activities across the Group.
- c. Training
 - Scheduled trainings are regularly conducted to create compliance awareness amongst the staff.
- d. Compliance Matrix
 - Compliance Matrix has been established. It is a document that encompasses relevant laws, regulations and guidelines that apply to the business and support units/entities.
- e. Compliance Plan
 - The respective Compliance Division has drawn-up the plan which was tabled and approved by the Board.
- f. Anti-Money Laundering/Counter Financing Terrorism (AML/CFT)
 - The Group AMLA office function, a unit within Compliance Division maintains Group AML/CFT policies and procedures, duly approved by the Board.

6. SHARIAH GOVERNANCE FRAMEWORK

- a. The Shariah Committee of the respective subsidiaries are responsible for overseeing all Shariah matters of the Group. The Shariah Committee, amongst others, ensures that the Shariah rulings relating to Islamic banking and capital market products and services comply with the fundamental Shariah percepts and resolutions by the relevant Shariah authorities.
- b. Shariah Committee acts as an adviser on Shariah matters to all business and support units within the subsidiaries in carrying out their Islamic financial activities.
- c. The Shariah Governance Framework (SGF) is the enterprise-wide Shariah management plan consisting of Shariah governance mechanisms to be undertaken by relevant sections across the Group. The implementation of the SGF is inline with BNM's requirements effected through the following functions at the subsidiaries:
 - **Shariah Research**
 - The Shariah Research Unit comprises qualified Shariah officers who conduct the pre-product approval process, research, vetting of issues for submission and undertake administrative duties relating to the Shariah Committee.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

- **Shariah Review**

- The Shariah Compliance Review comprising qualified Shariah officers, is responsible for conducting the Shariah compliance review function.
- The Shariah Compliance Review has established the Policy and Procedures Manual which sets out the Shariah compliance review function, encompassing regular assessment on Shariah compliance in the activities and operations of the subsidiaries, including examining and evaluating the level of compliance to the Shariah, remedial rectification measures to resolve non-compliances and control mechanisms to avoid recurrences.

- **Shariah Risk Management**

- Shariah Non-Compliance (“SNC”) risk is identified as one of the material risks under its Islamic banking business. In this regard, Affin Bank Group has established a dedicated Shariah Risk Management team to facilitate a systematic and consistent approach in managing SNC.

- **Shariah Audit**

- Group Internal Audit Division provides independent assurance on the efficiency and effectiveness of the internal control systems and related policies and procedures implemented by management governing Islamic products and services. Findings related to Shariah product to Shariah products and services are reported to the Shariah Committee and GBAC of the respective subsidiary.

7. ESCALATION PROCESS

- a. The channels of communication and procedures have been established for reporting immediately to the Board and appropriate levels of management any significant control failings or weaknesses that are identified together with details of corrective action being undertaken.
- b. Corrective Action Tracking on resolution of issues/findings highlighted by external audit, Group Internal Audit and regulators, if any, have also been escalated to Management Committee Meeting (“MCM”), GBAC, Shariah Committee (on Islamic Banking only) and Board.

8. WHISTLE BLOWING POLICY

This policy provides an avenue for employees and public to report actual and suspected malpractice, misconduct and violations of the Group policies in a safe and confidential manner.

9. HUMAN RESOURCES

- a. The Group acknowledges that people development is critical in ensuring that employees have the right competencies for the tasks they are entrusted with, and are able to exercise sound judgment when fulfilling those responsibilities.
- b. HR Policies and Procedures (“HRPP”)
 - HRPP is in place and provide clarity for the organization in all aspects of human resource management in the Group.
 - Periodically, the HRPP is reviewed to ensure policies and procedures remain relevant and appropriate controls are in place to manage operational risks. Changes, if any, are communicated to all employees via intranet.
- c. Code of Ethics
 - The Group’s Code of Ethics and Conduct sets out sound guiding principles and standards of good practice to be observed by all.
 - The Group has adopted and institutionalised Bank Negara Malaysia’s Code of Ethics for banking institutions in all its entities. It is the minimum code of conduct that is expected from all employees encompassing all aspects of its daily business operations.
- d. Human Resources has in place various initiatives and training programs to address the human capital requirement, including knowledge management.
- e. A performance-based appraisal system to evaluate and compensate/reward its employees accordingly is in place. Staff performance assessment is done annually.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

- f. Consequence Management (CM)
 - The Group has in place and adopts CM process in dealing with business or support units (or staff) whom failed to maintain its standard of internal control and compliance, to a level acceptable by the Board, GBAC and Management.
 - Current Policy and Process also links consequence of misconduct and disciplinary action vis-a-vis staff annual performance rating and compensation.
- g. The recruitment process including screening process is in place.
- h. The e-learning facilities at subsidiaries provides staff the freedom of time and space to learn and update their knowledge at their convenience while meeting the organization's needs for its employees who are spread across geography to be competent in key areas.
- i. The Group also has a Succession Planning Framework that encompasses all important areas for the Management and Board to ensure continuity of business.

10. POLICIES/PROCEDURES INCLUDING EMPOWERMENT AND APPROVING AUTHORITY POLICIES

- a. Policies and Procedures covering all functions have been developed throughout the Group and approvals have been obtained from the relevant committees and Board. The policies and procedures are updated timely to incorporate changes to systems, work environment and guidelines issued by regulators.
- b. Empowerment and Approving Authority Policies

There is a clearly defined framework and empowerment approved by the main operating subsidiaries' respective Board for acquisitions and disposals of property, plant and equipment, awarding tenders, applications for capital expenditure, writing off operational and credit items, approving general expenses including donations, etc.

11. CONCLUSION

- a. As required by Paragraph 15.23 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Audit and Assurance Practice Guide ("AAPG") 3 issued by the Malaysian Institute of Accountants. AAPG 3 does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.
- b. The Board, through the GBAC, GBRMC and Shariah Committee reviewed the effectiveness of the Risk Management and Internal Control Framework and are operating adequately and effectively in all material aspects during the financial year under review based on the Risk Management and Internal Control system adopted by the Group.
- c. Taking into consideration the assurance from the management and input from the relevant assurance providers, it is viewed that Group's Risk Management and Internal Control system are operating adequately and effectively to safeguard shareholder's investment and the Group's asset.

RISK MANAGEMENT

INTRODUCTION

Risk management is a core discipline which supports the Group's aim to achieve an appropriate balance between risk and return by optimizing the risk reward trade off. Risk Management is embedded across all business lines throughout the Group. The Group operates within its predefined risk appetite, covering diverse customer segments, industries and products, which are in line with the Group's strategic objectives. Mitigations are set to reduce the likelihood and impact of risk occurrence, and the Bank avoids entering into risks it is unable to administer, book, monitor, value or assess.

During the year under review, the risk management policies, systems and processes were reviewed and enhanced to reflect changes in markets, products and regulatory requirements to manage risks to ensure that the Group's risk profile remains prudent and within the risk appetite of the Group.

With sound risk management practices in place, the Group is able to make informed decisions on the types of risks it is willing to undertake, in line with its business goals and strategic plans.

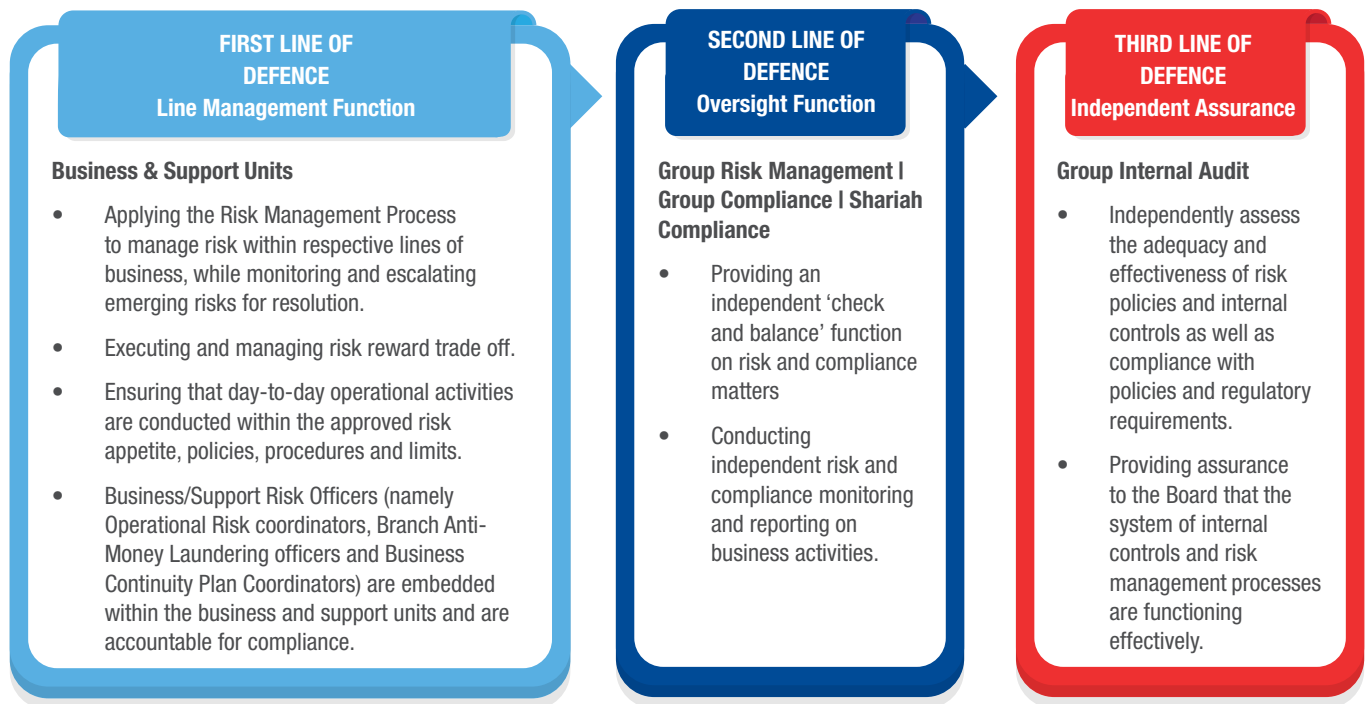
GROUP RISK MANAGEMENT FRAMEWORK ("GRMF")

An effective risk management system is vital for the Group to create value to its shareholders, customers, counterparties, employees, investors and the community it serves at large. The GRMF is an integrated enterprise-wide risk management framework encompassing governance, risk compliance and internal controls which support business and strategic activities across the Group. As risks evolve over time, the Group continues to enhance its integrated risk management approach and processes towards the effective management of enterprise-wide risks.



The governance of risk is further supported by Three Lines of Defence Model which outlines the functional segregation and key responsibilities of the independent oversight functions, as well as the business and support units.

RISK MANAGEMENT



The effective implementation of the GRMF is grounded on a robust risk culture across the Group's business and support units.

1. GOVERNANCE

The GRMF is governed by a strong oversight function comprising the Board of Directors, Board and Management Committees as well as all Business and Support units to proactively manage risks in the interests of all stakeholders. The following table summarises the risk governance structure of the Group:

Set Overall Tone:	AUDIT COMMITTEE (including subsidiary levels)
Establish Risk Appetite and Risk Management Policy	
<ul style="list-style-type: none"> Board of Directors (including subsidiary levels) Group Board Risk Management and Compliance Committee Board Risk Management Committee at subsidiary levels 	
Ensure Implementation of Risk Management Policy and Compliance	
Board Committees at subsidiary levels:	
<ul style="list-style-type: none"> Board Credit Review & Recovery Committee Shariah Committee 	
Management Committees at subsidiary levels:	
<ul style="list-style-type: none"> Management Committee Group Management Credit Committee Group Asset Liability Management Committee Group Operational Risk Management Committee Group Early Alert Committee 	
Independent Risk Control Function at subsidiary levels:	
<ul style="list-style-type: none"> Risk Management Compliance Shariah Review 	
Compliance with Risk Management Policy	
<ul style="list-style-type: none"> All Business and Support units 	

RISK MANAGEMENT**2. RISK APPETITE & STRATEGIC GOALS**

An integral component is the Risk Appetite Framework which governs the setting of risk appetite and is developed to be consistent with the Group's risk control framework and capability, while reflecting the Board's vision for future business.

The Group's risk appetite defines the amount and types of risk that the Group is able and willing to accept in pursuit of its business objectives. It also sets out the level of risk tolerance and limits to govern, manage and control the Group's risk taking activities.

The risk appetite is established based on strategic directions set by the Board, combining a top-down view of the bank's capacity to take risk with a bottom-up view of the business risk profile associated with each business unit's short to medium term plans, while taking into consideration capital and liquidity.

The Risk Appetite Statement for each subsidiary is set during the risk appetite setting process, which is undertaken at least annually in line with the ICAAP.

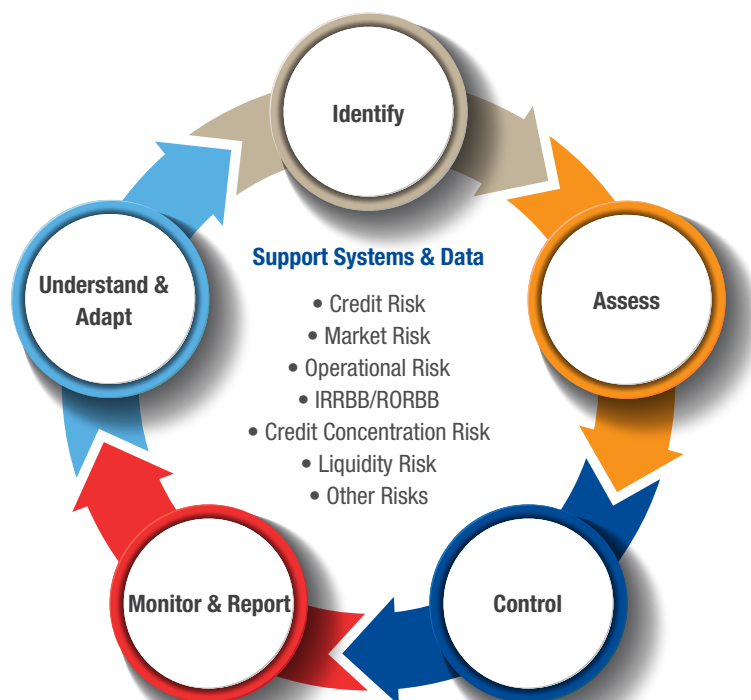
The process for assessing, setting, controlling, monitoring and reporting risk appetite are outlined in the Risk Appetite Framework.

3. RISK LIMITS & CONTROLS

Risk Limits and Controls are mitigation measures. Internal controls are established for material risks parameters through the Risk Management Process. Establishment of risk control parameters by risk type is based on the approved risk appetite, and set in accordance with regulatory limits, internal prudential thresholds and management action triggers.

4. RISK MANAGEMENT PROCESS

The management of risk across the Group is facilitated by the Risk Management Process as depicted in the diagram below:



RISK MANAGEMENT

The main types of risks faced by the Group include the following: -

- a. Credit Risk
- b. Market Risk
- c. Liquidity Risk
- d. Operational Risk
- e. Strategic Risk
- f. Reputational Risk
- g. Shariah Non-Compliance Risk
- h. Business Continuity Risk
- i. IT Risk & Cyber Risk
- j. Anti-Money Laundering/ Counter Terrorism Financing (AML/CFT)

a. Credit Risk

Introduction	<ul style="list-style-type: none"> • Credit risk is the potential financial loss resulting from the failure of the customer to settle financial and contractual obligations through lending/financing, hedging, trading and investing activities. It includes both pre-settlement and settlement risks of trading counterparties. • Credit risk emanates mainly from loans, financing and advances, loan/financing commitments arising from such lending activities, as well as through financial transaction with counterparties including interbank money market activities as well as derivative instruments used for hedging and debt securities.
Credit Risk Management	<ul style="list-style-type: none"> • The management of credit risk is governed by the Credit Risk Management Framework which is supported by a set of approved credit policies, guidelines and procedures. New and existing businesses are governed by Credit Plan which is developed as part of the annual business planning and budgeting process. It is subject to review at least annually to ensure the guidelines and criteria reflect portfolio strategy and market environment. • Assessment and quantification of credit risk are supported by the use of internal rating models, scorecards and decision support tools. Stress Testing supplements the overall assessment of credit risk.
Risk Controls	<ul style="list-style-type: none"> • Internal control parameters, risk triggers and related lending/financing guidelines are employed to control and mitigate credit risk, including large exposures and concentration of credit risk.
Monitoring & Reporting	<ul style="list-style-type: none"> • Corporate credits and large individual accounts are reviewed at least once a year. Retail credits are actively monitored and managed on a portfolio basis. An early warning process is adopted to pro-actively identify, report and manage warning signs of potential credit deterioration. • Active portfolio monitoring as well as exceptions reporting is in place to manage the overall risk profile and mitigate adverse trends or specific areas of risk concerns.

RISK MANAGEMENT**b. Market Risk**

Introduction	<ul style="list-style-type: none"> Market risk is the risk of losses in on and off-balance sheet positions arising from movements in market prices. The Group's exposure to market risk results largely from interest/profit rate and foreign exchange rate risks.
Market Risk Management	<ul style="list-style-type: none"> The Group Market Risk Management Framework is supported by a set of approved market risk management policies, guidelines and procedures. It is aided by the following tools/measures: - <ol style="list-style-type: none"> Asset Liability Management System (ALMS) Value-at-Risk (VaR) Earnings-at-Risk (EaR) or Net Interest Income/Net Profit Margin simulation Economic Value of Equity (EVE), also known as Economic Value-at-Risk (EVaR) Thresholds on the level of exposure by currency and in aggregate for both overnight and intra-day positions. Periodic stress tests are performed to supplement the quantification of market risk.
Risk Controls	<ul style="list-style-type: none"> Market risk arising from the trading book is primarily controlled through the imposition of Stop-loss, Net Open Position (NOP) and Value-at-Risk (VaR) risk control parameters. Risk control parameters are established based on risk appetite, market liquidity and business strategies as well as macroeconomic conditions. Thresholds are set for EaR and EVaR as management triggers. Back testing of market risk computation systems is conducted to gauge the accuracy of the risk measurement systems.
Monitoring & Controls	<ul style="list-style-type: none"> The risk control parameters are reviewed at least annually. Market risks reports are produced daily, monthly, quarterly and annually to the respective stakeholders and committees.

c. Liquidity Risk

Introduction	<ul style="list-style-type: none"> 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 recognize changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.
Liquidity Risk Management	<ul style="list-style-type: none"> The Group Liquidity Risk Management Framework governs the liquidity risk management activities of the Group. The Group'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. Liquidity stress tests are conducted periodically and on ad-hoc basis to gauge the Group's resilience in the event of a liquidity disruption. The Contingency Funding Plan provides a systematic approach in handling liquidity disruption.
Risk Controls	<ul style="list-style-type: none"> The Group employs a set of liquidity risk indicators as an early alert of any functional and structural change for liquidity risk management. The liquidity risk indicators include internal and external qualitative as well as quantitative indicators.
Monitoring & Reporting	<ul style="list-style-type: none"> Liquidity risk reports are produced daily, monthly, quarterly and annually for the respective stakeholders and committees. The liquidity risk indicators are reviewed at least annually to reflect changes in market conditions as well as the Group's business strategy.

RISK MANAGEMENT

d. Operational Risk

Introduction	<ul style="list-style-type: none"> Operational risk is the risk of direct or indirect loss resulting from inadequate internal processes, people and systems or external events. The definition includes legal risk, which is the risk of loss resulting from failure to comply with laws as well as prudent ethical standards and contractual obligations. It also includes the exposure to litigation from all aspects of the Bank's activities. However, the definition does not include strategic business, reputational and systemic risks.
Operational Risk Management	<ul style="list-style-type: none"> The Group Operational Risk Management Framework governs the management of operational risk across the Group. Operational risks are managed daily through established systems and processes to comply with policies, guidelines and control procedures. The following tools are employed: - <ol style="list-style-type: none"> Risk Control Self-Assessment (RCSA); Key Control Standards (KCS); Key Risk Indicator (KRI); and Loss Event Database (LED) Operational Risk Coordinators (ORC) are appointed at Business and Support Units as champions of ORM activities within respective units. The ORC is responsible for the reporting of ORM activities and to liaise with Group Operational Risk Management on all operational defects and results.
Risk Controls	<ul style="list-style-type: none"> All Business/Support Units must operate within the Operational Risk Management Policy and Framework Manuals, and the relevant Business Procedural Manuals.
Monitoring & Reporting	<ul style="list-style-type: none"> The risk management tools i.e. LED, KCS, KRI and RCSA provide a consistent approach for providing operational risk information to senior management. An escalation process is in place for the reporting of key operational risk issues and significant losses.

e. Strategic Risk

Introduction	<ul style="list-style-type: none"> Strategic risk is the risk of loss arising from strategic initiatives (including merger and acquisition, new business initiatives and expansions, strategic investments, partnerships) or risk arising from changes in the Group's businesses (including the risk that the Group may not be able to fulfil its business plan and business strategy).
Strategic Risk Management	<ul style="list-style-type: none"> Strategic risk is identified and assessed through periodic reviews whereby business strategies are refined where necessary to adapt to the evolving environment the Group operates in.
Risk Controls	<ul style="list-style-type: none"> Strategic risk is controlled and mitigated through an integrated approach where risk appetite, business objectives, budget and credit plans are aligned.
Monitoring & Reporting	<ul style="list-style-type: none"> To track the effective execution of strategic initiatives, performance reports against business targets are closely monitored at management and Board levels.

RISK MANAGEMENT**f. Reputational Risk**

Introduction	<ul style="list-style-type: none"> Reputational Risk is the potential of damage resulting in loss of earnings or adverse impact on market capitalization of the Group as a result of existing or potential stakeholders taking a negative view of the Group and/or its subsidiaries on its actions.
Reputational Risk Management	<ul style="list-style-type: none"> The management of reputational risk is a Group wide responsibility undertaken by each business and support unit. The Group's reputation is cultivated through the activities that promote the Group image and brand. Processes are in place to identify emerging issues, anticipate threats and analyze trends to assess and manage impact to the Group's reputation.
Risk Controls	<ul style="list-style-type: none"> Policies and processes are emplaced for the proactive mitigation of risks related to the Group's reputation.
Monitoring & Reporting	<ul style="list-style-type: none"> Risk management tools are used to identify and monitor key risk factors associated with reputational risk, including operational risk, liquidity, and AML/CFT tools, as well as online and social media.

g. Shariah Non-Compliance (SNC) Risk

Introduction	<ul style="list-style-type: none"> 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 (SAC) of BNM, standards on Shariah matters issued by BNM or decisions or advice of the Shariah Committee that are consistent with the rulings of the SAC.
Shariah Risk Management	<ul style="list-style-type: none"> Shariah Risk Management (SRM) is established in line with the requirement of BNM's Shariah Governance Framework for Islamic Financial Institutions. SRM, which is part of the integrated risk management control function, assists the Business Unit/Functional Lines to systematically identify, measure, monitor and control SNC risks by providing risk assessment tools and methodologies. The scope of SRM covers overall business activities and operations, from Islamic product origination to maturity. In addition, SRM also has an oversight role in other risks inherent to AFFIN Islamic Bank including credit, operational and market risks. The Bank's Shariah Risk Management Framework outlines the governance and oversight structure for managing SNC risk and sound approaches to SNC risk identification, assessment, monitoring and reporting.
Risk Controls	<ul style="list-style-type: none"> <u>Product Programs and approval process</u> All Islamic products, processes, and strategies must be reviewed and approved by the Shariah Committee. A post-implementation review will be submitted 6 months after product launch to ensure compliance with all the requirements and if there is any emerging issue identified for rectification. <u>Risk and Control Self-Assessment</u> Each Business Unit and Functional Line is responsible to identify and assess potential SNC risk through performing the Shariah Risk Control and Self-Assessment annually or as and when significant events occur, whether internal or external incidents. <u>Shariah Review</u> The Shariah Review team will conduct an independent review to ensure that all contract documentation, including all terms and conditions that govern the relationship between the bank and the customer, fully comply with Shariah rules and principles.
Monitoring & Reporting	<ul style="list-style-type: none"> Internal control deficiencies and SNC events are reported in a timely manner to the Management, Shariah Committee and the Board SRM periodically consolidates SNC Key Risk Indicators reports to alert Management of changes that may have risk concerns. SRM also provides input to the Bank's capital management by conducting quarterly stress testing on SNC risk.

RISK MANAGEMENT

h. Business Continuity Risk

Introduction	<ul style="list-style-type: none"> Business continuity risk is the risk of loss in assets, revenue, reputation and stakeholder/customer confidence due to the discontinuation of services in both business and technology operations. Low resilience to the following threats may lead to this risk, which results in irreconcilable losses to the Group, given the high magnitude of impact: - <ul style="list-style-type: none"> Unanticipated technology and infrastructure outages Cyber attack Fire incidents Security breaches Data breaches Adverse condition of environment (natural disaster) Supply chain disruption Health and safety issues Act of terrorism New law and regulations
Business Continuity Risk Management	<ul style="list-style-type: none"> The Business Continuity Management Policy governs the management of service continuity issues across the Group, in line with BNM Guidelines on Business Continuity Management (BCM). The Crisis Management Team (CMT) has been established to enable the BCM process to be activated whenever the need to immediately respond to a major incident/crisis arises. Annual Risk Assessment and Business Impact Analysis are undertaken by business and support units, for onward development of respective Business Continuity Plans.
Risk Control & Mitigation	<ul style="list-style-type: none"> Risk control is established through adherence to established BCM guidelines and standards. 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 services.
Monitoring & Reporting	<ul style="list-style-type: none"> Policies and processes are in place to support the monitoring and reporting of service continuity risks.

i. IT Risk & Cyber Risk

Introduction	<ul style="list-style-type: none"> IT Risk and Cyber Risk are inter-connected. IT Risk is the Risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an organization. Cyber risk refers to losses, disruption or damage to the bank's reputation due to failure of its information technology systems. IT risks include hardware and software failure, human error, spam, viruses and malicious attacks, as well as natural disasters such as fires, cyclones or floods.
IT Risk Management	<ul style="list-style-type: none"> The IT Risk Management Framework covers an end-to-end process of managing IT Risk within the Bank, including governance, Risk Management Approach, Risk Management Process, Risk Management Tools and Exception Process. The Risk Management Process is in line with the Operational Risk Management Framework, which includes risk identification, risk analysis, risk mitigation as well as risk monitoring and reporting.
Risk Control	<ul style="list-style-type: none"> Policies and processes are in place for the proactive management of IT risk throughout the Group.
Monitoring & Reporting	<ul style="list-style-type: none"> Monitoring of IT Risk Appetite Statement is conducted regularly to ensure that it is within the Group's tolerance limits. The risk management tools provide a consistent approach for providing IT risk information to senior management. An escalation process is in place for the reporting of key IT risk issues and significant losses.

RISK MANAGEMENT**j. Anti-Money Laundering/ Counter Terrorism Financing (AML/CFT)**

Introduction	<ul style="list-style-type: none"> The AML/CFT Program addresses the money laundering & terrorist financing risks through internal policies, procedures and controls to detect money laundering and financing of terrorism as well as to manage and mitigate the risk of it occurring.
AML/CFT Risk Management	<ul style="list-style-type: none"> The AML/CFT Policy governs the management of AML/CFT Group wide. AML/CFT Awareness programs are conducted regularly to inculcate and reinforce AML/CFT compliance awareness culture amongst the staff. AML/CFT risks are managed daily through established processes to comply with policies, guidelines and control procedures. Risk Control Self-Assessment (RCSA) and monitoring reports are used to identify and assess AML/CFT risk issues and exposure. Designated Business Unit Compliance Officers (BUCOs) are appointed at business units and branches to manage and execute AML/CFT policy and regulatory requirements as first line of defense.
Risk Control & Mitigation	<ul style="list-style-type: none"> All business and support units, including branches must operate within the AML/CFT Policy and Framework manuals, and the relevant business / branch procedural manuals.
Monitoring & Reporting	<ul style="list-style-type: none"> The Bank has taken initiatives by introducing the new AML system to automate the on boarding screening and uses "Behavioral Monitoring" mechanism to detect any abnormal transactions performed. This AML system shall generate alerts for Transaction Monitoring on Bank wide transactions which lead to further checking and reporting to the regulators.

5. RISK CULTURE & AWARENESS

The inculcation of a risk awareness culture is a key aspect of an effective enterprise-wide risk management framework. The key factors of the Group's risk culture are as follows: -

- Strong corporate governance
- Organizational structure with clearly defined roles and responsibilities
- Effective communication and training
- Commitment to compliance with laws, regulations and internal controls
- Integrity in fiduciary responsibilities
- Clear policies, procedures and guidelines

Recognising the importance of a healthy risk culture in an organization, the Group introduced the Risk & Compliance Management Pillar as a key part of the AFFINITY programme. This is intended to embed deep appreciation and understanding of Ethics, Risk and Compliance into day-to-day business activities and processes. To ensure effectiveness, Group has collaborated with Asian Banking School to conduct a customised in-house training program entitled "Ethics, Risk and Compliance Culture Awareness".

RISK MANAGEMENT

RISK MANAGEMENT INITIATIVES

The Group continues to strengthen the risk management function through continued improvement in risk management practices. The notable risk management achievements during the financial year include:

- Winner of the Liquidity Risk Technology Implementation of the Year for 2017 in The Asian Banker Risk Management Awards 2017 against peers in Asia Pacific region for the implementation of Asset Liability Management System (“ALMS”)
- Collaboration with Asian Banking School on Ethics, Risk and Compliance Culture Awareness program
- Embarked on a broad-based Risk Management Review initiative
- Implementation of bank-wide funding plan/structure for 2017 to improve AFFINBANK’s funding structure and cost efficiency
- Strengthening of Risk Management frameworks and practices, including the following:
 - Formulation of new Risk Appetite Framework
 - Formalisation of 5 key pillars guiding the setting of risk appetite
 - Development of new Operational Risk Management Scenario Analysis Policy
 - Enhancement of Shariah Risk Management Framework and RCSA methodology
 - Enhancement of BCM Policy as well as Risk Assessment and Business Impact Analysis methodologies
 - Development of new Pandemic and Tsunami Preparedness & Response Plans
- Comprehensive trainings on Operational Risk Management, Shariah Non-Compliance (“SNC”) Risk Management, Business Continuity Management and implementation of MFRS 9.

BOARD AUDIT COMMITTEE REPORT

The Board of Affin Bank is pleased to present the Report on Board Audit Committee (BAC) for the Financial Year ended 31 December 2017.

BOARD AUDIT COMMITTEE (BAC)

The BAC comprises of the following Members:

- 1. En. Abd Malik Bin A Rahman**
Chairman/Independent Non-Executive Director
(Appointed as Chairman on 26 January 2018)
- 2. YBhg. Tan Sri Mohd Ghazali Bin Mohd Yusoff**
Member/Independent Non-Executive Director
(Chairman until 25 January 2018 and remained as member until 2 April 2018)
- 3. YH Associate Prof Dr Said Bouheraoua**
Member/Independent Non-Executive Director of AFFIN Islamic Bank Berhad
- 4. Dato' Mohd Hata Bin Robani**
Independent Non-Executive Director
(Appointed as member on 2 April 2018)
- 5. YBhg. Tan Sri Dato' Sri Abdul Aziz Bin Abdul Rahman**
Member/Non-Independent Non-Executive Director of AFFIN Islamic Bank Berhad
(Ceased to be a member upon completion of his tenure of directorship w.e.f. 1 November 2017)
- 6. YBhg. Tan Sri Dato' Seri Mohamed Jawhar Hassan**
Member/Non-Independent Non-Executive Director
(Ceased to be a member upon completion of his tenure of directorship w.e.f. 1 July 2017)

TERMS OF REFERENCE

1. OBJECTIVE

Board Audit Committee (BAC) is established as a Committee of the Board of Directors.

The primary objectives of Board Audit Committee are to:

- Establish the framework for and oversee the audit function of Affin Bank Group;
- Provide assistance to the Board in fulfilling its statutory and fiduciary responsibilities in ensuring that good Corporate Governance, system of internal controls, codes of conduct and compliance with regulatory and statutory requirements are maintained by the Affin Bank Group;
- Implement and support the function of the Board by reinforcing the independence and objectivity of the Group Internal Audit Division (GIA); and
- Ensure that Internal and External Audit functions are properly conducted and audit recommendations are implemented effectively.

2. COMPOSITION AND APPOINTMENT

- BAC shall have at least three (3) members of whom all must be Non-Executive Directors with a majority of them being Independent Directors. The Chairman of the Committee shall be an Independent, Non-Executive Director. No Alternate Director shall be appointed to the BAC.
- At least one (1) member of the Committee must be a qualified accountant.
- BAC members and the Chairman shall be appointed by the Board of Directors based on the recommendations of the Board Nomination and Remuneration Committee.
- The Board shall review the Terms of Reference and performance of the BAC and each of its members annually or as and when required to ensure the BAC carries out its duties.
- If a member of the Committee resigns or for any reason ceases to be member in the BAC resulting in non-compliance with the requirements, then the Board shall, within three (3) months of the events, appoint such number of new members as may be required.
- The BAC shall have no executive powers.

BOARD AUDIT COMMITTEE REPORT

3. QUORUM

The quorum for a meeting of the Committee shall be two thirds (2/3) of the Committee with the majority present being Independent, Non-Executive Directors. If the Chairman is unable to attend any meeting, any other Independent, Non-Executive member present shall act as Chairman. All resolutions of the Committee shall be adopted by a simple majority vote, each member having one (1) vote. In case of equality of votes, the Chairman shall have a second or casting vote.

4. ATTENDANCE OF MEETINGS

- a. The notice of meeting should be served to the BAC members at least seven (7) days before the meeting. The agendas and BAC papers are to be circulated at least five (5) days before each meeting.
- b. The Group Chief Internal Auditor is invited to attend all meetings of the Board Audit Committee.
- c. The Committee may invite other Board members, members of Management, External Auditors or any employees as applicable to participate in the BAC meetings as necessary to carry out the Committee's responsibilities.
- d. All the original Minutes of BAC meetings are in the custody of the Company Secretary and shall be signed by the Chairman of the meeting at which the proceedings are held or by the Chairman of the next succeeding meeting. The signed minutes shall be conclusive evidence without any further proof of the facts thereon stated. Minutes of each meeting shall be distributed to the BAC members and all other members of the Board.

5. FREQUENCY OF MEETINGS

- a. The BAC shall meet at least six (6) times in a financial year with the objective of reviewing the internal audit reports and Affin Bank Group's financial reporting. The BAC complements this through regular meetings with the Senior Management and both the Internal and External Auditors to review the Affin Bank Group's overall state of governance and internal controls.

To ensure that critical issues are highlighted to all Board members in a timely manner, where possible, the BAC meetings are convened before the Board meetings. The BAC, through its Chairman, shall report to the Board after each meeting where issues can be further deliberated, if necessary.

- b. Besides the minimum of six (6) BAC meetings in a year, additional meetings shall be scheduled whenever deemed necessary by the BAC's Chairman or the majority of the Committee members.

6. AUTHORITY

The BAC is authorised by the Board to :-

- a. Investigate any activity or matter within its Terms of Reference;
- b. Be able to obtain external legal or other independent professional advice or other necessary resources to perform its duties;
- c. Have full and unrestricted access to any information pertaining to the Group;
- d. Maintain direct communication channels with the External Auditors, Internal Auditors and all employees of the Group;
- e. Be able to convene meetings with the External and Internal Auditors; excluding the attendance of the members of management Committee at least twice a year; and
- f. Report to the Regulatory Bodies on matters duly reported by it to the Board which have not been satisfactorily resolved resulting in a breach of any regulatory requirements.

BOARD AUDIT COMMITTEE REPORT

7. FUNCTIONS AND DUTIES

The functions and duties of BAC shall include, but not limited to the following:

- a. To review the Quarterly Financial Results and Year-End Financial Statement prior to the approval by the Board focusing on the followings:
 - Changes in or implementation of major accounting policy;
 - Significant and unusual events or any going concern assumption;
 - Significant adjustments arising from the audit; and
 - Compliance with accounting standards, disclosure requirements and other legal requirements.
- b. To act upon any request from the Board to investigate and report on any issues of concern as regard to the Management of the Group.
- c. To obtain external professional advice and to invite outsiders with relevant experience to attend meetings, subject to the approval of the relevant regulatory body, where necessary.
- d. To recommend to the Board the appointment of External Auditors and their audit fee.
- e. To review with the External Auditors the scope of the audit plan, system of internal controls, the audit reports (including Management letter and Management response), the assistance given by the Management and any findings or action to be taken.
- f. To meet with the External Auditors without the presence of members management at least twice a year.
- g. To review the proposals for non-audit services rendered by the External Auditors or 3rd parties. If the External Auditors are engaged, the BAC is responsible for ensuring that such engagement does not compromise the independence of the External Auditors in their roles as Statutory Auditors of the Group.
- h. To review the adequacy and effectiveness of the Group's control environment.
- i. To consider the major findings of internal investigations and Management response.
- j. To review the findings of any examinations by regulatory authorities and the Management response.
- k. To review existing policies and practices within the Group in order to regulate and streamline the same to ensure uniformity.
- l. To ensure that the accounts are prepared in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies, bad and doubtful debts.
- m. To review any related party transactions that may arise within the Affin Bank Group.
- n. To review the adequacy of the scope, functions, competency and resources of the Group Internal Audit Division and the necessary authority to carry its work. The review may cover the planned audit work, internal audit programmes, the results of completed work and Management implementation of agreed actions as recommended by Group Chief Internal Auditor (GCIA). Where appropriate, the Committee may direct the Management to rectify and improve the system of internal controls and procedures based on the Group Internal Auditors' recommendations and suggestions for improvements.

BOARD AUDIT COMMITTEE REPORT

BOARD AUDIT COMMITTEE MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

During the Financial Year Ended 31 December 2017, a total of twelve (12) BAC meetings were held. The BAC members and details of the attendance of each member at the meetings are as follows:

Name of Committee Member	Attendance
En. Abd Malik Bin A Rahman Chairman/Independent Non-Executive Director (Appointed on 26 January 2018)	-
YBhg Tan Sri Mohd Ghazali bin Mohd Yusoff Chairman/Independent Non-Executive Director (Chairman until 25 January 2018 and remained as member until 2 April 2018)	12/12
Associate Prof Dr Said Bouheraoua Member/Independent Non-Executive Director	12/12
Dato' Mohd Hata Bin Robani Independent Non-Executive Director (Appointed as member on 2 April 2018)	-
YBhg Tan Sri Dato' Sri Abdul Aziz bin Abdul Rahman Member/Non-Independent Non-Executive Director of AFFIN Islamic Bank Berhad (Ceased to be a member upon completion of his tenure of directorship w.e.f 1 November 2017)	11/11
YBhg Tan Sri Dato' Seri Mohamed Jawhar Hassan Member/Non-Independence Non-Executive Director (Ceased to be a member upon completion of his tenure of directorship w.e.f 1 July 2017)	5/5

The BAC is in compliance with the principles and best practices set out in the Malaysian Code on Corporate Governance. The BAC members comprised individuals with a diversity of skills, knowledge and caliber in providing independent, objectivity and effective oversight.

The BAC meetings' agendas, relevant BAC papers and audit reports were distributed to the BAC members five (5) days prior to the date of the meetings.

The Company's External Auditors attended two (2) BAC meetings during the period. There were discussions between the BAC and the External Auditors with regard to significant audit issues, changes in the implementation of major accounting policies, compliance with accounting standards and other legal requirements including regulatory requirement and business issues highlighted by them for Financial Year Ended 31 December 2017. The BAC had also reviewed the External Auditors' Audit Plan for the Financial Year Ending 31 December 2017.

In addition, the External Auditors were invited to attend the annual general meeting to respond to shareholders' question on audit related issues. The BAC also had direct and unrestricted access to the Internal Auditors and had ad-hoc discussions with the Internal Auditors without the presence of Management.

As the Board is ultimately responsible for the financial reporting and overall management of the Affin Bank Group, the Chairman of the Board Audit Committee had consistently briefed the Board of Directors on issues discussed at the BAC meetings and the minutes of the BAC meetings are tabled to the Board for information and action by the Board where appropriate.

BAC members had attended trainings in the Financial Year Ended 2017 for continuous improvements.

SUMMARY OF ACTIVITIES OF THE BOARD AUDIT COMMITTEE

The BAC has carried out the following activities in discharging its duties and responsibilities for the Financial Year Ended 31 December 2017:

1. EXTERNAL AUDIT

- a. Reviewed the 2017 Audit Plan to ensure the scope of work adequately covered the activities of Affin Bank Group.
- b. Reviewed the significant audit, accounting, taxation and other matters raised by the external auditors; and
- c. Reviewed and evaluated the External Audit performance, objectivity and independence during the year before recommending to the Board for their reappointment.

BOARD AUDIT COMMITTEE REPORT

2. NON-AUDIT SERVICES

Reviewed the non-audit services rendered by the External Auditors or 3rd parties.

3. GROUP INTERNAL AUDIT

- a. Reviewed and approved the Group Internal Audit Annual Plan (proposed by Group Chief Internal Auditor) and Training Budget for Year 2017 in ensuring that adequate scope and comprehensive coverage on the audit activities and critical risk areas are adequately identified and covered;
- b. Reviewed and evaluated the adequacy of resources and the competencies of staff within the Group Internal Audit Division (GIA) to execute the plan as well as the audit programmes used in the execution of Group Internal Auditors' job to ensure satisfactory performance of GIA;
- c. Reviewed the internal control issues identified by GIA, External and Regulatory Auditors as well as Management response to audit recommendations and implementation of agreed action plans with particular attention on the following:
 - Control environment (integrity, ethical values and competency of the personnel);
 - Control activities (policies and procedures),
 - Risk assessment (identified and assessed relevant risks and its preventive measure); and
 - Monitor the status of corrective actions taken by Management to rectify any deficiencies identified by Internal Audit as well as ensuring that all issues are adequately resolved on a timely basis;
- d. Reviewed the status report of Group Internal Audit activities for the Financial Year Ended 31 December 2017 to ensure all the planned activities were satisfactorily carried out;
- e. Reviewed the summary of audit findings by significant operating entities' Internal Auditors to ensure their significant audit findings especially on the investigations, fraud and non-compliances with regulatory and statutory requirements were promptly resolved;
- f. Reviewed quarterly status update on issues highlighted in the External Auditors' Audit Reports compiled by the Group Internal Auditors based on submissions by the significant operating entities' Internal Auditors to ensure that significant issues were addressed and resolved on a timely basis; and
- g. Reviewed the Board Audit Committee Terms of Reference and Group Internal Audit Manual.

4. FINANCIAL RESULTS

- a. Reviewed with the senior Management the quarterly and interim unaudited financial results before recommending to the Board for their approval.
- b. Reviewed with the senior Management and External Auditors the annual audited financial statements of the Company before recommending to the Board for their approval. The review is focusing on the matters set out in the following Requirements, Acts and Standards:
 - Provisions of the Companies Act;
 - Financial Services Act and Islamic Financial Services Act;
 - Applicable approved accounting standards in Malaysia; and
 - Other relevant legal and regulatory requirements.

5. RELATED PARTY TRANSACTIONS

Reviewed related party transactions and recurrent related party transactions and the appropriateness of such transactions to avoid potential or actual conflict of interest. This is also to ensure that decisions are based on the best interest of the company and its shareholders.

6. OTHERS

Reviewed the Statement on Internal Control and Board Audit Committee Report for inclusion in the Year 2017 Annual Report before recommending to the Board for approval.

BOARD AUDIT COMMITTEE REPORT

GROUP INTERNAL AUDIT FUNCTION

Independence

- a) The GIA function is established by the Board to undertake independent review and assessment on the adequacy, efficiency and effectiveness of risk management, control and governance processes implemented by the Management. Group Internal Audit reports functionally to the Board Audit Committee (BAC) and administratively to the GCEO. It is independent from the activities or operations of other operating units in the Group.
- b) The GIA function is guided by its Audit Charter (as approved by the BAC) which defines the mission & objective, responsibility, accountability, authority, independence & objectivity and professionalism & ethical standards of the GIA function of the Group.

Profile and qualification

- a) Group Internal Audit is headed by Puan Khatimah Mahadi who is a qualified Chartered Banker. She has served more than 35 years as Chief Internal Auditor in various local and foreign financial institutions throughout her entire career. She is assisted by 48 qualified auditors from various disciplines mainly operations, credit, information technology, risk management, Islamic banking, fraud and investigation, treasury, finance/accounting, investment banking, stockbroking and asset management.
- b) In order to perform its functions effectively, the auditors are continuously sent for training to equip themselves with the requisite product knowledge and skills especially in the areas of Islamic Banking, Treasury, Credit, Investment Banking, Information Technology, Asset Management and etc.

Responsibility

- a) Its primary role/responsibility is to assist the BAC to discharge its duties and responsibilities by independently reviewing and reporting on the adequacy and integrity of the Group's risk management, internal control and governance processes; in order to provide reasonable assurance that such frameworks and systems continue to operate efficiently and effectively and in line with the relevant regulatory requirements.
- b) Group Internal Audit adopt a risk-based approach towards the planning and conduct of audits, which is consistent with the Group's framework in designing, implementing and monitoring its internal control system; as approved by the BAC. The scope of coverage encompasses all key units and operations of the Group. The Group Internal Audit's processes and activities are governed by the regulatory guidelines as well as the Group's Code of Ethics and IIA's mandatory guidance, which includes the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (Standards).
- c) The Group Internal Audit closely monitored the implementation of the audit recommendations in order to obtain assurance that all major risk and control concerns have been duly addressed. Audit reports were presented to the management and BAC;
- d) Group Internal Audit worked closely with the external auditors to ensure that significant issues are duly addressed and resolved on a timely basis; and
- e) The total Group Internal Audit's cost for year 2017 is approximately RM8.03 million, comprising mainly salaries, travelling, accommodation expenses and subsistence allowances for audit assignments.