



ALLIANCE ISLAMIC BANK

**REPORT AND FINANCIAL STATEMENTS FOR
THE FINANCIAL YEAR ENDED 31 MARCH 2023**

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

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DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the audited financial statements of the Bank for the financial year ended 31 March 2023.

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 (including corporate finance, equity and debt capital market activities) allowed under the Islamic Financial Services Act, 2013 and the Shariah principles.

On 1 April 2022, the corporate finance, equity and debt capital market business was transferred from Alliance Investment Bank Berhad ("AIBB"), a related company, to the Bank based on the net asset value of 31 March 2022 of AIBB.

FINANCIAL RESULTS

	RM'000
Profit before taxation	214,529
Taxation	<u>(52,338)</u>
Net profit for the financial year	<u><u>162,191</u></u>

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 amounts of dividends declared and paid by the Bank since 31 March 2022 were as follows:

	RM'000
(i) A single tier second interim dividend of 9.98 sen per share, on 414,249,197 ordinary shares in respect of the financial year ended 31 March 2022, was paid on 16 June 2022.	41,342
(ii) A single tier first interim dividend of 10.42 sen per share, on 414,249,197 ordinary shares in respect of the financial year ended 31 March 2023, was paid on 15 December 2022.	<u>43,165</u>
	<u><u>84,507</u></u>

Subsequent to the financial year end, the Directors declared a single tier second interim dividend of 9.10 sen per share, on 414,249,197 ordinary shares amounting to approximately RM37,697,000 in respect of the current financial year. The accompanying financial statements do not reflect this dividend. The dividend will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 March 2024.

The Directors do not propose any final dividend in respect of the financial year ended 31 March 2023.

ISSUE OF SHARES AND DEBENTURES

There were no issuance of new shares during the financial year. The Bank had issued and redeemed debt securities during the financial year and the details are disclosed in Note 19 to the financial statements.

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 the current assets 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.

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
Dato' Ahmad Hisham bin Kamaruddin
Rustam bin Mohd Idris
Joel Kornreich (Resigned on 31 August 2022)

DIRECTORS' REMUNERATION

Total Directors' remuneration for the current financial year amounted to RM822,000. The details of directors' remuneration are set out in Note 34 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 34 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 that is 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.

BUSINESS REVIEW FOR THE FINANCIAL YEAR ENDED ("FYE") 31 MARCH 2023

Profitability

The Bank's net profit after taxation was RM162.2 million for the financial year ended 31 March 2023, an increase of RM37.2 million or 29.8% year-on-year ("YOY"). The higher profits were largely due to higher net profit income and lower allowance for expected credit losses.

Net profit income improved by RM65.4 million or 18.8% YOY due to higher financing growth and Overnight Policy Rate ("OPR") hikes. Net profit margin ("NPM") came in higher at 2.67% (FY2022: 2.41%).

Financing Growth

The Bank's financing and advances grew by 6.9% YOY to RM12.5 billion. The growth was mainly driven by the Small and Medium Enterprises ("SME"), Commercial and Consumer banking, which grew by 26.7%, 12.2% and 2.2%, respectively.

Other Operating Income

The Bank recorded other operating income of RM25.4 million, lower by RM13.6 million or 34.9% YOY mainly due to lower treasury and investment income arising from the challenging investment environment, partly offsetted by corporate advisory fees and higher processing fees and trade fees.

BUSINESS REVIEW FOR THE FYE 31 MARCH 2023 (CONTD.)

Managing Operating Expenses

Operating expenses increased by RM21.2 million or 15.7%, mainly from higher personnel, marketing, administrative and establishment costs. The cost-to-income ratio ("CIR") stood at 35.5% (FY2022: 34.8%).

The Bank will continue to be vigilant on managing the cost in the coming financial year.

Asset Quality

The Bank's allowance for expected credit losses on financing, advances and other financial assets recorded a charge of RM68.7 million, a decrease of RM4.6 million or 6.3% YOY. The net credit cost was recorded at 56.8bps (FY2022: 64.9bps). Financing loss coverage (including regulatory reserves) was at 123.5% (FY2022: 146.9%).

Healthy Funding and Liquidity Position

The Bank's customer deposits stood at RM14.2 billion and the Bank maintained a high current account/savings account ("CASA") ratio of 33.2%. The Bank's liquidity coverage and financing-to-funds ratios stood at 142.0% and 84.9%, respectively.

The Bank will continue to maintain healthy liquidity ratios and ensure sufficient liquidity buffers.

Proactive Capital Management

We continued to maintain strong capital levels, with Common Equity Tier-1 ("CET 1") ratio at 13.7%, Tier-1 Capital Ratio at 14.7% and Total Capital Ratio at 17.1%.

The Bank declared a second interim dividend of 9.10 sen per share in respect of the financial year ended 31 March 2023.

The Bank will continue to prioritise capital conservation in order to support future business expansion.

ECONOMIC AND BUSINESS OUTLOOK FOR THE FYE 31 MARCH 2024

For 2023, Bank Negara Malaysia ("BNM") forecasts Malaysia's gross domestic product ("GDP") growth to range between 4% and 5%, compared to a growth of 8.7% in the preceding year.

We expect Malaysia's economic growth trajectory to be supported by sustained domestic demand due to the continued improvement of the labour market conditions. We believe that further normalisation to the OPR will continue this year as the existing OPR of 2.75% remains below the pre-pandemic level.

Nevertheless, we remain cautious and mindful of downside risks to growth stemming from external uncertainties especially escalating geopolitical tensions and tightening financial conditions.

Notwithstanding the above, the Bank expects to continue a positive financial performance going into FY2024 and remains on track in fulfilling the growth ambitions under ACCELER8. The Bank will broaden its focus and expand into new areas beyond SMEs to accelerate its growth and pay more attention to consumer banking, and wealth management and increase the contribution of the Islamic Banking business to the Group. The Bank will also continue to build strategic partnerships to widen its product offering and distribution, create more value for its customers and expand its business presence in fast-growing states and secondary cities to capture the growth opportunities of these economic corridors.

With prudent financing growth above the industry average, strong credit risk management, controlled financing loss provisions, strengthen deposit/CASA proposition and cost management, the Bank aims to increase the contribution in terms of the profitability and SME financing to the Group.

RATING BY EXTERNAL RATING AGENCY

The Bank is rated by RAM Rating Services Berhad ("RAM"). Based on RAM's rating in November 2022, 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.

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

Total auditors' remuneration for the Bank for the financial year ended 31 March 2023 is RM442,000. Details of auditor's remuneration are set out in Note 27 to the financial statements.

SHARIAH COMMITTEE

The Shariah Committee for the financial year 2022/2023 consists of 5 members appointed by the Bank's Board of Directors. The primary roles and responsibilities of the Shariah Committee are as follows:-

- (a) providing a decision or advice to the Bank on the application of any rulings of the BNM's Shariah Advisory Council ("SAC") and Securities Commission's SAC (collectively, "SACs") or standards on Shariah matters that are applicable to the operations, business, affairs and activities of the Bank;
- (b) providing a decision or advice on matters which require a reference to be made to the SACs;
- (c) providing a decision or advice on the operations, business, affairs and activities of the Bank which may trigger a Shariah non-compliance event;
- (d) deliberating and affirming a Shariah non-compliance finding by any relevant functions;
- (e) deciding on potential Shariah non-compliance event and endorsing measures for its rectification;
- (f) endorsing Shariah related policies and framework before its being approved by the Board;
- (g) approving procedures which complements policies and framework and product collaterals;
- (h) assessing the works carried out by Shariah Review and Shariah Audit;
- (i) endorsing zakat computation and distribution; and
- (j) providing advice on the application of Shariah requirements in relation to the recovery options and other relevant components of the Recovery Plan.

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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 Asset 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
Kuala Lumpur, Malaysia
31 May 2023

Ibrahim Bin Hassan

ALLIANCE ISLAMIC BANK BERHAD

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**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 14 to 102 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 March 2023 and the financial performance of the Bank for the financial year ended 31 March 2023 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

31 May 2023

Ibrahim Bin Hassan

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

I, Ronnie Royston Fernandiz, 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 14 to 102 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 Ronnie Royston Fernandiz at
Kuala Lumpur in the Federal Territory of Kuala
Lumpur on 31 May 2023

Before me,

Ronnie Royston Fernandiz
MIA Membership No. (CA 13837)

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 Committee Charter of Alliance Islamic Bank Berhad ("the Bank"), Bank Negara Malaysia's ("BNM")'s Shariah Governance Policy Document, as well as our letter of appointment, we are required to submit the following report:

We wish to state notwithstanding our report presented herein, the management of the Bank is responsible for ensuring 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 twelve 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 2023 that we have reviewed are in compliance with Shariah principles;
- (d) Group Compliance and the Group Audit 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 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 Asset Growth method; and
- (f) During the period under review, there were two Shariah non-compliance events which had been confirmed by us involving RM100.54 non-compliance income as follows:
 - (i) Foreign Outward Telegraphic Transfer Transaction
 - (ii) Non-Performance of Commodity Murabahah (CM) Trading for Restructured & Rescheduled (R&R) Personal Financing-i Facility

We also noted that the Shariah non-compliance events above 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 actions as well as preventive measures to address the gaps as guided by us including purification of the Shariah non-compliant income by donating to charity and/or refunding to affected customer, improvement of staff communication, holding additional staff training, system enhancement and revision of relevant policies to tighten relevant processes and prevent recurrence.

ALLIANCE ISLAMIC BANK BERHAD
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SHARIAH COMMITTEE'S REPORT (CONTD.)

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 2023 had been conducted in conformity with Shariah.

Signed on behalf of the Shariah Committee

Dr. Tuan Badrul Hisyam bin Tuan Soh
Chairman of the Shariah Committee

Professor Dr. Muhamad Rahimi bin Osman
Shariah Committee Member

31 May 2023

**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 2023, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 March 2023, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 14 to 102.

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’ International Code of Ethics for Professional Accountants (including International Independence Standards) (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

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

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.

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

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 of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ALLIANCE ISLAMIC BANK BERHAD (CONTD.)**
(Incorporated in Malaysia)
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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
LLP0014401-LCA & AF 1146
Chartered Accountants

Kuala Lumpur
31 May 2023

ONG CHING CHUAN
02907/11/2023 J
Chartered Accountant

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2023

	Note	2023 RM'000	2022 RM'000
ASSETS			
Cash and short-term funds	3	1,474,713	1,417,800
Financial investments at fair value through other comprehensive income	4	1,752,388	1,868,764
Financial investments at amortised cost	5	596,779	210,114
Derivative financial assets	6	25	-
Financing and advances	7	12,149,772	11,332,012
Other assets	8	12,255	21,954
Statutory deposits with Bank Negara Malaysia	9	244,900	30,438
Tax recoverable		1,094	-
Right-of-use assets	10	266	384
Property, plant and equipment	11	150	198
Deferred tax assets	12	44,039	41,558
Intangible assets	13	2,045	1,444
TOTAL ASSETS		16,278,426	14,924,666
LIABILITIES AND EQUITY			
Deposits from customers	14	14,185,132	12,612,943
Deposits and placements of banks and other financial institutions	15	195,431	216,232
Derivative financial liabilities	6	2,496	-
Recourse obligation on financing sold to Cagamas	16	100,133	350,449
Lease liabilities	17	296	411
Other liabilities	18	229,039	250,941
Provision for taxation		-	1,529
Provision for zakat		930	1,162
Subordinated sukuk	19	232,259	229,664
TOTAL LIABILITIES		14,945,716	13,663,331
Share capital	20	600,000	600,000
Reserves	21	732,710	661,335
TOTAL EQUITY		1,332,710	1,261,335
TOTAL LIABILITIES AND EQUITY		16,278,426	14,924,666
COMMITMENTS AND CONTINGENCIES	40	3,492,699	2,437,452

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

STATEMENT OF INCOME
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023

	Note	2023 RM'000	2022 RM'000
Income derived from investment of depositors' funds and others	22	698,340	571,986
Income derived from investment of shareholder's funds	23	65,464	57,795
Allowance for expected credit losses on financing, advances and other financial assets	24	(68,655)	(73,442)
Write-back of expected credit losses on financial investments	25	1	203
Total distributable income		<u>695,150</u>	<u>556,542</u>
Income attributable to the depositors and financial institutions	26	<u>(324,556)</u>	<u>(242,380)</u>
Total net income		<u>370,594</u>	<u>314,162</u>
Other operating expenses	27	<u>(156,065)</u>	<u>(134,875)</u>
Profit before taxation		<u>214,529</u>	<u>179,287</u>
Taxation	28	<u>(52,338)</u>	<u>(54,342)</u>
Net profit for the financial year		<u>162,191</u>	<u>124,945</u>
Net profit for the financial year attributable to:			
Equity holder of the Bank		<u>162,191</u>	<u>124,945</u>
Earnings per share attributable to Equity holder of the Bank - basic/diluted (sen)	29	<u>39.2</u>	<u>30.2</u>

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

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023

	2023 RM'000	2022 RM'000
Net profit for the financial year	162,191	124,945
Other comprehensive expense:		
Items that may be reclassified subsequently to profit or loss:		
Revaluation reserve on financial investments at fair value through other comprehensive income ("FVOCI")		
- Net loss from change in fair values	(6,823)	(39,690)
- Realised gain transferred to statement of income on disposal	(1,477)	(16,206)
- Transfer from deferred tax	1,992	13,415
- Changes in expected credit losses	(1)	120
Other comprehensive expense, net of tax	<u>(6,309)</u>	<u>(42,361)</u>
Total comprehensive income for the financial year	<u>155,882</u>	<u>82,584</u>
Total comprehensive income for the financial year attributable to:		
Equity holder of the Bank	<u>155,882</u>	<u>82,584</u>

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

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023

	← Non-distributable reserves →			Distributable reserves	Total equity RM'000
	<u>Ordinary shares</u> RM'000	<u>Regulatory reserves</u> RM'000	<u>FVOCI reserves</u> RM'000	<u>Retained profits</u> RM'000	
At 1 April 2022	600,000	-	(7,372)	668,707	1,261,335
Net profit for the financial year	-	-	-	162,191	162,191
Other comprehensive expense	-	-	(6,309)	-	(6,309)
Total comprehensive (expense)/income	-	-	(6,309)	162,191	155,882
Transfer from regulatory reserves	-	19,339	-	(19,339)	-
Dividend paid (Note 30)	-	-	-	(84,507)	(84,507)
At 31 March 2023	600,000	19,339	(13,681)	727,052	1,332,710
At 1 April 2021	600,000	-	34,989	564,889	1,199,878
Net profit for the financial year	-	-	-	124,945	124,945
Other comprehensive expense	-	-	(42,361)	-	(42,361)
Total comprehensive (expense)/income	-	-	(42,361)	124,945	82,584
Dividend paid (Note 30)	-	-	-	(21,127)	(21,127)
At 31 March 2022	600,000	-	(7,372)	668,707	1,261,335

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

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023

	2023 RM'000	2022 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	214,529	179,287
Adjustments for:		
Accretion of discount less amortisation of premium of financial investments	(16,716)	(9,765)
Allowance for expected credit losses on financing and advances	69,232	94,191
Allowance for expected credit losses on other receivables	413	4
Allowance for expected credit losses on commitments and contingencies	(382)	(19,785)
Allowance for expected credit losses on financial investments	(1)	(203)
Amortisation of computer software	447	327
Depreciation of property, plant and equipment	130	110
Depreciation of right-of-use assets	497	256
Income from financial investments at amortised cost	(13,291)	(10,233)
Income from financial investments at fair value through other comprehensive income	(70,988)	(77,487)
Gain on sale of financial assets at fair value through profit and loss	(37)	-
Net gain from sale of financial investments at fair value through other comprehensive income	(1,477)	(16,206)
Loss on sale of investment amortised cost	1,478	-
Unrealised loss from derivative financial instruments	2,085	-
Profit expense on recourse obligation on financing sold to Cagamas	6,582	15,035
Profit expense on lease liabilities	31	31
Profit expense on subordinated sukuk	12,088	13,385
Zakat	885	503
Operating profit before working capital changes	<u>205,505</u>	<u>169,450</u>
Changes in working capital:		
Deposits from customers	1,572,189	353,602
Deposits and placements of banks and other financial institutions	(20,801)	(62,948)
Financial asset at fair value through profit and loss	37	-
Financing and advances	(886,991)	(789,706)
Other assets	9,256	(12,595)
Other liabilities	(21,522)	10,095
Statutory deposits with Bank Negara Malaysia	(214,462)	(12,100)
Cash generated from/(used in) operating activities	<u>643,211</u>	<u>(344,202)</u>
Taxation paid	(55,421)	(32,299)
Zakat paid	(1,117)	(188)
Net cash generated from/(used in) operating activities	<u>586,673</u>	<u>(376,689)</u>

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023 (CONTD.)

	2023 RM'000	2022 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Income from financial investments at amortised cost	9,598	11,006
Income from financial investments at fair value through other comprehensive income	72,852	78,736
Profit income from derivative instruments	(2,181)	-
Purchase of property, plant and equipment	(82)	(134)
Purchase of intangible assets	(1,048)	(851)
Purchase of:		
- financial investments at fair value through other comprehensive income	(175,000)	(234,193)
- financial investments at amortised cost	(363,978)	-
Redemption/disposal of:		
- financial investments at fair value through other comprehensive income	281,502	521,028
- financial investments at amortised cost	-	95,311
Net cash (used in)/generated from investing activities	<u>(178,337)</u>	<u>470,903</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(84,507)	(21,127)
Repayment of lease liabilities	(525)	(281)
Recourse obligation on financing sold to Cagamas		
- Principal	(250,026)	-
- Profit received	(6,872)	(14,986)
Profit expense on subordinated sukuk	(9,493)	(13,100)
Net cash used in financing activities	<u>(351,423)</u>	<u>(49,494)</u>
Net change in cash and cash equivalents	56,913	44,720
Cash and cash equivalents at beginning of financial year	<u>1,417,800</u>	<u>1,373,080</u>
Cash and cash equivalents at end of financial year	<u><u>1,474,713</u></u>	<u><u>1,417,800</u></u>
Cash and cash equivalents comprise the following:		
Cash and short-term funds (Note 3)	<u><u>1,474,713</u></u>	<u><u>1,417,800</u></u>

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023 (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 <u>Cagamas</u> RM'000	Lease <u>liabilities</u> RM'000	Subordinated <u>Sukuk</u> RM'000	<u>Total</u> RM'000
At 1 April 2022	350,449	411	229,664	580,524
Cash flow				
- Profit payment	(6,872)	-	(9,493)	(16,365)
- Issuance/repayment	(250,026)	(525)	-	(250,551)
Non cash changes				
- Profit accrued	6,582	31	12,088	18,701
- Additions, remeasurement and termination of contracts	-	379	-	379
At 31 March 2023	<u>100,133</u>	<u>296</u>	<u>232,259</u>	<u>332,688</u>
At 1 April 2021	350,400	661	229,379	580,440
Cash flow				
- Profit payment	(14,986)	-	(13,100)	(28,086)
- Issuance/repayment	-	(281)	-	(281)
Non cash changes				
- Profit accrued	15,035	31	13,385	28,451
At 31 March 2022	<u>350,449</u>	<u>411</u>	<u>229,664</u>	<u>580,524</u>

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 MARCH 2023

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 (including corporate finance, equity and debt capital market activities) allowed under the Islamic Financial Services Act, 2013 and the Shariah principles.

On 1 April 2022, the corporate finance, equity and debt capital market business was transferred from Alliance Investment Bank Berhad ("AIBB"), a related company, to the Bank based on the net asset value of 31 March 2022 of AIBB.

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 31 May 2023.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

Malaysian Financial Reporting Standards ("MFRS") Framework

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

The financial statements of the Bank has 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 the Directors to exercise their judgement in the process of applying the Bank's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ from those estimates.

The areas involving a higher degree of judgement 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 areas that require the use of significant assumptions about future economic conditions and credit behaviour.

The allowance for ECL is recognised using forward-looking information including macroeconomic factors. Using forward-looking information will increase the level of judgement as to how changes in these macroeconomic factors will affect the allowance for ECL. The methodology and assumptions including any forecasts of future economic conditions will continue to be monitored and reviewed.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(a) Basis of Preparation (contd.)

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

The sensitivity effect on the macroeconomic factor is further disclosed in Note 35(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 35(a)(iv)(a);
- Development of ECL models and assumption for the measurement of ECL;
- Determining the number and relative weightings of forward-looking scenarios; and
- Establishing groups of similar financial assets for the purpose of measuring ECL on a collective basis.

The Bank has also applied overlays and post model adjustments to determine a sufficient overall level of allowance for ECL as at 31 March 2023. The basis is further disclosed in Note 35(a)(vii).

Standards, amendments to published standards and interpretations that are effective and applicable to the Bank

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 2021 are as follows:

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

The adoption of the above standards, amendments to published standards and interpretations to existing standards did not have any significant impact on the financial statements of the Bank.

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 2023

(i) Amendments to MFRS 101, MFRS Practice Statement 2 and MFRS 108 on "Disclosure of Accounting Policies" and "Definition of Accounting Estimates"

- Amendments to MFRS 101, MFRS Practice Statement 2 "Disclosure of Accounting Policies"

The amendments require entities to disclose their material rather than their significant accounting policies. The amendments define what is "material accounting policy information" and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

To support this amendment, the Malaysian Accounting Standards Board ("MASB") also amended MFRS Practice Statement 2 "Making Materiality Judgements" to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

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 2023 (contd.)

(i) Amendments to MFRS 101, MFRS Practice Statement 2 and MFRS 108 on Disclosure of Accounting Policies and Definition of Accounting Estimates (contd.)

- Amendments to MFRS 108 "Definition of Accounting Estimates"

The amendments redefined accounting estimates as "monetary amount in financial statements that are subject to measurement uncertainty". These amendments provide clarity on how to distinguish changes in accounting policies from changes in accounting estimates. The amendments clarify that effects of a change in an input or measurement technique used to develop an accounting estimate is a change in accounting estimate if the changes do not arise from prior period errors.

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

(ii) Amendments to MFRS 112 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"

The amendments clarify that the initial exemption rule does not apply to transactions where both an asset and a liability are recognised at the same time such as leases and decommissioning obligations. Accordingly, entities are required to recognise both deferred tax assets and liabilities for all deductible and taxable temporary differences arising from such transactions.

Financial year beginning after 1 April 2024

(i) Amendments to MFRS 101 "Classification of Liabilities as Current or Non-current"

The amendments clarify that a liability is classified as non-current if an entity has a substantive right at the end of the reporting period to defer settlement for at least 12 months after the reporting period.

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

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

The amendments shall be applied retrospectively.

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 2024 (contd.)

(ii) Amendments to MFRS 16 "Lease Liability in a Sale and Leaseback"

The amendments specify the measurement of the lease liability arising in a sale and leaseback transaction that satisfies the requirements in MFRS 15 "Revenue from Contracts with Customers" is to be accounted for as a sale. In accordance with the amendments, the seller-lessee shall determine the "lease payments" or "revised lease payments" in a way that it does not result in the seller-lessee recognising any amount of the gain or loss that relates to the right of use it retains.

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

(b) Intangible Assets: Computer Software

Acquired computer software licences 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, 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(h)(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 the 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(c) Property, Plant and Equipment and Depreciation (contd.)

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(h)(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 intended 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Financial Assets (contd.)

(i) Classification (contd.)

(i) Financial assets at FVOCI comprise:

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(h)(i).

(ii) Recognition and Initial Measurement

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 statement of income.

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

(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 a separate line item in the statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Financial Assets (contd.)

(iii) Subsequent Measurement (contd.)

Debt instruments (contd.)

(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 other comprehensive income, 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 other comprehensive income 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 a 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) Derecognition

Financial assets are derecognised 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.

(e) Derivative Financial Instrument and Hedge Accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period.

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

Derivatives that do not qualify for hedge accounting are classified as held for trading and accounted for at fair value through profit or loss. Changes in the fair value are recognised immediately in statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(e) Derivative Financial Instrument and Hedge Accounting (Contd.)

Derivatives that qualify for hedge accounting are designated as either:

- (a) Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- (b) Hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
- (c) Hedges of a net investment in a foreign operation (net investment hedge).

The Bank documents at the inception of the hedge relationship, the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Bank documents its risk management objective and strategy for undertaking its hedge transactions. Hedges that meet the strict criteria for hedge accounting are accounted for as described below:

(i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in statement of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The Bank applies fair value hedge accounting for hedging fixed interest risk on securities. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate securities is recognised in statement of income. The gain or loss relating to the ineffective portion is recognised in statement of income within the other operating income. Changes in the fair value of the hedge fixed rate securities attributable to interest rate risk are recognised in equity.

If the hedge no longer meets the criteria for hedge accounting, the carrying amount of a hedged item is adjusted using the effective interest method to amortise to statement of income over the period to maturity.

(ii) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves within equity. The gain or loss relating to the ineffective portion is recognised immediately in statement of income.

Amounts accumulated in equity are reclassified to statement of income in the periods when the hedged item affect the statement of income.

When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example property, plant and equipment), the gains or losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in depreciation of property, plant and equipment.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in statements of changes in equity and is recognised in the periods when the hedged item affect the statement of income. When hedged future cash flows or forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred cost of hedging that were reported in equity are immediately reclassified to statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(e) Derivative Financial Instrument and Hedge Accounting (Contd.)

(iii) Net Investment Hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in reserves within equity. The gain or loss relating to the ineffective portion is recognised immediately in statement of income.

Gains and losses accumulated in equity are recycled to the statement of income when the foreign operation is disposed or partially disposed.

Interest Rate Benchmark Reform

The London Interbank Offered Rate ("LIBOR"), a key USD-based benchmark rate used for setting interest rate for derivatives is expected to cease by 23 June 2023 and to be replaced by the Secured Overnight Financing Rate ("SOFR"). This applies to tenures of Overnight, 1-month, 3-month, 6-month and 12-month.

In Malaysia, Bank Negara Malaysia ("BNM") announced the launch of the Malaysia Overnight Rate ("MYOR") as the new alternative reference rate ("ARR") for Malaysia on 24 September 2021. The industry is still pending finalisation from BNM on the ARR.

The Bank has completed system upgrade to manage the transition.

(f) 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.

(g) 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.

(h) Impairment of Assets

(i) Impairment of Financial Assets

The Bank assesses 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 include financial assets classified at amortised cost, debt instruments measured at FVOCI, financing commitments, financial guarantee contracts and other commitments.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(h) Impairment of Assets (contd.)

(i) Impairment of Financial Assets (contd.)

(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 asset 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); and
- (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); and
- (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 are judgementally impaired.

Measurement of ECL is set out in Note 35.

(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 ("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 is deemed 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 all practical recovery efforts have been exhausted and it is 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 write-off financial assets that are still subject to enforcement activity. Subsequent recoveries of amounts previously written off will result in bad debt recoveries.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(h) Impairment of Assets (contd.)

(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.

(i) 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 management or investment strategy.

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.

(j) 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 is 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 statement of financial position.

(k) Bills and Acceptances Payable

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(l) 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.

(m) Provisions

Provisions are recognised when the Bank has 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.

(n) Leases

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 use by the Bank (i.e. the commencement date).

Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of properties for which the Bank 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).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(n) Leases (contd.)

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

(i) Lease Term (contd.)

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 the lease term, or not to exercise an option previously included in the determination of the lease term. A revision in the lease term results in remeasurement of the lease liabilities.

(ii) ROU Assets

ROU assets are initially measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease 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. 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, ROU assets are depreciated on the underlying asset's useful life. In addition, ROU assets are adjusted for certain remeasurement of the lease liabilities.

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

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(n) Leases (contd.)

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

(iii) Lease Liabilities (contd.)

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 basis as an operating expense in statement of income.

(o) Share Capital and Dividends Declared

(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) Dividends Declared

Dividends declared on ordinary shares are deducted from equity in the period in which all relevant approvals have been obtained.

(iv) 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.)

(o) Share Capital and Dividends Declared (contd.)

(iv) 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.

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

(q) 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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(q) Recognition of Fees and Other Income (contd.)

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 statement of income 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.

(r) 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.

(s) 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 ("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 statement of income.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(t) 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.

(u) Foreclosed Properties

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

(v) 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.

(w) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(w) Employee Benefits (contd.)

(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").

(x) 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.

(y) 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

	2023 RM'000	2022 RM'000
Cash and balances with banks and other financial institutions	39,824	50,932
Money at call and deposit placements maturing within one month	1,434,889	1,366,868
	<u>1,474,713</u>	<u>1,417,800</u>

4. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2023 RM'000	2022 RM'000
At fair value - debt instruments		
<u>Money market instruments:</u>		
Malaysian Government investment issues	454,512	507,192
	<u>454,512</u>	<u>507,192</u>
<u>Unquoted securities:</u>		
Sukuk	1,297,876	1,361,572
	<u>1,297,876</u>	<u>1,361,572</u>
Total financial investments at FVOCI	<u>1,752,388</u>	<u>1,868,764</u>

Movements in allowance for expected credit losses are as follows:

	12-Month ECL (Stage 1)	
	2023 RM'000	2022 RM'000
At 1 April	137	17
New financial assets originated or purchased	39	9
Financial assets derecognised other than write-off	(4)	-
Changes due to change in credit risk	(36)	111
Total (write-back from)/charge to income statement	(1)	120
At 31 March	<u>136</u>	<u>137</u>

5. FINANCIAL INVESTMENTS AT AMORTISED COST

	2023 RM'000	2022 RM'000
At amortised cost		
<u>Money market instruments:</u>		
Malaysian Government investment issues	440,246	210,114
	<u>440,246</u>	<u>210,114</u>
<u>Unquoted securities:</u>		
Sukuk	156,533	-
Less: Allowance for expected credit losses	-	-
	<u>156,533</u>	<u>-</u>
Total financial investments at amortised cost	<u>596,779</u>	<u>210,114</u>

Movements in allowance for expected credit losses are as follows:

	12-Month ECL (Stage 1)	
	2023 RM'000	2022 RM'000
At 1 April	-	323
New financial investments originated or purchased	412	-
Financial assets derecognised other than write-off	-	(104)
Changes due to change in credit risk	(412)	(219)
Total write-back from income statement	-	(323)
At 31 March	<u>-</u>	<u>-</u>

6. DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

Derivative financial instruments are financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, interest rates and equity prices) of the underlying instruments. These instruments allow the Bank and the banking customers to transfer, modify or reduce their foreign exchange and interest rate risk via hedge relationships. The Bank also transact in these instruments for proprietary trading purposes. The risks associated with the use of derivative financial instruments, as well as the Management's policy for controlling these risks are set out in Note 35.

The table below shows the Bank's derivative financial instruments as at the end of the financial year. The contractual or underlying notional amounts of these derivative financial instruments and their corresponding gross positive (derivative financial asset) and gross negative (derivative financial liability) fair values as at the end of the financial year are analysed below.

	As at 2023			As at 2022		
	Fair value			Fair value		
	Contract/ notional amount RM'000	Assets RM'000	Liabilities RM'000	Contract/ notional amount RM'000	Assets RM'000	Liabilities RM'000

Hedging derivatives

Interest rate related contracts:

Interest rate swaps

- over three years	298,000	25	(2,496)	-	-	-
Total derivatives assets/(liabilities)	298,000	25	(2,496)	-	-	-

Fair value hedge

The Bank uses interest rate swaps to hedge its exposure to changes in the fair value of bonds in respect of benchmark interest rate.

The Bank's hedge accounting policy requires effective hedge relationships to be established. Hedge effectiveness is determined at the inception of the hedge relationship prospectively, and through periodic retrospective effectiveness assessment to ensure that an economic relationship exists between the hedged item and hedging instrument. The hedge effectiveness is assessed by comparing changes in the fair value of the hedged items attributable to interest rate change with changes in the fair value of the hedging instrument.

The Bank establishes the hedge ratio based on the notional and the tenure of the hedged item and hedging instrument. Hedged ineffectiveness is recognised into income statement when the fair value change in the designated component value of the hedged item exceeds the change in value of the hedging instrument attributable to the hedged risk.

- (i) The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

	Nominal amount RM'000	Fair value		Changes in fair value used for calculating hedge ineffectiveness RM'000	Hedge ineffectiveness recognised in profit or loss RM'000	Maturity	Average fixed interest rate %
		Assets RM'000	Liabilities RM'000				
31 March 2023							
Interest rate risk							
Interest rate swaps	298,000	25	(2,496)	(2,568)	-	Three years to five years	3.86%

6. DERIVATIVE FINANCIAL ASSETS/(LIABILITIES) (CONTD.)

Fair value hedge (contd.)

(ii) The amounts relating to items designated as hedged items were as follows:

	Hedged item category in statement of financial position RM'000	Carrying amount of hedged item RM'000	Accumulated amount of fair value hedge adjustment RM'000	Changes in fair value used for calculating hedge ineffectiveness RM'000	Balance of fair value hedge adjustments remaining in the Statement of Financial Position ("SOFPI") for any hedged items that have ceased to be adjusted for hedging gains and losses RM'000
31 March 2023					
Hedged items					
Debt instruments	Financial investments at fair value through other comprehensive income	294,198	2,568	2,568	-

7. FINANCING AND ADVANCES

By types and Shariah concepts:

	Note:	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 2023									
At amortised cost									
Cash line financing		20,645	1,252,583	-	-	15,914	-	-	1,289,142
Term financing									
- Housing financing		3,435,891	-	-	-	-	-	-	3,435,891
- Hire purchase receivables	(a)	-	-	75,920	-	-	-	-	75,920
- Other term financing		1,824,420	4,323,089	-	-	-	-	82,892	6,230,401
Bills receivables		-	-	-	17,047	-	-	-	17,047
Trust receipts		-	-	-	53,379	-	-	-	53,379
Claims on customers under acceptance credits		-	-	-	857,059	-	110,340	-	967,399
Staff financing (including financing to Directors of RM Nil)		11,560	-	-	-	-	-	-	11,560
Revolving credits	(b)	52,703	362,621	-	-	-	-	-	415,324
Gross financing and advances		5,345,219	5,938,293	75,920	927,485	15,914	110,340	82,892	12,496,063
Add : Sales commission and handling fees									70,120
Less: Allowance for expected credit losses on financing and advances									(416,411)
Total net financing and advances									<u>12,149,772</u>

7. FINANCING AND ADVANCES (CONTD.)

By types and Shariah concepts (contd.):

	Bai' Bithaman		Al-Ijarah Thumma Al-Bai' / AITAB Murabahah		Qard	Bai' Al-Dayn	Bai' Inah	Total Financing and Advances
<u>Note:</u>	<u>Ajil</u>	<u>Tawarruq</u>	<u>AITAB</u>	<u>Murabahah</u>				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 March 2022								
At amortised cost								
Cash line financing	20,393	1,297,767	-	-	25,947	-	-	1,344,107
Term financing								
- Housing financing	3,420,671	-	-	-	-	-	-	3,420,671
- Hire purchase receivables (a)	-	-	107,513	-	-	-	-	107,513
- Other term financing	1,954,568	3,182,093	-	-	-	-	114,499	5,251,160
Bills receivables	-	-	-	10,741	-	-	-	10,741
Trust receipts	-	-	-	62,542	-	-	-	62,542
Claims on customers under acceptance credits	-	-	-	831,761	-	84,732	-	916,493
Staff financing (including financing to Directors of RM Nil)	12,742	-	-	-	-	-	-	12,742
Revolving credits (b)	74,552	486,562	-	-	-	-	-	561,114
Gross financing and advances	5,482,926	4,966,422	107,513	905,044	25,947	84,732	114,499	11,687,083
Add : Sales commission and handling fees								53,785
Less: Allowance for expected credit losses on financing and advances								(408,856)
Total net financing and advances								<u>11,332,012</u>

Notes:

(a) 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.

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

7. FINANCING AND ADVANCES (CONTD.)

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

	2023 RM'000	2022 RM'000
At 1 April	25,947	9,419
Sources of Qard fund:		
- Shareholders' fund	37,385	26,587
Uses of Qard fund:		
- Purchase of landed property - Residential	(687)	-
- Personal use	(10,457)	(925)
- Working capital	(21,274)	(7,419)
- Other	(15,000)	(1,715)
At 31 March	<u>15,914</u>	<u>25,947</u>

(ii) By maturity structure:

	2023 RM'000	2022 RM'000
Within one year	2,788,909	2,939,386
One year to three years	360,815	349,330
Three years to five years	997,929	874,456
Over five years	8,348,410	7,523,911
Gross financing and advances	<u>12,496,063</u>	<u>11,687,083</u>

(iii) By type of customers:

	2023 RM'000	2022 RM'000
Domestic non-bank financial institutions	118,521	164,716
Domestic business enterprises		
- Small and medium enterprises	4,530,060	3,743,743
- Others	1,417,081	1,474,826
Individuals	6,347,558	6,206,464
Other domestic entities	10,804	21,275
Foreign entities	72,039	76,059
Gross financing and advances	<u>12,496,063</u>	<u>11,687,083</u>

(iv) By profit rate sensitivity:

	2023 RM'000	2022 RM'000
Fixed rate		
- Housing financing	16,044	18,808
- Hire purchase receivables	75,920	107,513
- Other fixed rate financing	2,609,910	2,386,512
Variable rate		
- Base financing rate plus	5,505,893	4,883,098
- Base rate plus	3,444,162	3,322,756
- Cost plus	844,134	968,396
Gross financing and advances	<u>12,496,063</u>	<u>11,687,083</u>

7. FINANCING AND ADVANCES (CONTD.)

(v) By economic purposes:

	2023 RM'000	2022 RM'000
Purchase of transport vehicles	88,027	89,548
Purchase of landed property	5,434,296	5,021,554
of which: - Residential	3,489,110	3,473,658
- Non-residential	1,945,186	1,547,896
Purchase of fixed assets excluding land and buildings	64,717	52,162
Personal use	2,924,093	2,769,411
Construction	166,561	122,880
Working capital	2,905,979	2,778,741
Others	912,390	852,787
Gross financing and advances	12,496,063	11,687,083

(vi) By economic sectors:

	2023 RM'000	2022 RM'000
Primary agriculture	424,186	390,416
Mining and quarrying	23,372	31,260
Manufacturing	1,338,633	1,398,406
Electricity, gas and water	12,717	4,615
Construction	433,063	367,185
Wholesale, retail trade, restaurants and hotels	2,213,570	1,758,036
Transport, storage and communication	210,172	168,058
Financing, insurance, real estate and business services	1,307,586	1,200,432
Community, social and personal services	113,167	86,151
Household	6,419,597	6,282,524
Gross financing and advances	12,496,063	11,687,083

(vii) By geographical distribution:

	2023 RM'000	2022 RM'000
Northern region	1,466,426	1,172,168
Central region	8,276,022	7,748,939
Southern region	1,344,449	1,286,911
Sabah region	1,092,768	1,083,936
Sarawak region	316,398	395,129
Gross financing and advances	12,496,063	11,687,083

7. FINANCING AND ADVANCES (CONTD.)

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

	2023 RM'000	2022 RM'000
At 1 April	278,334	296,686
Impaired during the financial year	413,169	340,327
Reclassified as unimpaired during the financial year	(186,506)	(264,435)
Recovered during the financial year	(21,169)	(11,161)
Financial assets derecognised other than write-off during the financial year	(27,056)	(43,739)
Amount written-off	(103,938)	(39,344)
At 31 March	<u>352,834</u>	<u>278,334</u>
Gross impaired financing ratio	2.82%	2.38%
Net impaired financing ratio	<u>1.80%</u>	<u>1.33%</u>

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 amounted to RM103,938,000 (2022: RM39,344,000) for the Bank. The Bank still seeks to recover amounts that are legally owed in full, but which have been partially or fully written-off and are still subject to enforcement activity.

(ix) Credit impaired financing and advances by economic purposes:

	2023 RM'000	2022 RM'000
Purchase of transport vehicles	2,530	4,700
Purchase of landed property	165,449	120,039
of - Residential	<u>146,275</u>	<u>105,049</u>
- Non-residential	<u>19,174</u>	<u>14,990</u>
Purchase of fixed assets excluding land & buildings	689	593
Personal use	143,531	77,964
Working capital	35,226	57,294
Others	5,409	17,744
Gross impaired financing and advances	<u>352,834</u>	<u>278,334</u>

7. FINANCING AND ADVANCES (CONTD.)

(x) Credit impaired financing and advances analysed by economic sectors:

	2023 RM'000	2022 RM'000
Primary agriculture	1,242	1,083
Manufacturing	9,577	8,883
Construction	13,229	51,691
Wholesale, retail trade, restaurants and hotels	28,444	23,032
Transport, storage and communication	1,139	553
Financing, insurance, real estate and business services	829	556
Community, social and personal services	4,592	3,884
Household	293,782	188,652
Gross impaired financing and advances	<u>352,834</u>	<u>278,334</u>

(xi) Credit impaired financing and advances by geographical distribution:

	2023 RM'000	2022 RM'000
Northern region	34,375	26,958
Central region	249,617	189,154
Southern region	50,768	45,620
Sabah region	17,482	15,249
Sarawak region	592	1,353
Gross impaired financing and advances	<u>352,834</u>	<u>278,334</u>

7. FINANCING AND ADVANCES (CONTD.)

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

	12-month ECL (Stage 1) RM'000	Lifetime ECL Not-credit impaired (Stage 2) RM'000	Lifetime ECL Credit impaired (Stage 3) RM'000	Total RM'000
At 1 April 2022	96,075	188,675	124,106	408,856
Transfer to Stage 1	70,822	(113,379)	(144)	(42,701)
Transfer to Stage 2	(90,241)	212,062	(47,216)	74,605
Transfer to Stage 3	(1,210)	(107,216)	119,127	10,701
New financial assets originated or purchased	23,193	23,457	4,813	51,463
Financial assets derecognised other than write-off	(16,177)	(26,284)	(7,304)	(49,765)
Changes due to change in credit risk	(16,420)	43,953	(2,604)	24,929
	(30,033)	32,593	66,672	69,232
Unwinding of discount	-	-	(1,384)	(1,384)
Total (write-back)/charge to income statement	(30,033)	32,593	65,288	67,848
Other movements			23,458	23,458
Write-off	-	(1,645)	(82,106)	(83,751)
At 31 March 2023	<u>66,042</u>	<u>219,623</u>	<u>130,746</u>	<u>416,411</u>
At 1 April 2021	76,562	183,648	79,716	339,926
Transfer to Stage 1	52,439	(185,682)	(18)	(133,261)
Transfer to Stage 2	(33,096)	287,650	(81,477)	173,077
Transfer to Stage 3	(181)	(150,739)	132,225	(18,695)
New financial assets originated or purchased	31,490	62,388	5,659	99,537
Financial assets derecognised other than write-off	(22,993)	(60,265)	(10,007)	(93,265)
Changes due to change in credit risk	(8,146)	52,609	22,335	66,798
	19,513	5,961	68,717	94,191
Unwinding of discount	-	-	(109)	(109)
Total charge to income statement	19,513	5,961	68,608	94,082
Write-off	-	(934)	(24,218)	(25,152)
At 31 March 2022	<u>96,075</u>	<u>188,675</u>	<u>124,106</u>	<u>408,856</u>

Note:

The transfers between stages are inclusive of net remeasurement of allowances.

7. FINANCING AND ADVANCES (CONTD.)

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

Impact of movements in gross carrying amount on expected credit losses

2023

Stage 1 expected credit losses ("ECL") for the Bank decreased by RM30.0 million as a result of financing and advances that were fully repaid, having movement in the existing account balances during the financial year, accounts closed or migrated to Stage 2 or Stage 3 due to deterioration in credit quality. The decrease was partly offset by newly originated financing and advances, and the migration to Stage 1 from Stage 2 or Stage 3 due to the improvement in credit quality.

Stage 2 ECL increased by RM30.9 million, as a result of financing and advances migrated from Stage 1 into Stage 2, which were mainly due to the increase in credit risk observed on certain segments such as Personal Financing and Mortgages. The increase was partly offset by repayment, and accounts migrated to Stage 3 due to deterioration in credit quality and migrated to Stage 1 as a result of improved credit quality.

Stage 3 ECL for the Bank increased by RM6.6 million, as a result of financing and advances migrated to Stage 3 from Stage 1 and Stage 2 as a result of deterioration in credit quality. The increase was partly offset by the accounts written off mainly from personal financing segment, and migration of Stage 3 to Stage 1 or Stage 2 due to improvement in credit quality or account fully repaid.

Total ECL movements in 2023 is also affected by the changes in forward-looking economic inputs and the reversal of the pre-emptive overlay provisions from the estimated impacts of the COVID-19 pandemic. The overlays have been applied to determine a sufficient overall level of ECL. These overlays were taken to reflect the potential impact to delinquencies and defaults arising from escalation of credit risk.

2022

Stage 1 expected credit losses ("ECL") for the Bank increased by RM19.5 million as a result of newly originated financing and advances, and the migration to Stage 1 from Stage 2 or Stage 3 due to the improvement in credit quality. The increase was partly offset by financing and advances that were fully repaid, having movement in the existing account balances during the financial year, and accounts closed or migrated to Stage 2 or Stage 3 due to deterioration in credit quality.

Stage 2 ECL increased by RM5.0 million, as a result of financing and advances migrated from Stage 1 into Stage 2, which were mainly due to the increase in credit risk observed on certain segments of payment relief assistance ("PRA") such as personal financing and mortgages. The increase was partly offset by repayment, and accounts migrated to Stage 3 due to deterioration in credit quality and migrated to Stage 1 as a result of improved credit quality.

Stage 3 ECL for the Bank increased by RM44.4 million, as a result of financing and advances migrated to Stage 3 from Stage 1 and Stage 2 as a result of deterioration in credit quality. The increase was partly offset by the accounts written off mainly from personal financing segment, and migration of Stage 3 to Stage 1 or Stage 2 due to improvement in credit quality or account fully repaid.

Total ECL movements in 2022 is also affected by the changes in forward-looking economic inputs and increased pre-emptive overlay provisions from the estimated impacts of the COVID-19 pandemic. The overlays have been applied to determine a sufficient overall level of ECL. These overlays were taken to reflect the potential impact to delinquencies and defaults arising from escalation of credit risk on certain segments of the targeted repayment assistance financing and advances.

8. OTHER ASSETS

	2023 RM'000	2022 RM'000
Other receivables	7,287	19,452
Deposits	93	89
Prepayment	7,269	4,157
Amount due from related company	-	3
	<u>14,649</u>	<u>23,701</u>
Less:		
Allowance for expected credit losses on other receivables [Note (a)]	<u>(2,394)</u>	<u>(1,747)</u>
	<u>12,255</u>	<u>21,954</u>

Note:

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

	<u>Lifetime ECL</u>	
	2023 RM'000	2022 RM'000
At 1 April	1,747	1,908
Effect of business transfer	454	-
New financial assets originated or purchased	1,050	-
Financial assets derecognised other than write-off	(1,741)	-
Total charge to income statement due to change in credit risk	1,104	4
Total charge to income statement	413	4
Write-off	(220)	(165)
At 31 March	<u>2,394</u>	<u>1,747</u>

As at 31 March 2023, the Bank's gross exposure of other receivables that are under lifetime expected credit losses was at RM2,394,000 (2022: RM1,747,000).

9. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

Non-profit bearing statutory deposits for the Bank of RM244,900,000 (2022: RM30,438,000) 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.

10. RIGHT-OF-USE ASSETS

	<u>Premises</u>	
	2023 RM'000	2022 RM'000
<u>COST</u>		
At 1 April	1,601	1,601
Remeasurement	379	-
At 31 March	<u>1,980</u>	<u>1,601</u>
<u>ACCUMULATED DEPRECIATION</u>		
At 1 April	1,217	961
Charge for the financial year	497	256
At 31 March	<u>1,714</u>	<u>1,217</u>
NET CARRYING AMOUNT	<u>266</u>	<u>384</u>

11. PROPERTY, PLANT AND EQUIPMENT

	<u>Renovations</u> RM'000	Office equipment and furniture RM'000	Computer equipment RM'000	<u>Total</u> RM'000
2023				
<u>COST</u>				
At 1 April 2022	1,167	78	308	1,553
Additions	4	32	46	82
At 31 March 2023	<u>1,171</u>	<u>110</u>	<u>354</u>	<u>1,635</u>
<u>ACCUMULATED DEPRECIATION</u>				
At 1 April 2022	1,105	54	196	1,355
Charge for the financial year	48	8	74	130
At 31 March 2023	<u>1,153</u>	<u>62</u>	<u>270</u>	<u>1,485</u>
NET CARRYING AMOUNT	<u>18</u>	<u>48</u>	<u>84</u>	<u>150</u>
2022				
<u>COST</u>				
At 1 April 2021	1,159	78	182	1,419
Additions	8	-	126	134
At 31 March 2022	<u>1,167</u>	<u>78</u>	<u>308</u>	<u>1,553</u>
<u>ACCUMULATED DEPRECIATION</u>				
At 1 April 2021	1,040	50	155	1,245
Charge for the financial year	65	4	41	110
At 31 March 2022	<u>1,105</u>	<u>54</u>	<u>196</u>	<u>1,355</u>
NET CARRYING AMOUNT	<u>62</u>	<u>24</u>	<u>112</u>	<u>198</u>

12. 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:

	2023 RM'000	2022 RM'000
Deferred tax assets, net	<u>44,039</u>	<u>41,558</u>
	2023 RM'000	2022 RM'000
Movements on deferred tax:		
At 1 April	41,558	22,861
Recognised in statement of income (Note 28)	489	5,282
Recognised in equity	1,992	13,415
At 31 March	<u>44,039</u>	<u>41,558</u>

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

	2023 RM'000	2022 RM'000
Deferred tax assets	44,221	41,681
Deferred tax liabilities	(182)	(123)
	<u>44,039</u>	<u>41,558</u>

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

<u>Deferred tax assets/(liabilities)</u>	<u>Allowance for expected credit losses</u> RM'000	<u>Other liabilities</u> RM'000	<u>Leases</u> RM'000	<u>Fair Value Hedge Reserve</u> RM'000	<u>Financial investments at fair value through other comprehensive income</u> RM'000	<u>Property, plant and equipment</u> RM'000	<u>Total</u> RM'000
At 1 April 2022	33,108	6,190	12	-	2,371	(123)	41,558
Recognised in statement of income	2,012	(1,465)	1	-	-	(59)	489
Recognised in equity	-	-	-	616	1,376	-	1,992
At 31 March 2023	<u>35,120</u>	<u>4,725</u>	<u>13</u>	<u>616</u>	<u>3,747</u>	<u>(182)</u>	<u>44,039</u>
At 1 April 2021	29,693	4,233	11	-	(11,044)	(32)	22,861
Recognised in statement of income	3,415	1,957	1	-	-	(91)	5,282
Recognised in equity	-	-	-	-	13,415	-	13,415
At 31 March 2022	<u>33,108</u>	<u>6,190</u>	<u>12</u>	<u>-</u>	<u>2,371</u>	<u>(123)</u>	<u>41,558</u>

Note:

Other liabilities include provisions and deferred income.

13. INTANGIBLE ASSETS

	2023 RM'000	2022 RM'000
<u>Computer software</u>		
Cost		
At 1 April	3,631	2,780
Additions	1,048	851
At 31 March	<u>4,679</u>	<u>3,631</u>
Accumulated amortisation		
At 1 April	2,187	1,860
Charge for the financial year	447	327
At 31 March	<u>2,634</u>	<u>2,187</u>
Net carrying amount	<u><u>2,045</u></u>	<u><u>1,444</u></u>

14. DEPOSITS FROM CUSTOMERS

(i) By type of deposits:

	2023 RM'000	2022 RM'000
Demand deposits		
- Qard	3,988,431	5,081,276
- Tawarruq	313,943	176,614
Savings deposits		
- Qard	402,711	447,690
- Tawarruq	5,108	1,523
Term deposits		
- Tawarruq	7,439,686	5,705,450
- Negotiable Islamic Debt Certificate Bai' Inah	203,373	195,226
- Money market deposits		
- Tawarruq	1,713,208	885,550
- Other deposits		
- Mudharabah	59,584	63,185
- Wakalah	32,049	32,235
- Qard	27,039	24,194
	<u><u>14,185,132</u></u>	<u><u>12,612,943</u></u>

14. DEPOSITS FROM CUSTOMERS (CONTD.)

	2023	2022
	RM'000	RM'000
(ii) <u>The maturity structure of term deposits are as follows:</u>		
Due within six months	6,701,955	5,464,366
Six months to one year	2,312,160	1,138,967
One year to three years	257,450	106,878
Three years to five years	203,374	195,629
	<u>9,474,939</u>	<u>6,905,840</u>
	2023	2022
	RM'000	RM'000
(iii) <u>By type of customers:</u>		
Domestic financial institutions	203,391	195,409
Domestic non-bank financial institutions	1,968,705	1,311,222
Government and statutory bodies	1,692,549	1,447,574
Business enterprises	4,435,343	3,888,639
Individuals	5,574,302	5,483,490
Foreign entities	102,047	108,461
Others	208,795	178,148
	<u>14,185,132</u>	<u>12,612,943</u>

15. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2023	2022
	RM'000	RM'000
Non-Mudharabah Fund		
Licensed investment banks	11,561	8,438
Bank Negara Malaysia	183,870	207,794
	<u>195,431</u>	<u>216,232</u>

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

	2023 RM'000	2022 RM'000
At 1 April	411	661
Profit expense	31	31
Lease payment	(525)	(281)
Remeasurement	379	-
At 31 March	<u>296</u>	<u>411</u>

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

	2023 RM'000	2022 RM'000
Other payables	130,009	112,079
Bills payable	7,311	7,754
Clearing account	32,041	56,863
Sundry deposits	8,814	5,161
Provision and accruals	8,639	16,156
Amount due to holding company	37,702	41,292
Amount due to related company	1,596	8,322
Allowance for expected credit losses on commitments and contingencies [Note (a)]	2,927	3,314
	<u>229,039</u>	<u>250,941</u>

18. OTHER LIABILITIES (CONTD.)

Note:

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

	12-month ECL (Stage 1) RM'000	Lifetime ECL Not-credit Impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	Total RM'000
At 1 April 2022	1,174	2,135	5	3,314
Transfer to Stage 1	60	(1,081)	-	(1,021)
Transfer to Stage 2	(60)	1,732	(105)	1,567
Transfer to Stage 3	-	(60)	429	369
New financial assets originated or purchased	787	543	-	1,330
Financial assets derecognised other than write-off	(528)	(1,111)	(1,415)	(3,054)
Changes due to change in credit risk	(741)	(149)	1,314	424
Other adjustments	1	2	-	3
	(481)	(124)	223	(382)
Unwinding of discount	-	-	(5)	(5)
Total (write-off from)/charge to income statement	(481)	(124)	218	(387)
At 31 March 2023	<u>693</u>	<u>2,011</u>	<u>223</u>	<u>2,927</u>
At 1 April 2021	1,647	21,451	1	23,099
Transfer to Stage 1	68	(669)	-	(601)
Transfer to Stage 2	(98)	798	(7)	693
Transfer to Stage 3	-	(111)	6	(105)
New financial assets originated or purchased	749	385	-	1,134
Financial assets derecognised other than write-off	(395)	(19,671)	-	(20,066)
Changes due to change in credit risk	(797)	(48)	5	(840)
Total (write-off from)/charge to income statement	(473)	(19,316)	4	(19,785)
At 31 March 2022	<u>1,174</u>	<u>2,135</u>	<u>5</u>	<u>3,314</u>

Note:

(a) The transfers between stages are inclusive of net remeasurement of allowances.

(b) As at 31 March 2023, the Bank's gross exposures of commitments and contingencies that are credit impaired was at RM584,000 (2022: RM198,000).

19. SUBORDINATED SUKUK

	Note	2023 RM'000	2022 RM'000
Subordinated Sukuk			
RM130 million Subordinated Sukuk Murabahah	(a)	-	130,002
RM130 million Subordinated Sukuk Murabahah	(b)	132,409	-
RM100 million Additional Tier I Sukuk Wakalah	(c)	99,850	99,662
		<u>232,259</u>	<u>229,664</u>

(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.

	2023 RM'000	2022 RM'000
At cost	-	130,000
Accumulated unamortised discount	-	(57)
Profit accrued	-	59
	<u>-</u>	<u>130,002</u>

The main features of the Subordinated Sukuk are as follows:

- (i) Issue date: 29 September 2017
- (ii) Tenure of the facility/issue: 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.

The Bank has fully redeemed its RM130 million Subordinated Sukuk on 29 April 2022.

(b) RM130 million Subordinated Sukuk Murabahah

On 29 April 2022, the Bank issued RM130.0 million Rated Tier 2 Subordinated Sukuk Murabahah ("T2 Subordinated Sukuk") under the RM800.0 million Subordinated Sukuk Murabahah Programme.

	2023 RM'000	2022 RM'000
At cost	130,000	-
Accumulated unamortised discount	-	-
Profit accrued	2,409	-
	<u>132,409</u>	<u>-</u>

19. SUBORDINATED SUKUK (CONTD.)

(b) RM130 million Subordinated Sukuk Murabahah (contd.)

The main features of the Subordinated Sukuk are as follows:

- (i) Issue date: 29 April 2022
- (ii) Tenure of the facility/issue: 10 years from the issue date and non-callable five (5) years after issue date
- (iii) Maturity date: 29 April 2032
- (iv) Coupon rate: 4.45% per annum, payable semi-annually in arrears
- (v) Call date: 29 April 2027 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.

(c) 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.

	2023 RM'000	2022 RM'000
At cost	100,000	100,000
Accumulated unamortised discount	(199)	(387)
Profit accrued	49	49
	<u>99,850</u>	<u>99,662</u>

The AT1 Sukuk has been assigned a long term rating of BBB1 by RAM.

The main features of the AT1 Sukuk are as follows:

- (i) Issue date: 29 March 2019
- (ii) Tenure of the facility/issue: Perpetual non-callable five (5) years
- (iii) Coupon rate: 5.95% per annum, payable semi-annually
- (iv) 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 occurrence 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

	2023		2022	
	Number of ordinary shares '000	RM'000	Number of ordinary shares '000	RM'000
Ordinary shares issued and fully paid: At 1 April /31 March ordinary shares with no-par value	414,249	600,000	414,249	600,000

21. RESERVES

	Note	2023 RM'000	2022 RM'000
<u>Non-distributable:</u>			
Regulatory reserves	(a)	19,339	-
FVOCI reserves	(b)	(13,681)	(7,372)
<u>Distributable:</u>			
Retained profits		727,052	668,707
		<u>732,710</u>	<u>661,335</u>

Notes:

- (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

	2023 RM'000	2022 RM'000
Income derived from investment of :		
(i) Term deposits	420,010	285,833
(ii) Other deposits	278,330	286,153
	698,340	571,986

(i) Income derived from investment of term deposits:

	2023 RM'000	2022 RM'000
Finance income and hibah		
Financing and advances	327,673	212,960
Financial investments at fair value through other comprehensive income	39,036	35,168
Financial investments at amortised cost	7,309	4,644
Money at call and deposit placements with financial institutions	22,854	10,948
	396,872	263,720
Accretion of discount less amortisation of premium	9,192	4,432
Total finance income and hibah	406,064	268,152
Other operating income		
- Fee income	14,812	9,336
- Investment (loss)/gain	(1,249)	7,355
- Other income	383	990
	420,010	285,833

Notes:

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 RM1,493,000 (2022: RM1,170,000).

(ii) Income derived from investment of other deposits:

	2023 RM'000	2022 RM'000
Finance income and hibah		
Financing and advances	217,141	213,198
Financial investments at fair value through other comprehensive income	25,868	35,208
Financial investments at amortised cost	4,843	4,650
Money at call and deposit placements with financial institutions	15,145	10,960
	262,997	264,016
Accretion of discount less amortisation of premium	6,091	4,437
Total finance income and hibah	269,088	268,453
Other operating income		
- Fee income	9,815	9,346
- Investment (loss)/gain	(827)	7,363
- Other income	254	991
	278,330	286,153

Notes:

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 RM989,000 (2022: RM1,171,000).

23. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	2023 RM'000	2022 RM'000
Finance income and hibah		
Financing and advances	51,072	43,060
Financial investments at fair value through other comprehensive income	6,084	7,111
Financial investments at amortised cost	1,139	939
Money at call and deposit placements with financial institutions	3,562	2,214
	<u>61,857</u>	<u>53,324</u>
Accretion of discount less amortisation of premium	1,433	896
Total finance income and hibah	<u>63,290</u>	<u>54,220</u>
Other operating income		
- Fee income	2,309	1,888
- Investment (loss)/gain	(195)	1,487
- Other income	60	200
	<u>65,464</u>	<u>57,795</u>

Notes:

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 RM233,000 (2022: RM237,000).

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

	2023 RM'000	2022 RM'000
Allowance for expected credit losses on:		
(a) Financing and advances		
- Allowance made during the financial year	69,232	94,191
(b) Credit impaired on financing and advances		
- Recovered during the financial year	(23,960)	(13,517)
- Write-off during the financial year	23,352	12,549
(c) Commitments and contingencies on financing and advances		
- Write-back during the financial year	(382)	(19,785)
	<u>68,242</u>	<u>73,438</u>
Allowance for expected credit losses on other receivables	413	4
	<u>68,655</u>	<u>73,442</u>

25. WRITE-BACK OF EXPECTED CREDIT LOSSES ON FINANCIAL INVESTMENTS

	2023 RM'000	2022 RM'000
Write-back of expected credit losses on:		
- Financial investments at fair value through other comprehensive income	(1)	120
- Financial investments at amortised cost	-	(323)
	<u>(1)</u>	<u>(203)</u>

26. INCOME ATTRIBUTABLE TO THE DEPOSITORS AND FINANCIAL INSTITUTIONS

	2023 RM'000	2022 RM'000
Deposits from customers:		
- Mudharabah fund	1,474	1,169
- Non-Mudharabah fund	303,508	210,610
Deposits and placements of banks and other financial institutions:		
- Non-Mudharabah fund	873	2,150
Recourse obligations on financing sold to Cagamas	6,582	15,035
Subordinated Sukuk Murabahah	12,088	13,385
Lease liabilities	31	31
	<u>324,556</u>	<u>242,380</u>

27. OTHER OPERATING EXPENSES

	2023 RM'000	2022 RM'000
<u>Personnel costs</u>		
- Salaries, allowances and bonuses	78,404	73,343
- Contribution to EPF	12,554	11,501
- Others	8,915	6,901
	<u>99,873</u>	<u>91,745</u>
<u>Establishment costs</u>		
- Depreciation on property, plant and equipment	130	110
- Depreciation on right-of-use assets	497	256
- Amortisation of computer software	447	327
- Rental	344	489
- Repairs and maintenance	1,447	1,593
- Water and electricity	1,134	1,097
- Information technology expenses	25,614	22,373
- Others [Note (a)]	1,907	2,778
	<u>31,520</u>	<u>29,023</u>
<u>Marketing expenses</u>		
- Promotion and advertisement	3,766	320
- Branding and publicity	1,806	487
- Others	959	414
	<u>6,531</u>	<u>1,221</u>
<u>Administration and general expenses</u>		
- Communication expenses	2,092	2,337
- Printing and stationeries	259	233
- Insurance	3,571	2,176
- Professional fees	8,019	5,066
- Others	4,200	3,074
	<u>18,141</u>	<u>12,886</u>
Total other operating expenses	<u>156,065</u>	<u>134,875</u>

Included in the other operating expenses are the Shariah Committee members' remuneration of RM381,000 (2022: RM399,500).

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:

	2023 RM'000	2022 RM'000
<u>Sharing of Other Operating Expenses</u>		
<u>Personnel costs</u>		
- Salaries, allowances and bonuses	68,233	67,297
- Contribution to EPF	10,822	10,532
- Others	7,722	6,087
	<u>86,777</u>	<u>83,916</u>
<u>Establishment costs</u>		
- Rental	344	489
- Repairs and maintenance	1,420	1,576
- Water and electricity	1,108	1,080
- Information technology expenses	25,023	22,149
- Others [Note (a)]	1,907	2,778
	<u>29,802</u>	<u>28,072</u>
<u>Marketing expenses</u>		
- Promotion and advertisement	2,905	288
- Branding and publicity	1,128	334
- Others	896	403
	<u>4,929</u>	<u>1,025</u>
<u>Administration and general</u>		
- Communication expenses	1,200	1,358
- Printing and stationeries	190	184
- Professional fees	4,433	3,273
- Others	2,340	949
	<u>8,163</u>	<u>5,764</u>
Total sharing of other operating expenses	<u>129,671</u>	<u>118,777</u>

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:

	2023 RM'000	2022 RM'000
<u>Auditors' remuneration</u>		
- Statutory audit fees	161	147
- Audit related services	258	49
- Tax compliance works	14	14
- Tax related services	9	7
	<u>442</u>	<u>227</u>

28. TAXATION

	2023 RM'000	2022 RM'000
Income tax:		
Current financial year	56,527	60,379
Over provision in prior years	<u>(3,700)</u>	<u>(755)</u>
	<u>52,827</u>	<u>59,624</u>
Deferred tax (Note 12)		
Current financial year	(3,133)	(5,795)
Under provision in prior years	<u>2,644</u>	<u>513</u>
	<u>(489)</u>	<u>(5,282)</u>
	<u><u>52,338</u></u>	<u><u>54,342</u></u>

Income tax for the current financial year is calculated at the Malaysian statutory tax rate of 24% on the estimated assessable profit for the financial year. For Year of Assessment ("YA") 2023, income tax rate is at 24% (2022: 24% on first RM100 million, 33% on excess of RM100 million).

As per the Finance Act 2021 gazetted on 31 December 2021, effective for YA 2022, a special one-off tax called "Cukai Makmur" was imposed on companies that generated chargeable income more than RM100 million as follows:

- Chargeable income for the first RM100 million will be taxed at a rate of 24%; and
- Chargeable income in excess of RM100 million will be taxed at a rate of 33%.

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:

	2023 RM'000	2022 RM'000
Profit before taxation	<u>214,529</u>	<u>179,287</u>
Taxation at Malaysian Statutory Tax rate of 24% (2022: 24%)	51,487	43,029
Additional Tax Rate of 9% in excess of RM100 million	-	7,136
Expenses not deductible for tax purposes	1,907	1,954
Effect of Cukai Makmur	-	2,465
Over provision of tax expense in prior years	<u>(1,056)</u>	<u>(242)</u>
Tax expense for the financial year	<u><u>52,338</u></u>	<u><u>54,342</u></u>

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.

	2023	2022
Net profit for the financial year attributable to equity holder of the Bank (RM'000)	<u>162,191</u>	<u>124,945</u>
Weighted average numbers of ordinary shares in issue ('000)	<u>414,249</u>	<u>414,249</u>
Basic/diluted earnings per share (sen)	<u><u>39.2</u></u>	<u><u>30.2</u></u>

30. DIVIDENDS

Dividend in respect of financial year

2023	2022
RM'000	RM'000

Recognised during the financial year:

First interim dividend

5.10 sen per share on 414,249,197 ordinary shares, declared in financial year ending 31 March 2022, was paid on 16 December 2021.

-	21,127
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10.42 sen per share on 414,249,197 ordinary shares, declared in financial year ending 31 March 2023, was paid on 15 December 2022.

43,165	-
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Second interim dividend

9.98 sen per share on 414,249,197 ordinary shares, declared in financial year ending 31 March 2022, was paid on 16 June 2022.

41,342	-
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Subsequent to the financial year end, the Directors declared a single tier second interim dividend of 9.10 sen per share, on 414,249,197 ordinary shares amounting to approximately RM37,697,000 in respect of the current financial year. The accompanying financial statements do not reflect this dividend. The dividend will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 March 2024.

31 INTEREST RATE BENCHMARK REFORM

Financial instruments affected by Interest Rate Benchmark Reform

The table below shows the total amounts of non-derivative financial assets and derivatives financial contracts that are not subject to transition to the alternative benchmark rate that the Bank has been exposed to as at the financial year end.

	FCY LIBOR RM'000	KLIBOR RM'000	Total RM'000
2023			
Notional amount			
Derivative financial instruments	-	298,000	298,000

32. 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.

	2023 RM'000	2022 RM'000
(a) <u>Transactions</u>		
Commission paid		
- related companies	24,817	12,908
Other operating (expense)/income		
- holding company	(2,004)	-
- related companies	13	38
Finance expenses		
- holding company	(5,899)	(7,302)
- related companies	(247)	(142)
- key management personnel	(70)	(246)
Other operating expenses		
- holding company (sharing of expenses)	(129,687)	(118,669)
Dividend paid		
- holding company	<u>(84,507)</u>	<u>(21,127)</u>

32 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTD.)

	2023 RM'000	2022 RM'000
(b) <u>Balances</u>		
Financing and advances		
- key management personnel	1,007	1,155
Other assets		
- holding company	617	-
- related companies	-	3
Deposits from customers		
- holding company	(203,374)	(232,500)
- key management personnel	(3,058)	(6,353)
Deposits and placements of banks and other financial institutions		
- related companies	(11,561)	(8,438)
Subordinated Sukuk		
- holding company	(132,409)	(130,002)
- related companies	-	(99,662)
Lease liabilities		
- holding company	(526)	(281)
Other liabilities		
- holding company	(50,991)	(41,292)
- related companies	(1,596)	(8,322)

(c) Compensation of key management personnel

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

	2023 RM'000	2022 RM'000
CEO and other key management:		
- Salary and other remuneration	4,669	2,602
- Contribution to EPF	675	386
- Benefits-in-kind	3	2
	<u>5,347</u>	<u>2,990</u>
Non-Executive Directors:		
- Fees Payable	570	511
- Allowances	252	140
	<u>822</u>	<u>651</u>
Included in the total key management personnel are: CEO and Non-Executive Directors' remuneration, excluding past Non-Executive Directors (Note 34)	<u>2,460</u>	<u>2,052</u>

32 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTD.)

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

	2023		2022	
	Number	Unrestricted RM'000	Number	Deferred RM'000
<u>Fixed remuneration</u>				
Cash		4,481	-	-
<u>Variable remuneration</u>				
Cash	6	1,558	1	130
		<u>6,039</u>		<u>130</u>
			3	615
				<u>3,519</u>
			1	122
				<u>122</u>

33. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	2023 RM'000	2022 RM'000
Outstanding credit exposures with connected parties	<u>115,408</u>	<u>232,594</u>
of which:		
Total credit exposure which is impaired or in default	<u>194</u>	<u>1</u>
Total credit exposures	<u>17,362,764</u>	<u>15,764,982</u>
Percentage of outstanding credit exposures to connected parties:		
- as a proportion of total credit exposures	<u>0.66%</u>	<u>1.48%</u>
- which is impaired or in default	<u>0.00%</u>	<u>0.00%</u>

The disclosure on Credit Transactions and Exposures with Connected Parties above is presented in accordance with para 9.1 of BNM'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 or her 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 or her 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.

34. 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:

	2023 RM'000	2022 RM'000
Chief Executive Officer:		
- Salary and other remuneration	984	849
- Bonuses	451	377
- Contribution to EPF	203	175
- Benefits-in-kind	-	-
	1,638	1,401
Non-Executive Directors:		
- Fees payable	570	511
- Allowances	252	140
	822	651
Total Directors' remuneration and CEO	<u>2,460</u>	<u>2,052</u>
Shariah Committee members	393	397
	<u>2,853</u>	<u>2,449</u>

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 from 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 amounts of insurance effected for the Bank was at RM1,000 (2022: RM1,000).

34. 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:

<u>BANK</u> 2023	Salary and other <u>remuneration</u> RM'000	<u>Bonuses</u> RM'000	Contribution to EPF RM'000	Fees payable RM'000	<u>Allowances</u> RM'000	Benefits- in-kind RM'000	<u>Total</u> RM'000
<u>Chief Executive Officer:</u>							
Rizal IL-Ehzan Bin Fadil Azim	984	451	203	-	-	-	1,638
	984	451	203	-	-	-	1,638
<u>Non-Executive Directors:</u>							
Datuk Wan Azhar bin Wan Ahmad	-	-	-	200	38	-	238
Ibrahim bin Hassan	-	-	-	135	109	-	244
Dato' Ahmad Hisham bin Kamaruddin	-	-	-	135	61	-	196
Rustam bin Mohd Idris	-	-	-	100	44	-	144
	-	-	-	570	252	-	822
Total Directors' remuneration	984	451	203	570	252	-	2,460
<u>Shariah Committee Members:</u>							
Assoc. Prof. Dr. Badruddin bin Hj Ibrahim	-	-	-	-	2	-	2
Ustaz Ahmad Fauwaz Bin Ali @ Fadzil	-	-	-	60	16	-	76
Tuan Badrul Hisyam bin Tuan Soh	-	-	-	72	15	-	87
Muhamad Rahimi bin Osman	-	-	-	68	14	-	82
Rustam bin Mohd Idris	-	-	-	60	13	-	73
Muhammad Naim Bin Omar	-	-	-	60	13	-	73
	-	-	-	320	73	-	393
	984	451	203	890	325	-	2,853

34. 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.):

<u>BANK</u> 2022	Salary and other <u>remuneration</u> RM'000	<u>Bonuses</u> RM'000	Contribution to EPF RM'000	Fees payable RM'000	<u>Allowances</u> RM'000	Benefits- in-kind RM'000	<u>Total</u> RM'000
<u>Chief Executive Officer:</u>							
Rizal IL-Ehzan Bin Fadil Azim	849	377	175	-	-	-	1,401
	849	377	175	-	-	-	1,401
<u>Non-Executive Directors:</u>							
Datuk Wan Azhar bin Wan Ahmad	-	-	-	180	23	-	203
Ibrahim bin Hassan	-	-	-	125	56	-	181
Dato' Ahmad Hisham bin Kamaruddin	-	-	-	116	35	-	151
Rustam bin Mohd Idris	-	-	-	90	26	-	116
	-	-	-	511	140	-	651
Total Directors' remuneration	849	377	175	511	140	-	2,052
<u>Shariah Committee Members:</u>							
Assoc. Prof. Dr. Badruddin bin Hj Ibrahim	-	-	-	62	13	-	75
Ustaz Ahmad Fauwaz Bin Ali @ Fadzil	-	-	-	60	12	-	72
Tuan Badrul Hisyam bin Tuan Soh	-	-	-	70	13	-	83
Muhamad Rahimi bin Osman	-	-	-	84	11	-	95
Rustam bin Mohd Idris	-	-	-	60	12	-	72
	-	-	-	336	61	-	397
	849	377	175	847	201	-	2,449

35. FINANCIAL RISK MANAGEMENT POLICIES

The Bank engages in business activities which entail risk taking and the major types of risk involved include credit risk, liquidity risk, market risk, operational risk, technology risk and Shariah non-compliance risk.

The Bank's risk management is governed by the various risk management frameworks which cover 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.

This 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 securities 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.

Also, credit risk 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 ongoing basis against predetermined counterparty limits.

The credit exposure arising from off-balance sheet activities, i.e. commitments and contingencies is set out in Note 40 to the financial statements.

35. 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 similar 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.

	2023 RM'000	2022 RM'000
Credit risk exposure: on-balance sheet		
Cash and short-term funds (exclude cash in hand)	1,474,713	1,417,800
Financial investments at fair value through other comprehensive income	1,752,388	1,868,764
Financial investments at amortised cost	596,779	210,114
Derivative financial assets	25	-
Financing and advances (exclude sales commission and handling fees)	12,079,652	11,278,227
Statutory deposits with BNM	244,900	30,438
Other assets (exclude prepayment)	4,986	17,797
Total on-balance sheet	<u>16,153,443</u>	<u>14,823,140</u>
Credit risk exposure: off-balance sheet		
Financial guarantees	81,685	70,131
Credit related commitments and contingencies	3,113,014	2,367,321
Total off-balance sheet	<u>3,194,699</u>	<u>2,437,452</u>
Total maximum exposure	<u><u>19,348,142</u></u>	<u><u>17,260,592</u></u>

35. 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.

	Government	Financial, Takaful, Business	Transport, Manufacturing, Storage and Wholesale &	Agriculture, Manufacturing, Wholesale &	Construction	Household	Others	Total
	Bank and Central RM'000	Real Estate Services and RM'000	Communication RM'000	Retail Trade RM'000	RM'000	RM'000	RM'000	RM'000
2023								
Cash and short-term funds (exclude cash in hand)	1,474,713	-	-	-	-	-	-	1,474,713
Financial investments at fair value through other comprehensive income	454,512	874,351	303,706	74,374	45,445	-	-	1,752,388
Financial investments at amortised cost	440,246	101,343	55,190	-	-	-	-	596,779
Derivative financial assets	-	25	-	-	-	-	-	25
Financing and advances (exclude sales commission and handling fees)	-	1,302,226	208,921	3,967,751	407,286	6,084,990	108,478	12,079,652
Statutory deposits with BNM	244,900	-	-	-	-	-	-	244,900
Other assets (exclude prepayment)	-	-	-	-	-	-	4,986	4,986
	<u>2,614,371</u>	<u>2,277,945</u>	<u>567,817</u>	<u>4,042,125</u>	<u>452,731</u>	<u>6,084,990</u>	<u>113,464</u>	<u>16,153,443</u>
Financial guarantees	-	6,522	5,259	64,120	5,716	22	46	81,685
Credit related commitments and contingencies	-	465,444	58,396	1,827,380	276,769	458,357	26,668	3,113,014
	<u>-</u>	<u>471,966</u>	<u>63,655</u>	<u>1,891,500</u>	<u>282,485</u>	<u>458,379</u>	<u>26,714</u>	<u>3,194,699</u>
Total credit risk	<u>2,614,371</u>	<u>2,749,911</u>	<u>631,472</u>	<u>5,933,625</u>	<u>735,216</u>	<u>6,543,369</u>	<u>140,178</u>	<u>19,348,142</u>

35. 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.)

	Government and Central	Financial, Takaful, Business Services and	Transport, Storage and Communication	Agriculture, Manufacturing, Wholesale & Retail Trade	Construction	Household	Others	Total
	<u>Bank</u> RM'000	<u>Real Estate</u> RM'000	<u>Communication</u> RM'000	<u>Retail Trade</u> RM'000	<u>Construction</u> RM'000	<u>Household</u> RM'000	<u>Others</u> RM'000	<u>Total</u> RM'000
2022								
Cash and short-term funds (exclude cash in hand)	1,417,800	-	-	-	-	-	-	1,417,800
Financial investments at fair value through other comprehensive income	507,192	853,904	340,148	74,199	93,321	-	-	1,868,764
Financial investments at amortised cost	210,114	-	-	-	-	-	-	210,114
Financing and advances (exclude sales commission and handling fees)	-	1,191,379	167,056	3,542,293	311,959	5,982,952	82,588	11,278,227
Statutory deposits with BNM	30,438	-	-	-	-	-	-	30,438
Other assets (exclude prepayment)	-	-	-	-	-	-	17,797	17,797
	<u>2,165,544</u>	<u>2,045,283</u>	<u>507,204</u>	<u>3,616,492</u>	<u>405,280</u>	<u>5,982,952</u>	<u>100,385</u>	<u>14,823,140</u>
Financial guarantees	-	3,317	5,260	59,338	2,126	22	68	70,131
Credit related commitments and contingencies	-	256,145	15,099	1,483,072	195,560	410,765	6,680	2,367,321
	<u>-</u>	<u>259,462</u>	<u>20,359</u>	<u>1,542,410</u>	<u>197,686</u>	<u>410,787</u>	<u>6,748</u>	<u>2,437,452</u>
Total credit risk	<u>2,165,544</u>	<u>2,304,745</u>	<u>527,563</u>	<u>5,158,902</u>	<u>602,966</u>	<u>6,393,739</u>	<u>107,133</u>	<u>17,260,592</u>

35. 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, quoted shares, other financial instruments or deposits.

	2023 RM'000	2022 RM'000
Gross financing and advances	12,496,063	11,687,083
Less: Allowance for expected credit losses	(416,411)	(408,856)
Net financing and advances	<u>12,079,652</u>	<u>11,278,227</u>
Percentage of collateral held for financing and advances	<u>69.6%</u>	<u>60.7%</u>

(iv) Credit Risk Measurement

The Bank adopts the following judgements and assumptions on measurement of ECL:

(a) Definition of significant increase in credit risk

The Bank considers the probability of default upon initial recognition of financial 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 financial asset as at the reporting date with the risk of default as at the date of initial recognition. The Bank 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;
- Modified exposure placed under Agensi Kaunseling dan Pengurusan Kredit ("AKPK") status;
- Exposure being monitored under watchlist; 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:

Quantitative criteria:

A financial asset is classified as credit impaired, when the counterparty fails to make contractual payment.

35. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(iv) Credit Risk Measurement (contd.)

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

Qualitative criteria:

- 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 the 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 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 vary 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; or
- (iii) Mechanical equation based approach - which is 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 forecasted 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.

35. 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 and loss given charge off), collateral type, and 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; and
- Negative Case - based upon a projected pessimistic or negative economic outlook or forecast.

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, an analysis was carried out 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 and GDP growth rate 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.

The forward-looking estimates were adjusted as below:

<u>MEV</u> (% Year on Year)	Weighted Average Forecast		
	2025	2024	2023
GDP Growth Rate	4.3	4.3	4.1
Producer Price Index	0.2	1.6	2.4
Consumer Price Index	2.2	2.1	3.2
Industrial Production Index	4.2	4.2	3.8
Credit Consumption	3.6	3.6	3.6
Unemployment Rates	2.5	2.6	3.0
House Price Index	2.5	2.5	2.4

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

35. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(v) Credit Quality

The Bank assesses the credit quality for financing and advances and credit related commitment and contingencies according to the categories below.

<u>Credit Quality</u>	<u>Scorecard</u>	<u>Credit Grading</u> <u>Customer Rating</u>	<u>Definition</u>
Low	Low risk score	1 - 12 (AAA to BB)	Borrower 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 (CCC+ to CCC-)	Borrower which is in uncertain capacity to meet financial commitments but has not been impaired.
Unrated	Unrated	Unrated	Borrower which is unrated.
Credit Impaired	Credit Impaired	Credit Impaired	Defaulted, or judgementally impaired due to lack of capacity to fulfil financial commitments.

Other financial assets are categorised in the following manner:

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

Other assets are classified based on days-past-due ("DPD") under the simplified model approach.

35. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(v) Credit Quality (contd.)

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

2023	<u>Stage 1</u> RM'000	<u>Stage 2</u> RM'000	<u>Stage 3</u> RM'000	<u>Total</u> RM'000
<u>Cash and short-term funds</u> (exclude cash in hand)				
Sovereign/government-backed	1,474,713	-	-	1,474,713
Gross carrying amount	1,474,713	-	-	1,474,713
Expected credit losses	-	-	-	-
Net carrying amount	1,474,713	-	-	1,474,713
<u>Financial investments at fair value</u> <u>through other comprehensive income</u>				
Investment graded	644,704	-	-	644,704
Sovereign/government-backed	1,107,684	-	-	1,107,684
Gross carrying amount	1,752,388	-	-	1,752,388
Expected credit losses [Note (a)]	(136)	-	-	(136)
<u>Financial investments at</u> <u>amortised cost</u>				
Sovereign/government-backed	596,779	-	-	596,779
Gross carrying amount	596,779	-	-	596,779
Expected credit losses	-	-	-	-
Net carrying amount	596,779	-	-	596,779
<u>Financing and advances</u>				
Low	6,648,047	494,735	-	7,142,782
Medium	3,123,463	263,214	-	3,386,677
High	467,488	480,651	-	948,139
Unrated	429,776	235,855	-	665,631
Credit impaired	-	-	352,834	352,834
Gross carrying amount	10,668,774	1,474,455	352,834	12,496,063
Expected credit losses	(66,042)	(219,623)	(130,746)	(416,411)
Net carrying amount	10,602,732	1,254,832	222,088	12,079,652
<u>Statutory deposits with BNM</u>				
Sovereign/government-backed	244,900	-	-	244,900
Gross carrying amount	244,900	-	-	244,900
Expected credit losses	-	-	-	-
Net carrying amount	244,900	-	-	244,900

Note (a): The expected credit losses is recognised in reserves 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.

35. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(v) Credit Quality (contd.)

2023	<u>Stage 1</u> RM'000	<u>Stage 2</u> RM'000	<u>Stage 3</u> RM'000	<u>Total</u> RM'000
<u>Credit related commitments and contingencies</u>				
Low	2,139,031	60,784	-	2,199,815
Medium	708,974	102,789	-	811,763
High	52,922	4,776	-	57,698
Unrated	124,838	-	-	124,838
Credit impaired	-	-	584	584
Gross carrying amount	<u>3,025,765</u>	<u>168,349</u>	<u>584</u>	<u>3,194,698</u>
Expected credit losses	<u>(693)</u>	<u>(2,011)</u>	<u>(223)</u>	<u>(2,927)</u>
<u>Simplified Approach</u>				
		<u>Current</u> RM'000	<u>More than 90 days past due</u> RM'000	<u>Total</u> RM'000
<u>Other assets (exclude prepayment)</u>				
Gross carrying amount		4,986	2,394	7,380
Expected credit losses		-	(2,394)	(2,394)
Net carrying amount		<u>4,986</u>	<u>-</u>	<u>4,986</u>
2022	<u>Stage 1</u> RM'000	<u>Stage 2</u> RM'000	<u>Stage 3</u> RM'000	<u>Total</u> RM'000
<u>Cash and short-term funds (exclude cash in hand)</u>				
Sovereign/government-backed	1,417,800	-	-	1,417,800
Gross carrying amount	<u>1,417,800</u>	<u>-</u>	<u>-</u>	<u>1,417,800</u>
Expected credit losses	-	-	-	-
Net carrying amount	<u>1,417,800</u>	<u>-</u>	<u>-</u>	<u>1,417,800</u>
<u>Financial investments at fair value through other comprehensive income</u>				
Investment graded	679,438	-	-	679,438
Sovereign/government-backed	1,189,326	-	-	1,189,326
Gross carrying amount	<u>1,868,764</u>	<u>-</u>	<u>-</u>	<u>1,868,764</u>
Expected credit losses [Note (a)]	<u>(137)</u>	<u>-</u>	<u>-</u>	<u>(137)</u>

Note (a): The expected credit losses is recognised in reserves 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.

35. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(v) Credit Quality (contd.)

2022	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
<u>Financial investments at fair value amortised cost</u>				
Sovereign/government-backed	210,114	-	-	210,114
Gross carrying amount	210,114	-	-	210,114
Expected credit losses	-	-	-	-
Net carrying amount	210,114	-	-	210,114
<u>Financing and advances</u>				
Low	6,356,914	155,593	-	6,512,507
Medium	3,123,907	400,485	-	3,524,392
High	519,642	367,906	-	887,548
Unrated	298,247	186,055	-	484,302
Credit impaired	-	-	278,334	278,334
Gross carrying amount	10,298,710	1,110,039	278,334	11,687,083
Expected credit losses	(96,075)	(188,675)	(124,106)	(408,856)
Net carrying amount	10,202,635	921,364	154,228	11,278,227
<u>Statutory deposits with BNM</u>				
Sovereign/government-backed	30,438	-	-	30,438
Gross carrying amount	30,438	-	-	30,438
Expected credit losses	-	-	-	-
Net carrying amount	30,438	-	-	30,438
<u>Credit related commitments and contingencies</u>				
Low	1,600,448	33,029	-	1,633,477
Medium	610,789	134,545	-	745,334
High	38,220	3,255	-	41,475
Unrated	16,968	-	-	16,968
Credit impaired	-	-	198	198
Gross carrying amount	2,266,425	170,829	198	2,437,452
Expected credit losses	(1,174)	(2,135)	(5)	(3,314)
<u>Simplified Approach</u>				
		Current RM'000	More than 90 days past due RM'000	Total RM'000
<u>Other assets (exclude prepayment)</u>				
Gross carrying amount		17,797	1,747	19,544
Expected credit losses		-	(1,747)	(1,747)
Net carrying amount		17,797	-	17,797

35. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(vi) Sensitivity test

The Bank has performed expected 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:

2023

<u>Measurement variables</u>	<u>MEV Change (%) / Percentage</u> <u>Point Change (p.p)</u>	<u>+</u>	<u>-</u>
		<u>RM'000</u>	<u>RM'000</u>
House price index	9.6%	(13,351)	17,085
Consumption credit	3.7 p.p	5,309	(5,688)
Unemployment rate	0.6 p.p	4,478	(4,221)
GDP growth	6.4%	(1,794)	1,463
Producer price index	3.8%	418	(343)
Industrial production index	5.7%	(1,630)	1,516

2022

<u>Measurement variables</u>	<u>MEV Change (%) / Percentage</u> <u>Point Change (p.p)</u>	<u>+</u>	<u>-</u>
		<u>RM'000</u>	<u>RM'000</u>
House price index	9.4%	(7,502)	10,795
Consumption credit	3.8 p.p	3,730	(3,842)
Unemployment rate	0.6 p.p	2,514	(2,315)
GDP growth	6.2%	(1,401)	1,247
Producer price index	3.1%	1,035	(912)
Industrial production index	5.3%	(731)	709

35. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(vii) Overlays and adjustments for ECL amid COVID-19 environment

As the current MFRS 9 models are not expected to generate levels of ECL with sufficient reliability in view of the unprecedented and ongoing COVID-19 pandemic, overlays and post-model adjustments have been applied to determine a sufficient overall level of ECL for the year ended and as at 31 March 2023.

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

The overlays and post-model adjustments involved significant level of judgement and reflect the Management's views of possible severities of the pandemic and paths of recovery in the forward-looking assessment for ECL estimation purposes. The adjustments remain outside the core MFRS 9 process.

As at 31 March 2023, the balances of these overlays and post-model adjustments amounted to RM109,451,000 (2022: RM187,498,000). During the year, the Bank has partially reversed the overlays and post-model adjustments after observing the satisfactory repayment trend of the borrowers and customers over a reasonable observation period.

(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.

Market Risk Factors

(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 the 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 the 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 the Management regularly. The following table 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.

35. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

Market Risk Factors (contd.)

(i) Profit rate risk (contd.)

	← Non-Trading Book →						Non-profit sensitive RM'000	Trading Book RM'000	Total RM'000
	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			
2023									
Assets									
Cash and short-term funds	1,434,889	-	-	-	-	-	39,824	-	1,474,713
Financial investment at fair value through other comprehensive income	-	40,688	146,204	20,461	938,423	606,612	-	-	1,752,388
Financial investment at amortised cost	-	30,383	-	20,416	187,001	358,979	-	-	596,779
Derivative financial assets	-	-	-	-	-	-	-	25	25
Financing and advances	9,807,637	461,291	203,352	25,118	677,092	969,546	5,736*	-	12,149,772
Other financial assets**	-	-	-	-	2,895	572	246,419	-	249,886
Total financial assets	11,242,526	532,362	349,556	65,995	1,805,411	1,935,709	291,979	25	16,223,563
Liabilities									
Deposits from customers	4,495,404	1,810,832	1,950,095	2,312,160	3,616,641	-	-	-	14,185,132
Deposits and placements of banks and other financial institutions	13,157	4,047	4,396	5,352	21,819	146,660	-	-	195,431
Derivative financial liabilities	-	-	-	-	-	-	-	2,496	2,496
Recourse obligation on financing sold to Cagamas	-	-	-	-	100,133	-	-	-	100,133
Lease liabilities	43	86	167	-	-	-	-	-	296
Subordinated Sukuk	-	-	-	99,850	132,409	-	-	-	232,259
Other financial liabilities	-	7	27	-	-	39,341	181,025	-	220,400
Total financial liabilities	4,508,604	1,814,972	1,954,685	2,417,362	3,871,002	186,001	181,025	2,496	14,936,147
On-balance sheet profit sensitivity gap	6,733,922	(1,282,610)	(1,605,129)	(2,351,367)	(2,065,591)	1,749,708	110,954	(2,471)	1,287,416

* Impaired financing and ECL of the Bank are classified under the non-profit sensitive column.

** Includes statutory deposits and other assets

35. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

Market Risk Factors (contd.)

(i) Profit rate risk (contd.)

	← Non-Trading Book →						Non-profit sensitive RM'000	Trading Book RM'000	Total RM'000
	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			
2022									
Assets									
Cash and short-term funds	1,366,000	-	-	-	-	-	51,800	-	1,417,800
Financial investment at fair value through other comprehensive income	20,009	80,311	15,091	116,269	827,164	790,807	19,113	-	1,868,764
Financial investment at amortised cost	-	-	-	-	207,826	-	2,288	-	210,114
Financing and advances	9,304,891	402,755	194,834	26,536	640,001	840,176	(77,181)*	-	11,332,012
Other financial assets**	-	-	-	-	-	5,149	43,086	-	48,235
Total financial assets	10,690,900	483,066	209,925	142,805	1,674,991	1,636,132	39,106	-	14,876,925
Liabilities									
Deposits from customers	4,144,629	1,797,858	1,370,581	1,133,323	4,125,999	-	40,553	-	12,612,943
Deposits and placements of banks and other financial institutions	17,036	5,673	10,304	13,385	36,512	133,080	242	-	216,232
Recourse obligation on financing sold to Cagamas	-	350,031	-	-	-	-	418	-	350,449
Lease liabilities	23	47	72	147	122	-	-	-	411
Subordinated Sukuk	-	-	129,943	-	99,613	-	108	-	229,664
Other financial liabilities	-	-	-	-	-	44,760	190,025	-	234,785
Total financial liabilities	4,161,688	2,153,609	1,510,900	1,146,855	4,262,246	177,840	231,346	-	13,644,484
On-balance sheet profit sensitivity gap	6,529,212	(1,670,543)	(1,300,975)	(1,004,050)	(2,587,255)	1,458,292	(192,240)	-	1,232,441

* Impaired financing and ECL of the Bank are classified under the non-profit sensitive column.

** Includes statutory deposits and other assets

35. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

Market Risk Factors (contd.)

(ii) Foreign exchange risk

Foreign exchange risk refers to the risk that fair value or future cash flows of financial instruments will fluctuate because of the movements in the exchange rates for foreign exchange positions taken by the Bank from time to time.

Foreign currency exchange risk is managed via approved risk limits and open the positions are regularly revalued against current exchange rates and reported to the Management and Board.

The following table summarises the liabilities and net open position by currency as at the end of the financial reporting date, which are mainly in US Dollars and Pound Sterling. The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank.

	US Dollars	Pound Sterling	Total
	RM'000	RM'000	RM'000
2023			
Liabilities			
Other financial liabilities	89	33	122
Total liabilities	<u>89</u>	<u>33</u>	<u>122</u>
On-balance sheet open position	(89)	(33)	(122)
Net open position	<u>(89)</u>	<u>(33)</u>	<u>(122)</u>
2022			
Liabilities			
Other financial liabilities	1	57	58
Total liabilities	<u>1</u>	<u>57</u>	<u>58</u>
On-balance sheet open position	(1)	(57)	(58)
Net open position	<u>(1)</u>	<u>(57)</u>	<u>(58)</u>

35. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

Market Risk Measures

(iii) Value at risk ("VaR")

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:

	<u>Balance</u> RM'000	<u>Average</u> <u>for the year</u> RM'000	<u>Minimum</u> RM'000	<u>Maximum</u> RM'000
2023				
Government securities	(4,699)	(5,148)	(4,699)	(5,464)
Private debt securities	(1,984)	(1,652)	(1,417)	(1,984)

	<u>Balance</u> RM'000	<u>Average</u> <u>for the year</u> RM'000	<u>Minimum</u> RM'000	<u>Maximum</u> RM'000
2022				
Government securities	(3,632)	(5,160)	(3,632)	(5,989)
Private debt securities	(1,005)	(1,282)	(1,005)	(1,449)

(iv) Profit Rate Risk Sensitivity

The following tables present the Bank's sensitivity result for the impact on net profit after tax and reserves of financial assets and financial liabilities bearing fixed and floating profit rates.

Impact on the net profit after tax is measured using Earning-at-Risk ("EaR") methodology. The treatments are based on a set of sensitivity rate shocks on the profit rate gap profile from the financial position of the Bank by taking into consideration the repricing or remaining maturity of the product.

Impact on equity represents the changes in fair value of financial investment at fair value through other comprehensive income portfolio arising from shifts in interest/profit rate.

	- 200 bps Increase/(decrease) RM'000	+ 200 bps Increase/(decrease) RM'000
Impact on net profit after tax	<u>(47,519)</u>	<u>47,519</u>
Impact on equity	<u>101,060</u>	<u>(104,697)</u>

35. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

Market Risk Measures (contd.)

(iv) Profit Rate Risk Sensitivity (contd.)

Impact on equity represents the changes in fair value of financial investment at fair value through other comprehensive income portfolio arising from shifts in profit rate.

	2022	
	- 200 bps Increase/(decrease)	+ 200 bps
	RM'000	RM'000
Impact on net profit after tax	<u>(34,778)</u>	<u>34,778</u>
Impact on equity	<u>119,637</u>	<u>(103,298)</u>

(v) 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 the 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 Policy 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 the Management to provide them with an assessment of the financial impact that 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.

35. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

Liquidity Risk Measures

(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 an analysis of assets and liabilities into relevant maturity terms based on remaining contractual maturities:

	Up to <u>1 month</u> RM'000	>1-3 <u>months</u> RM'000	>3-6 <u>months</u> RM'000	>6-12 <u>months</u> RM'000	>1 year RM'000	No specific <u>maturity</u> RM'000	<u>Total</u> RM'000
2023							
Assets							
Cash and short-term funds	1,474,713	-	-	-	-	-	1,474,713
Financial investment at fair value through other comprehensive income	5,794	47,125	149,844	20,123	1,529,502	-	1,752,388
Financial investments at amortised cost	2,994	31,503	1,499	20,134	540,649	-	596,779
Derivative financial assets	-	-	-	-	25	-	25
Financing and advances	1,981,588	506,032	229,567	30,297	9,402,288	-	12,149,772
Other financial and non-financial assets	4,520	1,400	1,676	3,242	3,279	290,632	304,749
Total assets	3,469,609	586,060	382,586	73,796	11,475,743	290,632	16,278,426
Liabilities							
Deposits from customers	7,651,221	1,810,832	1,950,095	2,312,160	460,824	-	14,185,132
Deposits and placements of banks and other financial institutions	13,157	4,047	4,396	5,352	168,479	-	195,431
Derivative financial liabilities	-	-	-	-	2,496	-	2,496
Recourse obligation on financing sold to Cagamas	-	128	-	-	100,005	-	100,133
Lease liabilities	43	86	167	-	-	-	296
Subordinated Sukuk	2,409	-	49	99,801	130,000	-	232,259
Other financial and non-financial liabilities	127,713	244	4,847	2,948	94,217	-	229,969
Total liabilities	7,794,543	1,815,337	1,959,554	2,420,261	956,021	-	14,945,716
Net maturity mismatch	(4,324,934)	(1,229,277)	(1,576,968)	(2,346,465)	10,519,722	290,632	1,332,710

35. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

Liquidity Risk Measures (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 an analysis of assets and liabilities into relevant maturity terms based on remaining contractual maturities: (contd.)

	Up to <u>1 month</u> RM'000	>1-3 <u>months</u> RM'000	>3-6 <u>months</u> RM'000	>6-12 <u>months</u> RM'000	<u>≥1 year</u> RM'000	No specific <u>maturity</u> RM'000	<u>Total</u> RM'000
2022							
Assets							
Cash and short-term funds	1,417,800	-	-	-	-	-	1,417,800
Financial investment at fair value through other comprehensive income	25,895	88,946	19,683	116,269	1,617,971	-	1,868,764
Financial investments at amortised cost	1,580	651	57	-	207,826	-	210,114
Financing and advances	2,066,161	526,575	225,211	31,531	8,482,534	-	11,332,012
Other financial and non-financial assets	14,616	539	773	604	5,333	74,111	95,976
Total assets	3,526,052	616,711	245,724	148,404	10,313,664	74,111	14,924,666
Liabilities							
Deposits from customers	7,983,477	1,810,277	1,377,716	1,138,967	302,506	-	12,612,943
Deposits and placements of banks and other financial institutions	17,069	5,694	10,342	13,434	169,693	-	216,232
Recourse obligation on financing sold to Cagamas	-	350,449	-	-	-	-	350,449
Lease liabilities	23	47	72	147	122	-	411
Subordinated Sukuk	-	-	130,051	-	99,613	-	229,664
Other financial and non-financial liabilities	143,089	401	14,595	3,666	91,881	-	253,632
Total liabilities	8,143,658	2,166,868	1,532,776	1,156,214	663,815	-	13,663,331
Net maturity mismatch	(4,617,606)	(1,550,157)	(1,287,052)	(1,007,810)	9,649,849	74,111	1,261,335

35. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

Liquidity Risk Measures (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.

	<u>Up to 1 month</u>	<u>>1-3 months</u>	<u>>3-6 months</u>	<u>>6-12 months</u>	<u>>1-5 years</u>	<u>Over 5 years</u>	<u>No specific maturity</u>	<u>Total</u>
2023	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Non derivative financial liabilities								
Deposits from customers	7,656,575	1,826,496	1,978,515	2,381,728	443,529	-	-	14,286,843
Deposits and placements with banks and other financial institutions	13,253	4,032	4,380	5,332	21,775	146,660	-	195,432
Recourse obligation on financing sold to Cagamas	-	1,047	1,047	2,094	105,240	-	-	109,428
Lease liabilities	44	88	170	-	-	-	-	302
Subordinated Sukuk	2,837	-	2,999	105,700	150,240	-	-	261,776
Other financial liabilities	115,274	40	4,263	-	22	-	-	119,599
	<u>7,787,983</u>	<u>1,831,703</u>	<u>1,991,374</u>	<u>2,494,854</u>	<u>720,806</u>	<u>146,660</u>	<u>-</u>	<u>14,973,380</u>
<u>Items not recognised in the statement of financial position</u>								
Financial guarantees	6,573	13,973	13,758	33,531	13,850	-	-	81,685
Credit related commitments and contingencies	2,522,255	22,951	2,279	7,712	542,278	15,539	-	3,113,014
	<u>2,528,828</u>	<u>36,924</u>	<u>16,037</u>	<u>41,243</u>	<u>556,128</u>	<u>15,539</u>	<u>-</u>	<u>3,194,699</u>
Total financial liabilities	<u>10,316,811</u>	<u>1,868,627</u>	<u>2,007,411</u>	<u>2,536,097</u>	<u>1,276,934</u>	<u>162,199</u>	<u>-</u>	<u>18,168,079</u>
Derivatives financial liabilities								
Derivatives settled on a net basis								
Interest rate derivatives	-	-	(177)	(353)	(2,476)	-	-	(3,006)
Net outflow	-	-	(177)	(353)	(2,476)	-	-	(3,006)

35. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

Liquidity Risk Measures (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.)

	<u>Up to 1 month</u>	<u>>1-3 months</u>	<u>>3-6 months</u>	<u>>6-12 months</u>	<u>>1-5 years</u>	<u>Over 5 years</u>	<u>No specific maturity</u>	<u>Total</u>
2022	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Non derivative financial liabilities								
Deposits from customers	7,948,357	1,817,963	1,391,828	1,160,968	343,190	-	-	12,662,306
Deposits and placements with banks and other financial institutions	17,278	5,673	10,304	13,385	36,512	133,080	-	216,232
Recourse obligation on financing sold to Cagamas	-	353,754	-	-	-	-	-	353,754
Lease liabilities	26	51	77	153	153	-	-	460
Subordinated Sukuk	-	-	136,547	2,951	105,579	-	-	245,077
Other financial liabilities	129,714	-	13,882	-	13	-	-	143,609
	8,095,375	2,177,441	1,552,638	1,177,457	485,447	133,080	-	13,621,438
<u>Items not recognised in the statement of financial position</u>								
Financial guarantees	1,855	11,076	16,190	36,988	4,022	-	-	70,131
Credit related commitments and contingencies	2,018,393	14,482	7,169	8,104	318,260	913	-	2,367,321
	2,020,248	25,558	23,359	45,092	322,282	913	-	2,437,452
Total financial liabilities	10,115,623	2,202,999	1,575,997	1,222,549	807,729	133,993	-	16,058,890
Derivatives financial liabilities								
Derivatives settled on a net basis								
Interest rate derivatives	-	-	-	-	-	-	-	-
Net outflow	-	-	-	-	-	-	-	-

35. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(d) Operational and Shariah Non-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 or AIS's Shariah Committee.

Group Operational Risk of Group Risk Management formulates and implements operational risk framework within the Bank while the line of businesses in conjunction with the Risk and Compliance Officers 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.

The Bank applies the Basic Indicator Approach for operational risk capital charge computation.

36. CAPITAL COMMITMENTS

	2023 RM'000	2022 RM'000
Capital expenditure:		
Authorised and contracted for	467	492
Authorised and not contracted for	74	1,098
	<u>541</u>	<u>1,590</u>

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

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

BNM's Transitional Arrangements for Regulatory Capital Treatment of Accounting Provisions took effect on 9 December 2020. This allows the Bank to add back a portion of Stage 1 ("S1") and Stage 2 ("S2") provisions with an "add-back factor" to the Common Equity Tier I ("CET I") capital from Financial Year 2021 to Financial Year 2024. The Bank has sufficient capital under both conditions with or without the Transitional Arrangement.

The capital adequacy ratios with and without transitional arrangements of the Bank are as follows:

	2023	2022
(i) <u>With transitional arrangements</u>		
<u>Before deducting proposed dividends</u>		
CET 1 capital ratio	13.717%	14.904%
Tier 1 capital ratio	14.694%	15.966%
Total capital ratio	17.122%	18.510%
<u>After deducting proposed dividends</u>		
CET 1 capital ratio	13.715%	14.463%
Tier 1 capital ratio	14.692%	15.525%
Total capital ratio	17.120%	18.069%
(ii) <u>Without transitional arrangements</u>		
<u>Before deducting proposed dividends</u>		
CET 1 capital ratio	12.401%	12.995%
Tier 1 capital ratio	13.377%	14.057%
Total capital ratio	15.806%	16.601%
<u>After deducting proposed dividends</u>		
CET 1 capital ratio	12.399%	12.554%
Tier 1 capital ratio	13.375%	13.616%
Total capital ratio	15.804%	16.160%

Note:

The capital adequacy ratios after deducting proposed dividends have included the Rights Issue as disclosed in Note 44 to the financial statement.

38. CAPITAL ADEQUACY (CONTD.)

- (a) Components of Common Equity Tier I ("CET I"), Tier I and Tier II capital under the Capital Adequacy Framework with transitional arrangements are as follows:

	2023 RM'000	2022 RM'000
<u>CET I Capital</u>		
Paid-up share capital	600,000	600,000
Retained profits	727,052	668,707
Regulatory reserves	19,339	-
FVOCI reserves	(13,817)	(7,509)
	<u>1,332,574</u>	<u>1,261,198</u>
(Less)/add: Regulatory adjustments		
- Intangible assets	(2,045)	(1,444)
- Deferred tax assets	(44,039)	(41,558)
- Regulatory reserves	(19,339)	-
- Transitional arrangements	134,523	178,984
Total CET I Capital	<u>1,401,674</u>	<u>1,397,180</u>
Additional Tier 1 Sukuk Wakalah	99,801	99,613
Total Additional Tier 1 Capital	<u>99,801</u>	<u>99,613</u>
Total Tier I Capital	<u>1,501,475</u>	<u>1,496,793</u>
<u>Tier II Capital</u>		
Subordinated Sukuk Murabahah	130,000	129,943
Expected credit losses and regulatory reserves	118,121	108,506
Total Tier II Capital	<u>248,121</u>	<u>238,449</u>
Total Capital	<u>1,749,596</u>	<u>1,735,242</u>

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

	2023 RM'000	2022 RM'000
Credit risk	9,449,676	8,680,495
Market risk	123	58
Operational risk	768,617	694,112
Total RWA and capital requirements	<u>10,218,416</u>	<u>9,374,665</u>

Detailed information on the above risk exposure is presented in the Bank's Pillar 3 Report.

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 BNM;
- 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.

39. CAPITAL (CONTD.)

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 BNM's Capital Adequacy Framework and their capital ratio complied with the prescribed capital adequacy ratios.

40. 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:

	2023 RM'000	2022 RM'000
<u>Credit-related exposures</u>		
Direct credit substitutes [Note (a)]	81,609	70,235
Transaction-related contingent items [Note (a)]	72,678	61,208
Short-term self-liquidating trade-related contingencies	17,760	19,250
Forward assets purchase	15,000	-
Irrevocable commitments to extend credit:		
- maturity exceeding one year	495,519	283,555
- maturity not exceeding one year	2,512,133	2,003,204
	<u>3,194,699</u>	<u>2,437,452</u>
<u>Derivative financial instruments [Note (b)]</u>		
Interest rate related contracts:		
- over three years	298,000	-
	<u>3,492,699</u>	<u>2,437,452</u>

Note:

- (a) Included in direct credit substitutes and transaction-related contingent items are financial guarantee contract of RM81,685,000 (2022: RM70,131,000).
- (b) These derivatives are valued on gross position basis and the unrealised gains or losses have been reflected in the statement of income and statement of financial position as derivatives financial assets and derivatives financial liabilities. The fair value of derivatives are disclosed under Note 6.

41. 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.

(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 market parameters, including but not limited to yield curves, volatilities and foreign exchange rates, as inputs. 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.

41. FAIR VALUE MEASUREMENTS (CONTD.)

(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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2023	RM'000	RM'000	RM'000	RM'000
Financial assets				
Financial investment at fair value through other comprehensive income				
- Money Market Instruments	-	454,512	-	454,512
- Unquoted Securities	-	1,297,876	-	1,297,876
Derivative financial assets	-	25	-	25
Liabilities				
Derivative financial liabilities	-	2,496	-	2,496
2022				
Financial assets				
Financial investment at fair value through other comprehensive income				
- Money Market Instruments	-	507,192	-	507,192
- Unquoted Securities	-	1,361,572	-	1,361,572

There were no transfers between Level 1 and 2 of the fair value hierarchy for the Bank during the financial years ended 31 March 2023 and 31 March 2022.

(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 amount RM'000
	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> RM'000	
2023					
Financial assets					
Financial investments at amortised cost	-	606,658	-	606,658	596,779
Financing and advances	-	-	12,308,290	12,308,290	12,149,772
Financial liabilities					
Deposits from customers	-	14,187,370	-	14,187,370	14,185,132
Deposits and placements of banks and other financial institutions	-	193,247	-	193,247	195,431
Recourse obligation on financing sold to Cagamas	-	100,003	-	100,003	100,133
Subordinated Sukuk	-	229,801	-	229,801	232,259

41 FAIR VALUE MEASUREMENTS (CONTD.)

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

2022

Financial assets

Financial investments

at amortised cost - 208,963 - 208,963 210,114

Financing and advances - - 11,472,610 11,472,610 11,332,012

Financial liabilities

Deposits from customers - 12,613,521 - 12,613,521 12,612,943

Deposits and placements

of banks and other

financial institutions - 212,831 - 212,831 216,232

Recourse obligation on

financing sold to Cagamas - 349,815 - 349,815 350,449

Subordinated Sukuk - 229,556 - 229,556 229,664

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 the 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) Recourse obligations on financing sold to Cagamas

The fair values of recourse obligations on 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.

(v) 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.

42. Offsetting Financial Assets And Financial Liabilities

In accordance with MFRS 132 Financial Instruments: Presentation, the Bank reports financial assets and financial liabilities on a net basis on the statement of financial position, only if there is a legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The following table shows the impact of netting arrangements on:

- (i) all financial assets and liabilities that are reported net on the statement of financial position; and
- (ii) all financial assets and liabilities that are subject to enforceable master netting arrangements or similar agreements, but do not qualify for statement of financial position netting.

(a) Financial assets

	Gross amounts of recognised financial assets RM'000	Gross amounts of recognised financial liabilities set off in the statement of financial position RM'000	Net amounts of financial assets presented in the statement of financial position RM'000	Related amounts not set off in the statement of financial position		Net amount RM'000
				Financial instruments RM'000	Cash collateral received RM'000	
BANK						
31 March 2023						
Derivative financial assets	25	-	25	-	-	25
31 March 2022						
Derivative financial assets	-	-	-	-	-	-

(b) Financial liabilities

	Gross amounts of recognised financial liabilities RM'000	Gross amounts of recognised financial assets set off in the statement of financial position RM'000	Net amounts of financial liabilities presented in the statement of financial position RM'000	Related amounts not set off in the statement of financial position		Net amount RM'000
				Financial instruments RM'000	Cash collateral pledged RM'000	
BANK						
31 March 2023						
Derivative financial liabilities	(2,496)	-	(2,496)	-	-	(2,496)
31 March 2022						
Derivative financial liabilities	-	-	-	-	-	-

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements, each agreement between the Bank and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

43. SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

On 1 April 2022, the corporate finance, equity and debt capital market business was transferred from AIBB to the Bank based on the net asset value of 31 March 2022 of AIBB.

44. SUBSEQUENT EVENTS

On 31 May 2023, the Bank had issued 25,890,575 Rights Issue at RM1.4484 per share to Alliance Bank Malaysia Berhad, the holding company of the Bank amounting to RM37,500,000. The ordinary share of the Bank will increase from RM600,000,000 to RM637,500,000.