ALLIANCE BANK ISLAMIC BANK

REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

Wirdalina Tauhed & Daughter
Founder of Wirdora
BizSmart® Challenge 2018 Finalist

ALLIANCE ISLAMIC BANK BERHAD
200701018870 (776882-V)
(Incorporated in Malaysia)

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DIRECTORS' REPORT

The Directors present their report together with the audited financial statements of the Bank for the financial year ended 31 March 2020.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in all aspects of Islamic banking and finance business and the provision of related financial services. Islamic banking and finance business refers generally to the acceptance of deposits and granting of financing and all other activities allowed under the Islamic Financial Services Act, 2013 and the Shariah principles.

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

FINANCIAL RESULTS

	RM'000
Profit before taxation	99,108
Taxation	(24,882)
Net profit for the financial year	74,226

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

DIVIDENDS

The amount of dividends declared and paid by the Bank since 31 March 2019 were as follows:

		RM'000
(i)	A single tier second interim dividend of 8.00 sen per share, on 345,045,045 ordinary shares in respect of the financial year ended 31 March 2019, was paid on 20 June 2019.	27,604
(ii)	A single tier first interim dividend of 5.92 sen per share, on 345,045,045 ordinary shares in respect of the financial year ending 31 March 2020, was paid on 23 December 2019.	20,427
		48,031

The Directors do not propose any final dividend in respect of the financial year ended 31 March 2020.

BUSINESS REVIEW FOR FINANCIAL YEAR ENDED ("FYE") 31 MARCH 2020

The Bank recorded a lower Net Profit After Tax (NPAT) of RM74.2 million for the financial year ended 31 March 2020, representing a decrease of RM41.6 million or 35.9% compared to the last financial year. The lower profits were largely due to increased credit costs and higher deposits funding costs.

The increase in credit costs came from our consumer segment and some of the accounts in our commercial and small-medium enterprise (SME) portfolios, while the Bank did not have the benefit of a write-back this financial year to mitigate this, compared to the last financial year.

Better Financing Growth
In terms of the financing business, the Bank recorded growth but noted a compression of margins mainly due to higher cost of funds and cuts to the Overnight Policy Rate. Despite these challenges, the Bank was able to exceed targets and grow our balance sheet by about 15.8%. Gross financing and advances expanded to RM10.8 billion.

Higher Other Operating Income
The Bank also noted an improvement in non-financing revenue from our takaful, unit trust and treasury activities. As a result, other operating income grew by 29.8% to RM34.5 million.

Operating Expenses
Other operating expenses increased by RM11.5 million or 9.7%, while cost to income ratio edged up slightly by 0.4% to 38.8%.

Asset Quality
Net credit cost increase of 61bps YOY. The increase was contributed by a few large accounts and the mortgage portfolio.

Gross impaired financing (“GIF”) ratio stood at 2.15%. The increase was mainly from the residential properties’ portfolio, as well as a few large business accounts. This was partly mitigated by repayments in the non-residential properties portfolio and several business accounts.

The Bank continues to intensify proactive credit management including the refinement of credit policies, tightening of credit underwriting and enhanced collection efforts to control credit costs.

Financing loss coverage (including Regulatory Reserve) remained stable at 100.5%.

Healthy Funding and Liquidity Position
We have grown our deposits base despite the challenging environment and increased our CASA ratio to deposits from 30.7% to 31.9%. Total customer deposits stood at RM11.8 billion, marking a 18.8% year-on-year growth. Term deposits grew RM1.2 billion 16.8% year-on-year.

The Bank maintained a Total Capital ratio of 14.2%, with a Common Equity Tier 1 Capital ratio of 10.5% and Tier 1 Capital ratio at 11.6% as at 31 March 2020.

Value Based Intermediation (“VBI”)
The Bank has anchored on the principles of VBI to introduce differentiated propositions to our customers. This includes the One-Stop Halal Business Solution to assist SMEs to access the halal market successfully, and Sociobiz to economically empower individuals in the B40 segment through business. In addition, we have also launched the Do-Good-As-You-Go programme that enables customers to donate the profit from their fixed deposit to a charity of their choice.

BUSINESS REVIEW FOR FINANCIAL YEAR ENDED ("FYE") 31 MARCH 2020 (CONTD.)

Shariah Governance

In 2019, Bank Negara Malaysia introduced a new Policy Document on Shariah governance. In response, the Bank has enhanced its overall Shariah compliance and governance, to be aligned with the framework, especially in the context of the enhanced governance requirements for the Shariah committee and Board. In order for the board to take on this role effectively, there is a need to introduce controls and new capabilities within the team and the Bank to support the Board.

Corporate Social Responsibility

In 2019, the Bank supported 17 community empowerment campaigns through SocioBiz, of which 16 were fully funded with an investment of over RM100,000. In addition, we also supported the winners of the Eco-Biz Dream Project with funding of RM200,000 for a filter created out of oil palm waste (biochar) that was used to clean a river. The Bank also made zakat contributions of RM700,000 to various parties.

ECONOMIC OUTLOOK AND PROSPECTS FOR FYE 31 MARCH 2021

For 2020, Bank Negara Malaysia (BNM) foresees Malaysia's gross domestic product (GDP) growth to be ranging between -2% and +0.5% year-on-year, compared to +4.3% in the preceding year. Signs of economic contractions are mainly attributed to the sharp decline in global economic and trade activities in the first quarter of 2020, as well as the unprecedented measures taken by various countries to combat the COVID-19 pandemic which have led to severe difficulties for businesses all over the world.

Malaysia's economy has also been affected by the Movement Control Order (MCO). According to an online survey done by the Department of Statistics (carried out from 23 to 31 March 2020), there are signs that domestic private consumption (which makes up 59% of Malaysia's GDP) will be weak in the near-term as monthly household spending has fallen 55% from RM6,317 to RM2,813.

The survey also shows that apart from food staples, communications and education, all other consumption categories have recorded sharp declines due to travel restrictions and closures of non-essential businesses. Post MCO, the normalisation of consumer behaviour may be gradual as precautionary social distancing practices continue. As such, private consumption growth is expected to expand at a slower pace, while weaker global demand will continue to weigh on oil prices.

BNM is also expecting the COVID-19 pandemic to lower external demand drastically as global supply chains are disrupted due to prolonged factory closures in key industrial hubs worldwide. As a result, BNM is expecting Malaysia's exports and imports to fall 13.6% and 11.9% year-on-year respectively mainly due to a dampened domestic manufacturing sector.

BUSINESS OUTLOOK FOR FYE 31 MARCH 2021

Despite the uncertain outlook, we believe that banking will continue to play an important role in facilitating the recovery of businesses and serving the needs of customers.

Internally, we will be revamping the business model of our distribution to bring banking directly to our customers by going beyond the confines of a physical location. To do this, we will accelerate our development efforts of digital tools to enable banking to be done through mobile devices. Equipping our bankers with these tools and the requisite knowledge will thus enable the Bank to quickly adapt to a post COVID-19 environment where customers are likely to shun gathering in enclosed places. Our eventual goal is to create universal bankers with sales and advisory skills to deliver consistent and excellent service to fulfil our customers' basic banking needs anytime and anywhere.

For SME banking, the Bank will continue to expand our solutions-based approach through strategic ecosystem partnerships to address the customer journey. The Bank's Halal-in-One programme, executed by Alliance Islamic Bank, is an example of this approach that aims to bridge the gaps for businesses that want to succeed in the halal market. Leveraging on partnerships and collaborations, we now provide end-to-end services with Halal certification support, business matching and funding.

Our Action Plan to address economic headwinds

As we move forward into 2020, effects of the COVID-19 pandemic, the collapse of oil price and weaker commodities price on the wider economy are likely to lead to slower overall loan growth and credit stress for the Bank. We have implemented new strategies to help mitigate the impact on the Bank and our stakeholders throughout this crisis.

- For our employees, we have activated operation in separate locations for critical departments and enforced work-from-home arrangements to ensure essential services continue with minimal interruption, while protecting everyone's health. In addition to this, we provided a one-off subsidy to lower income staff for incidental expenses.

- For our customers, we are committed to helping them manage the headwinds through the 6-month automatic loan moratorium announced by the Government. We have also designed restructuring and rescheduling options for all customers including but not limited to facilitating applications to the Special Relief Fund, Credit Guarantee Corporation and Danajamin.

- To support our communities, we contributed RM500,000 to MERCY Malaysia's COVID-19 Pandemic Fund. We have also launched the #SupportLokal initiative to help SMEs promote their products and services in our digital channels. The bank allocated RM100,000 zakat to fund the purchase of emergency relief for medical frontliners working at Hospital Kuala Lumpur and and other hospitals.

For the Bank, we will be paying close attention to managing our credit and liquidity risks. We will also be working out the details of post-moratorium repayment arrangements with our customers. Addressing the needs of our customers at this juncture will help us strengthen our relationships for the long term success of both the Bank and our clients. The Bank continues to maintain ample liquidity coverage and loan to funds ratios, and we are ensuring cash levels at our branches and self-service terminals remain ample at all times.

We will also remain vigilant in managing our credit portfolios and conservative in our provisioning practices.

RATING BY EXTERNAL RATING AGENCY

The Bank is rated by Rating Agency Malaysia Berhad ("RAM"). Based on RAM's rating in November 2019, the Bank's short-term and long-term ratings are reaffirmed at P1 and A1 respectively. RAM has classified these rating categories as follows:

P1 - Financial institutions in this category have superior capacities for timely payments of obligations.

A1 - Financial institutions rated in this category are adjudged to offer adequate safety for timely payments of financial obligations. This level of rating indicates financial institutions with adequate credit profiles, but possess one or more problem areas, giving rise to the possibility of future riskiness. Financial institutions rated in this category have generally performed at industry average and are considered to be more vulnerable to changes in economic conditions than those rated in the higher categories.

DIRECTORS

The Directors of the Bank in office during the financial year and during the period from the end of the financial year to the date of this report are:

Datuk Wan Azhar Bin Wan Ahmad (Chairman)
Ibrahim Bin Hassan
Joel Kornreich
Dato' Ahmad Hisham bin Kamaruddin
Tuan Haji Rustam bin Mohd Idris (appointed on 3 February 2020)
Md Ali Bin Md Sarif (retired on 22 March 2020)

DIRECTORS' REMUNERATION

Details of directors' remuneration are set out in Note 33 to the financial statements.

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during the year, did there subsist any arrangements to which the Bank is a party, whereby the Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than benefits shown under Directors' Remuneration in Note 33 to the financial statements) by reason of a contract made by the Bank or its holding company or subsidiaries of the holding company with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act, 2016, none of the Directors in office at the end of the financial year had any interest in shares, share options and share grants in the Bank or its holding company or subsidiaries of the holding company during the financial year.

ISSUE OF SHARES AND DEBENTURES

There was no new issue of shares and debentures during the financial year.

BAD AND DOUBTFUL FINANCING

Before the financial statements of the Bank were prepared, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad financing and the making of allowance for doubtful financing and satisfied themselves that all known bad financing had been written off and adequate allowances have been made for doubtful financing.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for bad financing, or the amount of the allowance for doubtful financing, in the financial statements of the Bank inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Bank were prepared, the Directors took reasonable steps to ascertain that any current assets, which were unlikely to realise their value as shown in the accounting records in the ordinary course of business, had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Bank misleading.

VALUATION METHOD

At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

(i) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or

(ii) any contingent liability in respect of the Bank that has arisen since the end of the financial year other than in the ordinary course of banking business.

No contingent or other liability of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Bank to meet their obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Bank, which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

In the opinion of the Directors:

(i) the results of the operations of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

(ii) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature which is likely to affect substantially the results of the operations of the Bank for the financial year in which this report is made other than disclosed in Note 44.

HOLDING COMPANY

The holding company of the Bank is Alliance Bank Malaysia Berhad, a bank incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

AUDITOR'S REMUNERATION

Details of auditor's remuneration are set out in Note 27 to the financial statements.

SHARIAH COMMITTEE

The Shariah Committee for the financial year 2019/2020 consists of 5 members appointed by the Bank's Board of Directors. The main duties and responsibilities of the Shariah Committee are as follows:-

(a) Advising the Board and Management on Shariah related matters;

(b) Reviewing and endorsing Shariah related policies and guidelines;

(c) Endorsing new products and services including contract, agreement or other legal documentation used for Islamic banking transactions;

(d) Endorsing and validating product guidelines, marketing advertisements, sales illustrations and brochures related to AIS's products, services and activities;

(e) Reviewing the work carried out by Shariah Review and Shariah Audit as the AIS's second line and third line of defense providing assurance on the state of the Bank's Shariah governance;

(f) Endorsing AIS's zakat computation and distribution;

(g) Assisting and advising related parties such as AIS's legal counsel, auditor or consultant on Shariah matters upon request;

(h) Advising AIS in consultation with the Shariah Advisory Council of BNM (SAC) on any Shariah matters which have not been resolved or endorsed by the SAC;

(i) Monitoring AIS's compliance with all SAC's decisions; and

(j) Reviewing the potential Shariah Non-Compliance events determined by the Qualified Shariah Officer whether or not they are actual Shariah related events.

ZAKAT OBLIGATION

The management of the Bank's zakat is governed by the Bank's Zakat Policy and Procedures. The Bank as an Islamic business entity computes zakat using Growth Method at the rate of 2.575 percent based on Gregorian calendar. The zakat payment does not cover the zakat obligation by the depositors. The zakat computation is endorsed by the Shariah Committee. The payment of zakat to zakat authorities and eligible recipients is recommended and approved by Shariah Committee and the Board of Directors respectively.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

The significant events during the financial year are disclosed in Note 43 to the financial statements.

SUBSEQUENT EVENTS

The events subsequent to the end of the financial reporting period are disclosed in Note 44 to the financial statements.

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF1146), have expressed their willingness to continue in office.

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

Datuk Wan Azhar Bin Wan Ahmad

Ibrahim Bin Hassan

Kuala Lumpur, Malaysia
26 June 2020

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

We, Datuk Wan Azhar Bin Wan Ahmad and Ibrahim Bin Hassan, being two of the Directors of Alliance Islamic Bank Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 16 to 107 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 March 2020 and financial performance of the Bank for the financial year ended 31 March 2020 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

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

Datuk Wan Azhar Bin Wan Ahmad
Kuala Lumpur, Malaysia
26 June 2020

Ibrahim Bin Hassan

STATUTORY DECLARATION
PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT, 2016

I, Goh Chee Ho, being the officer primarily responsible for the financial management of Alliance Islamic Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 16 to 107 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed Goh Chee Ho
at Kuala Lumpur in the Federal Territory on
26 June 2020

Goh Chee Ho
MIA Membership No. (CA 21531)

Before me,

SHARIAH COMMITTEE'S REPORT

In the name of Allah, The Most Gracious, The Most Merciful

In performing our roles and responsibilities in line with the Shariah Commitee Charter of Alliance Islamic Bank Berhad ("the Bank"), Bank Negara Malaysia's ("BNM") Shariah Governance Policy Document, as well as our letter of appointment, we hereby submit the following report:

We wish to state notwithstanding our report presented herein, the management of the Bank is responsible to ensure that the Bank conducts its business in accordance with Shariah principles, and it is our responsibility to form an independent opinion based on our review on the Bank operations.

During the period under review we had convened fourteen Shariah Committee meetings during which we reviewed the principles and the contracts relating to the products, transactions and dealings entered into by the Bank as well as issues arising thereof which had been presented before us. In addition, during the period under review we also assessed the work carried out by the Shariah Review and Shariah Audit teams.

In our opinion:

(a) the overall operations, business, affairs and activities of the Bank are in compliance with Shariah but it has come to our attention that there were Shariah non-compliance events had occurred as disclosed in (f) below and had been rectified or in the process of being rectified;

(b) In performing our role as espoused above we obtained all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give us reasonable assurance that the Bank has not violated Shariah principles;

(c) The contracts, transactions and dealings entered into by the Bank during the financial year ended 31 March 2020 that we have reviewed are in compliance with Shariah principles;

(d) The Bank carried out Shariah Review and Shariah Audit functions on a regular basis where we reviewed reports prepared thereof and examined on a test basis, each type of transaction, the relevant documentations and procedures adopted by the Bank to enable us to form an opinion as to whether the Bank has complied with Shariah principles and Shariah rulings issued by the Shariah Advisory Council ("SAC") of BNM, as well as Shariah Committee's decisions. We also noted that the incidences of Shariah non-compliances revealed arising from the reviews and audit conducted were tracked and monitored until closure;

(e) In the financial year under review, pursuant to the Bank’s Zakat Policy and Procedures, the Bank has fulfilled its obligation to pay zakat on its business to the eligible recipients. The zakat amount was computed using Growth method;

SHARIAH COMMITTEE'S REPORT (CONTD.)

(f) During the period under review, there were three Shariah non-compliance events which had been confirmed by us involving RM2,044.42 non-compliance income as follows:

(i) Telegraphic Transfer approved by branch staff for purchase of Shariah non-compliance item involving Islamic account;

(ii) Partial disbursement of Commodity Murabahah Term Financing prior to performance of commodity trading; and

(iii) Top up disbursement of Bai’ Bithaman Ajil Term Financing was performed without execution of fresh Asset Purchase Agreement (APA) and Asset Sale Agreement (ASA).

We also noted that the above Shariah non-compliances were due to oversight and lack of awareness on the requisite understanding of Islamic banking principles amongst the relevant staff. The Bank had taken appropriate corrective as well as preventive measures to address the gaps as guided by us namely purifying the Shariah non-compliance income, regularizing the requisite aqad performance for the affected accounts, holding awareness programs and training to increase staff diligence when handling Islamic transactions and tightening the relevant processes to avoid recurrence.

In relation to the above, based on the information provided and disclosed to us, we do hereby confirm that, to the best of our knowledge, the business, operations and activities of the Bank for the year ended 31 March 2020 had been conducted in conformity with Shariah.

Associate Professor Dr. Badruddin Hj. Ibrahim
Chairman of the Shariah Committee

Ustadz Ahmad Fauwaz Bin Ali@Fadzil
Shariah Committee

Kuala Lumpur, Malaysia
26 June 2020

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)
200701018870 (776882-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Alliance Islamic Bank Berhad (“the Bank”) give a true and fair view of the financial position of the Bank as at 31 March 2020, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 March 2020, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 16 to 107.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the “Auditors’ responsibilities for the audit of the financial statements” section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants (“By-Laws”) and the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTD.)

Information other than the financial statements and auditors’ report thereon

The Directors of the Bank are responsible for the other information. The other information comprises the Directors’ Report and Shariah Committee’s Report, but does not include the financial statements of the Bank and our auditors’ report thereon.

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

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

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

Responsibilities of the Directors for the financial statements

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

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTD.)

Auditors’ responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(d) Conclude on the appropriateness of the Directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTD.)

Auditors' responsibilities for the audit of the financial statements (contd.)

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER MATTERS

This report is made solely to the member of the Bank, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT	ONG CHING CHUAN
LLP0014401-LCA & AF1146	02907/11/2021 J
Chartered Accountants	Chartered Accountant

Kuala Lumpur
26 June 2020

ALLIANCE ISLAMIC BANK BERHAD
200701018870 (776882-V)
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2020

	Note	2020 RM'000	2019 RM'000
ASSETS			
Cash and short-term funds	3	714,632	348,407
Financial investments at fair value through other comprehensive income	4	2,301,866	2,100,887
Financial investments at amortised cost	5	80,628	-
Financing and advances	6	10,673,613	9,306,879
Other assets	7	4,791	2,261
Statutory deposits with Bank Negara Malaysia	8	219,488	335,388
Tax recoverable		21,550	3,912
Right-of-use assets	9	136	-
Property, plant and equipment	10	236	332
Deferred tax assets	11	-	11,156
Intangible assets	12	825	897
TOTAL ASSETS		14,017,765	12,110,119
LIABILITIES AND EQUITY			
Deposits from customers	13	11,805,145	9,932,901
Deposits and placements of banks and other financial institutions	14	220,851	243,731
Obligations on securities sold under repurchase agreements	15	148,082	-
Recourse obligation on financing sold to Cagamas	16	500,642	500,592
Lease liabilities	17	119	-
Other liabilities	18	113,820	252,529
Deferred tax liabilities	11	1,688	-
Provision for zakat		1,245	686
Subordinated Sukuk	19	229,075	228,855
TOTAL LIABILITIES		13,020,667	11,159,294
Share capital	20	400,000	400,000
Reserves	21	597,098	550,825
TOTAL EQUITY		997,098	950,825
TOTAL LIABILITIES AND EQUITY		14,017,765	12,110,119
Restricted investment account	40	74,795	179,795
Total Islamic Banking asset		14,092,560	12,289,914
COMMITMENTS AND CONTINGENCIES	41	2,438,545	2,290,438

The accompanying notes form an integral part of these financial statements.

STATEMENT OF INCOME
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

	Note	2020 RM'000	2019 RM'000
Income derived from investment of depositors' funds and others	22	649,099	584,561
Income derived from investment of shareholder's funds	23	58,470	54,580
Allowance for expected credit losses on financing, advances and other financial assets	24	(104,854)	(37,009)
(Allowance for)/write-back of expected credit losses on financial investments	25	(223)	34
Total distributable income		602,492	602,166
Wakalah fees income from investment account		-	205
Income attributable to the depositors and financial institutions	26	(374,098)	(332,359)
Total net income		228,394	270,012
Other operating expenses	27	(129,286)	(117,814)
Profit before taxation		99,108	152,198
Taxation	28	(24,882)	(36,329)
Net profit for the financial year		74,226	115,869
Net profit for the financial year attributable to:			
Equity holder of the Bank		74,226	115,869
Earnings per share attributable to Equity holder of the Bank - basic/diluted (sen)	29	21.5	33.6

The accompanying notes form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

	2020 RM'000	2019 RM'000
Net profit for the financial year	74,226	115,869
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Revaluation reserve on financial investments at fair value through other comprehensive income ("FVOCI")		
- Net gain from change in fair values	33,800	25,131
- Realised gain transferred to statement of income on disposal and impairment	(7,362)	(724)
- Transfer to deferred tax	(6,345)	(5,858)
- Changes in expected credit losses	(2)	(34)
Other comprehensive income, net of tax	20,091	18,515
Total comprehensive income for the financial year	94,317	134,384
Total comprehensive income for the financial year attributable to:		
Equity holder of the Bank	94,317	134,384

The accompanying notes form an integral part of these financial statements.

ALLIANCE ISLAMIC BANK BERHAD
200701018870 (776882-V)
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

	Non-distributable reserves			Distributable reserve	
	Ordinary shares RM'000	Regulatory reserves RM'000	FVOCI reserves RM'000	Retained profits RM'000	Total equity RM'000
At 1 April 2019					
As previously stated	400,000	9,060	18,834	522,931	950,825
Effects of adoption of MFRS 16 [Note 2(a)(ii)]	-	-	-	(13)	(13)
As restated	400,000	9,060	18,834	522,918	950,812
Net profit for the financial year	-	-	-	74,226	74,226
Other comprehensive income	-	-	20,091	-	20,091
Total comprehensive income	-	-	20,091	74,226	94,317
Transfer to regulatory reserves	-	25,688	-	(25,688)	-
Dividend paid (Note 30)	-	-	-	(48,031)	(48,031)
At 31 March 2020	400,000	34,748	38,925	523,425	997,098

The accompanying notes form an integral part of these financial statements.

ALLIANCE ISLAMIC BANK BERHAD
200701018870 (776882-V)
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

	Non-distributable reserves				Distributable reserves	
	Ordinary shares RM'000	Regulatory reserves RM'000	FVOCI reserves RM'000	Revaluation reserves RM'000	Retained profits RM'000	Total equity RM'000
At 1 April 2018						
As previously stated	400,000	21,430	-	246	498,216	919,892
Effects of adoption of MFRS 9	-	(21,430)	319	(246)	(25,300)	(46,657)
As restated	400,000	-	319	-	472,916	873,235
Net profit for the financial year	-	-	-	-	115,869	115,869
Other comprehensive income	-	-	18,515	-	-	18,515
Total comprehensive income	-	-	18,515	-	115,869	134,384
Transfer to regulatory reserves	-	9,060	-	-	(9,060)	-
Dividend paid (Note 30)	-	-	-	-	(56,794)	(56,794)
At 31 March 2019	400,000	9,060	18,834	-	522,931	950,825

The accompanying notes form an integral part of these financial statements.

ALLIANCE ISLAMIC BANK BERHAD
200701018870 (776882-V)
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

	2020 RM'000	2019 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	99,108	152,198
Adjustments for:		
Accretion of discount less amortisation of premium of financial investments	(24,444)	(34,048)
Allowance for expected credit losses on financing and advances	102,564	49,971
Allowance for expected credit losses on other receivables	108	237
Allowance for/(write-back of) expected credit losses on commitment and contingencies	448	(12,454)
Allowance for/(write-back of) expected credit losses on financial investments	223	(34)
Amortisation of computer software	289	315
Depreciation of property, plant and equipment	112	122
Depreciation of right-of-use assets	273	-
Income from financial investments at amortised cost	(3,177)	-
Income from financial investments at fair value through other comprehensive income	(91,501)	(78,106)
Intangible assets written-off	-	81
Loss on sale of financial assets at fair value through profit and loss	931	-
Net gain from sale of financial investments at fair value through other comprehensive income	(7,642)	(724)
Profit expense on obligation financing sold to Cagamas	21,968	21,979
Profit expense on lease liabilities	16	-
Profit expense on Subordinated Sukuk	13,392	7,291
Profit expense on obligation on securities sold under repurchase agreement	99	-
Unrealised gain arising from financial assets at fair value through profit and loss	(177)	(388)
Zakat	655	590
Operating profit before working capital changes	113,245	107,030
Changes in working capital:		
Deposits from customers	1,872,244	493,836
Deposits and placements of banks and other financial institutions	(22,880)	(117)
Financial asset at fair value through profit and loss	(960)	388
Financing and advances	(1,469,299)	(1,374,473)
Obligations on securities sold under repurchase agreements	147,983	-
Other assets	(2,663)	(399)
Other liabilities	(139,256)	110,323
Statutory deposits with Bank Negara Malaysia	115,900	(58,500)
Cash generated from/(used in) operating activities	614,314	(721,912)
Taxation paid	(35,919)	(41,748)
Zakat paid	(95)	(156)
Net cash generated from/(used in) operating activities	578,300	(763,816)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020 (CONTD.)

	2020 RM'000	2019 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Income from financial assets at fair value through profit and loss	206	-
Income from financial investments at amortised costs	2,324	-
Income from financial investments at fair value through other comprehensive income	93,777	72,152
Purchase of property, plant and equipment	(16)	(123)
Purchase of intangible assets	(217)	(235)
Purchase of:		
- financial investments at FVOCI	(570,233)	(747,193)
- financial investments at amortised cost	(80,000)	-
Redemption/disposal of:		
- financial investments at FVOCI	399,461	458,669
- financial investments at amortised cost	26,042	25,272
Net cash used in investing activities	(128,656)	(191,458)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(48,031)	(56,794)
Repayment of lease liabilities	(298)	-
Profit expense on obligation on financing sold to Cagamas	(21,918)	(22,054)
Proceeds from issuance of subordinated sukuk	-	99,112
Profit expense on subordinated sukuk	(13,172)	(7,150)
Net cash (used in)/generated from financing activities	(83,419)	13,114
Net change in cash and cash equivalents	366,225	(942,160)
Cash and cash equivalents at beginning of financial year	348,407	1,290,567
Cash and cash equivalents at end of financial year	714,632	348,407
Cash and cash equivalents comprise the following:		
Cash and short-term funds (Note 3)	714,632	348,407

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020 (CONTD.)

A reconciliation of liabilities from financing activities to the statement of financial position and statement of cash flows as follows:

	Recourse obligations on financing sold to Cagamas RM'000	Subordinated sukuk RM'000	Lease Liabilities RM'000
As at 1 April 2018	500,667	129,602	-
Cash flow			
- Issuance	-	100,000	-
- Profit payment	(22,054)	(7,150)	-
- Transaction costs	-	(888)	-
Non cash changes			
- Profit accrued	21,979	7,291	-
As at 31 March 2019/1 April 2019	500,592	228,855	-
Effects of adoption of MFRS 16	-	-	416
Cash flow			
- Profit payment	(21,918)	(13,172)	-
- Repayment of lease liabilities	-	-	(298)
Non cash changes			
- Profit accrued	21,968	13,392	16
- Additions, remeasurement and termination of contracts	-	-	(15)
As at 31 March 2020	500,642	229,075	119

NOTES TO THE FINANCIAL STATEMENTS - 31 MARCH 2020

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Bank is principally engaged in all aspects of Islamic banking and finance business and the provision of related financial services. Islamic banking and finance business refers generally to the acceptance of deposits and granting of financing and all other activities allowed under the Islamic Financial Services Act, 2013 and the Shariah principles.

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

The Bank is a public limited liability company, incorporated and domiciled in Malaysia. The registered office is located at 3rd Floor, Menara Multi-Purpose, Capital Square, 8, Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 26 June 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

Malaysian Financial Reporting Standards ("MFRS") Framework

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

The financial statements of the Bank have been prepared under the historical cost convention, as modified by the financial investments at fair value through other comprehensive income and financial assets/liabilities (including derivative instruments) at fair value through profit or loss.

The financial statements are presented in Ringgit Malaysia ("RM") and all numbers are rounded to the nearest thousand (RM'000), unless otherwise stated.

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

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements is on the measurement of allowance for expected credit losses ("ECL") for financial assets measured at amortised cost and at fair value through other comprehensive income. These are the area that requires the use of significant assumptions about future economic conditions and credit behaviour.

The allowance for ECL are recognised using forward-looking information including macroeconomic factors. By using forward-looking information will increase the level of judgement as to how changes in these macroeconomic factors will affect allowance for ECL. The Bank is of the view that it is difficult to incorporate the specific effects of COVID-19 and government relief measures on a reasonable and supportable basis as at 31 March 2020.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(a) Basis of Preparation (contd.)

Malaysian Financial Reporting Standards ("MFRS") Framework (contd.)

However, the Bank has considered the impact of COVID-19 pandemic and sharp decline in economy in the macroeconomic scenarios applied and in their weightings. The methodology and assumptions including any forecasts of future economic conditions are continued to be monitored and reviewed as new information becomes available.

The sensitivity effect on the macroeconomic factor is further disclosed in Note 34(a)(vi).

Some of the areas of significant judgements involved in the measurement of ECL are detailed as follows:

- Significant increase in credit risk in Note 34(a)(iv)(a)
- Development of ECL models and assumption for the measurement of ECL
- Determining the number and relative weightings of forward-looking scenarios
- Establishing groups of similar financial assets for the purpose of measuring the ECL on collective basis

Standards, amendments to published standards and interpretations that are effective

The new accounting standards, amendments and improvements to published standards and interpretations that are effective for the Bank for the financial year beginning 1 April 2019 are as follows:

- MFRS 16 "Leases"
- Amendments to MFRS 9 "Prepayment Features with Negative Compensation"
- Amendments to MFRS 128 "Long-term Interests in Associates and Joint Ventures"
- Amendments to MFRS 119 "Plan Amendment, curtailment or settlement"
- 'IC Interpretation 23 "Uncertainty over Income Tax Treatments"
- Annual Improvements to MFRSs 2015 - 2017 Cycle

The adoption of the above standards, amendments to published standards and interpretation to existing standards did not have any significant impact on the financial statements of the Bank other than the adoption of MFRS 16.

The Bank has adopted MFRS 16 for the first time in the 31 March 2020 financial statements with the date of initial application ("DIA") of 1 April 2019 by applying the simplified retrospective transaction approach.

The practical expedients elected and the detailed impacts of the change in accounting policies on leases are disclosed below. The details of the accounting policies on leases are disclosed separately in Note 2(l).

Change in Accounting Policies

(i) Adoption of MFRS 16 "Leases"

During the financial year, the Bank has adopted MFRS 16 "Leases". The Bank has elected to use the simplified retrospective transition approach and to apply a number of practical expedients as provided in MFRS 16.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(a) Basis of Preparation (contd.)

Change in Accounting Policies (contd.)

(i) Adoption of MFRS 16 "Leases" (contd.)

Under the simplified retrospective transition approach, the 31 March 2019 comparative information was not restated and the cumulative effects of initial application of MFRS 16 where the Bank is a lessee were recognised as an adjustment to the opening balance of retained profits as at 1 April 2019. The comparative information continued to be reported under the previous accounting policies governed under MFRS 117 "Leases" and IC Int. 4 "Determining whether an Arrangement Contains a Lease".

On adoption of MFRS 16 "Leases", the Bank recognised lease liabilities in relation to leases which had previously been classified as operating leases. These liabilities were measured at the present value of the remaining lease payments, discounted by the Bank’s incremental borrowing rate as at 1 April 2019.

Right-of-use assets were measured on a retrospective basis as if the new rules had always been applied.

In applying MFRS 16 for the first time, the Bank has applied the following practical expediants permitted by the standard to leases previously classified as operating leases under MFRS 117:

- the use of single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting of operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The adoption of MFRS 16 has resulted in a decrease of RM13,000 for the Bank's retained profits as at 1 April 2019.

(ii) Financial Effect

i. A reconcilation of the statement of financial position of the Bank upon adoption of MFRS 16 as at 1 April 2019 are as follows:

	As previously stated RM'000	Adoption of MFRS 16 RM'000	As restated RM'000
Assets			
Right-of-use assets	-	424	424
Other assets	2,261	(25)	2,236
Deferred tax assets	11,156	4	11,160
Liabilities			
Lease liabilities	-	416	416
Equity			
Retained profits	522,931	(13)	522,918

The weighted average lease's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 5.52% per annum.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(a) Basis of Preparation (contd.)

Change in Accounting Policies (contd.)

(ii) Financial Effect (contd.)

ii. A reconcilation between operating lease commitments disclosed applying MFRS 117 at 31 March 2019, and the lease liabilities recognised in the statement of financial position at 1 April 2019.

	RM'000
Operating lease commitments as disclosed at 31 March 2019	460
Less:	
Discounted using the incremental borrowing rate at 1 April 2019	(44)
Lease liability recognised at 1 April 2019	416

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

The Bank will apply the new standards, amendments to standards and interpretations in the following period:

Financial year beginning after 1 April 2020

(i) Amendments to MFRS 3 "Definition of a Business"

Amendments to MFRS 3 ‘Definition of a Business’ revise the definition of a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments provide guidance to determine whether an input and a substantive process are present, including situation where an acquisition does not have outputs. To be a business without outputs, there will now need to be an organised workforce. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets.

In addition, the revised definition of the term ‘outputs’ is narrower, focusses on goods or services provided to customers, generating investment returns and other income but excludes returns in the form of cost savings.

The amendments introduce an optional simplified assessment known as ‘concentration test’ that, if met, eliminates the need for further assessment. Under this concentration test, if substantially all of the fair value of gross assets acquired is concentrated in a single identifiable asset (or a group of similar assets), the assets acquired would not represent a business.

The amendments shall be applied prospectively.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(a) Basis of Preparation (contd.)

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

The Bank will apply the new standards, amendments to standards and interpretations in the following period: (contd.)

Financial year beginning after 1 April 2020 (contd.)

(ii) Amendments to MFRS 101 "Presentation of Financial Statements" and MFRS 108 "Accounting Policies, Changes in Accounting Estimates and Errors"

The amendments to MFRS 101 "Presentation of Financial Statements" and MFRS 108 "Accounting Policies, Changes in Accounting Estimates and Errors" which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in MFRS 101 about immaterial information.

In particular, the amendments clarify:

- That an entity assesses materiality in the context of the financial statements as a whole.
- That the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information and that an entity assesses materiality in the context of the financial statements as a whole, and
- The meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

The amendments shall be applied prospectively.

(iii) The MASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting;
- reinstating prudence as a component of neutrality;
- defining a reporting entity, which may be a legal entity, or a portion of an entity;
- revising the definitions of an asset and a liability;
- removing the probability threshold for recognition and adding guidance on derecognition;
- adding guidance on different measurement basis; and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

The amendments shall be applied prospectively.

The above standards, amendments to published standards and interpretations to existing standards are not anticipated to have any significant impact on the financial statements of the Bank in the year of initial application.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(b) Intangible Assets: Computer Software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring the specific software to use. The costs are amortised over their useful lives of five years and are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Computer software is assessed for impairment whenever there is an indication that it may be impaired. The amortisation period and amortisation method are reviewed at least at the end of each reporting period.

The policy for the recognition and measurement of impairment losses is in accordance with Note 2(g)(ii).

Costs associated with maintaining computer software programmes are recognised as expenses as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. These costs include software development employee costs and appropriate portion of relevant overheads.

(c) Property, Plant and Equipment and Depreciation

Property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The policy for the recognition and measurement of impairment is in accordance with Note 2(g)(ii).

Property, plant and equipment are depreciated on the straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, summarised as follows:

Office equipment, furniture and fixtures	10% - 20%
Renovations	20%
Computer equipment	33.3%

Depreciation on assets under construction commences when the assets are ready for their intented use. The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Financial Assets

(i) Classification

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

- Fair value through other comprehensive income ("FVOCI");
- Fair value through profit or loss ("FVTPL"); and
- Amortised cost

For financial assets measured at fair value, gains and losses will either be recorded in statement of income or statement of other comprehensive income. For investment in debt instruments, this will depend on the business model in which the investment is held. For investment in equity instruments, it is determined by the irrevocable election at the time of initial recognition to account for the equity investment at FVTPL by the Bank.

(i) Financial assets at FVOCI comprise of:

Debt securities where the contractual cash flows are solely principal and profit and the objective of the Bank’s business model is achieved both by collecting contractual cash flows and selling financial assets

(ii) The Bank classifies the following financial assets at FVTPL:

Debt investments that do not qualify for measurement at either amortised cost or fair value through comprehensive income.

(iii) The Bank classifies their financial assets at amortised cost only if both of the following criteria are met:

- The asset is held within a business model with the objective of collecting the contractual cash flows; and

- The contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal outstanding.

The policy of the recognition of impairment is in accordance with Note 2(g)(i).

(ii) Recognition and initial measurment

Regular way purchases and sales of financial assets are recognised on settlement date, the date on which the Bank settle to purchase or sell the asset.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Financial Assets (contd.)

(iii) Subsequent measurement

Debt instruments

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

(i) Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent SPPI are measured at amortised cost. Profit income from these financial assets is included in gross profit income using the effective profit method. Any gain or loss arising on derecognition is recognised directly in statement of income and presented in other operating income. Impairment losses are presented as separate line item in the statement of income.

(ii) FVOCI

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent SPPI, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest profit and foreign exchange gains and losses which are recognised in statement of income.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to statement of income and recognised in other operating income. Profit income from these financial assets is included in gross profit income using the effective profit. Foreign exchange gains and losses are presented in other operating income and impairment expenses are presented as separate line item in the statement of income and statement of comprehensive income.

(iii) FVTPL

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

(iv) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

Receivables that are factored out to banks and other financial institutions with recourse to the Bank is not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as amount due to Cagamas Berhad.

When financial investments at FVOCI are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(e) Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

(f) Other Assets

Other receivables, deposits and amount due from related party included in other assets are carried at amortised cost using the effective yield method, less allowances for expected credit losses. Bad debts are written-off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the end of the reporting period.

(g) Impairment of Assets

(i) Impairment of financial assets

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

The Bank’s financial assets that are subjected to the ECL model includes financial assets classified at amortised cost, debt instruments measured at FVOCI, financing commitments, financial guarantee contracts and other commitments.

(a) General 3-stage approach

At each reporting date, the Bank measures ECL through loss allowance at an amount equal to 12 month ECL if credit risk on a financial instrument or a group of financial instruments has not increased significantly since initial recognition. For all other financial instruments, a loss allowance at an amount equal to lifetime ECL is required.

Impairment will be measured on each reporting date according to a three-stage ECL impairment model:

(i) Stage 1 – from initial recognition of a financial assets to the date on which the credit risk of the asset has increased significantly relative to its initial recognition, a loss allowance is recognised equal to the credit losses expected to result from defaults occurring over the next 12 months (12-month ECL).

(ii) Stage 2 – following a significant increase in credit risk relative to the initial recognition of the financial assets, a loss allowance is recognised equal to the credit losses expected over the remaining life of the asset (Lifetime ECL).

(iii) Stage 3 – when a financial asset is considered to be credit-impaired, a loss allowance equal to full lifetime expected credit losses is to be recognised (Lifetime ECL). This includes exposures which have triggered obligatory impairment criterion or judgmentally impaired.

Measurement of ECL is set out in Note 34.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(g) Impairment of Assets (Contd.)

(i) Impairment of financial assets (contd.)

(b) Simplified approach for other receivables

The Bank applies the MFRS 9 simplified approach to measure ECL which uses probability default ratio ("PD") and loss given default ratio("LGD") for the due amount.

The PD methodology is derived based on net flow rate model as a simplified approach in view of its low credit risk and non-maturity profile on due amount.

LGD deem to be in full at any point in time as accounts are short term repayment and forward looking element will not be considered.

(c) Write-off

The Bank writes-off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The assessment of no reasonable expectation of recovery is based on unavailability of borrower’s sources of income or assets to generate sufficient future cash flows to repay the amount. The Bank may writes-off financial assets that are still subject to enforcement activity. Subsequent recoveries of amounts previously written-off will result in bad debt recoveries.

(ii) Impairment of non-financial assets

Other non-financial assets such as property, plant and equipment and computer software are reviewed for objective indications of impairment at the end of each reporting period or whenever there is any indication that these assets may be impaired. Where such indications exist, impairment is determined as the excess of the asset's carrying value over its recoverable amount (greater of value in use or fair value less costs to sell) and is recognised in the statement of income. An impairment for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment was recognised.

The carrying amount is increased to its revised recoverable amount, provided that the amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment been recognised for the asset in prior years. A reversal of impairment for an asset is recognised in the statement of income.

(h) Financial Liabilities

Financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortised cost.

Certain financial liabilities are designated at initial recognition at fair value through profit or loss. When one of the designation criteria is met:

(i) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
(ii) Its performance is evaluated on a fair value basis, in accordance with a documented with management or investment strategy.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(h) Financial Liabilities (contd.)

A financial liability which does not meet any of these criteria may still be designated as measured at FVTPL when it contains one or more embedded derivatives that sufficiently modify the cash flows of the liability and are not clearly closely related.

Profit payables are now classified into the respective class of financial liabilities.

(i) Repurchase Agreements

Financial instruments purchased under resale agreements are instruments which the Bank has purchased with a commitment to resell at future dates. The commitment to resell the instruments are reflected as an asset in the statement of financial position and measured at amortised cost.

Conversely, obligations on financial instruments sold under repurchase agreements are instruments which the Bank has sold from their portfolio, with a commitment to repurchase at future dates are measured at amortised cost. Such financing transactions and the obligations to repurchase the instruments are reflected as a liability in the statements of financial position.

(j) Bills and Acceptances Payable

Bills and acceptances payable represent the Bank's own bills and acceptances rediscounted and outstanding in the market.

(k) Subordinated Sukuk

The profit-bearing instruments are classified as liabilities in the statement of financial position as there is a contractual obligation by the Bank to make cash payments of either principal or profit or both to holders of the debt securities and the Bank are contractually obliged to settle the financial instrument in cash or another financial instrument.

Subsequent to initial recognition, debt securities issued are recognised at amortised cost, with any difference between proceeds net of transaction costs and the redemption value being recognised in the statement of income over the period of the borrowings on an effective profit method.

(l) Provisions

Provisions are recognised when the Bank have a present legal or constructive obligation as a result of past events. It is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(m) Leases

Accounting policies applicable with effective from 1 April 2019

Lease in which the Bank is a Lessee

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

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

(i) Lease Term

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

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

(ii) Right-of-use Assets

Right-of-use "ROU" assets are initially measured at cost comprising the following:

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

ROU assets that are not investment properties are subsequently measured at cost, less accumulated depreciation and impairment loss, if any. The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the ROU asset is depreciated on the underlying asset's useful life. In addition, the ROU assets are adjusted for certain remeasurement of the lease liabilities.

ROU assets are presented as a separate line item in the statements of financial position.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(m) Leases (contd.)

Accounting policies applicable with effective from 1 April 2019 (contd.)

Lease in which the Bank is a Lessee (contd.)

(iii) Lease Liabilities

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

- Fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Bank under residual value guarantees;
- The exercise price of a purchase and extension options if the Bank is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

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

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

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

(iv) Short-term Leases and Leases of Low Value Assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(m) Leases (contd.)

<u>Accounting policies applicable prior to 1 April 2019</u>

A lease is recognised as a finance lease if it transfers substantially to the Bank all the risks and rewards incidental to ownership. All leases that do not transfer substantially all the risks and rewards are classified as operating leases.

Operating Leases

Operating lease payments are recognised in the statement of income on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expenses over the lease term on a straight-line basis.

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. Leasehold land that normally has an indefinite economic life and where title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted for as prepaid lease payments at the end of the reporting period. In the case of a lease of land and buildings, the prepaid lease payments or the upfront payments made are allocated, whenever necessary, between the land and buildings elements in proportion to the relative fair values for leasehold interest in the land element and buildings element of the lease at the inception of the lease. The prepaid lease payments are amortised over the lease term in accordance with the pattern of benefits provided.

(n) Share Capital

(i) Classification

Ordinary shares with discretionary dividends are classified as equity

(ii) Share issue costs

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

(iii) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(n) Share Capital (contd.)

(iii) Earnings per share (contd.)

Diluted earnings per share

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

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

(o) Recognition of Financing Income

Finance income is recognised using effective profit rates, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financing or, where appropriate, a shorter period to the net carrying amount of the financing. When calculating the effective profit rate, the Bank estimates cash flows considering all contractual terms of the financing but does not consider future credit losses. The calculation includes significant fees paid or received between parties to the contract that are an integral part of the effective profit rate, transaction costs and all other premiums or discounts.

Profit income and financing income are recognised in the statement of income for all profit-bearing assets on an accrual basis. Profit income and financing income include the amortisation of premium or accretion of discount. Income from the Islamic banking business is recognised on an accrual basis in accordance with the Shariah principles.

For impaired financing where the value has been reduced as a result of impairment loss, financing income continues to be accrued using the rate of profit used to discount the future cash flows for the purposes of measuring the impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(p) Recognition of Fees and Other Income

Fee and commission income of the Bank is from a wide range of products and services provided to the customers. The income is recognised based on the contractual rates or amount, netted off against fee and commission expense which directly attributable to the income. When the performance obligation is fulfilled, where the products and services are delivered to the customer, fee and commission income will be recognised in statement of income.

For transaction-based fee and commission income, it is recognised on the completion of the transaction. Such fees include fees related to the completion of corporate advisory fees, financing arrangement fees and commissions, management and participation fees, underwriting commissions, service charges on sale of unit trust funds. These fees constitute a single performance obligation.

For services that are provided over a period of time, fee and commission income is recognised on equal proportion basis over the period during which the related service is provided. This basis of recognition will reflect the nature of these services to the customers over time. Fees for these services can be billed periodically over time. Such fees include commitment, guarantee and portfolio management fees and bancassurance agreements.

Net gain or loss from disposal of financial assets at fair value through profit or loss and financial investments at fair value through other comprehensive income are recognised in profit or loss upon disposal of securities, as the difference between net disposal proceeds and the carrying amount of the securities.

Dividends are recognised when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence. Dividend that clearly represents a recovery of part of the cost of an investment is recognised in other comprehensive income if it relates to an investment in equity investment measured at financial investments at fair value through other comprehensive income.

(q) Recognition of Financing Expenses

Finance cost and income attributable on deposits and borrowings of the Bank are recognised on an accrual basis.

The method of allocation of income to the types of deposits is based on "the Framework on Rate of Return" issued by BNM. This Framework on Rate of Return (BNM/GP2-*i*) which is based on the return on assets concept, calculates the income on assets. The return on assets, after deducting incidental expenses and allowances for losses on financing and advances are distributed to the depositors using the weighted average method.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(r) Foreign Currencies

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements are presented in Ringgit Malaysia, which is the Bank’s functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

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

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as financial investments fair value other comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(s) Current and Deferred Income Tax

Income tax on the profit or loss for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the end of the reporting date. In the event of uncertain tax position, the tax is measured using the single best estimate of the most likely outcome.

Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in the comprehensive income or directly in equity, respectively.

Deferred tax is provided in full, using the liability method, on temporary differences at the end of the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period. Deferred tax is recognised as income or an expense in the statement of comprehensive income for the period, except when it arises from a transaction which is recognised directly in other comprehensive income or directly in equity, in which case the deferred tax is also charged or credited to other comprehensive income or to equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill.

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

(t) Foreclosed Properties

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

(u) Cash and Cash Equivalents

Cash and cash equivalents as stated in the statement of cash flows comprise cash and bank balances and short term deposits maturity within one month that are readily convertible into cash with insignificant risk of changes in value.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(v) Employee Benefits

(i) Short-term Employee Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Bank. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined Contribution Plans

Defined contribution plans are post-employment benefit plans under which the Bank pays fixed contributions into separate entities or funds and will have no legal or constructive obligations to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the statement of comprehensive income as incurred. As required by law, companies in Malaysia make contributions to the Employees Provident Fund ("EPF").

(w) Contingent Assets and Contingent Liabilities

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

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

(x) Financial Guarantee Contracts

Financial guarantee contracts are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

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

3. CASH AND SHORT-TERM FUNDS

	2020 RM'000	2019 RM'000
Cash and balances with banks and other financial institutions	14,584	28,321
Money at call and deposit placements maturing within one month	700,048	320,086
	714,632	348,407

The balance is within Stage 1 allocation (12 months ECL) with nil impairment allowance (2019: nil).

4. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 RM'000	2019 RM'000
At fair value - debt instruments		
Money market instruments:		
Malaysian Government investment issues	1,016,589	1,064,786
	1,016,589	1,064,786
Unquoted securities:		
Sukuk	1,285,277	1,036,101
	1,285,277	1,036,101
	2,301,866	2,100,887

Movements in allowance for expected credit losses are as follows:

	12-Month ECL (Stage 1)	
	2020 RM'000	2019 RM'000
At 1 April		
As previously stated	39	-
Effects of adoption of MFRS 9	-	73
As restated	39	73
New financial assets originated or purchased	7	7
Financial assets derecognised other than write-off	(1)	(15)
Changes due to change in credit risk	(8)	(26)
Total write-back from income statement	(2)	(34)
At 31 March	37	39

5. FINANCIAL INVESTMENTS AT AMORTISED COST

	2020 RM'000	2019 RM'000
At amortised cost		
Unquoted securities:		
Sukuk	80,853	-
Allowance for expected credit losses	(225)	-
	80,628	-

Movements in allowance for expected credit losses are as follows:

	12-Month ECL (Stage 1) 2020 RM'000	2019 RM'000
At 1 April	-	-
New financial assets originated or purchased	109	-
Changes due to change in credit risk	116	-
Total charge to income statement	225	-
At 31 March	225	-

6. FINANCING AND ADVANCES

By types and Shariah concepts:

	Bai` Bithaman Ajil RM'000	Tawarruq RM'000	Al-Ijarah Thumma Al-Bai`/ AITAB RM'000	Murabahah RM'000	Qard RM'000	Bai` Al-Dayn RM'000	Bai' `Inah RM'000	Total Financing and Advances RM'000
31 March 2020								
At amortised cost								
Cash line financing	31,036	1,658,404	-	-	9,121	-	-	1,698,561
Term financing								
- Housing financing	3,419,778	-	-	-	-	-	-	3,419,778
- Hire purchase receivables[1]	-	-	214,832	-	-	-	-	214,832
- Other term financing	1,890,964	1,816,986	-	-	-	-	171,694	3,879,644
Bills receivables	-	-	-	49,096	-	-	-	49,096
Trust receipts	-	-	-	54,216	-	-	-	54,216
Claims on customers under acceptance credits	-	-	-	687,009	-	111,683	-	798,692
Staff financing (including financing to Directors of RM Nil)	15,779	-	-	-	-	-	-	15,779
Revolving credits[2]	210,845	478,513	-	-	-	-	-	689,358
Gross financing and advances	5,568,402	3,953,903	214,832	790,321	9,121	111,683	171,694	10,819,956
Add : Sales commission and handling fees								52,641
Less: Allowance for expected credit losses on financing and advances								(198,984)
Total net financing and advances								10,673,613

6. FINANCING AND ADVANCES (CONTD.)

By types and Shariah concepts (contd.):

	Bai` Bithaman Ajil RM'000	Tawarruq RM'000	Al-Ijarah Thumma Al-Bai`/ AITAB RM'000	Murabahah RM'000	Qard RM'000	Bai` Al-Dayn RM'000	Bai` `Inah RM'000	Total Financing and Advances RM'000
31 March 2019								
At amortised cost								
Cash line financing	96,749	1,340,827	-	-	5,124	-	-	1,442,700
Term financing								
- Housing financing	2,948,273	-	-	-	-	-	-	2,948,273
- Hire purchase receivables[1]	-	-	296,474	-	-	-	-	296,474
- Other term financing	1,948,379	1,204,830	-	-	-	-	214,502	3,367,711
Bills receivables	-	-	-	12,081	-	-	-	12,081
Trust receipts	-	-	-	39,565	-	-	-	39,565
Claims on customers under acceptance credits	-	-	-	683,926	-	86,195	-	770,121
Staff financing (including financing to Directors of RM Nil)	16,777	-	-	-	-	-	-	16,777
Revolving credits[2]	287,995	215,115	-	-	-	-	-	503,110
Gross financing and advances	5,298,173	2,760,772	296,474	735,572	5,124	86,195	214,502	9,396,812
Add : Sales commission and handling fees								48,577
Less: Allowance for expected credit losses on financing and advances								(138,510)
Total net financing and advances								9,306,879

[1] Included hire purchase receivables under Al-Ijarah Thumma Al-Bai` ("AITAB") which is the contract of lease ending transfer of ownership from the lessor to the lessee in the form of sale transaction, which may take place at the end of the Ijarah period or at any point of time during the period, subject to the agreed terms and conditions between the contracting parties.

[2] The total Financing and Advances under Bai' Bithaman Ajil ("BBA") includes Revolving Credit-i (Murabahah) which substantively adopts a BBA product structure.

6. FINANCING AND ADVANCES (CONTD.)

(i) Purpose and source of fund for Qard financing:

	2020 RM'000	2019 RM'000
At 1 April	5,124	982
Sources of Qard fund:		
- Shareholders' fund	13,089	14,454
Uses of Qard fund:		
- Purchase of non-residential landed property	-	(192)
- Personal use	(462)	(3,017)
- Working capital	(8,630)	(7,103)
At 31 March	9,121	5,124

(ii) By maturity structure:

	2020 RM'000	2019 RM'000
Within one year	3,345,242	2,806,896
One year to three years	354,037	432,115
Three years to five years	685,056	682,581
Over five years	6,435,621	5,475,220
Gross financing and advances	10,819,956	9,396,812

(iii) By type of customers:

	2020 RM'000	2019 RM'000
Domestic non-bank financial institutions	64,816	57,081
Domestic business enterprises		
- Small and medium enterprises	2,710,603	2,358,476
- Others	1,817,910	1,728,815
Individuals	6,123,563	5,154,376
Other domestic entities	24,507	13,330
Foreign entities	78,557	84,734
Gross financing and advances	10,819,956	9,396,812

(iv) By profit rate sensitivity:

	2020 RM'000	2019 RM'000
Fixed rate		
- House financing	24,161	27,105
- Hire purchase receivables	214,811	296,447
- Other fixed rate financing	2,142,414	2,044,961
Variable rate		
- House financing	3,404,507	2,931,296
- Other variable rate financing	5,034,063	4,097,003
Gross financing and advances	10,819,956	9,396,812

6. FINANCING AND ADVANCES (CONTD.)

(v) By economic purposes:

	2020 RM'000	2019 RM'000
Purchase of transport vehicles	188,433	281,168
Purchase of landed property	4,835,794	4,271,410
of which: - Residential	*3,494,678*	*3,010,880*
- Non-residential	*1,341,116*	*1,260,530*
Purchase of fixed assets excluding land and buildings	57,272	38,956
Personal use	2,604,777	2,048,622
Construction	96,629	56,228
Working capital	2,522,151	2,171,438
Others	514,900	528,990
Gross financing and advances	10,819,956	9,396,812

(vi) By economic sectors:

	2020 RM'000	2019 RM'000
Primary agriculture	396,825	363,274
Mining and quarring	47,680	29,809
Manufacturing	1,149,925	977,410
Electricity, gas and water	649	275
Wholesale, retail trade, restaurant and hotels	1,500,755	1,480,513
Construction	277,987	200,966
Transport, storage and communication	175,991	178,569
Financing, insurance and business services	990,721	826,749
Community and recreation	73,942	91,230
Household	6,202,120	5,239,109
Others	3,361	8,908
Gross financing and advances	10,819,956	9,396,812

(vii) By geographical distribution:

	2020 RM'000	2019 RM'000
Northern region	968,397	821,198
Central region	7,363,319	6,386,035
Southern region	1,279,947	1,253,223
Sabah region	887,967	693,573
Sarawak region	320,326	242,783
Gross financing and advances	10,819,956	9,396,812

6. FINANCING AND ADVANCES (CONTD.)

(vii) Movements in credit impaired financing and advances ("impaired financing") under Stage 3

	2020 RM'000	2019 RM'000
At 1 April		
As previously stated under MFRS 139	106,925	104,232
Effects of adoption of MFRS 9	-	178
As restated	106,925	104,410
Impaired during the financial year	331,156	189,668
Reclassified as unimpaired during the financial year	(104,984)	(104,932)
Recovered during the financial year	(12,048)	(24,828)
Financial assets derecognised during the financial year other than write-off	(35,961)	(10,151)
Amount written-off	(52,519)	(47,242)
At 31 March	232,569	106,925
Gross impaired financing as a % of gross financing and advances	2.15%	1.14%

The Bank may write-off financial assets when relevant recovery actions have been exhausted or further recovery is not economically feasible or justifiable. The outstanding contractual amounts of such assets written-off during the year amounting to RM52,519,000 (2019: RM47,242,000) for the Bank. The Bank still seek to recover amounts that is legally owed in full, but which have been partially or fully written-off and are still subject to enforcement activity.

(viii) Impaired financing and advances by economic purposes:

	2020 RM'000	2019 RM'000
Purchase of transport vehicles	5,844	2,309
Purchase of landed property	116,660	49,337
of - Residential	*89,331*	*23,445*
- Non-residential	*27,329*	*25,892*
Purchase of fixed assets excluding land & buildings	352	641
Personal use	81,327	33,299
Working capital	25,738	18,697
Others	2,648	2,642
Gross impaired financing and advances	232,569	106,925

6. FINANCING AND ADVANCES (CONTD.)

(ix) Credit impaired loans analysed by economic sectors:

	2020 RM'000	2019 RM'000
Primary agriculture	1,128	1,113
Manufacturing	7,901	17,210
Wholesale, retail trade, restaurants and hotels	31,689	22,706
Construction	14,170	5,606
Transport, storage and communication	2,048	366
Financing, insurance, real estate and business services	1,201	1,238
Household	174,432	58,685
Others	-	1
Gross impaired financing and advances	232,569	106,925

(x) Impaired financing and advances by geographical distribution:

	2020 RM'000	2019 RM'000
Northern region	24,885	9,793
Central region	173,305	79,488
Southern region	24,060	14,188
Sabah region	8,175	2,762
Sarawak region	2,144	694
Gross impaired financing and advances	232,569	106,925

6. FINANCING AND ADVANCES (CONTD.)

(xi) Movements in allowance for expected credit losses on financing and advances are as follows:

	12 months ECL (Stage 1) RM'000	Lifetime ECL Not-credit impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	Total RM'000
At 1 April 2019	23,032	69,895	45,583	138,510
Transfer to Stage 1	9,779	(49,268)	(550)	(40,039)
Transfer to Stage 2	(15,292)	88,314	(29,801)	43,221
Transfer to Stage 3	(17)	(53,130)	103,693	50,546
New financial assets originated or purchased	22,190	26,224	6,939	55,353
Financial assets derecognised other than write-off	(9,007)	(24,059)	(9,259)	(42,325)
Changes due to change in credit risk	1,495	34,637	(324)	35,808
	9,148	22,718	70,698	102,564
Unwinding of discount	-	-	(2,799)	(2,799)
Total charge to income statement	9,148	22,718	67,899	99,765
Write-off	(3)	(521)	(38,767)	(39,291)
31 March 2020	32,177	92,092	74,715	198,984
At 1 April 2018				
As previously stated under MFRS 139				86,206
Effects of adoption of MFRS 9				37,209
As restated	22,429	66,027	34,959	123,415
Transfer to Stage 1	9,004	(41,354)	(1,341)	(33,691)
Transfer to Stage 2	(15,260)	78,803	(31,276)	32,267
Transfer to Stage 3	(33)	(48,822)	75,489	26,634
New financial assets originated or purchased	23,766	33,937	8,018	65,721
Financial assets derecognised other than write-off	(12,600)	(33,939)	(2,918)	(49,457)
Changes due to change in credit risk	(4,274)	15,369	(2,598)	8,497
	603	3,994	45,374	49,971
Unwinding of discount	-	-	(1,533)	(1,533)
Total charge to income statement	603	3,994	43,841	48,438
Write-off	-	(126)	(33,217)	(33,343)
At 31 March 2019	23,032	69,895	45,583	138,510

6. FINANCING AND ADVANCES (CONTD.)

(xii) Movements in allowance for expected credit losses on financing and advances are as follows:

2020

Stage 1 expected credit losses (“ECL”) increased by RM9.1 million during the financial year mainly due to:

- Newly originated gross carrying amounts (“GCA”) for financing and advances;
- ECL for GCA transferred from Stage 2 and 3 to Stage 1;

Partly offset by

- ECL for GCA transferred from Stage 1 to Stage 2; and
- Derecognition of GCA for financing and advances from full settlement.

Stage 2 ECL increased by RM22.2 million mainly due to:

- ECL for GCA transferred from Stage 1 and 3 to Stage 2 and incremental ECL within the same stage;

Partly offset by

- ECL for GCA transferred from Stage 2 to Stage 1 and 3; and
- Derecognition of GCA for financing and advances from full settlement.

Stage 3 ECL increased by RM29.1 million mainly due to:

- ECL for GCA transferred from Stage 1 and 2 to Stage 3.

Partly offset by

- ECL for GCA transferred from Stage 3 to Stage 2.

The GCA of the bank were written off by RM53.8 million resulted in the reduction of ECL for all stages.

Details of gross carrying amounts are disclosed in Note 34(a)(v).

6. FINANCING AND ADVANCES (CONTD.)

(xii) Movements in allowance for expected credit losses on financing and advances are as follows:

2019

Stage 1 expected credit losses ("ECL") increased by RM0.6 million during the financial year mainly due to:

- newly originated financing and advances with gross carrying amounts ("GCA") of RM7.8 billion and ECL charge for GCA of RM0.9 billion transferred from stage 2 and 3 to stage 1;

Offset by

- write back of ECL for GCA of RM1.2 billion transferred from stage 1 to stage 2; and
- ECL for de-recognition of GCA of RM5.6 billion for financing and advances from full settlement and write back of ECL for GCA of RM0.9 billion within stage 1.

Stage 2 ECL increased by RM4.0 million mainly due to:

- ECL for GCA of RM1.3 billion transferred from stage 1 and 3 to stage 2 and ECL for newly originated financing and advances with GCA of RM1.6 billion;

Offset by

- write back of ECL for GCA of RM0.2 billion transferred from stage 2 to stage 3; and
- write back of ECL for GCA of RM0.9 billion transferred from stage 2 to stage 1 and ECL for de-recognition of GCA of RM1.3 billion for financing and advances from full settlement.

Stage 3 ECL increased by RM45.4 million mainly due to:

- ECL for GCA of RM0.2 billion transferred from stage 1 and stage 2 to stage 3; and

Offset by

- write back of ECL for GCA of RM0.1 billion transferred from stage 3 to stage 2.

The write-off loans with a total GCA of RM47.7 million for the Bank resulted in the reduction of stage 3 and 2.

7. OTHER ASSETS

	2020 RM'000	2019 RM'000
Other receivables	4,406	3,508
Deposits	89	89
Prepayment	2,042	305
Amount due to related company	3	-
	6,540	3,902
Less:		
Allowance for expected credit losses on other receivables [Note (a)]	(1,749)	(1,641)
	4,791	2,261

Note:

(a) Movements for allowance for expected credit losses on other receivables are as follow:

	Lifetime ECL 2020 RM'000	Lifetime ECL 2019 RM'000
At 1 April		
As previously stated	1,641	1,404
Effects of adoption of MFRS 9	-	-
As restated	1,641	1,404
Changes due to change in credit risk	108	237
At 31 March	1,749	1,641

8. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

Non-profit bearing statutory deposits for the Bank of RM219,488,000 (2019: RM335,388,000) is maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009, the amount of which are determined as a set percentage of total eligible liabilities.

9. RIGHT-OF-USE ASSETS

2020	Premises RM'000
COST	
At 1 April 2019	
As previously stated	-
Effects of adoption of MFRS 16 [Note 2(a)(ii)]	848
As restated	848
Remeasurement	(15)
At 31 March 2020	833
ACCUMULATED DEPRECIATION	
At 1 April 2019	
As previously stated	-
Effects of adoption of MFRS 16 [Note 2(a)(ii)]	424
As restated	424
Charge for the financial year	273
At 31 March 2020	697
NET CARRYING AMOUNT	136

10. PROPERTY, PLANT AND EQUIPMENT

	Renovations RM'000	Office equipment and furniture RM'000	Computer equipment RM'000	Total RM'000
2020				
COST				
At 1 April 2019	1,260	96	159	1,515
Additions	-	4	12	16
Written-off	(101)	(22)	(12)	(135)
At 31 March 2020	1,159	78	159	1,396
ACCUMULATED DEPRECIATION				
At 1 April 2019	987	65	131	1,183
Charge for the financial year	90	4	18	112
Written-off	(101)	(22)	(12)	(135)
At 31 March 2020	976	47	137	1,160
NET CARRYING AMOUNT	183	31	22	236
2019				
COST				
At 1 April 2018	1,177	74	141	1,392
Additions	83	22	18	123
At 31 March 2019	1,260	96	159	1,515
ACCUMULATED DEPRECIATION				
At 1 April 2018	889	60	112	1,061
Charge for the financial year	98	5	19	122
At 31 March 2019	987	65	131	1,183
NET CARRYING AMOUNT	273	31	28	332

11. DEFERRED TAX

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

	2020 RM'000	2019 RM'000
Deferred tax assets, net	-	11,156
Deferred tax liabilities, net	1,688	-
	1,688	11,156

	2020 RM'000	2019 RM'000
At 1 April		
As previously stated	11,156	1,250
Effects of adoption of MFRS 16 [Note 2(a)(ii)]	4	-
As restated	11,160	1,250
Recognised in statement of income (Note 28)	(6,503)	15,764
Recognised in equity	(6,345)	(5,858)
At 31 March	(1,688)	11,156

Deferred tax assets and liabilities prior to offsetting are summarised as follows:

	2020 RM'000	2019 RM'000
Deferred tax assets	10,592	17,091
Deferred tax liabilities	(12,280)	(5,935)
	(1,688)	11,156

11. DEFERRED TAX (CONTD.)

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax assets/(liabilities)	Allowance for expected credit losses RM'000	Other Liabilities RM'000	Leases RM'000	Financial investments available-for-sale RM'000	Financial investments at fair value through other comprehensive income RM'000	Property, plant and equipment RM'000	Total RM'000
At 1 April 2018							
As previously stated	-	1,344	-	(77)	-	(17)	1,250
Effects of adoption of MFRS 9	-	-	-	77	(77)	-	-
As restated	-	1,344	-	-	(77)	(17)	1,250
Recognised in statement of income	14,492	1,255	-	-	-	17	15,764
Recognised in equity	-	-	-	-	(5,858)	-	(5,858)
At 31 March 2019/1 April 2019	14,492	2,599	-	-	(5,935)	-	11,156
Effects of adoption of MFRS 16 [Note 2(a)(ii)]	-	-	4	-	-	-	4
As restated	14,492	2,599	4	-	(5,935)	-	11,160
Recognised in statement of income	(8,790)	2,289	(2)	-	-	-	(6,503)
Recognised in equity	-	-	-	-	(6,345)	-	(6,345)
At 31 March 2020	5,702	4,888	2	-	(12,280)	-	(1,688)

Note: Other liabilities include provisions and deferred income.

12. INTANGIBLE ASSETS

	2020 RM'000	2019 RM'000
Computer software		
Cost		
At 1 April	2,172	2,018
Additions	217	235
Written-off	-	(81)
At 31 March	2,389	2,172
Accumulated amortisation		
At 1 April	1,275	960
Charge for the financial year	289	315
At 31 March	1,564	1,275
Net carrying amount	825	897

Note:
Computer software includes work in progress of RM Nil (2019: RM224,655) which is not amortised until ready for use.

13. DEPOSITS FROM CUSTOMERS

	2020 RM'000	2019 RM'000
Demand deposits		
- Qard	3,422,562	2,724,725
Savings deposits		
- Qard	339,006	320,557
Term deposits		
- Commodity Murabahah	6,364,480	5,452,519
- Negotiable Islamic Debt Certificate Bai' Inah	512,191	805,845
- Money market deposits		
- Commodity Murabahah	1,043,198	261,717
- Other deposits		
- Mudharabah	77,304	95,537
- Wakalah	34,292	39,744
- Qard	12,110	232,257
	11,805,145	9,932,901

13. DEPOSITS FROM CUSTOMERS (CONTD.)

	2020 RM'000	2019 RM'000
(i) The maturity structure of term deposits are as follows:		
Due within six months	4,998,550	4,020,974
Six months to one year	1,985,271	1,838,605
One year to three years	854,103	672,770
Three years to five years	205,653	355,270
	8,043,577	6,887,619

	2020 RM'000	2019 RM'000
(ii) By type of customers:		
Domestic financial institutions	501,083	795,162
Government and statutory bodies	1,889,921	2,475,387
Business enterprises	4,171,591	3,646,508
Individuals	4,145,593	2,720,243
Domestic non-bank financial institutions	881,043	134,874
Foreign entities	101,894	70,963
Others	114,020	89,764
	11,805,145	9,932,901

14. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2020 RM'000	2019 RM'000
Non-Mudharabah Fund		
Bank Negara Malaysia	209,689	243,731
Licensed investment banks	11,162	-
	220,851	243,731

15. OBLIGATIONS ON SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	2020 RM'000	2019 RM'000
Amortised cost	148,082	-

16. RECOURSE OBLIGATION ON FINANCING SOLD TO CAGAMAS

This relates to proceeds received from housing financing and hire purchase financing sold directly to Cagamas Berhad with recourse to the Bank. Under the agreement, the Bank undertakes to administer the financing on behalf of Cagamas Berhad and to buy back any financing which are regarded as defective based on pre-determined and agreed upon prudential criteria set by Cagamas Berhad.

17. LEASE LIABILITIES

	2020 RM'000
At 1 April	
As previously stated	-
Effects of adoption of MFRS 16 [Note 2(a)(ii)]	416
As restated	416
Profit expense	16
Lease payment	(298)
Remeasurement	(15)
At 31 March	119

Note:

	2020 RM'000
Profit expense	16
Total cash outflow for leases	298

The Bank leases premises. Rental contracts are typically made for the periods for 3 years. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. Termination options are included in a number of leases across the Bank. Termination options are included, to provide a greater flexibility.

18. OTHER LIABILITIES

	2020 RM'000	2019 RM'000
Other payables	49,118	42,613
Bills payable	5,712	8,474
Clearing account	23,418	50,063
Sundry deposits	4,521	5,257
Provision and accruals	7,891	8,609
Amount due to holding company	17,871	132,364
Amount due to related company	835	1,150
Allowance for credit losses on commitments and contingencies [Note (a)]	4,454	3,999
	113,820	252,529

18. OTHER LIABILITIES (CONTD.)

Note:

(a) Movements in allowance for expected credit losses on commitments and contingencies are as follows:

	12 months ECL (Stage 1) RM'000	Lifetime ECL Not-credit impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	Total RM'000
At 1 April 2019	712	3,182	105	3,999
Transfer to Stage 1	445	(3,605)	-	(3,160)
Transfer to Stage 2	(204)	2,674	(1)	2,469
Transfer to Stage 3	(1)	-	4	3
New financial assets originated or purchased	321	1,840	-	2,161
Financial assets derecognised other than write-off	(205)	(811)	(105)	(1,121)
Changes due to change in credit risk	(57)	161	(9)	95
Other adjustments	1	-	-	1
	300	259	(111)	448
Unwinding of discount	-	-	7	7
Total charge to/(write-back from) income statement	300	259	(104)	455
At 31 March 2020	1,012	3,441	1	4,454
At 1 April 2018				
As previously stated under MFRS 139	-	-	-	-
Effects of adoption of MFRS 9	793	5,707	9,960	16,460
As restated	793	5,707	9,960	16,460
Transfer to Stage 1	156	(1,806)	-	(1,650)
Transfer to Stage 2	(139)	1,306	(6)	1,161
Transfer to Stage 3	-	(12)	229	217
New financial assets originated or purchased	560	1,549	-	2,109
Financial assets derecognised other than write-off	(360)	(1,771)	(9,693)	(11,824)
Changes due to change in credit risk	(299)	(1,798)	(378)	(2,475)
Other adjustments	1	7	-	8
	(81)	(2,525)	(9,848)	(12,454)
Unwinding of discount	-	-	(7)	(7)
Total write-back from income statement	(81)	(2,525)	(9,855)	(12,461)
At 31 March 2019	712	3,182	105	3,999

As at 31 March 2020, the gross exposures of financing commitments and financial guarantee contracts that are credit impaired was at RM1,009,000 (31 March 2019: RM1,979,000).

19. SUBORDINATED SUKUK

	Note	2020 RM'000	2019 RM'000
Subordinated Sukuk			
RM130 million Subordinated Sukuk Murabahah	(a)	129,772	129,693
RM100 million Additional Tier I Sukuk Wakalah	(b)	99,303	99,162
		229,075	228,855

(a) RM130 million Subordinated Sukuk Murabahah

On 18 September 2017, the Bank issued RM130.0 million Subordinated Sukuk Murabahah ("Subordinated Sukuk") under the RM180.0 million Subordinated Sukuk Programme.

	2020 RM'000	2019 RM'000
At cost	130,000	130,000
Accumulated unamortised discount	(267)	(366)
Profit accrued	39	59
	129,772	129,693

The main features of the Subordinated Sukuk are as follows:

(i) Issue date: 29 September 2017

(ii) Tenor of the facility/issu 10 years from the issue date and non-callable five (5) years after issue date

(iii) Maturity date: 29 September 2027

(iv) Coupon rate: 5.50% per annum, payable semi-annually in arrears

(v) Call date: 29 September 2022 and thereafter on every periodic payment date

(vi) The Subordinated Sukuk constitutes direct and unsecured obligations of the issuer, subordinated in right and priority of payment, to the extent and in the manner provided in the Subordinated Sukuk, ranking pari passu among themselves.

(vii) In the event of winding up or liquidation of the issuer, be subordinated in right of payment to all deposit liabilities and other liabilities of the issuer, except in each case to those liabilities which by their terms rank equally in right of payment with or are Subordinate to the Subordinated Sukuk.

19. SUBORDINATED SUKUK (CONTD.)

(b) RM100 million Additional Tier 1 Sukuk Wakalah

On 29 March 2019, the Bank issued RM100.0 million Islamic Additional Tier 1 Sukuk Wakalah ("AT1 Sukuk") of RM100.0 million in nominal value ("AT1 Sukuk Issuance") pursuant to Alliance Islamic's Sukuk Programme.

	2020 RM'000	2019 RM'000
At cost	100,000	100,000
Accumulated unamortised discount	(729)	(888)
Profit accrued	32	50
	99,303	99,162

The main features of the AT1 Sukuk are as follows:

(i) Issue date: 29 March 2019

(ii) Tenor of the facility/issu Perpertual Non-callable five (5) years

(iii) Maturity date: 29 March 2024

(iv) Coupon rate: 5.95% per annum, payable semi-annually

(v) Call date: 29 March 2024 and thereafter on every distribution payment date

(v) The AT1 Sukuk constitutes direct and unsecured obligations of the issuer and are subordinated to depositors, general creditors and other holders of subordinated debt of the issuer.

(vi) Upon the occurance of any winding up proceeding, the amount payable on the AT1 Sukuk will be subordinated in right of payment to the prior payment in full of all deposit liabilities and other liabilities of the issuer, except in each case to those liabilities which by their terms rank equally with or junior to the AT1 Sukuk.

20. SHARE CAPITAL

	2020 Number of ordinary shares '000	2020 RM'000	2019 Number of ordinary shares '000	2019 RM'000
Ordinary shares issued and fully paid:				
At 1 April 2019/31 March 2020				
ordinary shares with no-par value	345,045	400,000	345,045	400,000

21. RESERVES

	Note	2020 RM'000	2019 RM'000
Non-distributable:			
Regulatory reserves	(a)	34,748	9,060
FVOCI reserves	(b)	38,925	18,834
		73,673	27,894
Distributable:			
Retained profits		523,425	522,931
		597,098	550,825

(a) Regulatory reserves represent the Bank’s compliance with BNM Revised Policy Documents in Financial Reporting and Financial Reporting for Islamic Banking Institutions effective 1 January 2018 whereby the Bank must maintain in aggregate, loss allowance for non-credit-impaired exposures and regulatory reserves of no less than 1% of total credit exposures, net of loss allowance for credit-impaired exposures.

(b) FVOCI reserves are the cumulative gains and losses arising on the revaluation of debt instruments measured at FVOCI, net off cumulative gains and losses transferred to statement of income upon disposal and the cumulative allowance for expected credit losses on these investments.

22. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	2020 RM'000	2019 RM'000
Income derived from investment of :		
(i) Term deposits	435,183	389,831
(ii) Other deposits	213,916	194,730
	649,099	584,561

(i) Income derived from investment of term deposits:

	2020 RM'000	2019 RM'000
Finance income and hibah		
Financing and advances	335,838	292,283
Financial investments at FVOCI	56,277	47,639
Financial investments at amortised cost	1,954	-
Money at call and deposit placements with financial institutions	4,841	13,036
	398,910	352,958
Accretion of discount less amortisation of premium	15,034	20,767
Total finance income and hibah	413,944	373,725
Other operating income		
- Fee income	16,721	14,939
- Investment income	4,236	570
- Other income	282	597
	435,183	389,831

Included in financing income earned on financing and advances for the current financial year is financing accrued on impaired financing of the Bank amounting to RM1,717,000 (2019: RM939,000).

(ii) Income derived from investment of other deposits:

	2020 RM'000	2019 RM'000
Finance income and hibah		
Financing and advances	165,083	146,002
Financial investments at FVOCI	27,663	23,797
Financial investments at amortised cost	960	-
Money at call and deposit placements with financial institutions	2,380	6,512
	196,086	176,311
Accretion of discount less amortisation of premium	7,390	10,374
Total finance income and hibah	203,476	186,685
Other operating income		
- Fee income	8,220	7,462
- Investment income	2,082	285
- Other income	138	298
	213,916	194,730

Included in financing income earned on financing and advances for the current financial year is financing accrued on impaired financing of the Bank amounting to RM844,000 (2019: RM469,000).

23. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	2020 RM'000	2019 RM'000
Finance income and hibah		
Financing and advances	45,122	40,922
Financial investments at FVOCI	7,561	6,670
Financial investments at amortised cost	263	-
Money at call and deposit placements with financial institutions	650	1,825
	53,596	49,417
Accretion of discount less amortisation of premium	2,020	2,907
Total finance income and hibah	55,616	52,324
Other operating income		
- Fee income	2,247	2,092
- Investment income	569	80
- Other income	38	84
	58,470	54,580

Included in financing income earned on financing and advances for the current financial year is financing accrued on impaired financing of the Bank amounting to RM231,000 (2019: RM131,000).

24. ALLOWANCE FOR EXPECTED CREDIT LOSSES ON FINANCING, ADVANCES AND OTHER FINANCIAL ASSETS

	2020 RM'000	2019 RM'000
Allowance for expected credit losses on:		
(a) Financing and advances		
- Net charge during the financial year	102,564	49,971
(b) Credit impaired on financing and advances		
- Recovered	(12,637)	(15,060)
- Written-off	14,371	14,315
(c) Commitments and contingencies on financing and advances		
- Net charge/(write-back) during the financial year	448	(12,454)
	104,746	36,772
Allowance for expected credit losses on other receivables	108	237
	104,854	37,009

25. ALLOWANCE FOR/(WRITE-BACK OF) EXPECTED CREDIT LOSSES ON FINANCIAL INVESTMENTS

	2020 RM'000	2019 RM'000
Allowance for/(write-back of) expected credit losses on:		
- Financial investments at FVOCI	(2)	-
- Financial investments at amortised cost	225	(34)
	223	(34)

26. INCOME ATTRIBUTABLE TO THE DEPOSITORS AND FINANCIAL INSTITUTIONS

	2020 RM'000	2019 RM'000
Deposits from customers:		
- Mudharabah fund	2,300	2,988
- Non-Mudharabah fund	331,781	296,315
Deposits and placements of banks and other financial institutions:		
- Mudharabah fund	99	-
- Non-Mudharabah fund	4,500	3,786
Financing sold to Cagamas	21,968	21,979
Other borrowings	42	-
Subordinated Sukuk Murabahah	13,392	7,291
Lease liabilities	16	-
	374,098	332,359

27. OTHER OPERATING EXPENSES

	2020 RM'000	2019 RM'000
Personnel costs		
- Salaries, allowances and bonuses	65,671	59,158
- Contribution to EPF	10,658	9,434
- Others	8,642	7,228
	84,971	75,820
Establishment costs		
- Depreciation on property, plant and equipment	112	122
- Depreciation on right-of-use assets	273	-
- Amortisation of computer software	289	315
- Rental	3,044	5,069
- Repairs and maintenance	1,784	1,606
- Water and electricity	1,191	1,227
- Information technology expenses	8,776	6,890
- Others [Note (a)]	10,816	8,114
	26,285	23,343
Marketing expenses		
- Promotion and advertisement	1,761	1,716
- Branding and publicity	3,486	3,415
- Others	812	886
	6,059	6,017
Administration and general expenses		
- Communication expenses	2,003	2,099
- Printing and stationeries	374	413
- Insurance	1,591	1,149
- Professional fees	4,855	3,686
- Others	3,148	5,287
	11,971	12,634
Total other operating expenses	129,286	117,814

Included in the other operating expenses are the Shariah Committee members' remuneration of RM328,000 (2019: RM306,000).

27. OTHER OPERATING EXPENSES (CONTD.)

The following represent a detailed breakdown of the Bank's share of the holding company's other operating expenses included within the Bank's total other operating expenses:

	2020 RM'000	2019 RM'000
Sharing of Other Operating Expenses		
Personnel costs		
- Salaries, allowances and bonuses	59,467	53,893
- Contribution to EPF	9,683	8,611
- Others	7,999	6,450
	77,149	68,954
Establishment costs		
- Rental	3,044	4,761
- Repairs and maintenance	1,761	1,564
- Water and electricity	1,165	1,192
- Information technology expenses	8,635	6,758
- Others [Note (a)]	10,798	8,020
	25,403	22,295
Marketing expenses		
- Promotion and advertisement	1,218	1,186
- Branding and publicity	2,318	2,934
- Others	784	870
	4,320	4,990
Administration and general		
- Communication expenses	1,243	1,288
- Printing and stationeries	305	314
- Professional fees	3,231	2,195
- Others	280	2,105
	5,059	5,902
Total sharing of other operating expenses	111,931	102,141

Note (a): Being substantially cross-charge amount for using the fixed assets of the holding company. This includes computer software, computer equipment and furniture and fittings.

Included in the other operating expenses are the following:

	2020 RM'000	2019 RM'000
Auditors' remuneration		
- statutory audit fees	140	130
- audit related services	170	166
- non-audit related services	-	60
- tax compliance works	14	13
- tax related services	12	8
Computer software written-off	-	81

28. TAXATION

	2020 RM'000	2019 RM'000
Income tax:		
Current financial year	33,084	52,084
(Over)/under provision in prior years	(14,705)	9
	18,379	52,093
Deferred tax (Note 11)		
Current financial year	(7,668)	(15,098)
Under/(over) provision in prior years	14,171	(666)
	6,503	(15,764)
	24,882	36,329

Income tax is calculated at the Malaysian statutory tax rate of 24% (2019: 24%) of the estimated assessable profit for the financial year.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Bank is as follows:

	2020 RM'000	2019 RM'000
Profit before taxation	99,108	152,198
Taxation at Malaysian statutory tax rate of 24% (2019: 24%)	23,785	36,527
Expenses not deductible for tax purposes	1,631	459
Over provision of tax expense in prior years	(534)	(657)
Tax expense for the financial year	24,882	36,329

29. EARNINGS PER SHARE

Basic/diluted

Basic/diluted earnings per share is calculated by dividing profit for the financial year attributable to ordinary Equity holder of the Bank by the weighted average number of ordinary shares in issue during the financial year.

	2020	2019
Net profit for the financial year attributable to Equity holder of the Bank (RM'000)	74,226	115,869
Weighted average numbers of ordinary shares in issue ('000)	345,045	345,045
Basic/diluted earnings per share (sen)	21.5	33.6

30. DIVIDENDS

	Dividend in respect of financial year	
	2020	2019
	RM'000	RM'000
Recognised during the financial year:		
First interim dividend		
8.80 sen per share on 345,045,045 ordinary shares, declared in financial year ended 31 March 2019, was paid on 18 December 2018.	-	30,364
5.92 sen per share on 345,045,045 ordinary shares, declared in financial year ending 31 March 2020, was paid on 23 December 2019.	20,427	-
Second interim dividend		
7.66 sen per share on 345,045,045 ordinary shares, declared in financial year ended 31 March 2018, was paid on 21 June 2018.	-	26,430
8.00 sen per share on 345,045,045 ordinary shares, declared in financial year ended 31 March 2019, was paid on 20 June 2019.	27,604	-
	48,031	56,794

The Directors do not propose any final dividend in respect of the financial year ended 31 March 2020.

31. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are the Bank's other significant related party transactions and balances:

The related parties of, and their relationship with the Bank are as follows:

Relationship	Related parties
-Key management personnel	Key management personnel refer to those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including Executive Directors and Non-Executive Director of the Bank (including close members of their families). Other members of key management personnel of the Bank are the Business Support Heads who report directly to Chief Executive Officer (including close members of their families).
- Holding company	Alliance Bank Malaysia Berhad
- Related companies	Related companies refer to subsidiaries of Alliance Bank Malaysia Berhad.

	2020 RM'000	2019 RM'000
(a) Transactions		
Profit income		
- key management personnel	24	17
Commission paid		
- related companies	13,649	9,826
Finance expenses		
- holding company	33,815	29,893
- related companies	3,801	-
- key management personnel	102	48
Rental expense		
- holding company	-	1
Other operating income		
- holding company	-	205
- related companies	38	-
Other operating expenses		
- holding company (sharing of expenses)	111,931	102,142
- related companies	-	400
Dividend paid		
- holding company	48,031	56,794
(b) Balances		
Deposits from customers		
- holding company	501,083	734,343
- related companies	-	11,089
- key management personnel	3,097	1,263
Subordinated Sukuk		
- holding company	130,039	130,666
- related companies	60,707	100,049

31. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTD.)

(b) Balances (contd.)

	2020 RM'000	2019 RM'000
Financing and advances		
- key management personnel	1,431	2,068
Deposits and placements of banks and other financial institutions		
- related companies	11,162	-
Other assets		
- related company	3	-
Other liabilities		
- holding company	17,871	132,364
- related companies	835	1,150

(c) Compensation of key management personnel

Remuneration of Chief Executive Officers ("CEO"), Non-executive Directors and other members of key management excluding past CEO for the financial year is as follows:

	2020 RM'000	2019 RM'000
CEO and other key management:		
- Salary and other remuneration	2,340	2,418
- Contribution to EPF	353	355
- Benefits-in-kind	1	-
	2,694	2,773
Non-executive Directors:		
- Fees Payable	409	406
- Allowances	84	115
	493	521
Included in the total key management personnel are:		
CEO and Directors' remuneration, excluding past CEO and Directors (Note 33)	1,545	1,635

Total value of remuneration and number of officers with variable remuneration for the financial year are as follows:

	2020				2019			
	Number	Unrestricted RM'000	Number	Deferred RM'000	Number	Unrestricted RM'000	Number	Deferred RM'000
Fixed remuneration								
Cash		2,691		-		2,635		-
Variable remuneration								
Cash	4	383	1	113	4	574	1	85
		3,074		113		3,209		85

32. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	2020 RM'000	2019 RM'000
Outstanding credit exposures with connected parties	2,792	2,101
of which:		
Total credit exposure which is impaired or in default	-	-
Total credit exposures	14,883,620	12,894,377
Percentage of outstanding credit exposures to connected parties:		
- as a proportion of total credit exposures	0.02%	0.02%
- which is impaired or in default	0.00%	0.00%

The disclosure on Credit Transactions and Exposures with Connected Parties above is presented in accordance with para 9.1 of Bank Negara Malaysia's Guidelines on Credit Transactions and Exposures with Connected Parties for Islamic Banks, which became effective on 1 January 2008.

Based on these guidelines, a connected party for Islamic Banks refers to the following:

(i) Directors of the Bank and their close relatives;

(ii) Controlling shareholder and his close relatives;

(iii) Executive officer, being a member of management having authority and responsibility for planning, directing and/or controlling the activities of the Bank, and his close relatives;

(iv) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;

(v) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iv) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;

(vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and

(vii) Subsidiary of or an entity controlled by the Bank and its connected parties.

Credit transactions and exposures to connected parties as disclosed above includes the extension of credit facilities and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and financing commitments. It also includes holdings of equities and private debt securities issued by the connected parties.

33. CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION

Remuneration in aggregate for CEO, Directors and Shariah Committee members charged to the statement of income for the financial year are as follows:

	2020 RM'000	2019 RM'000
Chief Executive Officer:		
- Salary and other remuneration	720	644
- Bonuses	197	335
- Contribution to EPF	134	135
- Benefits-in-kind	1	-
	1,052	1,114
Non-executive Directors:		
- Fees payable	409	406
- Allowances	84	115
	493	521
Past Non-executive Director:		
- Fees payable	88	67
- Allowances	21	18
- Benefits-in-kind	-	10
	109	95
Total Directors' remuneration	1,654	1,730
Shariah Committee members	330	304
	1,984	2,034

Note:

(a) Other than Directors fees and allowances, there were no amount paid or payable for services rendered by any Directors of the Bank during the financial year.

(b) Directors of the Bank are covered under the Directors' & Officers' Liability Insurance in respect of liabilities arising form acts committed in their capacity as Directors of the Bank, provided that such Directors have not acted negligently, fraudulently or dishonestly or is in breach of his or her duty of trust. The total apportioned amount of insurance effected for Directors under the Bank was RM4,000 (2019: RM6,000).

33. CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION (CONTD.)

The total remuneration of the CEO, Directors and Shariah Committee members of the Bank are as follows:

BANK 2020	Salary and other remuneration RM'000	Bonuses RM'000	Contribution to EPF RM'000	Fees RM'000	Allowances RM'000	Benefits-in-kind RM'000	Total RM'000
Chief Executive Officer:							
Rizal IL-Ehzan Bin Fadil Azim	720	197	134	-	-	1	1,052
	720	197	134	-	-	1	1,052
Non-executive Directors:							
Datuk Wan Azhar bin Wan Ahmad	-	-	-	180	20	-	200
Ibrahim bin Hassan	-	-	-	125	38	-	163
Dato' Ahmad Hisham bin Kamaruddin	-	-	-	90	24	-	114
Tuan Haji Rustam bin Mohd Idris	-	-	-	14	2	-	16
	-	-	-	409	84	-	493
Past Non-executive Director:							
Hj Md Ali bin Md Sarif	-	-	-	88	21	-	109
	-	-	-	88	21	-	109
Total Directors' remuneration	720	197	134	497	105	1	1,654
Shariah Committee Members:							
Assoc. Prof. Dr. Badruddin bin Hj Ibrahim	-	-	-	60	11	-	71
Ustaz Zaharudin bin Muhammad	-	-	-	54	11	-	65
Dr. Azrul Azlan bin Iskandar Mirza	-	-	-	54	11	-	65
Ustaz Ahmad Fauwaz Bin Ali @ Fadzil	-	-	-	54	11	-	65
Hj Md Ali bin Md Sarif	-	-	-	54	10	-	64
	-	-	-	276	54	-	330
	720	197	134	773	159	1	1,984

33. CEO, DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION (CONTD.)

The total remuneration of the CEO, Directors and Shariah Committee members of the Bank are as follows (contd.):

BANK 2019	Salary and other remuneration RM'000	Bonuses RM'000	Contribution to EPF RM'000	Fees RM'000	Allowances RM'000	Benefits-in-kind RM'000	Total RM'000
Chief Executive Officer:							
Rizal IL-Ehzan Bin Fadil Azim	644	335	135	-	-	-	1,114
	644	335	135	-	-	-	1,114
Non-executive Directors:							
Datuk Wan Azhar bin Wan Ahmad	-	-	-	180	19	-	199
Hj Md Ali bin Md Sarif	-	-	-	90	28	-	118
Ibrahim bin Hassan	-	-	-	125	67	-	192
Dato' Ahmad Hisham bin Kamaruddin				11	1		12
	-	-	-	406	115	-	521
Past Non-executive Director:							
Dato' Majid bin Mohamad	-	-	-	67	18	10	95
	-	-	-	67	18	10	95
Total Directors' remuneration	644	335	135	473	133	10	1,730
Shariah Committee Members:							
Assoc. Prof. Dr. Badruddin bin Hj Ibrahim	-	-	-	60	6	-	66
Hj Md Ali bin Md Sarif	-	-	-	54	6	-	60
Ustaz Zaharudin bin Muhammad	-	-	-	54	6	-	60
Dr. Azrul Azlan bin Iskandar Mirza	-	-	-	54	5	-	59
Ustaz Ahmad Fauwaz Bin Ali @ Fadzil	-	-	-	54	5	-	59
	-	-	-	276	28	-	304
	644	335	135	749	161	10	2,034

34. FINANCIAL RISK MANAGEMENT POLICIES

The Bank engage in business activities which entail risk taking and types of risk involved include credit, market and liquidity, operational and technology, regulatory and compliance (including Shariah non-compliance), and strategic risks.

Risk management in the Bank is governed by the various risk management frameworks which covers governance, appetite, strategy, policies and processes to manage risks. The objective of risk management is to ensure the Bank conducts business in a responsible manner, to achieve sustainable growth for the Bank's balance sheet and capital.

The Bank manages risk within clearly defined guidelines that are approved by the Board of Directors. In addition, the Board of Directors of the Bank provides independent oversight to ensure that risk management policies are complied with, through a framework of established controls and reporting processes.

The guidelines and policies adopted by the Bank to manage the main risks that arise in the conduct of its business activities are as follows:

(a) Credit Risk

Credit risk is the risk of financial loss resulting from the failure of the Bank's borrowers or counterparties to fulfil their contractual obligations to repay their financing or settle commitments.

Credit risk arises from financing, advances, investment in securities amongst others. The amount of credit exposure is represented by the carrying amount of financing, advances and investment securitites in the statement of financial position. The financing activities in the Bank are guided by the Bank's Credit Risk Management Framework, in line with regulatory guidelines and best practices.

Credit risk also arises from financial transactions with counterparties (including interbank money market activities and debt instruments), of which the amount of credit exposure in respect of these instruments are equal to the carrying amount of these assets in the statement of financial position. This exposure is monitored on an on-going basis against predetermined counterparty limits.

The credit exposure arising from off-balance sheet activities, i.e. commitments and contingencies is set out in Note 41 to the financial statements.

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(i) Maximum exposure to credit risk

The following table presents the Bank's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, before taking into account any collateral held or other credit enhancements and after allowance for expected credit losses, where appropriate.

For on-balance sheet financial assets, the maximum exposure to credit risk equals their carrying amount. For financial guarantees and similiar contracts granted, the maximum exposure to credit risk is the maximum amount that would have to be paid if the guarantees were to be called upon. For credit related commitments and contingencies that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the credit facilities granted to customers.

	2020 RM'000	2019 RM'000
Credit risk exposure: on-balance sheet		
Cash and short-term funds (exclude cash in hand)	714,632	348,407
Financial investments at fair value through other comprehensive income	2,301,866	2,100,887
Financial investments at amortised cost	80,628	-
Financing and advances (exclude sales commission and handling fees)	10,620,972	9,258,302
Statutory deposits with BNM	219,488	335,388
Other assets (exclude prepayment)	2,749	1,956
Total on-balance sheet	13,940,335	12,044,940
Credit risk exposure: off-balance sheet		
Financial guarantees	211,862	203,665
Credit related commitments and contingencies	2,226,683	2,086,773
Total off-balance sheet	2,438,545	2,290,438
Total maximum exposure	16,378,880	14,335,378

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(ii) Credit risk concentrations

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The analysis of credit risk concentration presented below relates only to financial assets subject to credit risk and are based on the industry in which the counterparty is engaged.

2020	Government and Central Bank RM'000	Financial, Takaful, Business Services and Real Estate RM'000	Transport, Storage and Communication RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction RM'000	Household RM'000	Others RM'000	Total RM'000
Cash and short-term funds (exclude cash in hand)	714,632	-	-	-	-	-	-	714,632
Financial investments at fair value through other comprehensive income	1,016,589	817,819	364,252	34,632	68,574	-	-	2,301,866
Financial investments at amortised cost	-	80,628	-	-	-	-	-	80,628
Financing and advances (exclude sales commission and handling fees)	-	984,954	173,213	3,060,372	262,288	6,063,908	76,237	10,620,972
Statutory deposits with BNM	219,488	-	-	-	-	-	-	219,488
Other assets (exclude prepayment)	-	-	-	-	-	-	2,749	2,749
	1,950,709	1,883,401	537,465	3,095,004	330,862	6,063,908	78,986	13,940,335
Financial guarantees	-	105,719	5,142	74,364	26,415	22	200	211,862
Credit related commitments and contingencies	-	177,953	12,305	1,299,000	132,390	597,812	7,223	2,226,683
	-	283,672	17,447	1,373,364	158,805	597,834	7,423	2,438,545
Total credit risk	1,950,709	2,167,073	554,912	4,468,368	489,667	6,661,742	86,409	16,378,880

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(ii) Credit risk concentrations (contd.)

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The analysis of credit risk concentration presented below relates only to financial assets subject to credit risk and are based on the industry in which the counterparty is engaged. (contd.)

2019	Government and Central Bank RM'000	Financial, Takaful, Business Services and Real Estate RM'000	Transport, Storage and Communication RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction RM'000	Household RM'000	Others RM'000	Total RM'000
Cash and short-term funds (exclude cash in hand)	348,407	-	-	-	-	-	-	348,407
Financial investments at fair value through other comprehensive income	1,074,898	728,079	220,625	5,215	72,070	-	-	2,100,887
Financing and advances (exclude sales commission and handling fees)	-	823,107	176,336	2,819,052	194,437	5,145,806	99,564	9,258,302
Statutory deposits with BNM	335,388	-	-	-	-	-	-	335,388
Other assets (exclude prepayment)	-	-	-	-	-	-	1,956	1,956
	1,758,693	1,551,186	396,961	2,824,267	266,507	5,145,806	101,520	12,044,940
Financial guarantees	-	2,830	5,147	158,376	37,041	42	229	203,665
Credit related commitments and contingencies	-	158,529	4,728	1,125,334	143,693	620,217	34,272	2,086,773
	-	161,359	9,875	1,283,710	180,734	620,259	34,501	2,290,438
Total credit risk	1,758,693	1,712,545	406,836	4,107,977	447,241	5,766,065	136,021	14,335,378

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(iii) Collaterals

The main types of collateral obtained by the Bank are as follows:
- Where property is provided as collateral, legal charged over the title;
- For hire purchase, ownership right over the vehicles or equipment; and
- For other financing, charges over business assets such as premises, financial/trade receivables or deposits.

	2020 RM'000	2019 RM'000
Gross financing and advances	10,819,956	9,396,812
Less: Allowance for credit expected losses	(198,984)	(138,510)
Net financing and advances	10,620,972	9,258,302
Percentage of collateral held for financing and advances	69.7%	67.8%

(iv) Credit Risk Measurement

The Bank adopts the following key judgements and assumptions in the computation of Expected Credit Loss ("ECL"):

(a) Definition of significant increase in credit risk

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

The following events are taken into consideration during the assessment:

- Contractual payment is in arrears for 30 days or more;
- Significant downgrade of credit rating or internal rating;
- Exposure modified placed under Agensi Kaunseling dan Pengurusan Kredit ("AKPK") status;
- Exposure being monitored under watch list; or
- Restructured and reschedule exposure with increase in credit risk.

(b) Definition of credit impaired financial assets

An exposure is classified as credit impaired when one or more events that have a detrimental impact to the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

<u>Quantitative criteria:</u>
A financial asset is classified as credit impaired when the counterparty fails to make contractual payment.

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(iv) Credit Risk Measurement (contd.)

(b) Definition of credit impaired financial assets (contd.)

Evidence that a financial asset is credit impaired includes observable data about the following events:

<u>Qualitative criteria:</u>

- Significant financial difficulty of the issuer or the borrower;
- Breach of contract such as a default of past due event;
- Concessions have been made by the lender relating to the borrower's financial difficulty;
- Indications that borrower will enter into bankruptcy/winding up or other financial restructuring;
- Disappearance of an active market for that financial asset; or
- Purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

(c) Measurement of Expected Credit Loss ("ECL")

ECL is measured by three components, i.e. exposure at default, probability of default and loss given default.

Exposure at default ("EAD")

EAD for non-retail portfolio is calculated based upon the contractual amortisation amount up to the point prior to the default event. Repayments are then assumed to cease, with only profit accrued on the outstanding balance from this point. Since the non-retail portfolio contains a variety of products with different profit accrual methods, amortisation types and repayment methods, the approaches employed to calculate EAD varies accordingly.

EAD for retail portfolio is calculated based upon either:

(i) Simple equation based calculation approach - where the outstanding balance follows a predictable trend across the amount and tenure.

(ii) Utilisation curve model. These curves provide a view of percent drawn down at the point of default, expressed as a percentage of the customer credit limit at observation.

(iii) Mechanical equation based approach - which was utilised to forecast monthly default balances as per an amortisation profile and adjusted for different paths to default using an adjustment factor.

Probability at default ("PD")

A PD is assigned to each risk measure and represents as a percentage the likelihood of default.

For non-retail portfolio, the PD is measured from the internal or external rating of the borrower or issuer to determine the level of default risk.

For retail portfolio, a signature curve approach is used to forecast the lifetime PD and PD at any given time within the lifetime horizon. This is based upon historic default data using a chain ladder methodology to construct a lifetime default emergence curve.

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(iv) Credit Risk Measurement (contd.)

(c) Measurement of Expected Credit Loss ("ECL") (contd.)

Loss given default ("LGD")

This is on a time series of probability weighted loss rate relative to the monthly exposure at default where the probabilities and loss rates are estimated by key risk driver segments such as exposure migration status (e.g. loss given cure & loss given charge off), collateral type, defaulted exposure relative to original exposure amount and months in default.

(d) Forward-looking information

Three economic scenarios using different probability weightage are applied to the ECL:

- Base Case - based upon current economic outlook or forecast.
- Positive Case - based upon a projected optimistic or positive economic outlook or forecast.
- Negative Case - based upon a projected pessimistic or negative economic outlook or forecast.

During the financial year, negative case has been assigned with a higher weightage due to the impact on COVID-19 pandemic and economic slowdown.

The negative case has been assigned with a higher weightage for the ECL as compared to the positive case.

Projection of economic scenario and the probability of each scenario happening in future shall be carried out and shall contain all macroeconomic variables ("MEV") which are applied in the ECL models as they are found to have significant correlation to increase of credit risk via the modelling exercise.

For forward looking estimates, analysis was carried out with the recent development of the COVID-19 pandemic and economic slow down to determine how the estimates were affected by macroeconomic trends. Factors such as GDP growth rate, unemployment rate, consumer price index, consumption credit and producer price index were analysed to identify the level of correlation with the observed trends. Given the statistically strong correlation, the estimates were adjusted to reflect the macroeconomic trends.

	Weighted Average Forecast		
MEV	2021	2020	2019
	%	%	%
GDP Growth Rate	+1.00	-2.50	+2.80
Producer Price Index	+3.50	-0.96	-0.20
Consumer Price Index	+2.10	+0.80	+1.20
Credit Consumption	+1.70	+1.40	+1.70
Unemployment Rates	+4.10	+3.90	+3.90
House Price Index	+3.10	+0.30	+1.50

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(iv) Credit Risk Measurement (contd.)

(e) Grouping of exposure for ECL measured on collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

The appropriateness of groupings is monitored and reviewed on a periodic basis.

(f) Modification of financial assets

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of financing to customers. When this happens, the Bank assess whether or not the new terms are substantially different to the original terms.

When the modification is not substantial and so does not result in derecognition of the original loans, the Bank recalculate the gross carrying amount based on the revised cash flow of the financial asset and recognises a modification gain or loss in the statement of income. The new gross carrying amount is recalculated by discounting the modified cash flow at the original effective profit rate.

The Bank monitors the subsequent performance of modified assets. The risk of default of such loans after modification is assessed and compared with the risk under the original terms at initial recognition. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more.

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

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(v) Credit Quality

Upon the adoption of MFRS 9, the Bank assess the credit quality for financing and advances by the below categories:

Credit Quality	Credit Grading		Definition
	Scorecard	Customer Rating	
Low	Low risk score	1 - 12 (AAA to BB)	Borrowers with good capacity to meet financial commitments
Medium	Medium risk score	13 -16 (BB- to B-)	Borrower which is in a fairly acceptable capacity to meet financial commitments
High	High risk score	17 - 19 (CC+ to CC-)	Borrower which is in an uncertain capacity to meet financial commitments but have not been impaired
Unrated	Unrated	Unrated	Borrower which is unrated
Credit Impaired	Credit Impaired	Credit Impaired	Defaulted, or judgmentally impaired due to lack of capacity to fulfil financial commitments

Other financial assets are categorised in the following manner:

Credit Quality	Credit Rating	Definition
Investment graded	AAA to BBB-	Issuer with low risk of defaulting principal or profit payment
Non-investment graded	Lower than BBB-	Issuer with medium or high risk of defaulting principal or profit payment
Sovereign/government backed	-	Issued or guarantee by Malaysian government
Unrated	Unrated	Issuer where rating is unavailable
Credit impaired	Credit impaired	Defaulted

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(v) Credit Quality

The following table shows an analysis of the credit quality by stages and the expected credit losses for the financial assets:

2020	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Cash and short-term funds (exclude cash in hand)				
Sovereign/government backed	714,632	-	-	714,632
Gross carrying amount	714,632	-	-	714,632
Expected credit losses	-	-	-	-
Net carrying amount	714,632	-	-	714,632
Financial investments at fair value through other comprehensive income				
Investment graded	798,750	-	-	798,750
Sovereign/government backed	1,503,116	-	-	1,503,116
Gross carrying amount	2,301,866	-	-	2,301,866
Expected credit losses [Note (a)]	(37)	-	-	(37)
Financial investments at amortised cost				
Unrated	80,853	-	-	80,853
Gross carrying amount	80,853	-	-	80,853
Expected credit losses	(225)	-	-	(225)
Net carrying amount	80,628	-	-	80,628
Financing and advances				
Low	5,583,157	124,541	-	5,707,698
Medium	3,278,691	423,313	-	3,702,004
High	371,351	432,468	-	803,819
Unrated	232,480	141,386	-	373,866
Credit impaired	-	-	232,569	232,569
Gross carrying amount	9,465,679	1,121,708	232,569	10,819,956
Expected credit losses	(32,177)	(92,092)	(74,715)	(198,984)
Net carrying amount	9,433,502	1,029,616	157,854	10,620,972
Statutory deposit				
Sovereign/government backed	219,488	-	-	219,488
Gross carrying amount	219,488	-	-	219,488
Expected credit losses	-	-	-	-
Net carrying amount	219,488	-	-	219,488

Note a : The expected credit losses is recognised in reserve in other comprehensive income instead of in the statement of financial position as the carrying amount of debt instruments at FVOCI is equivalent to fair value.

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(v) Credit Quality

2020	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Credit related commitments and contingencies				
Low	1,455,658	15,176	-	1,470,834
Medium	620,724	137,784	-	758,508
High	42,307	3,935	-	46,242
Unrated	161,452	500	-	161,952
Credit impaired	-	-	1,009	1,009
Gross carrying amount	2,280,141	157,395	1,009	2,438,545
Expected credit losses	(1,012)	(3,441)	(1)	(4,454)

Simplified Approach	Current RM'000	More than 90 days past due RM'000	Total RM'000
Other assets (exclude prepayment)			
Gross carrying amount	2,749	1,749	4,498
Expected credit losses	-	(1,749)	(1,749)
Net carrying amount	2,749	-	2,749

2019	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Cash and short-term funds (exclude cash in hand)				
Sovereign/government backed	348,407	-	-	348,407
Gross carrying amount	348,407	-	-	348,407
Expected credit losses	-	-	-	-
Net carrying amount	348,407	-	-	348,407
Financial investments at fair value through other comprehensive income				
Investment graded	614,519	-	-	614,519
Sovereign/government backed	1,486,368	-	-	1,486,368
Gross carrying amount	2,100,887	-	-	2,100,887
Expected credit losses [Note (a)]	(39)	-	-	(39)

Note a : The expected credit losses is recognised in reserve in other comprehensive income instead of in the statement of financial position as the carrying amount of debt instruments at FVOCI is equivalent to fair value.

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(v) Credit Quality

2019	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Financing and advances				
Low	5,074,372	149,659	-	5,224,031
Medium	2,015,577	612,978	-	2,628,555
High	652,265	372,812	-	1,025,077
Unrated	119,938	292,286	-	412,224
Credit impaired	-	-	106,925	106,925
Gross carrying amount	7,862,152	1,427,735	106,925	9,396,812
Expected credit losses	(23,032)	(69,895)	(45,583)	(138,510)
Net carrying amount	7,839,120	1,357,840	61,342	9,258,302
Statutory deposit				
Sovereign/government backed	335,388	-	-	335,388
Gross carrying amount	335,388	-	-	335,388
Expected credit losses	-	-	-	-
Net carrying amount	335,388	-	-	335,388
Credit related commitments and contingencies				
Low	1,301,437	43,892	-	1,345,329
Medium	359,794	219,415	-	579,209
High	137,537	12,586	-	150,123
Unrated	213,788	10	-	213,798
Credit impaired	-	-	1,979	1,979
Gross carrying amount	2,012,556	275,903	1,979	2,290,438
Expected credit losses	(712)	(3,182)	(105)	(3,999)

Simplified Approach	Current RM'000	More than 90 days past due RM'000	Total RM'000
Other assets (exclude prepayment)			
Gross carrying amount	1,956	1,641	3,597
Expected credit losses	-	(1,641)	(1,641)
Net carrying amount	1,956	-	1,956

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(vi) Sensitivity test

The Bank has performed credit losses sensitivity assessment on financial assets based on the changes in key variables as below while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the expected credit losses of the Bank.

The table below outlines the effect of the changes in major key variables used on expected credit losses while other variables remain constant:

Measurement variables	MEV Change (%)	+ RM'000	- RM'000
2020			
Retail			
House price index	9.8	(5,589)	9,374
Consumption credit	114	1,759	(1,704)
Consumer price index	4.2	2,960	(2,979)
Unemployment rate	7.5	1,252	(1,278)
Non-retail	Percentage Point Change (%)		
GDP growth	2.7	(1,471)	5,373
2019			
Retail			
Consumption credit	3.3	989	(960)
House price index	7.1	(968)	1,337
Unemployment rate	0.2	999	(1,006)
Non-retail			
3 months KLIBOR	0.4	2,591	(1,539)

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk

Market Risk is the risk of loss of earnings arising from changes in profit rates, foreign exchange rates, equity prices, commodity prices and their implied volatilities.

The Bank has established a framework of risk policies, measurement methodologies and risk limits as approved by the Group Risk Management Committee ("GRMC") to manage market risk. Market risk arising from the trading activities is controlled via position limits, loss limits sensitivity limits and valuation via daily mark-to-market, where available.

(i) Profit rate risk

As a subset of market risk, profit rate risk refers to the volatility in net profit income as a result of changes in profit rate of return and shifts in the composition of the assets and liabilities. Rate of return risk is managed through profit rate sensitivity analysis. The sensitivity in net profit income from profit rate movement is monitored and reported to Management. In addition to pre-scheduled meetings, Group Assets and Liabilities Management Committee ("GALCO") will also deliberate on revising the Bank's financing and deposit rates in response to changes in the benchmark rates set by the central bank.

The effects of changes in the levels of rates of return on the market value of securities are monitored closely and mark-to-market valuations are regularly reported to Management.

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of profit rates on its financial position and cash flows. The effects of changes in the levels of rates of return on the market value of securities are monitored regularly and the outcome of mark-to-market valuations are escalated to Management regularly. The table below summarises the effective profit rates at the end of the reporting period and the periods in which the financial instruments will re-price or mature, whichever is the earlier.

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

(i) Profit rate risk (contd.)

	Non-Trading Book							
	Up to 1 month	>1-3 months	>3-6 months	>6-12 months	>1-5 years	Over 5 years	Non-profit sensitive	Total
2020	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets								
Cash and short-term funds	700,000	-	-	-	-	-	14,632	714,632
Financial investment at fair value through other comprehensive income	5,001	55,117	50,197	181,974	1,268,129	720,137	21,311	2,301,866
Financial investment at amortised cost	-	-	80,000	-	-	-	628	80,628
Financing and advances	8,580,296	473,997	117,515	27,783	678,167	710,262	85,593*	10,673,613
Other financial assets**	-	-	-	-	-	-	222,237	222,237
Total financial assets	9,285,297	529,114	247,712	209,757	1,946,296	1,430,399	344,401	13,992,976
Liabilities								
Deposits from customers	3,540,018	1,909,938	1,230,849	1,967,626	3,062,180	-	94,534	11,805,145
Deposits and placements of banks and other financial institutions	16,540	5,471	15,070	30,993	151,997	-	780	220,851
Obligation on securities sold under repurchase agreements	-	147,983	-	-	-	-	99	148,082
Recourse obligation on financing sold to Cagamas	-	-	-	150,012	350,017	-	613	500,642
Lease liabilities	18	38	63	-	-	-	-	119
Subordinated Sukuk	-	-	-	-	229,003	-	72	229,075
Other financial liabilities	-	-	-	-	-	-	105,929	105,929
Total financial liabilities	3,556,576	2,063,430	1,245,982	2,148,631	3,793,197	-	202,027	13,009,843
On-balance sheet profit sensitivity gap	5,728,721	(1,534,316)	(998,270)	(1,938,874)	(1,846,901)	1,430,399	142,374	983,133

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

(i) Profit rate risk (contd.)

2019	Non-Trading Book Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Total RM'000
Assets								
Cash and short-term funds	320,000	-	-	-	-	-	28,407	348,407
Financial investment at fair value through other comprehensive income	110,026	15,008	9,999	10,029	1,184,829	747,410	23,586	2,100,887
Financing and advances	7,299,486	372,989	178,112	28,271	746,749	712,856	(31,584)*	9,306,879
Other financial assets**	-	-	-	-	-	-	337,344	337,344
Total financial assets	7,729,512	387,997	188,111	38,300	1,931,578	1,460,266	357,753	12,093,517
Liabilities								
Deposits from customers	2,915,769	1,743,903	1,040,756	1,729,580	2,434,045	-	68,848	9,932,901
Deposits and placements of banks and other financial institutions	950	6,669	9,771	21,400	204,039	-	902	243,731
Recourse obligation on financing sold to Cagamas	-	-	-	-	500,012	-	580	500,592
Subordinated Sukuk	-	-	-	-	-	228,747	108	228,855
Other financial liabilities	-	-	-	-	-	-	243,920	243,920
Total financial liabilities	2,916,719	1,750,572	1,050,527	1,750,980	3,138,096	228,747	314,358	11,149,999
On-balance sheet profit sensitivity gap	4,812,793	(1,362,575)	(862,416)	(1,712,680)	(1,206,518)	1,231,519	43,395	943,518

* Impaired financing and expected credit losses of the Bank are classified under the non-profit sensitive column.
** Includes statutory deposits and other assets

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

(ii) Value at risk ('VaR')

Value-at-risk ("VaR") reflects the maximum potential loss of value of a portfolio resulting from market movements within a specified probability of occurrence (level of confidence); for a specific period of time (holding period). For the Bank, VaR is computed based on the historical simulation approach with parameters in accordance with BNM and Basel requirements. Backtesting is performed daily to validate and reassess the accuracy of the VaR model. This involves the comparison of the daily VaR values against the hypothetical profit and loss over the corresponding period.

The table below sets out a summary of the Bank's VaR profile by financial instrument types for the Trading Portfolio:

	Balance RM'000	Average for the year RM'000	Minimum RM'000	Maximum RM'000
2020				
Government securities	(9,212)	(3,650)	(2,450)	(9,212)
Private debt securities	(3,273)	(1,239)	(773)	(3,273)
2019				
Government securities	(2,965)	(2,396)	(1,889)	(2,965)
Private debt securities	(781)	(838)	(716)	(963)

(iii) Rate of Return Risk in the banking book

The following tables present the Bank's projected sensitivity to a 100 basis point parallel shock to profit rates across all maturities applied on the Bank's profit sensitivity gap as at reporting date.

	2020 - 100 bps Increase/(decrease) RM'000	2020 + 100 bps Increase/(decrease) RM'000
Impact on net profit after tax	(22,620)	22,620
Impact on equity	65,989	(62,231)

(a) For every incremental increase or decrease by 25bps, the impact on net profit after tax will increased or decreased by RM5,655,000 respectively.

(b) For every incremental increase or decrease by 25bps, the impact on equity will decreased by RM15,881,000 or increased by RM16,152,000.

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

(iii) Rate of Return Risk in the banking book (contd.)

	2019	
	- 100 bps	+ 100 bps
	Increase/(decrease)	
	RM'000	RM'000
Impact on net profit after tax	(18,694)	18,694
Impact on equity	63,440	(59,975)

(iv) Other risk measures

(i) Stress test

Stress testing is normally used by banks to gauge their potential vulnerability to exceptional but plausible events. The Bank performs stress testing regularly to measure and alert the Board and Management on the effects of potential political, economic or other disruptive events on our exposures. The Bank's stress testing process is governed by the Stress Testing Framework as approved by the Board. Stress testing is conducted on a bank-wide basis as well as on specific portfolios. The Bank's bank-wide stress testing exercise uses a variety of broad macroeconomic indicators that are then translated into stress impacts on the various business units. The results are then consolidated to provide an overall impact on the Bank's financial results and capital requirements. Stress testing results are reported to the Board and Management to provide them with an assessment of the financial impact of such events would have on the Bank's profitability and capital levels.

(ii) Sensitivity analysis

Sensitivity analysis is used to measure the impact of changes in individual stress factors such as profit rates or foreign exchange rates. It is normally designed to isolate and quantify exposure to the underlying risk. The Bank performs sensitivity analysis such as parallel shifts of profit rates on its exposures, primarily on the banking and trading book positions.

(c) Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet financial commitments when due.

The Bank's liquidity risk profile is managed using liquidity risk management strategies set in the Liquidity Risk Management Policy. Liquidity Risk Measures are monitored against approved thresholds by GALCO and GRMC. A contingency funding plan is also established by the Bank as a forward-looking measure to ensure that liquidity risk can be addressed according to the degrees of key risk indicators, and which incorporates alternative funding strategies which are ready to be implemented on a timely basis to mitigate the impact of unforeseen adverse changes in liquidity in the market place.

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

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

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

2020	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1 year RM'000	Total RM'000
Assets						
Cash and short-term funds	714,632	-	-	-	-	714,632
Financial investment at fair value through other comprehensive income	10,308	65,990	55,329	181,974	1,988,265	2,301,866
Financial investments at amortised cost	-	-	853	-	79,775	80,628
Financing and advances	2,453,398	633,449	159,081	51,969	7,375,716	10,673,613
Other financial and non financial assets	2,615	134	191	68	244,018	247,026
Total assets	3,180,953	699,573	215,454	234,011	9,687,774	14,017,765
Liabilities						
Deposits from customers	5,643,588	1,874,981	1,249,350	1,984,129	1,053,097	11,805,145
Deposits and placements of banks and other financial institutions	16,542	5,471	15,848	30,993	151,997	220,851
Obligation on securities sold under repurchase agreements	-	148,082	-	-	-	148,082
Recourse obligation on financing sold to Cagamas	-	613	-	150,012	350,017	500,642
Lease liabilities	18	38	63	-	-	119
Subordinated sukuk	-	-	72	-	229,003	229,075
Other financial and non financial liabilities	77,725	129	182	1,260	37,457	116,753
Total liabilities	5,737,873	2,029,314	1,265,515	2,166,394	1,821,571	13,020,667
Net maturity mismatch	(2,556,920)	(1,329,741)	(1,050,061)	(1,932,383)	7,866,203	997,098

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

(i) Liquidity risk for assets and liabilities based on remaining contractual maturities (contd.)

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

2019	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1 year RM'000	Total RM'000
Assets						
Cash and short-term funds	348,407	-	-	-	-	348,407
Financial investment at fair value through other comprehensive income	117,523	27,209	13,887	10,029	1,932,239	2,100,887
Financing and advances	2,118,194	420,661	204,444	30,252	6,533,328	9,306,879
Other financial and non financial assets	1,492	261	-	-	352,193	353,946
Total assets	2,585,616	448,131	218,331	40,281	8,817,760	12,110,119
Liabilities						
Deposits from customers	4,884,797	1,127,504	1,055,296	1,838,541	1,026,763	9,932,901
Deposits and placements of banks and other financial institutions	950	6,669	10,672	21,400	204,040	243,731
Recourse obligation on financing sold to Cagamas	-	580	-	-	500,012	500,592
Subordinated sukuk	-	-	108	-	228,747	228,855
Other financial and non financial liabilities	196,385	144	384	692	55,610	253,215
Total liabilities	5,082,132	1,134,897	1,066,460	1,860,633	2,015,172	11,159,294
Net maturity mismatch	(2,496,516)	(686,766)	(848,129)	(1,820,352)	6,802,588	950,825

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

(ii) Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the end of the reporting period. The amount disclosed in the table are the contractual undiscounted cash flows of all financial liabilities.

2020	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Liabilities							
Deposits from customers	5,794,957	1,742,317	1,274,773	2,052,021	1,116,112	-	11,980,180
Deposits and placements with banks and other financial institutions	17,324	5,471	15,070	30,993	151,997	-	220,855
Obligation on securities sold under repurchase agreements	-	148,082	-	-	-	-	148,082
Recourse obligation on financing sold to Cagamas	-	5,464	5,464	160,941	368,985	-	540,854
Lease liabilities	24	49	49	-	-		122
Subordinated Sukuk	-	-	6,568	6,496	257,624	-	270,688
Other financial liabilities	76,279	129	182	1,260	35,969	-	113,819
	5,888,584	1,901,512	1,302,106	2,251,711	1,930,687	-	13,274,600
<u>Items not recognised in the statement of financial position</u>							
Financial guarantees	22,190	17,761	12,919	137,385	21,607	-	211,862
Credit related commitments and contingencies	1,801,050	2,204	7,587	6,921	408,534	387	2,226,683
Total financial liabilities	7,711,824	1,921,477	1,322,612	2,396,017	2,360,828	387	15,713,145

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

(ii) Contractual maturity of financial liabilities on an undiscounted basis (contd.)

The table below presents the cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the end of the reporting period. The amount disclosed in the table are the contractual undiscounted cash flows of all financial liabilities. (contd.)

2019	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Liabilities							
Deposits from customers	4,906,610	1,149,693	1,089,558	1,932,844	1,141,591	-	10,220,296
Deposits and placements of banks and other financial institutions	950	8,483	9,771	23,091	208,871	-	251,166
Recourse obligation on financing sold to Cagamas	-	5,494	5,494	10,988	541,071	-	563,047
Subordinated Sukuk	-	-	6,550	6,550	313,350	-	326,450
Other financial liabilities	196,186	144	384	692	55,123	-	252,529
	5,103,746	1,163,814	1,111,757	1,974,165	2,260,006	-	11,613,488
Items not recognised in the statement of financial position							
Financial guarantees	21,898	38,795	10,819	105,427	15,741	10,985	203,665
Credit related commitments and contingencies	1,605,476	2,980	10,054	6,166	462,009	88	2,086,773
Total financial liabilities	6,731,120	1,205,589	1,132,630	2,085,758	2,737,756	11,073	13,903,926

34. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(d) Operational and Shariah Compliance Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition of Operational Risk includes legal risk, but excludes strategic and reputational risk. Operational risk includes Shariah non-compliance risk which arises from the Bank's failure to comply with the Shariah rules and principles determined by the relevant Shariah advisory councils.

Group Operational Risk of Group Risk Management formulates and implements operational risk framework within the Bank while the line of businesses are responsible for the management of their day to day operational and Shariah non-compliance risks.

Operational and Shariah non-compliance risk management is a continual cyclic process which includes risk identification, assessment, control, mitigation and monitoring. This includes analysing the risk profile of the Bank, determining control gaps, assessing potential loss and enhancing controls to mitigate the risks.

The main activities undertaken by the Bank in managing operational and Shariah non-compliance risks include the identification of risks and controls, monitoring of key risk indicators, reviews of policies and procedures, operational risk and Shariah non-compliance risk awareness training, and business continuity management.

35. CAPITAL COMMITMENTS

	2020 RM'000	2019 RM'000
Capital expenditure:		
Authorised and contracted for	1,012	722
Authorised and not contracted for	496	496

The capital commitments mainly consist of computer software and property, plant and equipment.

36. LEASE COMMITMENTS

The Bank has lease commitments in respect of equipment on hire and premises, all of which are classified as operating leases. A summary of the non-cancellable long term commitments are as follows:

	2020 RM'000	2019 RM'000
Within one year	-	307
Between one year to five years	-	153
	-	460

The operating leases of the Bank's other premises typically cover for an initial period of two years with options for renewal. These leases are cancellable but are usually renewed upon expiry or replaced by leases on other properties.

From 1 April 2019, the Bank recognised lease liabilities for these leases as per Note 17.

37. HOLDING AND RELATED COMPANIES

The holding company of the Bank is Alliance Bank Malaysia Berhad, a bank incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

Related companies in these financial statements refer to member companies in Alliance Bank Malaysia Berhad.

38. CAPITAL ADEQUACY

The capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks. The Framework sets out the approach for computing regulatory capital adequacy ratios, as well as the levels of those ratios at which banking institutions are required to operate. The framework is to strengthen capital adequacy standards, in line with the requirements set forth under Basel III. The risk-weighted assets of the Bank are computed using the Standardised Approach for credit risk and market risk, and the Basic Indicator Approach for operational risk.

(a) The capital adequacy ratios of the Bank are as follows:

	2020	2019
Before deducting proposed dividends		
CET 1 capital ratio	10.507%	11.690%
Tier 1 capital ratio	11.617%	12.950%
Total capital ratio	14.233%	15.762%
After deducting proposed dividends		
CET 1 capital ratio	10.507%	11.339%
Tier 1 capital ratio	11.617%	12.599%
Total capital ratio	14.233%	15.411%

	2020 RM'000	2019 RM'000
CET I Capital		
Paid-up share capital	400,000	400,000
Retained profits	523,425	522,931
Regulatory reserves	34,748	9,060
FVOCI reserves	38,888	18,795
	997,061	950,786
Less: Regulatory adjustments		
- Intangible assets	(825)	(897)
- Deferred tax assets	-	(11,156)
- 55% of FVOCI reserves	(21,388)	(10,337)
- Regulatory reserves	(34,748)	(9,060)
Total CET I Capital	940,100	919,336
Additional Tier 1 Sukuk Wakalah	99,271	99,113
Total Additional Tier 1 Capital	99,271	99,113
Total Tier I Capital	1,039,371	1,018,449
Tier II Capital		
Subordinated Sukuk Murabahah	129,733	129,634
Expected credit losses and regulatory reserves	104,399	91,478
Total Tier II Capital	234,132	221,112
Total Capital	1,273,503	1,239,561

38. CAPITAL ADEQUACY (CONTD.)

(b) The breakdown of risk-weighted assets ("RWA") by exposure in each major risk category are as follows:

	2020 RM'000	2019 RM'000
Credit risk	8,351,930	7,318,223
Operational risk	595,399	546,146
Total RWA and capital requirements	8,947,329	7,864,369

Detailed information on the above risk exposure, as prescribed under BNM's Risk-Weighted Capital Adequacy Framework (Basel II) - Disclosure Requirements (Pillar 3) is presented in the Pillar 3

39. CAPITAL

The capital management of Alliance Islamic Bank Berhad is under the purview of Alliance Bank Group's ("the Group") capital management with the objectives:

- to maintain sufficient capital resources to meet the regulatory capital requirements as set forth by Bank Negara Malaysia;
- to maintain sufficient capital resources to support the Group's risk appetite and to enable future business growth; and
- to meet the expectations of key stakeholders, including shareholders, investors, regulators and rating agencies.

In line with this, the Bank aims to maintain capital adequacy ratios that are comfortably above the regulatory requirement, while balancing shareholders' desire for sustainable returns and high standards of prudence.

The Bank carries out stress testing to estimate the potential impact of extreme, but plausible, events on the Bank's earnings, balance sheet and capital. The results of the stress test are to facilitate the formation of action plan(s) in advance if the stress test reveals that the Group's capital will be adversely affected. The results of the stress test are tabled to the Group Risk Management Committee for approval.

The Bank's regulatory capital is determined under Bank Negara Malaysia's Capital Adequacy Framework and their capital ratio complied with the prescribed capital adequacy ratios.

40. RESTRICTED INVESTMENT ACCOUNT

The Bank has entered into an arrangement on Commodity Murabahah Term Financing (“CMTF”) with Alliance Bank Malaysia Berhad (“ABMB”), the holding company of the Bank, where ABMB will provide the funds, while the assets are managed by the Bank (as the Wakeel or agent) based on the Wakalah principle. The risk and rewards of the underlying assets are recognised and borne by ABMB. Hence, the underlying assets and allowances for expected credit losses are recognised and accounted for by ABMB.

(i) The details of the Restricted Investment Account ("RIA") financing are as follows:

	2020 RM'000	2019 RM'000
RIA		
Financing and advances	74,795	179,795

	2020 RM'000	2019 RM'000
Total RWA for Credit Risk	75,593	181,600

(ii) Movement in the RIA

	2020 RM'000	2019 RM'000
At 1 April	179,795	-
Funding inflows/outflows		
New placement during the year	-	200,000
Repayment during the year	(105,000)	(20,000)
Wakalah fee	-	(205)
At 31 March	74,795	179,795
Investment assets		
Term financing	200,000	200,000

(iii) The average rate of return of the RIA is at 4.82% (2019: 5.5%) with tenure of five years.

41. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions.

The notional amounts of the commitments and contingencies of the Bank are as follows:

	2020 RM'000	2019 RM'000
Credit-related exposures		
Direct credit substitutes	191,836	160,578
Transaction-related contingent items	60,380	68,909
Short-term self-liquidating trade-related contingencies	20,026	46,589
Irrevocable commitments to extend credit:		
- maturity exceeding one year	367,450	415,302
- maturity not exceeding one year	1,798,853	1,599,060
	2,438,545	2,290,438

Included in direct credit substitutes and transaction-related contingent items are financial guarantee contract of RM211,862,000 (2019: RM203,665,000) of which the fair value at the time of issuance is RMNil (2019: RM Nil).

42. FAIR VALUE MEASUREMENTS

(a) Determination of fair value and the fair value hierarchy

MFRS 13 Fair Value Measurement requires disclosure of financial instruments measured at fair value to be categorised according to a hierarchy of valuation techniques, whether the inputs used are observable or unobservable. The following levels of hierarchy are used for determining and disclosing the fair value of the financial instruments:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Bank recognise transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

(i) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange and those prices represent actual and regularly occurring market transactions on an arm’s length basis. This includes listed equities and corporate debt securities which are actively traded.

42. FAIR VALUE MEASUREMENTS (CONTD.)

(a) Determination of fair value and the fair value hierarchy (contd.)

(ii) Financial instruments in Level 2

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

(iii) Financial instruments in Level 3

The Bank classifies financial instruments as Level 3 when there is reliance on unobservable inputs to the valuation model attributing to a significant contribution to the instrument value. Valuation reserves or pricing adjustments where applicable will be used to converge to fair value.

The valuation techniques and inputs used generally depend on the contractual terms and the risks inherent in the instrument as well as the availability of pricing information in the market. Principal techniques used include discounted cash flows, and other appropriate valuation models.

(b) Financial instruments measured at fair value and the fair value hierarchy

The following tables show the Bank's financial instruments which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
2020	RM'000	RM'000	RM'000	RM'000
Financial assets				
Financial investment at fair value through other comprehensive income				
- Money Market Instruments	-	1,016,589	-	1,016,589
- Unquoted Securities	-	1,285,277	-	1,285,277
2019				
Financial assets				
Financial investment at fair value through other comprehensive income				
- Money Market Instruments	-	1,064,786	-	1,064,786
- Unquoted Securities	-	1,036,101	-	1,036,101

There were no transfers between Level 1 and 2 of the fair value hierarchy for the Bank during the financial year ended 31 March 2020 and 31 March 2019.

42. FAIR VALUE MEASUREMENTS (CONTD.)

(c) Fair values of financial instruments not carried at fair value

The following table summarises the carrying amounts and the fair values of financial instruments of the Bank which are not carried at fair value in the statement of financial position. It does not include those short term/on demand financial assets and liabilities where the carrying amounts are reasonable approximate to their fair values.

	Fair value				Carrying
	Level 1	Level 2	Level 3	Total	amount
2020	RM'000	RM'000	RM'000	RM'000	RM'000
Financial assets					
Financial investments at amortised cost	-	80,685	-	80,685	80,628
Financing and advances	-	-	10,927,011	10,927,011	10,673,613
Financial liabilities					
Deposits from customers	-	11,812,485	-	11,812,485	11,805,145
Deposits and placements of banks and other financial institutions	-	213,571	-	213,571	220,851
Obligations on securities sold under repurchase agreements	-	148,082	-	148,082	148,082
Recourse obligation on financing sold to Cagamas	-	540,826	-	540,826	500,642
Subordinated Sukuk	-	229,003	-	229,003	229,075
2019					
Financial assets					
Financing and advances	-	-	9,505,711	9,505,711	9,306,879
Financial liabilities					
Deposits from customers	-	9,935,642	-	9,935,642	9,932,901
Deposits and placements of banks and other financial institutions	-	233,560	-	233,560	243,731
Recourse obligation on financing sold to Cagamas	-	563,047	-	563,047	500,592
Subordinated Sukuk	-	228,747	-	228,747	228,855

42. FAIR VALUE MEASUREMENTS (CONTD.)

(c) Fair values of financial instruments not carried at fair value (contd.)

The methods and assumptions used in estimating the fair values of financial instruments are as follows:

(i) Financing investments at amortised cost

The fair values are estimated based on quoted or observable market prices at the end of the reporting period. Where such quoted or observable market prices are not available, the fair values are estimated using pricing models or discounted cash flow techniques. Where discounted cash flow technique is used, the expected future cash flows are discounted using prevailing market rates for a similar instrument at the end of the reporting period.

(ii) Financing and advances

The fair values of fixed rate financing with remaining maturity of less than one year and variable rate financing are estimated to approximate their carrying values. For fixed rate financing with remaining maturity of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at applicable prevailing rates at end of reporting period offered to new borrowers with similar credit profiles. In respect of impaired financing, the fair values represented by their carrying values, net of impairment allowances, being the expected recoverable amount.

(iii) Deposits from customers, deposits and placements of banks and other financial institutions

The fair values of deposit liabilities payable on demand (demand and savings deposits), or deposits with maturity of less than one year are estimated to approximate their carrying amounts. The fair values of investment accounts with remaining maturities of more than one year are estimated based on expected future cash flows discounted at applicable prevailing rates offered for deposits of similar remaining maturities. For negotiable islamic debt certificate, the fair values are estimated based on quoted or observable market prices as at the end of the reporting period. Where such quoted or observable market prices are not available, the fair values of negotiable instruments of deposits are estimated using the discounted cash flow technique.

(iv) Obligations on securities sold under repurchase agreements

The estimated fair value of obligations on securities sold under repurchase agreements with maturities of less than six months approximate the carrying value.

(v) Recourse obligations on loans and financing sold to Cagamas

The fair values of recourse obligations on loans and financing sold to Cagamas are determined based on the discounted cash flows of future instalment payments at applicable prevailing Cagamas rates as at the end of the reporting period.

(vi) Subordinated sukuk

The fair value of the subordinated sukuk is estimated based on the discounted cash flows techniques using the current yield curve appropriate for the remaining term to maturity.

43. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

On 22 April 2019, the Bank entered into an exclusive 15-year bancassurance agreement with Zurich General Insurance Malaysia Berhad and Zurich General Takaful Malaysia Berhad respectively. The agreement will see the Bank strengthen its position in providing end-to-end financing solutions for both individuals and small and medium enterprise (SME) community.

44. SUBSEQUENT EVENTS

The global economy is expecting to slow down following disruption caused by COVID-19 pandemic and the collapse of crude oil prices. In order to mitigate the weaker economy outlook, the Malaysian government has implemented several relief measures to help stimulate the economy.

To alleviate the financial difficulties of the borrowers, the Government has announced a 6 months automatic moratorium on repayments of loans and financing from 1 April 2020 for eligible small and medium enterprises and individuals (“automatic moratorium”). As such, in order to help our consumers and businesses, the Bank has implemented the automatic moratorium and this will result in modification losses on these loans and financing as the contractual cash flow has been modified either from the loan tenure or the total repayment.

Overnight policy rate (“OPR”) was reduced by 50bps in early May 2020 to help easing the financial burden of the borrowers and this would impact the Bank’s revenue. In addition, expected credit losses are expected to increase following the slowdown in economy resulted from COVID-19 pandemic and Movement Control Order (“MCO”).

All these would have an adverse impact on the Bank earnings for financial year 2021 and the financial impact has yet to be quantified. However, the Bank will monitor the situation closely and continue to assess the impact.

Nevertheless, we are committed to help our customers navigate through the storm with loan restructuring solutions and fully support the government's economic stimulus initiatives.