ALLIANCE ISLAMIC BANK

REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019

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

CONTENTS **PAGE(S)**

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements of the Bank for the financial year ended 31 March 2019.

PRINCIPAL ACTIVITIES

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

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

FINANCIAL RESULTS

	RM'000
Profit before taxation	152,198
Taxation	(36,329)
Net profit for the financial year	115,869

RESERVES AND PROVISIONS

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

DIVIDENDS

The amount of dividends declared and paid by the Bank since 31 March 2018 were as follows:

		RM'000
(i)	A single tier second interim dividend of 7.66 sen per share, on 345,045,045 ordinary shares in respect of the financial year ended 31 March 2018, was paid on 21 June 2018.	26,430
(ii)	A single tier first interim dividend of 8.8 sen per share, on 345,045,045 ordinary shares in respect of the financial year ending 31 March 2019, was paid on 18 December 2018.	30,364
		56,794

Subsequent to the financial year end, on 29 May 2019, the Directors declared a single tier second interim dividend of 8.00 sen per share, on 345,045,045 ordinary shares amounting to approximately RM27,604,000 in respect of current financial year. The accompanying financial statements do not reflect this dividend. The dividend will be accounted for in shareholder's equity as an appropriation of retained profits in the financial year ending 31 March 2020.

The Directors do not propose any final dividend in respect of the financial year ended 31 March 2019.

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

BUSINESS REVIEW FOR FINANCIAL YEAR ENDED ("FYE") 31 MARCH 2019

The Bank recorded a Net Profit After Tax (NPAT) of RM115.9 million for the financial year ended 31 March 2019, representing an increase of RM30.3 million or 35.4% compared to the last financial year. The increase in NPAT is primarily due to higher net profit income and lower expected credit losses.

Net profit income was higher mainly due to higher profit income from better risk adjusted return financing where year on year expansion of total gross financing by RM1.3 billion or 16.2%.

Other operating income grew by RM4.7 million or 21.4% mainly from fee based income.

Other operating expenses increased RM15.0 million or 14.6%. Cost to income ratio is recorded at 38.4%.

Gross financing and advances expanded to RM9.4 billion as at 31 March 2019. The growth was driven mainly by the segments with higher risk-adjusted returns, namely Alliance One Account and cash line financing.

Total customer deposits stood at RM9.9 billion, better by 5.2% year-on-year with the Bank's Current Account and Savings Account (CASA) ratio recorded at 30.7%.

After deducting proposed dividend, the Bank maintained a Total Capital ratio of 15.4%, with a Common Equity Tier 1 Capital ratio of 11.3% and Tier 1 Capital ratio at 12.6% as at 31 March 2019.

ECONOMIC OUTLOOK AND PROSPECTS FOR FYE 31 MARCH 2020

In 2019, Bank Negara Malaysia projected that the Malaysian Gross Domestic Product (GDP) growth will expand at a steady pace between 4.3% and 4.8% year-on-year, from 4.7% in 2018, as the slowdown in global growth persist, while declining global trade activity to provide negative spillover effect on Malaysia's domestic activity.

Private sector spending will remain the key driver of growth, underpinned by steady private consumption which will likely be supported by steady labour market conditions, while private investment is expected to be backed supported by ongoing and new capital spending in the manufacturing and services sectors, as well as the repayment of corporate tax refunds.

Meanwhile, Bank Negara Malaysia expects inflation to trend lower between 0.7% and 1.7% in 2019, due to the impact of cost pass-through from domestic cost factors amid a muted Sales and Services Tax (SST) impact, but this is likely to be offset by lower global oil prices that would help bring down domestic pump prices.

On the external sector, gross exports growth is forecasted to expand lower at 3.4% compared to a 6.8% growth in 2018, due to weaker demand from trade partners and the impact of on-going trade tensions.

Overall, external risks from global headwinds such as potential no-deal on trade war negotiations between the US and China; delay in Brexit; and a potential slowdown in the Chinese economy could provide stress points that may dampen external demand for Malaysia's electrical and electronics manufacturing and oil and gas sectors.

776882-V

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

BUSINESS OUTLOOK FOR FYE 31 MARCH 2020

The outlook for the Islamic Banking industry is expected to be marked by steady growth in the consumer financing segment, and moderated by softening in the business financing segment.

From the funding perspective, continued competition among banks for deposits to comply with liquidity ratio requirements is expected to create pressure on funding costs.

The Bank will continue to grow its financing portfolio with better risk-adjusted returns, moderate funding costs by garnering lower cost deposits and expand revenue streams from wealth management.

The Bank will align AIS' products, distribution, and marketing efforts towards the Group's lending initiatives and deposit garnering. The Bank will also leverage on the Group's strategic client relationships and enhance brand visibility in target market segments.

This will be done while aligning AIS' products, distribution, and marketing efforts towards the Group's strategic propositions which encompass Alliance One Account, SME financing, Alliance@Work, deposit garnering and cross selling initiatives. The Bank will also commence rolling out initiatives to enhance brand visibility in affinity market segments.

The Bank aims to supplement its mainstream business with programs targeted at the Halal SME sector, as well as value-based (VBI) propositions focused on empowering social businesses that generate positive impact to the society and environment.

Notwithstanding the challenging economic outlook, the Bank expects that the transformation initiatives will position its businesses for sustainable revenue and profitability for financial year 2020.

RATING BY EXTERNAL RATING AGENCY

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

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

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

DIRECTORS

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

Datuk Wan Azhar Bin Wan Ahmad (Chairman)
Md Ali Bin Md Sarif
Ibrahim Bin Hassan
Joel Kornreich
Dato' Ahmad Hisham bin Kamaruddin (appointed on 15 February 2019)
Dato' Majid Bin Mohamad (resigned on 31 December 2018)

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

DIRECTORS' REMUNERATION

Details of directors' remuneration are set out in Note 31 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 31 to the financial statements) by reason of a contract made by the Bank or its holding company or subsidiaries of the holding company with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

DIRECTORS' INTERESTS

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

ISSUE OF SHARES AND DEBENTURES

The Bank has established a Perpetual Sukuk Programme of up to RM2.5 billion on 19 March 2019 and completed its first issuance of RM100.0 million Islamic Additional Tier 1 Sukuk Wakalah as below:

Issuance Date	Nominal Amount	Tenure	Call Date	Distribution Rate	Frequency
29-Mar-19	RM100.0 million	Perpetual Non-callable Five (5) Years	29 March 2024 and thereafter on every distribution payment date	5.95% per annum	Semi-annual distribution period

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.

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

CURRENT ASSETS

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

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

VALUATION METHOD

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

In the opinion of the Directors:

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

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

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

HOLDING COMPANY

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

AUDITOR'S REMUNERATION

Details of auditor's remuneration are set out in Note 25 to the financial statements.

SHARIAH COMMITTEE

The Shariah Committee for the financial year 2018/2019 consists of 5 members appointed by the Bank's Board of Directors. The main duties and responsibilities of the Shariah Committee are as follows:-

(a) to advise the Board and provide input to the Bank on Shariah matters in order for the Bank to comply with Shariah principles at all times;

(b) to endorse Shariah policies and procedures prepared by the Bank and to ensure that the contents do not contain any elements which are not in line with Shariah;

(c) to ensure that the products of the Bank comply with Shariah principles, the Shariah Committee must approve:
   (i) the terms and conditions contained in the forms, contracts, agreements or other legal documentations used in executing the transactions; and
   (ii) the product manual, marketing advertisements, sales illustrations and brochures used to describe the product;

(d) to assess the work carried out by Shariah review and Shariah audit in order to ensure compliance with Shariah matters which forms part of their duties in providing their assessment of Shariah compliance and assurance information in the annual report;

(e) to advise the Bank to consult the Bank Negara Malaysia ("BNM")'s Shariah Advisory Council ("SAC") on Shariah matters that could not be resolved; and

(f) to provide written Shariah opinions in circumstances where the Bank make reference to the BNM's SAC for further deliberation, or where the Bank submits applications to the BNM for new product.

ZAKAT OBLIGATION

The Management of the Bank's zakat matters is governed by the Bank's Zakat Policy and Procedures. The Bank as an Islamic business entity computes zakat using Growth Method at the rate of 2.575 percent based on Gregorian calendar. The zakat payment does not cover the zakat obligation of 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.

776882-V

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

The significant events during the financial year are disclosed in Note 40 to the financial statements.

SUBSEQUENT EVENTS

There were no material events subsequent to the end of the financial reporting period that require disclosure or adjustment to the financial statements.

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment as auditors.

This report was approved by the Board of Directors on 31 May 2019. Signed on behalf of the Board of Directors.

Datuk Wan Azhar Bin Wan Ahmad

Ibrahim Bin Hassan

Kuala Lumpur, Malaysia

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

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 15 to 107 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 March 2019 and financial performance of the Bank for the financial year ended 31 March 2019 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 dated 31 May 2019.

Datuk Wan Azhar Bin Wan Ahmad

Ibrahim Bin Hassan

Kuala Lumpur, Malaysia

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

I, Wong Lai Loong, 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 15 to 107 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed Wong Lai Loong
at Kuala Lumpur in the Federal Territory
on 31 May 2019

Wong Lai Loong
(MIA Membership No. (CA 29328))

Before me,

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

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 Compliance Framework of Alliance Islamic Bank Berhad ("the Bank"), Bank Negara Malaysia ("BNM")'s Shariah Governance Framework, 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.

During the period under review we had convened 9 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) 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;

(b) The contracts, transactions and dealings entered into by the Bank during the financial year ended 31 March 2019 that we have reviewed are in compliance with Shariah principles;

(c) The allocation of profit and charging of losses relating to investment accounts conformed to the basis that had been approved by us in accordance with Shariah principles;

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

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

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

SHARIAH COMMITTEE'S REPORT (CONTD.)

(f) During the period under review, only (1) Shariah non-compliance event was confirmed by the Shariah as follows:

(i) Disbursement of Islamic staff renovation financing was made without performing commodity trading.

The Shariah non-compliance event was due to the stakeholders who were unaware of detailed process for staff financings as there was no process flow for staff financings established at that juncture as well as absence of control process at Processing team to check on the execution of Shariah contract done before disbursement. However, there was no purification done since there was no net profit earned by the Bank arising from the event. As a long term measure to prevent the lapse from recurring, the Bank has establised a process flow for Bank's staff financings for reference of relevant stakeholders going forward and enhanced the disbursement checklist of Processing team for the purpose of ensuring that the Shariah contract shall be executed prior to disbursement.

We, the members of the Shariah Committee of the Bank, do hereby confirm to the best of our knowledge that the operations of the Bank based on what have been diclosed to us for the year ended 31 March 2019 have been conducted in conformity with Shariah principles.

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

Tuan Haji Md. Ali Bin Md. Sarif
Shariah Committee

Kuala Lumpur, Malaysia
31 May 2019

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)
(Company No. 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 2019, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 March 2019, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 15 to 107.

Basis for opinion

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

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

Independence and other ethical responsibilities

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

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

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Directors for the financial statements

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

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

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

Auditors’ responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ALLIANCE ISLAMIC BANK BERHAD (CONTD.)
(Incorporated in Malaysia)
(Company No. 776882-V)

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

SOO HOO KHOON YEAN
02682/10/2019 J
Chartered Accountant

Kuala Lumpur
31 May 2019

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019

	Note	2019 RM'000	2018 RM'000
ASSETS			
Cash and short-term funds	3	348,407	1,290,567
Financial investments at fair value through other comprehensive income	4	2,100,887	-
Financial investments available-for-sale	5	-	1,772,502
Financing and advances	6	9,306,879	8,027,331
Other assets	7	2,261	2,064
Statutory deposits with Bank Negara Malaysia	8	335,388	276,888
Tax recoverable		3,912	-
Property, plant and equipment	9	332	331
Deferred tax assets	10	11,156	1,250
Intangible assets	11	897	1,058
TOTAL ASSETS		12,110,119	11,371,991
LIABILITIES AND EQUITY			
Deposits from customers	12	9,932,901	9,439,065
Deposits and placements of banks and other financial institutions	13	243,731	243,848
Recourse obligation on financing sold to Cagamas	14	500,592	500,667
Other liabilities	15	252,529	138,200
Provision for taxation		-	465
Provision for zakat		686	252
Subordinated Sukuk	16	228,855	129,602
TOTAL LIABILITIES		11,159,294	10,452,099
Share capital	17	400,000	400,000
Reserves	18	550,825	519,892
TOTAL EQUITY		950,825	919,892
TOTAL LIABILITIES AND EQUITY		12,110,119	11,371,991
Restricted investment account	37	179,795	-
Total Islamic Banking asset		12,289,914	11,371,991
COMMITMENTS AND CONTINGENCIES	38	2,290,438	2,040,121

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

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF INCOME
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019

	Note	2019 RM'000	2018 RM'000
Income derived from investment of depositors' funds and others	20	584,561	475,543
Income derived from investment of shareholder's funds	21	54,580	48,549
Allowance for expected credit losses/impairment losses on financing, advances and other financial assets	22	(37,009)	(50,496)
Write-back of expected credit losses on financial investments	23	34	-
Total distributable income		602,166	473,596
Wakalah fees income from investment account		205	-
Income attributable to the depositors and financial institutions	24	(332,359)	(258,242)
Total net income		270,012	215,354
Other operating expenses	25	(117,814)	(102,826)
Profit before taxation		152,198	112,528
Taxation	26	(36,329)	(26,924)
Net profit for the financial year		115,869	85,604
Net profit for the financial year attributable to:			
Equity holder of the Bank		115,869	85,604
Earnings per share attributable to Equity holder of the Bank - basic/diluted (sen)	27	33.6	24.8

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

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019

	2019 RM'000	2018 RM'000
Net profit for the financial year	115,869	85,604
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Revaluation reserve on financial investments at fair value through other comprehensive income ("FVOCI")		
- Net gain from change in fair values	25,131	-
- Realised gain transferred to statement of income on disposal and impairment	(724)	-
- Transfer to deferred tax	(5,858)	-
- Changes in expected credit losses	(34)	-
	18,515	-
Revaluation reserve on financial investments available-for-sale		
- Net gain from change in fair values	-	1,412
- Realised gain transferred to statement of income on disposal and impairment	-	(1,287)
- Transfer to deferred tax	-	(30)
	-	95
Other comprehensive income, net of tax	18,515	95
Total comprehensive income for the financial year	134,384	85,699
Total comprehensive income for the financial year attributable to:		
Equity holder of the Bank	134,384	85,699

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

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019

	←	Non-distributable		→	Distributable reserves	
	Ordinary shares RM'000	Regulatory reserves RM'000	FVOCI reserves RM'000	Revaluation reserves RM'000	Retained profits RM'000	Total equity RM'000
At 1 April 2018						
As previously stated	400,000	21,430	-	246	498,216	919,892
Effects of adoption of MFRS 9	-	(21,430)	319	(246)	(25,300)	(46,657)
As restated	400,000	-	319	-	472,916	873,235
Net profit for the financial year	-	-	-	-	115,869	115,869
Other comprehensive income	-	-	18,515	-	-	18,515
Total comprehensive income	-	-	18,515	-	115,869	134,384
Transfer to regulatory reserves	-	9,060	-	-	(9,060)	-
Dividend paid (Note 28)	-	-	-	-	(56,794)	(56,794)
At 31 March 2019	400,000	9,060	18,834	-	522,931	950,825

ALLIANCE ISLAMIC BANK BERHAD

(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019

	←		Non-distributable reserves		→	Distributable reserves	
	Ordinary shares	Share premium	Statutory reserve	Regulatory reserves	Revaluation reserves	Equity contribution from former ultimate holding company	Retained profits	Total equity
At 1 April 2017	345,045	54,955	224,720	9,891	151	192	215,766	850,720
Net profit for the financial year	-	-	-	-	-	-	85,604	85,604
Other comprehensive income	-	-	-	-	95	-	-	95
Total comprehensive income	-	-	-	-	95	-	85,604	85,699
Share-based payment under Employees' Share Scheme ("ESS")	-	-	-	-	-	24	-	24
Payment for ESS recharged from former ultimate holding company	-	-	-	-	-	(181)	-	(181)
Transfer of ESS recharged difference on shares vested	-	-	-	-	-	(35)	35	-
Transition to no par-value regime pursuant to Companies Act, 2016	54,955	(54,955)	-	-	-	-	-	-
Transfer from statutory reserves	-	-	(224,720)	-	-	-	224,720	-
Transfer to regulatory reserves	-	-	-	11,539	-	-	(11,539)	-
Dividend paid (Note 28)	-	-	-	-	-	-	(16,370)	(16,370)
At 31 March 2018	400,000	-	-	21,430	246	-	498,216	919,892

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

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019

	2019 RM'000	2018 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	152,198	112,528
Adjustments for:		
Accretion of discount less amortisation of premium of financial investments	(34,048)	(32,144)
Allowance for expected credit losses/impairment losses on financing and advances	49,971	51,386
Allowance for expected credit losses/impairment losses on other receivables	237	308
Amortisation of computer software	315	261
Depreciation of property, plant and equipment	122	100
Income from financial investments held-to-maturity	-	(650)
Income from financial investments at fair value through other comprehensive income	(78,106)	-
Income from financial investments available-for-sale	-	(62,896)
Intangible assets written-off	81	-
Net loss from sale of financial assets held-for-trading	-	111
Net gain from sale of financial investments at fair value through other comprehensive income	(724)	-
Net gain from sale of financial investments available-for-sale	-	(1,645)
Property, plant and equipment written-off	-	8
Profit expense on obligation financing sold to Cagamas	21,979	12,184
Profit expense on Subordinated Sukuk	7,291	3,648
Share options/grants under ESS	-	24
Unrealised gain arising from financial assets at fair value through profit and loss	(388)	-
Unrealised gain on revaluation of financial assets held-for-trading	-	(535)
Write-back of expected credit losses commitment and contingencies	(12,454)	-
Write-back of expected credit losses on financial investments	(34)	-
Zakat	590	150
Operating profit before working capital changes	107,030	82,838
Changes in working capital:		
Deposits from customers	493,836	752,267
Deposits and placements of banks and other financial institutions	(117)	30,673
Financial asset at fair value through profit and loss	388	-
Financial assets held-for-trading	-	42,143
Financing and advances	(1,374,473)	(850,095)
Statutory deposits with Bank Negara Malaysia	(58,500)	(2,600)
Other assets	(399)	21,223
Other liabilities	110,323	868
Cash (used in)/generated from operating activities	(721,912)	77,317
Taxation paid	(41,748)	(30,776)
Zakat paid	(156)	(104)
Net cash (used in)/generated from operating activities	(763,816)	46,437

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019 (CONTD.)

	2019 RM'000	2018 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Income from financial investments held-to-maturity	-	1,575
Income from financial investments at fair value through other comprehensive income	72,152	-
Income from financial investments available-for-sale	-	59,937
Purchase of property, plant and equipment	(123)	(254)
Purchase of intangible assets	(235)	(405)
Proceeds from redemption/disposal of financial investments at amortised cost (net of purchase)	25,272	-
Proceeds from redemption/disposal of financial investments held-to-maturity (net of purchase)	-	99,654
Proceeds from redemption/disposal financial investments at fair value through other comprehensive income (net of purchase)	(288,524)	-
Proceeds from redemption/disposal of financial investments available-for-sale (net of purchase)	-	315,482
Net cash (used in)/generated from investing activities	(191,458)	475,989
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(56,794)	(16,370)
Payment for ESS recharged from former ultimate holding company	-	(181)
Proceeds from issuance of subordinated sukuk	99,112	129,499
Recourse obligation on financing sold to Cagamas	-	500,000
Profit expense on obligation on financing sold to Cagamas	(22,054)	(11,517)
Profit expense on subordinated sukuk	(7,150)	(3,545)
Net cash generated from financing activities	13,114	597,886
Net change in cash and cash equivalents	(942,160)	1,120,312
Cash and cash equivalents at beginning of financial year	1,290,567	170,255
Cash and cash equivalents at end of financial year	348,407	1,290,567
Cash and cash equivalents comprise the following:		
Cash and short-term funds	348,407	1,290,567

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019 (CONTD.)

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

	Recourse obligations on financing sold to Cagamas RM'000	Subordinated sukuk RM'000
As at 1 April 2017	-	-
Cash flow		
- Issuance	500,000	130,000
- Profit payment	(11,517)	(3,545)
- Transaction costs	-	(501)
Non cash changes		
- Profit accrued	12,184	3,648
As at 31 March 2018/1 April 2018	500,667	129,602
Cash flow		
- Issuance	-	100,000
- Profit payment	(22,054)	(7,150)
- Transaction costs	-	(888)
Non cash changes		
- Profit accrued	21,979	7,291
As at 31 March 2019	500,592	228,855

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

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

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

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

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 31 May 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

Malaysian Financial Reporting Standards ("MFRS") Framework

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

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

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

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

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

The allowance for expected credit losses are recognised using forward-looking information including macroeconomic factors. By using forward-looking information will increase the level of judgement as to how changes in these macroeconomic factors will affect allowance for credit losses. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(a) Basis of Preparation (contd.)

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

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

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

The sensitivity effect on the macroeconomic factor is further disclosed in Note 32.

Standards, amendments to published standards and interpretations that are effective

The new accounting standards, amendments and improvements to published standards and interpretations that are effective for the Bank for the financial year beginning 1 April 2018 are as follows:

- MFRS 9 "Financial Instruments"
- MFRS 15 "Revenue from Contracts with Customers"
- IC Interpretation 22 "Foreign Currency Transactions and Advance Consideration"
- Annual Improvements to MFRSs 2014-2016 Cycles.
  - Amendments to MFRS 1 "First-time Adoption of Malaysian Financial Reporting Standards"
  - Amendments to MFRS 128 "Investments in Associates and Joint Ventures"

The adoption of the above standards amendments to published standards and interpretation to existing standards did not have any significant impact on the financial statements of the Bank other than the adoption of MFRS 9, which resulted in change in accounting policies.

The Bank has applied MFRS 9 retrospectively with the date of initial application of 1 April 2018. In accordance with the transitional provisions provided in MFRS 9, comparative information for 31 March 2018 was not restated and continued to be reported under the previous accounting policies governed under MFRS 139. The cumulative effects of initially applying MFRS 9 were recognised as an adjustment to the opening balance of retained profits as at 1 April 2019.

The detailed impact of change in accounting policies are set out in Note 42.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(a) Basis of Preparation (contd.)

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

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 on/after 1 April 2019

(a) MFRS 16 "Leases" supersedes MFRS 117 ”Leases” and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a “right-of-use” of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 ‘Property, Plant and Equipment’ and the lease liability is accreted over time with profit expense recognised in the income statement.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

The Bank has set up a project team which has reviewed all of the leasing arrangements over the last year in light of the new lease accounting rules in MFRS 16. The standard will affect primarily the accounting for the Bank’s operating leases.

The Bank will apply the standard from its mandatory adoption date of 1 April 2019. The Bank intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured on transition as if the new rules had always been applied.

The Bank is now progressing to finalise the right-of-use assets and the lease liability and will complete this prior to releasing the interim results for the financial period ending 30 June 2019.

(b) Amendments to MFRS 9 "Prepayment features with negative compensation” allow companies to measure some prepayable financial assets with negative compensation at amortised cost. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than the unpaid amounts of principal and profit. To qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract, and the asset must be held within a 'held to collect' business model.

The amendments will 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.)

<u>Financial year beginning on/after 1 April 2019 (contd.)</u>

(c) Annual improvement to MFRS's 2015-2017 Cycle:

- Amendments to MFRS 3 "Business Combinations" clarify that when a party obtains control of a business that is a joint operation, the acquirer should account the transaction as a business combination achieved in stages. Accordingly it should remeasure its previously held interest in the joint operation (rights to the assets and obligations for the liabilities) at fair value on the acquisition date.

- Amendments to MFRS 11 "Joint Arrangements" clarify that when a party obtains joint control of a business that is a joint operation, the party should not remeasure its previously held interest in the joint operation.

- Amendments to MFRS 112 "Income Taxes" clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in profit or loss, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in profit or loss when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.

- Amendments to MFRS 123 "Borrowing Costs" clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

(d) IC Interpretation 23 "Uncertainty over Income Tax Treatments" provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

IC Interpretation 23 will be applied retrospectively.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(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 on/after 1 April 2020

Amendments to MFRS 3 “Definition of a Business”

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

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

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

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

The amendments shall be applied prospectively.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(b) Intangible Assets: Computer Software

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

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

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

(c) Property, Plant and Equipment and Depreciation

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

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

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

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

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

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

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Financial Assets

Accounting policies applicable with effective from 1 April 2018

(i) Classification

With effective from 1 April 2018, the Bank classifies the financial assets in the following measurement categories:

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

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

(i) Financial assets at FVOCI comprise of:

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

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

Debt investments that do not qualify for measurement at either amortised cost or fair value through comprehensive income. There are no financial assets at FVTPL as at 31 March 2019.

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

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

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

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

(ii) Recognition and initial measurment

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Financial Assets (contd.)

<u>Accounting policies applicable with effective from 1 April 2018 (contd.)</u>

(iii) Subsequent measurement

Debt instruments

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

(i) Amortised cost

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

(ii) FVOCI

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

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

(iii) FVTPL

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Financial Assets (contd.)

Accounting policies applicable with effective from 1 April 2018 (contd.)

(iv) De-recognition

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

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

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

Accounting policies applicable prior to 1 April 2018

(v) Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period. The policy of the recognition and measurement of impairment is in accordance with Note 2(g).

Financial assets at fair value through profit or loss

The Bank classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, i.e. are held-for-trading.

Financing and receivables

Financing and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Bank’s financing and receivables comprise cash and short-term funds, deposits and placements with bank and other financial institutions, financing and advances and other assets, in the statement of financial position.

Financial investments available-for-sale

Financial investments available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Financial investments held-to-maturity

Financial investments held-to-maturity are non-derivative quoted financial assets with fixed or determinable payments and fixed maturities that the Bank’s management has the positive intention and ability to hold to maturity. If the Bank was to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as financial investments available for sale.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Financial Assets (contd.)

Accounting policies applicable prior to 1 April 2018 (contd.)

(vi) Reclassification

The Bank may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of financing and receivables out of the held for trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made.

Effective profit rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date.

(vii) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the settlement date.

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset for all financial assets not carried at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in statement of income.

(viii) Subsequent measurement - gains and losses

Financial investments available-for-sale and financial assets at fair value through profit or loss are subsequently carried at fair value. Financing and receivables and financial investments held-to-maturity are subsequently carried at amortised cost using the effective profit method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, profit and dividend income are recognised in profit or loss in the period in which the changes arise.

Changes in the fair value of financial investments available-for-sale are recognised in other comprehensive income, except for impairment losses Note 2(g) and foreign exchange gains and losses Note 2(q).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Financial Assets (contd.)

Accounting policies applicable prior to 1 April 2018 (contd.)

(ix) De-recognition

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

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

When financial investments available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to statement of income.

(e) Offsetting Financial Instruments

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

(f) Other Assets

Other receivables, deposits and balances 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(g) Impairment of Assets

(i) Impairment of financial assets

Accounting policies applicable with effective from 1 April 2018

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

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

(a) General 3-stage approach

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

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

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

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

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

Measurement of ECL is set out in Note 32.

(b) Simplified approach for other receivables

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(g) Impairment of Assets (Contd.)

(i) Impairment of financial assets (contd.)

Accounting policies applicable with effective from 1 April 2018 (contd.)

(c) Write-off

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

Accounting policies applicable prior to 1 April 2018

(d) Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated:

The criteria that the Bank uses to determine that there is objective evidence of an impairment include:

(1) significant financial difficulty of the obligor;

(2) a breach of contract, such as a default or delinquency in profit or principal payments;

(3) it becomes probable that the borrower will enter bankruptcy or winding up petition is served on the borrower, significant shareholder or significant guarantor;

(4) adverse Center Credit Reference Information System ("CCRIS") findings or unfavorable industry developments for that borrower; and

(5) observable data indicating that there is a measurable decrease in the estimated future cash flows including adverse changes in the repayment behavior of the borrower or downgrade of the borrower's credit ratings.

The Bank first assesses individually whether objective evidence of impairment exists for all financial assets deemed to be individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset whether significant or not, the loan is then collectively assessed for impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate. If a financial asset has a variable profit rate, the discount rate for measuring any impairment is the current effective profit rate determined under the contract.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(g) Impairment of Assets (Contd.)

(i) Impairment of financial assets (contd.)

Accounting policies applicable prior to 1 April 2018 (contd.)

(d) Assets carried at amortised cost (contd.)

Financial assets which are not individually assessed, are grouped together for collective impairment assessment. These financial assets are grouped according to their credit risk characteristics for the purposes of calculating an estimated collective loss. These characteristics are relevant to the estimation of future cash flows for groups of such loans by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being assessed. Future cash flows on a group of financial assets that are collectively assessed for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Bank.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

(e) Assets classified as financial investments available-for-sale

The Bank assesses at the end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Bank uses criteria and measurement of impairment loss applicable for 'assets carried at amortised cost' above. If, in a subsequent period, the fair value of a debt instrument classified as financial investments available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

In the case of equity securities classified as financial investments available-for-sale, in addition to the criteria for 'assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indicator that the assets are impaired. If any such evidence exists for financial investments available-for-sale, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss. The amount of cumulative loss reclassified to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as financial investments available-for-sale are not reversed through profit or loss in subsequent periods.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(g) Impairment of Assets (Contd.)

(ii) Impairment of non-financial assets

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

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

(h) Financial Liabilities

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

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

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

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

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

(i) Bills and Acceptances Payable

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

(j) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(k) Provisions

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

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

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

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

(l) Leases

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

(i) Finance Leases

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment. The corresponding liability is included in the statement of financial position as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the profit rate implicit in the lease, when it is practicable to determine; otherwise, the Bank's incremental borrowing rate is used. Any initial direct costs are also added to the carrying amount of such assets.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the statement of comprehensive income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2(c). The policy for the recognition and measurement of impairment is in accordance with Note 2(g)(ii).

(ii) Operating Leases

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(m) Share Capital

(i) Classification

Ordinary shares with discretionary dividends are classified as equity

(ii) Share issue costs

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

(iii) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

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

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.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(o) Recognition of Fees and Other Income

Financing arrangement fees and commissions, management and participation fees are recognised as income when all conditions precedent are fulfilled.

Commitment and guarantee fees which are material are recognised as income based on time apportionment basis.

Dividends are recognised when the right to receive payment is established.

(p) 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.

(q) Foreign Currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as financial investments fair value other comprehensive income (2018: financial investments available for sale), are included in other comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(r) 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.

(s) Foreclosed Properties

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

(t) Cash and Cash Equivalents

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(u) Employee Benefits

(i) Short-term Employee Benefits

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

(ii) Defined Contribution Plans

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

(iii) Equity Compensation Benefits

The former holding company operates a number of equity-settled share-based compensation plan under which the Bank receives services from employees as consideration for equity instruments (options/grants) of the Bank. The award is treated as equity settled in the Bank's financial statements. The fair value of the employee services received in exchange for the grant of the options/grants is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options/grants granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding of shares for a specific period of time).

Non-market vesting conditions and service conditions are included in assumptions about the number of options that are expected to vest.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of the reporting period, the Bank revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to ESS reserves in equity.

In circumstances where employees provide services in advance of the grant date, the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. When options are not exercised and lapsed, the ESS reserves is transferred to retained profits.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(v) 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.

(w) 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.

Prior to 1 April 2018, the liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with MFRS 137 “Provisions, Contingent Liabilities and Contingent Assets” and the amount initially recognised less cumulative amortisation, where appropriate.

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

3. CASH AND SHORT-TERM FUNDS

	2019 RM'000	2018 RM'000
Cash and balances with banks and other financial institutions	28,321	71,963
Money at call and deposit placements maturing within one month	320,086	1,218,604
	348,407	1,290,567

The balance is within Stage 1 allocation (12 months ECL) with nil impairment allowance as at 31 March 2019.

4. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RM'000	2018 RM'000
At fair value		
Money market instruments:		
Malaysian Government investment certificates	1,064,786	-
	1,064,786	-
Unquoted securities:		
Sukuk	1,036,101	-
	1,036,101	-
	2,100,887	-

Movements in allowance for expected credit losses are as follows:

	12-Month ECL (Stage 1) RM'000
At 1 April 2018	
As previously stated	-
Effects of adoption of MFRS 9	73
As restated	73
New financial assets originated or purchased	7
Financial assets derecognised other than write-off	(15)
Changes due to change in credit risk	(26)
Total write-back from income statement	(34)
At 31 March 2019	39

5. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	2019 RM'000	2018 RM'000
At fair value		
Money market instruments:		
Malaysian Government investment issues	-	633,122
Negotiable instruments of deposits	-	98,526
	-	731,648
Unquoted securities:		
Sukuk	-	1,040,854
	-	1,040,854
	-	1,772,502

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

6. FINANCING AND ADVANCES

By types and Shariah concepts:

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

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

6. FINANCING AND ADVANCES (CONTD.)

By types and Shariah concepts (contd.):

	Bai` Bithaman Ajil RM'000	Tawarruq RM'000	Al-Ijarah Thumma Al-Bai`/ AITAB RM'000	Murabahah RM'000	Qard RM'000	Bai` Al-Dayn RM'000	Bai` `Inah RM'000	Total Financing and Advances RM'000
31 March 2018								
At amortised cost								
Cash line financing	169,599	695,001	-	-	982	-	-	865,582
Term financing								
- Housing financing	2,445,368	-	-	-	-	-	-	2,445,368
- Hire purchase receivables[1]	-	-	431,393	-	-	-	-	431,393
- Other term financing	1,972,775	743,504	-	-	-	-	279,673	2,995,952
Bills receivables	-	-	-	5,247	-	-	-	5,247
Trust receipts	-	-	-	28,624	-	-	-	28,624
Claims on customers under acceptance credits	-	-	-	690,347	-	67,935	-	758,282
Staff financing (including financing to Directors of RM Nil)	18,101	-	-	-	-	-	-	18,101
Revolving credits[2]	319,580	215,172	-	-	-	-	-	534,752
Gross financing and advances	4,925,423	1,653,677	431,393	724,218	982	67,935	279,673	8,083,301
Add : Sales commission and handling fees								30,236
Less: Allowances for impairment on financing and advances								
- Individual assessment allowance								(10,766)
- Collective assessment allowance								(75,440)
Total net financing and advances								8,027,331

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

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

6. FINANCING AND ADVANCES (CONTD.)

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

	2019 RM'000	2018 RM'000
At beginning of financial year	982	635
Sources of Qard fund:		
- Shareholders' fund	14,454	5,763
Uses of Qard fund:		
- Purchase of non-residential landed property	(192)	-
- Personal use	(3,017)	(818)
- Working capital	(7,103)	(3,990)
- Others	-	(608)
At end of financial year	5,124	982

(ii) By maturity structure:

	2019 RM'000	2018 RM'000
Within one year	2,806,896	2,263,688
One year to three years	432,115	361,410
Three years to five years	682,581	582,290
Over five years	5,475,220	4,875,913
Gross financing and advances	9,396,812	8,083,301

(iii) By type of customers:

	2019 RM'000	2018 RM'000
Domestic non-bank financial institutions	57,081	77,311
Domestic business enterprises		
- Small and medium enterprises	2,358,476	2,124,722
- Others	1,728,815	1,748,075
Individuals	5,154,376	4,043,303
Other domestic entities	13,330	-
Foreign entities	84,734	89,890
Gross financing and advances	9,396,812	8,083,301

(iv) By profit rate sensitivity:

	2019 RM'000	2018 RM'000
Fixed rate		
- House financing	27,105	31,180
- Hire purchase receivables	296,447	431,393
- Other fixed rate financing	2,044,961	1,924,291
Variable rate		
- House financing	2,931,296	2,425,210
- Other variable rate financing	4,097,003	3,271,227
Gross financing and advances	9,396,812	8,083,301

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

6. FINANCING AND ADVANCES (CONTD.)

(v) By economic purposes:

	2019 RM'000	2018 RM'000
Purchase of transport vehicles	281,168	408,379
Purchase of landed property	4,271,410	3,695,825
of which: - Residential	*3,010,880*	*2,482,261*
- Non-residential	*1,260,530*	*1,213,564*
Purchase of fixed assets excluding land and buildings	38,956	45,809
Personal use	2,048,622	1,371,027
Construction	56,228	17,904
Working capital	2,171,438	1,965,671
Others	528,990	578,686
Gross financing and advances	9,396,812	8,083,301

(vi) By geographical distribution:

	2019 RM'000	2018 RM'000
Northern region	821,198	654,619
Central region	6,386,035	5,403,930
Southern region	1,253,223	1,102,633
Sabah region	693,573	613,694
Sarawak region	242,783	308,425
Gross financing and advances	9,396,812	8,083,301

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

	2019 RM'000
At 1 April 2018	
As previously stated under MFRS 139	104,232
Effects of adoption of MFRS 9	178
As restated	104,410
Impaired during the financial year	189,668
Reclassified as unimpaired during the financial year	(104,932)
Recovered during the financial year	(24,828)
Financial assets derecognised during the financial year other than write-off	(10,151)
Amount written-off	(47,242)
At 31 March 2019	106,925
Gross impaired financing as a % of gross financing and advances	1.1%

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

6. FINANCING AND ADVANCES (CONTD.)

(vii) Movements in impaired financing under MFRS 139

	2018 RM'000
At 1 April 2017	51,389
Impaired during the financial year	212,371
Reclassified as unimpaired during the financial year	(81,010)
Recovered during the financial year	(33,522)
Amount written-off	(44,996)
At 31 March 2018	104,232
Gross impaired financing as a % of gross financing and advances	1.3%

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

6. FINANCING AND ADVANCES (CONTD.)

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

2019	12 months ECL (Stage 1)	Lifetime ECL Not-credit impaired (Stage 2)	Lifetime ECL Credit Impaired (Stage 3)	Total
	RM'000	RM'000	RM'000	RM'000
At 1 April 2018				
As previously stated under MFRS 139				86,206
Effects of adoption of MFRS 9				37,209
As restated	22,429	66,027	34,959	123,415
Transfer to Stage 1	9,004	(41,354)	(1,341)	(33,691)
Transfer to Stage 2	(15,260)	78,803	(31,276)	32,267
Transfer to Stage 3	(33)	(48,822)	75,489	26,634
New financial assets originated or purchased	23,766	33,937	8,018	65,721
Financial assets derecognised other than write-off	(12,600)	(33,939)	(2,918)	(49,457)
Changes due to change in credit risk	(4,274)	15,369	(2,598)	8,497
Total charged to income statement on allowance	603	3,994	45,374	49,971
Unwinding of discount	-	-	(1,533)	(1,533)
Total charged to income statement	603	3,994	43,841	48,438
Write-off	-	(126)	(33,217)	(33,343)
At 31 March 2019	23,032	69,895	45,583	138,510

Stage 1 expected credit losses ("ECL") increased by RM0.6 million during the financial year mainly due to higher ECL for newly originated financing and advances with gross carrying amounts ("GCA") of RM7.8 billion and write back of ECL for GCA of RM0.9 billion transferred from stage 2 and 3 to stage 1, offset by write back of ECL for GCA of RM1.2 billion transferred from stage 1 to stage 2, ECL for de-recognition of GCA of RM5.6 billion for financing and advances from full settlement and write back of ECL for GCA of RM0.9 billion within stage 1.

Stage 2 ECL increased by RM4.0 million mainly due to higher ECL for GCA of RM1.3 billion transferred from stage 1 and 3 to stage 2 and ECL for newly originated financing and advances with GCA of RM1.6 billion, offset by write back of ECL for GCA of RM0.2 billion transferred from stage 2 to stage 3, write back of ECL for GCA of RM0.9 billion transferred from stage 2 to stage 1 and ECL for de-recognition of GCA of RM1.3 billion for financing and advances from full settlement.

Stage 3 ECL increased by RM45.4 million mainly due to higher ECL for GCA of RM0.2 billion transferred from stage 1 and stage 2 to stage 3, offset by write back of ECL for GCA of RM0.1 billion transferred from stage 3 to stage 2.

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

6. FINANCING AND ADVANCES (CONTD.)

(viii) Movements in the allowance for impairment losses on financing and advances are as follows:

	2018 RM'000
Individual assessment allowance	
At 1 April 2017	2,480
Net allowance made during the financial year	7,790
Amount written off	(612)
Transfer from collective assessment allowance (net)	1,108
At 31 March 2018	10,766
Collective assessment allowance	
At 1 April 2017	77,336
Net allowance made during the financial year (net)	43,596
Amount written-off	(44,384)
Transfers to individual assessment allowance	(1,108)
At 31 March 2018	75,440

(ix) Impaired financing and advances by economic purposes:

	2019 RM'000	2018 RM'000
Purchase of transport vehicles	2,309	3,511
Purchase of landed property	49,337	63,478
of which: - Residential	*23,445*	*31,449*
- Non-residential	*25,892*	*32,029*
Purchase of fixed assets excluding land & buildings	641	881
Personal use	33,299	21,177
Working capital	18,697	8,569
Others	2,642	6,616
Gross impaired financing and advances	106,925	104,232

(x) Impaired financing and advances by geographical distribution:

	2019 RM'000	2018 RM'000
Northern region	9,793	7,882
Central region	79,488	78,565
Southern region	14,188	12,857
Sabah region	2,762	3,882
Sarawak region	694	1,046
Gross impaired financing and advances	106,925	104,232

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

7. OTHER ASSETS

	2019 RM'000	2018 RM'000
Other receivables	3,508	2,937
Deposits	89	76
Prepayment	305	455
	3,902	3,468
Less:		
Allowance for credit losses/impairment losses on other receivables [Note (a)]	(1,641)	(1,404)
	2,261	2,064

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

	2019 Lifetime ECL Credit Impaired (Stage 3) RM'000
At 1 April 2018	
As previously stated	1,404
Effects of adoption of MFRS 9	-
As restated	1,404
Changes due to change in credit risk	237
At 31 March 2019	1,641

	2018 RM'000
At 1 April 2017	1,096
Allowance made during the financial year net of write-back	308
At 31 March 2018	1,404

8. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

Non-profit bearing statutory deposits for the Bank of RM335,388,000 (2018: RM276,888,000) 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.

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

9. PROPERTY, PLANT AND EQUIPMENT

	Renovations	Office equipment and furniture	Computer equipment	Total
	RM'000	RM'000	RM'000	RM'000
2019				
COST				
At 1 April 2018	1,177	74	141	1,392
Additions	83	22	18	123
At 31 March 2019	1,260	96	159	1,515
ACCUMULATED DEPRECIATION				
At 1 April 2018	889	60	112	1,061
Charge for the financial year	98	5	19	122
At 31 March 2019	987	65	131	1,183
NET CARRYING AMOUNT	273	31	28	332
2018				
COST				
At 1 April 2017	949	82	132	1,163
Additions	236	-	18	254
Written-off	(8)	(8)	(9)	(25)
At 31 March 2018	1,177	74	141	1,392
ACCUMULATED DEPRECIATION				
At 1 April 2017	826	61	91	978
Charge for the financial year	66	6	28	100
Written-off	(3)	(7)	(7)	(17)
At 31 March 2018	889	60	112	1,061
NET CARRYING AMOUNT	288	14	29	331

10. 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:

	2019	2018
	RM'000	RM'000
Deferred tax assets	11,156	1,250
Deferred tax liabilities	-	-
	11,156	1,250

10. DEFERRED TAX (CONTD.)

	2019 RM'000	2018 RM'000
At beginning of financial year	1,250	2,083
Recognised in statement of income (Note 26)	15,764	(803)
Recognised in equity	(5,858)	(30)
At end of financial year	11,156	1,250

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

Deferred tax assets/liabilities	Allowance for expected credit losses RM'000	Other liabilities RM'000	Financial investments available-for-sale RM'000	Financial investments at fair value through other comprehensive income RM'000	Property, plant and equipment RM'000	Total RM'000
At 1 April 2017	-	2,157	(47)	-	(27)	2,083
Recognised in statement of income	-	(813)	-	-	10	(803)
Recognised in equity	-	-	(30)	-	-	(30)
At 31 March 2018/ At 1 April 2018	-	1,344	(77)	-	(17)	1,250
Effects of adoption of MFRS 9	-	-	77	(77)	-	-
As restated	-	1,344	-	(77)	(17)	1,250
Recognised in statement of income	14,492	1,255	-	-	17	15,764
Recognised in equity	-	-	-	(5,858)	-	(5,858)
At 31 March 2019	14,492	2,599	-	(5,935)	-	11,156

11. INTANGIBLE ASSETS

	2019 RM'000	2018 RM'000
Computer software		
At cost:		
At beginning of financial year	2,018	1,613
Additions	235	405
Written-off	(81)	-
At end of financial year	2,172	2,018
Accumulated amortisation:		
At beginning of financial year	960	699
Charge for the financial year	315	261
At end of financial year	1,275	960
Net carrying amount	897	1,058

Note:
Computer software includes work in progress of RM224,655 (2018: RM259,590) which is not amortised until ready for use.

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

12. DEPOSITS FROM CUSTOMERS

	2019 RM'000	2018 RM'000
Demand deposits		
- Qard	2,724,725	-
- Wadiah	-	2,426,503
Savings deposits		
- Qard	320,557	-
- Wadiah	-	323,936
Term deposits		
- Commodity Murabahah	5,452,519	5,251,685
- Negotiable Islamic Debt Certificate		
- Bai' Inah	805,845	934,367
- Money market deposits		
- Commodity Murabahah	261,717	263,862
- Other deposits		
- Mudharabah	95,537	106,666
- Wakalah	39,744	48,174
- Qard	232,257	83,872
	9,932,901	9,439,065

(i) The maturity structure of term deposits are as follows:

	2019 RM'000	2018 RM'000
Due within six months	4,020,974	3,088,958
Six months to one year	1,838,605	2,762,923
One year to three years	672,770	585,824
Three years to five years	355,270	250,921
	6,887,619	6,688,626

(ii) By type of customers:

	2019 RM'000	2018 RM'000
Domestic financial institutions	795,162	934,367
Government and statutory bodies	2,475,387	2,206,190
Business enterprises	3,646,508	3,043,789
Individuals	2,720,243	2,509,132
Domestic non-bank financial institutions	134,874	627,002
Foreign entities	70,963	61,394
Others	89,764	57,191
	9,932,901	9,439,065

13. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019 RM'000	2018 RM'000
Non-Mudharabah Fund		
Bank Negara Malaysia	243,731	243,848

14. 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.

15. OTHER LIABILITIES

	2019 RM'000	2018 RM'000
Other payables	42,613	25,818
Bills payable	8,474	14,209
Clearing account	50,063	39,344
Sundry deposits	5,257	7,617
Provision and accruals	8,609	6,504
Amount due to holding company	132,364	44,004
Amount due to related company	1,150	704
Allowance for credit losses on commitments and contingencies [Note (a)]	3,999	-
	252,529	138,200

15. OTHER LIABILITIES (CONTD.)

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

2019	12 months ECL (Stage 1) RM'000	Lifetime ECL Not-credit impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	Total RM'000
At 1 April 2018				
As previously stated under MFRS 139	-	-	-	-
Effects of adoption of MFRS 9	793	5,707	9,960	16,460
As restated	793	5,707	9,960	16,460
Transfer to Stage 1	156	(1,806)	-	(1,650)
Transfer to Stage 2	(139)	1,306	(6)	1,161
Transfer to Stage 3	-	(12)	229	217
New financial assets originated or purchased	560	1,549	-	2,109
Financial assets derecognised other than write-off	(360)	(1,771)	(9,693)	(11,824)
Changes due to change in credit risk	(299)	(1,798)	(378)	(2,475)
Other adjustments	1	7	-	8
Total write-back from income statement on allowance	(81)	(2,525)	(9,848)	(12,454)
Unwinding of discount	-	-	(7)	(7)
Total write-back from income statement	(81)	(2,525)	(9,855)	(12,461)
At 31 March 2019	712	3,182	105	3,999

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

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

16. SUBORDINATED SUKUK

	Note	2019 RM'000	2018 RM'000
Subordinated Sukuk			
RM130 million Subordinated Sukuk Murabahah	(a)	129,693	129,602
RM100 million Additional Tier I Sukuk Wakalah	(b)	99,162	-
		228,855	129,602

(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.

	2019 RM'000	2018 RM'000
At cost	130,000	130,000
Accumulated unamortised discount	(366)	(457)
Profit accrued	59	59
	129,693	129,602

The main features of the Subordinated Sukuk are as follows:

(i) Issue date: 29 September 2017

(ii) Tenor 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.

(b) RM100 million Additional Tier 1 Sukuk Wakalah

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

	2019 RM'000	2018 RM'000
At cost	100,000	-
Accumulated unamortised discount	(888)	-
Profit accrued	50	-
	99,162	-

16. SUBORDINATED SUKUK (CONTD.)

(b) RM100 million Additional Tier 1 Sukuk Wakalah (contd.)

The main features of the AT1 Sukuk are as follows:

(i)	Issue date:	29 March 2019
(ii)	Tenor of the facility/issue:	Perpertual Non-callable five (5) years
(iii)	Maturity date:	29 March 2024
(iv)	Coupon rate:	5.95% per annum, payable semi-annually
(v)	Call date:	29 March 2024 and thereafter on every distribution payment date

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

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

17. SHARE CAPITAL

	2019		2018	
	Number of ordinary shares '000	RM'000	Number of ordinary shares '000	RM'000
Ordinary shares issued and fully paid:				
At beginning of financial year	345,045	400,000	345,045	345,045
Transition to no-par value regime pursuant to Companies Act, 2016 [Note 18(e)]	-	-	-	54,955
At end of financial year ordinary shares with no-par value	345,045	400,000	345,045	400,000

18. RESERVES

	Note	2019 RM'000	2018 RM'000
Non-distributable:			
Statutory reserve	(a)	-	-
Regulatory reserves	(b)	9,060	21,430
Revaluation reserves	(c)	-	246
FVOCI reserves	(d)	18,834	-
Share premium	(e)	-	-
Equity contribution from former ultimate holding company	(f)	-	-
		27,894	21,676
Distributable:			
Retained profits		522,931	498,216
		550,825	519,892

18. RESERVES (CONTD.)

(a) The requirement to maintain a statutory reserve fund is no longer required pursuant to BNM's Capital Fund Policy with effect from 3 May 2017.

(b) 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.

Prior to 1 April 2018, the Bank is required to maintain in aggregate collective impairment allowances of no less than 1.2% of the total outstanding loans, advances and financing, net of individual impairment allowances, in accordance with the BNM guideline dated 6 April 2015 on "Classification and Impairment Provisions for Loans/Financing".

(c) The revaluation reserves are in respect of unrealised fair value gains and losses on financial investments available-for-sale, net off accumulative gains and losses transferred to statement of income upon disposal.

(d) 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.

(e) Share premium is used to record premium arising from new shares issued by the Bank. Prior to 31 January 2017, the application of the share premium account was governed by Section 60 and 61 of the Companies Act, 1965. In accordance with the transitional provisions set out in Section 618 (2) of the Companies Act, 2016 on 31 January 2017 any amount standing to the credit of the Bank's share premium account has been aggregated as part of the Bank's share capital (refer to Note 18). Notwithstanding this provision, the Bank may within 24 months from the commencement of the Companies Act, 2016 use the amount standing to the credit of its share premium account for purposes as set out in Section 618 (3) of the Companies Act, 2016.

(f) The equity contribution relates to the equity-settled share options/grants to former Executive Directors and employees. This reserve is made up of the estimated fair value of the share options/grants based on the cumulative services received from former Executive Directors and employees over the vesting period. The scheme ended on 2 December 2017.

19. ALLIANCE FINANCIAL GROUP BERHAD EMPLOYEES' SHARE SCHEME

The Alliance Financial Group Berhad Employees' Share Scheme ("AFG Bhd ESS") is governed by the By-Laws approved by the shareholders at an Extraordinary General Meeting held on 28 August 2007. The AFG Bhd ESS which comprises the Share Option Plan, the Share Grant Plan and the Share Save Plan took effect on 3 December 2007 and is in force for a period of 10 years. The scheme ended on 2 December 2017.

19. ALLIANCE FINANCIAL GROUP BERHAD EMPLOYEES' SHARE SCHEME (CONTD.)

The salient features of the AFG Bhd ESS are as follows:

(i) The AFG Bhd ESS is implemented and administered by the Employees' Share Participating Scheme Committee ("ESPS Committee") in accordance with the By-Laws.

(ii) The total number of shares which may be available under the AFG Bhd ESS shall not exceed in aggregate 10% of the total issued and paid-up share capital of AFG Bhd at any one time during the existence of the AFG Bhd ESS and out of which not more than 50% of the shares available under the AFG Bhd ESS shall be allocated, in aggregate, to Directors and senior management. In addition, not more than 10% of the shares available under the AFG Bhd ESS shall be allocated to any individual Director or employee who, either singly or collectively through his/her associates, holds 20% or more in the issued and paid-up capital of AFG Bhd.

(iii) The subscription price for each share under the Share Option Plan, Share Grant Plan and Share Save Plan may be at a discount (as determined by the ESPS Committee or such other pricing mechanism as may from time to time be permitted by Bursa Malaysia Securities Berhad or such other relevant regulatory authorities), provided that the discount shall not be more than 10% from the 5-day weighted average market price of AFG Bhd's shares transacted on Bursa Malaysia Securities Berhad immediately preceding the date on which an offer is made or at par value of the shares, whichever is higher.

(iv) The ESPS Committee may at its discretion offer to any Director or employee of a corporation in the Group to participate in the AFG Bhd ESS if the Director or employee:

(a) has attained the age of 18 years;

(b) in the case of a Director, is on the board of directors of a corporation in the Group;

(c) in the case of an employee, is employed by a corporation in the Group; and

(d) is not a participant of any other employee share option scheme implemented by any other corporation within the Group which is in force for the time being.

provided that the non-executive directors of the Group who are not employed by a corporation in the Group shall not be eligible to participate in the Share Save Plan.

(v) Under the Share Option Plan and Share Grant Plan, the ESPS Committee may stipulate the performance targets, performance period, value and/or other conditions deemed appropriate.

(vi) Under the Share Save Plan, the ESPS Committee may at its discretion offer Share Save Option(s) to any employees of the Group to subscribe for AFG Bhd's shares and the employee shall authorise deductions to be made from his/her salary.

(vii) AFG Bhd may decide to satisfy the exercise of options / awards of shares under the AFG Bhd ESS through the issue of new shares, transfer of existing shares or a combination of both new and existing shares.

(viii) AFG Bhd may appoint or authorise the trustee of the AFG Bhd ESS to acquire its shares from the open market to give effect to the AFG Bhd ESS.

19. ALLIANCE FINANCIAL GROUP BERHAD EMPLOYEES' SHARE SCHEME (CONTD.)

The following table illustrates the number and weighted average exercise prices ("WAEP") of, movements in, share grants:

	2019 Number of Share Grants					2018 Number of Share Grants				
	At beginning of financial year '000	Offered/ awarded '000	Vested/ exercised '000	Lapsed/ forfeited '000	At end of financial year '000	At beginning of financial year '000	Offered/ awarded '000	Vested/ exercised '000	Lapsed/ forfeited '000	At end of financial year '000
2015 Share Scheme (1st grant)	-	-	-	-	-	18	-	(18)	-	-
2016 Share Scheme	-	-	-	-	-	34	-	(34)	-	-
	-	-	-	-	-	52	-	(52)	-	-

(a) Details of share grants:

	Vesting Schedule	Vesting Dates
2015 Share Grants (1st grant)	- First 33.3% of the share grants	23.06.2015
	- Second 33.3% of the share grants	23.06.2016
	- Third 33.4% of the share grants	23.06.2017
2016 Share Grants	- First 33.0% of the share grants	22.06.2016
	- Second 67.0% of the share grants	22.06.2017

(b) Fair value of share grants awarded:

The fair value of share grants under the Share Grant Plan during the financial year was estimated by an external valuer using a binomial model, taking into account the terms and conditions upon which the share grants was awarded. The rates are based on observable prices. The fair value of share grants measured at award date and the assumptions are as follows:

	Share Grants 2015 (1st grant)	2016
Fair value of the shares as at grant date,		
- 23 June 2014 (RM)	4.3400	-
- 22 June 2015 (RM)	-	4.0600
Weighted average share price (RM)	4.7400	4.3700
Expected volatility (%)	0.2418	0.1736
Risk free rate (%)	3.17 to 4.43	2.99 to 4.29
Expected dividend yield (%)	4.36	4.31

The expected life of the share options is based on the exercisable period of the option and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of the share option/share grant were incorporated into the measurement of fair value.

The risk-free rate is employed using a range of risk-free rates for Malaysian Government Securities ("MGS") tenure from 1-year to 20-year MGS.

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

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

	2019 RM'000	2018 RM'000
Income derived from investment of :		
(i) Term deposits	389,831	308,008
(ii) Other deposits	194,730	167,535
	584,561	475,543

(i) Income derived from investment of term deposits:

	2019 RM'000	2018 RM'000
Finance income and hibah		
Financing and advances	292,283	231,597
Financial investments at FVOCI	47,639	-
Financial investments available-for-sale	-	36,964
Financial investments held-to-maturity	-	382
Money at call and deposit placements with financial institutions	13,036	7,892
	352,958	276,835
Accretion of discount less amortisation of premium	20,767	18,289
Total finance income and hibah	373,725	295,124
Other operating income		
- Fee income	14,939	10,447
- Investment income	570	1,819
- Other income	597	618
	389,831	308,008

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 RM939,000 (2018: RM233,000).

(ii) Income derived from investment of other deposits:

	2019 RM'000	2018 RM'000
Finance income and hibah		
Financing and advances	146,002	125,973
Financial investments at FVOCI	23,797	-
Financial investments available-for-sale	-	20,106
Financial investments held-to-maturity	-	208
Money at call and deposit placements with financial institutions	6,512	4,293
	176,311	150,580
Accretion of discount less amortisation of premium	10,374	9,948
Total finance income and hibah	186,685	160,528
Other operating income		
- Fee income	7,462	5,682
- Investment income	285	988
- Other income	298	337
	194,730	167,535

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 RM469,000 (2018: RM127,000).

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

21. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	2019 RM'000	2018 RM'000
Finance income and hibah		
Financing and advances	40,922	36,505
Financial investments at FVOCI	6,670	-
Financial investments available-for-sale	-	5,826
Financial investments held-to-maturity	-	60
Money at call and deposit placements with financial institutions	1,825	1,244
	49,417	43,635
Accretion of discount less amortisation of premium	2,907	2,883
Total finance income and hibah	52,324	46,518
Other operating income		
- Fee income	2,092	1,647
- Investment income	80	286
- Other income	84	98
	54,580	48,549

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 RM131,000 (2018: RM37,000).

22. ALLOWANCE FOR EXPECTED CREDIT LOSSES/IMPAIRMENT LOSSES ON FINANCING, ADVANCES AND OTHER FINANCIAL ASSETS

	2019 RM'000	2018 RM'000
Allowance for expected credit losses/impairment losses on financing and advances:		
(a) Expected credit losses		
- Made during the financial year (net)	49,971	-
(b) Individual assessment allowance		
- Made during the financial year (net)	-	7,790
(c) Collective assessment allowance		
- Made during the financial year (net)	-	43,596
(d) Bad debts on financing		
- Recovered	(15,060)	(11,123)
- Written-off	14,315	9,925
(e) Commitments and contingencies	(12,454)	-
	36,772	50,188
Allowance for expected credit losses/impairment losses on other receivables	237	308
	37,009	50,496

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

	2019 RM'000	2018 RM'000
Financial investments at FVOCI	(34)	-
	(34)	-

24. INCOME ATTRIBUTABLE TO THE DEPOSITORS AND FINANCIAL INSTITUTIONS

	2019 RM'000	2018 RM'000
Deposits from customers:		
- Mudharabah fund	2,988	3,317
- Non-Mudharabah fund	296,315	234,747
Deposits and placements of banks and other financial institutions:		
- Non-Mudharabah fund	3,786	4,346
Financing sold to Cagamas	21,979	12,184
Subordinated Sukuk Murabahah	7,291	3,648
	332,359	258,242

25. OTHER OPERATING EXPENSES

	2019 RM'000	2018 RM'000
Personnel costs		
- Salaries, allowances and bonuses	59,158	51,290
- Contribution to EPF	9,434	8,096
- Share options/grants under ESS	-	24
- Others	7,228	7,161
	75,820	66,571
Establishment costs		
- Depreciation on property, plant and equipment	122	100
- Amortisation of computer software	315	261
- Rental	5,069	5,079
- Repairs and maintenance	1,606	1,280
- Water and electricity	1,227	1,392
- Information technology expenses	6,890	6,292
- Others [Note (a)]	8,114	6,960
	23,343	21,364
Marketing expenses		
- Promotion and advertisement	1,716	550
- Branding and publicity	3,415	1,077
- Others	886	522
	6,017	2,149
Administration and general expenses		
- Communication expenses	2,099	1,530
- Printing and stationeries	413	394
- Insurance	1,149	962
- Professional fees	3,686	4,243
- Others	5,287	5,613
	12,634	12,742
Total other operating expenses	117,814	102,826

Included in the other operating expenses are the Shariah Committee members' remuneration of RM306,000 (2018: RM317,250).

25. 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:

	2019 RM'000	2018 RM'000
Sharing of Other Operating Expenses		
Personnel costs		
- Salaries, allowances and bonuses	53,893	45,446
- Contribution to EPF	8,611	7,200
- Others	6,450	5,914
	68,954	58,560
Establishment costs		
- Rental	4,761	4,688
- Repairs and maintenance	1,564	1,236
- Water and electricity	1,192	1,348
- Information technology expenses	6,758	6,039
- Others [Note (a)]	8,020	6,824
	22,295	20,135
Marketing expenses		
- Promotion and advertisement	1,186	373
- Branding and publicity	2,934	927
- Others	870	504
	4,990	1,804
Administration and general		
- Communication expenses	1,288	827
- Printing and stationeries	314	272
- Professional fees	2,195	2,140
- Others	2,105	1,372
	5,902	4,611
Total sharing of other operating expenses	102,141	85,110

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:

	2019 RM'000	2018 RM'000
Auditors' remuneration		
- statutory audit fees	130	120
- audit related services	166	194
- non-audit related services	60	35
- tax compliance works	13	13
- tax related services	8	-
Property, plant and equipment written-off	-	8
Computer software written-off	81	-

26. TAXATION

	2019 RM'000	2018 RM'000
Income tax:		
Current year	52,084	27,668
Over provision in prior years	9	(1,547)
	52,093	26,121
Deferred tax (Note 10)	(15,764)	803
	36,329	26,924

Income tax is calculated at the Malaysian statutory tax rate of 24% (2018: 24%) of the estimated assessable profit for the financial year.

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

	2019 RM'000	2018 RM'000
Profit before taxation	152,198	112,528
Taxation at Malaysian statutory tax rate of 24% (2018: 24%)	36,527	27,006
Expenses not deductible for tax purposes	459	755
Over provision of tax expense in prior years	(657)	(837)
Tax expense for the financial year	36,329	26,924

27. 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.

	2019	2018
Net profit for the financial year attributable to Equity holder of the Bank (RM'000)	115,869	85,604
Weighted average numbers of ordinary shares in issue ('000)	345,045	345,045
Basic/diluted earnings per share (sen)	33.6	24.8

28. DIVIDENDS

	Dividend in respect of financial year 2019 RM'000	2018 RM'000
Recognised during the financial year:		
First interim dividend		
4.75 sen per share on 345,045,045 ordinary shares, declared in financial year ended 31 March 2018, was paid on 22 December 2017.	-	16,370
8.80 sen per share on 345,045,045 ordinary shares, declared in financial year ending 31 March 2019, was paid on 18 December 2018.	30,364	-
Second interim dividend		
7.66 sen per share on 345,045,045 ordinary shares, declared in financial year ended 31 March 2018, was paid on 21 June 2018.	26,430	-
	56,794	16,370

Subsequent to the financial year end, on 29 May 2019, the Directors declared a single tier second interim dividend of 8.00 sen per share, on 345,045,045 ordinary shares amounting to approximately RM27,604,000 in respect of current financial year. The accompanying financial statements do not reflect these dividend. The dividend will be accounted for in shareholder's equity as an appropriation of retained profits in the financial year ending 31 March 2020.

The Directors do not propose any final dividend in respect of the financial year ended 31 March 2019.

29. 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 Aliance Bank Malaysia Berhad.

	2019 RM'000	2018 RM'000
(a) Transactions		
Profit income		
- key management personnel	17	-
Commission paid		
- related companies	9,826	14,511
Finance expenses		
- holding company	29,893	33,457
- key management personnel	48	9
Rental expense	1	1
Other operating income		
- holding company	205	-
Other operating expenses		
- holding company (sharing of expenses)	102,142	88,301
- related companies	400	337
Dividend paid		
- holding company	56,794	16,370
(b) Balances		
Deposits from customers		
- holding company	734,343	739,747
- related companies	11,089	4,959
- key management personnel	1,263	327
Subordinated Sukuk		
- holding company	130,666	130,059
- related companies	100,049	-
Financing and advances		
- key management personnel	2,068	1,665
Other liabilities		
- holding company	132,364	44,004
- related companies	1,150	704

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

(c) Compensation of key management personnel

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

	2019 RM'000	2018 RM'000
CEO and other key management:		
- Salary and other remuneration	2,418	1,393
- Contribution to EPF	355	183
	2,773	1,576
Non-executive Directors:		
- Fees Payable	406	405
- Allowances	115	91
	521	496
Included in the total key management personnel are:		
CEO and Directors' remuneration, excluding past CEO and Directors (Note 31)	1,635	1,167

Key management of the Bank have been awarded the following number of share grants under the AFG Bhd ESS:

	Share Grants 2019 '000	2018 '000
At beginning of financial year	-	35
Vested	-	(35)
At end of financial year	-	-

The above share grants were awarded on the same terms and conditions as those offered to other employees of ABMB Group (Note 19).

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

	2019 Number	2019 Unrestricted RM'000	2019 Number	2019 Deferred RM'000	2018 Number	2018 Unrestricted RM'000	2018 Number	2018 Deferred RM'000
Fixed remuneration								
Cash		2,635		-		1,658		-
Variable remuneration								
Cash	4	574	1	85	4	378	1	36
		3,209		85		2,036		36

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

30. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	2019 RM'000	2018 RM'000
Outstanding credit exposures with connected parties	2,101	1,180
of which:		
Total credit exposure which is impaired or in default	-	-
Total credit exposures	12,894,377	12,040,877
Percentage of outstanding credit exposures to connected parties:		
- as a proportion of total credit exposures	0.02%	0.01%
- which is impaired or in default	0.00%	0.00%

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

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

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

(ii) Controlling shareholder and his close relatives;

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

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

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

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

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

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

31. 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:

	2019 RM'000	2018 RM'000
Chief Executive Officer:		
- Salary and other remuneration	644	384
- Bonuses	335	224
- Contribution to EPF	135	63
	1,114	671
Non-executive Directors:		
- Fees payable	406	405
- Allowances	115	91
	521	496
Past Chief Executive Officer:		
- Salary and other remuneration	-	310
- Contribution to EPF	-	49
	-	359
Past Non-executive Director:		
- Fees payable	67	37
- Allowances	18	15
- Benefits-in-kind	10	-
	95	52
Total Directors' remuneration	1,730	1,578
Shariah Committee members	304	319
	2,034	1,897

Note:

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

(b) Directors of the Bank are covered under the Directors' & Officers' Liability Insurance in respect of liabilities arising form acts committed in their capacity as Directors of the Bank, provided that such Directors have not acted negligently, fraudulently or dishonestly or is in breach of his or her duty of trust. The total apportioned amount of insurance effected for Directors under the Bank was RM6,000 (2018: RM6,000).

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

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

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

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

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

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

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

BANK 2018	Salary and other remuneration RM'000	Bonuses RM'000	Contribution to EPF RM'000	Fees RM'000	Allowances RM'000	Total RM'000
Chief Executive Officer:						
Rizal IL-Ehzan Bin Fadil Azim	384	224	63	-	-	671
	384	224	63	-	-	671
Non-executive Directors:						
Datuk Wan Azhar bin Wan Ahmad	-	-	-	152	19	171
Hj Md Ali bin Md Sarif	-	-	-	76	23	99
Dato' Majid bin Mohamad	-	-	-	95	19	114
Ibrahim bin Hassan	-	-	-	82	30	112
	-	-	-	405	91	496
Past Chief Executive Officer:						
Foziakhatoon Binti Amanulla Khan	310	-	49	-	-	359
	310	-	49	-	-	359
Past Non-executive Director:						
Shaharuddin bin Zainuddin	-	-	-	37	15	52
	-	-	-	37	15	52
Total Directors' remuneration	694	224	112	442	106	1,578
Shariah Committee Members:						
Assoc. Prof. Dr. Badruddin bin Hj Ibrahim	-	-	-	60	9	69
Dr. Abdul Rahman bin Awang	-	-	-	54	8	62
Hj Md Ali bin Md Sarif	-	-	-	54	9	63
Ustaz Zaharudin bin Muhammad	-	-	-	54	9	63
Dr. Azrul Azlan bin Iskandar Mirza	-	-	-	54	8	62
	-	-	-	276	43	319
	694	224	112	718	149	1,897

32. FINANCIAL RISK MANAGEMENT POLICIES

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

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

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

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

(a) Credit Risk

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

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

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

The credit exposure arising from off-balance sheet activities, i.e. commitments and contingencies is set out in Note 38 to the financial statements.

32. 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 impairment losses, where appropriate.

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

	2019 RM'000	2018 RM'000
Credit risk exposure: on-balance sheet		
Cash and short-term funds (exclude cash in hand)	348,407	1,290,567
Financial investments at fair value through other comprehensive income	2,100,887	-
Financial investments available-for-sale	-	1,772,502
Financing and advances (exclude sales commission and handling fees)	9,258,302	7,997,095
Statutory deposits with BNM	335,388	276,888
Other assets (exclude prepayment)	1,956	1,609
Total on-balance sheet	12,044,940	11,338,661
Credit risk exposure: off-balance sheet		
Financial guarantees	203,665	174,313
Credit related commitments and contingencies	2,086,773	1,865,808
Total off-balance sheet	2,290,438	2,040,121
Total maximum exposure	14,335,378	13,378,782

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

32. 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.

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

32. 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.)

2018	Government and Central Bank RM'000	Financial, Takaful, Business Services and Real Estate RM'000	Transport, Storage and Communication RM'000	Agriculture, Manufacturing, Wholesale & Retail Trade RM'000	Construction RM'000	Household RM'000	Others RM'000	Total RM'000
Cash and short-term funds (exclude cash in hand)	1,290,567	-	-	-	-	-	-	1,290,567
Financial investments available-for-sale	643,216	789,625	243,192	5,105	91,364	-	-	1,772,502
Financing and advances (exclude sales commission and handling fees)	-	835,136	147,770	2,582,570	285,197	4,083,762	62,660	7,997,095
Statutory deposits with BNM	276,888	-	-	-	-	-	-	276,888
Other assets (exclude prepayment)	-	-	-	-	-	-	1,609	1,609
	2,210,671	1,624,761	390,962	2,587,675	376,561	4,083,762	64,269	11,338,661
Financial guarantees	-	5,072	5,154	144,289	19,518	42	238	174,313
Credit related commitments and contingencies	-	116,715	5,894	975,998	117,473	344,066	305,662	1,865,808
	-	121,787	11,048	1,120,287	136,991	344,108	305,900	2,040,121
Total credit risk	2,210,671	1,746,548	402,010	3,707,962	513,552	4,427,870	370,169	13,378,782

32. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(iii) Collaterals

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

	2019 RM'000	2018 RM'000
Gross financing and advances	9,396,812	8,083,301
Less: Allowance for credit expected losses/impairment losses	(138,510)	(86,206)
Net financing and advances	9,258,302	7,997,095
Percentage of collateral held for financing and advances	67.8%	68.4%

(iv) Credit Risk Measurement

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

(a) Definition of significant increase in credit risk

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

The following events are taken into consideration during the assessment:

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

(b) Definition of credit impaired financial assets

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

Quantitative criteria:
A financial asset is classified as credit impaired when the counterparty fails to make contractual payment within 90 days or 3 months of when they fall due.

32. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(iv) Credit Risk Measurement (contd.)

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

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

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 borrower will enter into bankruptcy/winding up or other financial restructuring;
- Disappearance of an active market for that financial asset; or
- Purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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

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

Exposure at default ("EAD")

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

EAD for retail portfolio is calculated based upon either:

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

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

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

Probability at default ("PD")

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

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

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

32. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(iv) Credit Risk Measurement (contd.)

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

Loss given default ("LGD")

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

(d) Forward-looking information

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

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

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

For forward looking estimates, analysis was carried out to determine how the estimates were affected by macroeconomic trends. Factors such as unemployment rate or 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 macroeconomic trends.

(e) Collective Assessment

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 financing

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

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

32. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(iv) Credit Risk Measurement (contd.)

(f) Modification of financing (contd.)

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

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

(v) Credit Quality

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

Credit Quality	Credit Grading		Definition
	Retail [1]	Non-retail [2]	
Low	Low risk score	1 - 12 (AAA to BB)	Borrowers with good capacity to meet financial commitments
Medium	Medium risk score	13 -16 (BB- to B-)	Borrower which is in a fairly acceptable capacity to meet financial commitments
High	High risk score	17 - 19 (CC+ to CC-)	Borrower which is in an uncertain capacity to meet financial commitments but have not been impaired
Unrated	Unrated	Unrated	Borrower which is unrated
Credit Impaired	Credit Impaired	Credit Impaired	Defaulted, or judgmentally impaired due to lack of capacity to fulfil financial commitments

[1] Retail refers to Consumer Banking

[2] Non-retail refers to Business Banking

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

32. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(v) Credit Quality (contd.)

Other financial assets are categorized in the following manner:

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

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

2019	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Cash and short-term funds (exclude cash in hand)				
Sovereign/government backed	348,407	-	-	348,407
Gross carrying amount	348,407	-	-	348,407
Expected credit losses	-	-	-	-
Net carrying amount	348,407	-	-	348,407
Financial investments at fair value through other comprehensive income				
Investment graded	614,519	-	-	614,519
Sovereign/government backed	1,486,368	-	-	1,486,368
Gross carrying amount	2,100,887	-	-	2,100,887
Expected credit losses [Note (a)]	(39)	-	-	(39)
Financing and advances				
Low	5,074,372	149,659	-	5,224,031
Medium	2,015,577	612,978	-	2,628,555
High	652,265	372,812	-	1,025,077
Unrated	119,938	292,286	-	412,224
Credit impaired	-	-	106,925	106,925
Gross carrying amount	7,862,152	1,427,735	106,925	9,396,812
Expected credit losses	(23,032)	(69,895)	(45,583)	(138,510)
Net carrying amount	7,839,120	1,357,840	61,342	9,258,302
Statutory deposit				
Sovereign/government backed	335,388	-	-	335,388
Gross carrying amount	335,388	-	-	335,388
Expected credit losses	-	-	-	-
Net carrying amount	335,388	-	-	335,388

32. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(v) Credit Quality (contd.)

2019	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
Credit related commitments and contingencies				
Low	1,301,437	43,892	-	1,345,329
Medium	359,794	219,415	-	579,209
High	137,537	12,586	-	150,123
Unrated	213,788	10	-	213,798
Credit impaired	-	-	1,979	1,979
Gross carrying amount	2,012,556	275,903	1,979	2,290,438
Expected credit losses	(712)	(3,182)	(105)	(3,999)

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

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

Under MFRS 139, all financing and advances are categorised as either:
- Neither past due nor impaired;
- Past due but not impaired; or
- Impaired.

Past due financing and advances refer to financing that are overdue by one day or more. Impaired financing are classified in accordance to the BNM Revised Policy Document on Financial Reporting and Financial Reporting for Islamic Banking Institutions.

Distribution of financing and advances by credit quality

	2018 RM'000
Neither past due nor impaired	7,633,775
Past due but not impaired	345,294
Impaired	104,232
Gross financing and advances (exclude sales commission and handling fees)	8,083,301
Less: Allowance for impairment	
- Individual assessment	(10,766)
- Collective assessment	(75,440)
Net financing and advances	7,997,095

32. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(v) Credit Quality (contd.)

Financing and advances neither past due nor impaired

Analysis of financing and advances that are neither past due nor impaired analysed based on the Bank's internal credit grading system is as follows:

	2018 RM'000
Grading classification	
- Good	7,374,283
- Fair	259,492
	7,633,775

The definition of the grading classification can be summarised as follows:

Good: *Refers to financing and advances which have never been past due in the last 6 months and have never undergone any restructuring or rescheduling exercise previously.*

Fair: *Refers to financing and advances which have been past due at some point within the last 6 months, or have undergone restructuring or rescheduling exercise previously.*

An aging analysis of financing and advances that are past due but not impaired is set out below.

For the purpose of this analysis an asset is considered past due and included below when any payment due under strict contractual terms is received late or missed. The amount included is the entire financial assets, not just the payment of principal or profit or both overdue.

	2018 RM'000
Past due up to 1 month	268,297
Past due > 1 - 2 months	62,279
Past due > 2 - 3 months	14,718
	345,294

Financing and advances assessed as impaired

An analysis of the gross amount of financing and advances individually assessed as impaired by the Bank is as follows:

	2018 RM'000
Gross impaired financing and advances	104,232
Gross individually assessed impaired financing and advances	55,359
Less: Allowance for impairment	
- Individual impairment	(10,766)
Net individually assessed impaired financing and advances	44,593

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

32. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(a) Credit Risk (contd.)

(v) Credit Quality (contd.)

Financial instruments and financial assets

Financial instrument include cash and short term funds, deposits and placements with other financial institutions, debt securities, statutory deposits with BNM and other assets. Cash and short term funds herein excludes cash in hand. Debt securities include financial assets held-for-trading, financial investments available-for-sale and financial investments held-to-maturity. Financial assets held-for-trading and financial investments available-for-sale are measured at fair value. The fair value will reflect the credit risk of the issuer.

Distribution of financial instruments by credit quality are summarised as below:

2018	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Allowance for impairment losses RM'000	Total RM'000
Cash and short-term funds (exclude cash in hand)	1,290,567	-	-	-	1,290,567
Financial investments available-for-sale	1,772,502	-	-	-	1,772,502
Statutory deposits with BNM	276,888	-	-	-	276,888
Other assets (exclude prepayment)	1,609	-	1,404	(1,404)	1,609
	3,341,566	-	1,404	(1,404)	3,341,566

Most listed and some unlisted securities are rated by external rating agencies. The Bank uses external credit ratings provided by RAM and MARC. The table below presents an analysis of debt securities by rating agency:

	Cash and short term funds RM'000	Financial investments available-for-sale RM'000	Statutory deposits with BNM RM'000	Total RM'000
2018				
By rating agencies				
RAM				
AAA	-	273,772	-	273,772
AA1	-	50,613	-	50,613
AA2	-	50,451	-	50,451
AA3	-	226,465	-	226,465
MARC				
AAA	-	35,218	-	35,218
AA	-	65,731	-	65,731
Government backed	1,290,567	1,070,252	276,888	2,637,707
	1,290,567	1,772,502	276,888	3,339,957

32. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(vi) Sensitivity test

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

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

2019

Measurement variables	MEV Change (%)	+ RM'000	- RM'000
Retail			
Consumption credit	3.3	989	(960)
House price index	7.1	(968)	1,337
Unemployment rate	0.2	999	(1,006)
Non-retail			
3 months KLIBOR	0.4	2,591	(1,539)

(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 in 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, sensitivity limits, loss limits and regular revaluation of positions versus market prices, where available.

(i) Profit rate risk

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

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

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

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

32. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

(i) Profit rate risk (contd.)

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

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

32. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

(i) Profit rate risk (contd.)

2018	Non-Trading Book: Up to 1 RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Total RM'000
Assets								
Cash and short-term funds	1,218,230	-	-	-	-	-	72,337	1,290,567
Financial investment available-for-sale	-	30,021	123,577	240,326	717,078	643,867	17,633	1,772,502
Financing and advances	5,615,707	433,114	160,226	61,888	900,886	837,484	18,026 *	8,027,331
Other financial assets^	-	-	-	-	-	-	278,497	278,497
Total assets	6,833,937	463,135	283,803	302,214	1,617,964	1,481,351	386,493	11,368,897
Liabilities								
Deposits from customers	3,611,864	730,200	1,085,020	2,750,008	832,022	-	429,951	9,439,065
Deposits and placements of banks and other financial institutions	158	-	1,170	4,052	237,601	-	867	243,848
Recourse obligation on financing sold to Cagamas	-	-	-	-	500,006	-	661	500,667
Subordinated Sukuk	-	-	-	-	-	129,543	59	129,602
Other financial liabilities	-	-	-	-	-	-	131,696	131,696
Total liabilities	3,612,022	730,200	1,086,190	2,754,060	1,569,629	129,543	563,234	10,444,878
On-balance sheet profit sensitivity gap	3,221,915	(267,065)	(802,387)	(2,451,846)	48,335	1,351,808	(176,741)	924,019

* Impaired financing, expected credit losses and collective assessment allowance of the Bank are classified under the non-profit sensitive column.

^ Includes statutory deposits and other assets

32. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

(ii) Value at risk ('VaR')

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

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

	Balance	Average for the year	Minimum	Maximum
	RM'000	RM'000	RM'000	RM'000
2019				
Instruments:				
Government securities	(2,965)	(2,396)	(1,889)	(2,965)
Private debt securities	(781)	(838)	(716)	(963)
2018				
Instruments:				
Government securities	(777)	(1,882)	(776)	(4,652)
Private debt securities	(1,489)	(4,198)	(1,489)	(7,644)

(iii) Rate of Return Risk in the banking book

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

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

	2018	
	- 100 bps	+ 100 bps
	Increase/(decrease)	
	RM'000	RM'000
Impact on net profit income	(23,621)	23,621
Impact on equity	46,965	(44,524)

32. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(b) Market Risk (contd.)

<u>Other risk measures</u>

(iv) Stress test

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

(v) 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.

32. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

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

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

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

32. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

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

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

2018	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1 year RM'000	Total RM'000
Assets						
Cash and short-term funds	1,290,567	-	-	-	-	1,290,567
Financial investment available-for-sale	7,410	36,696	127,126	240,326	1,360,944	1,772,502
Financing and advances	1,416,769	477,534	292,084	59,442	5,781,502	8,027,331
Other financial and non financial assets	1,525	49	37	325	279,655	281,591
Total assets	2,716,271	514,279	419,247	300,093	7,422,101	11,371,991
Liabilities						
Deposits from customers	4,003,039	737,492	1,104,599	2,761,912	832,023	9,439,065
Deposits and placements of banks and other financial institutions	158	-	2,037	4,052	237,601	243,848
Recourse obligation on financing sold to Cagamas	-	661	-	-	500,006	500,667
Subordinated sukuk	-	-	59	-	129,543	129,602
Other financial and non financial liabilities	101,644	603	152	554	35,964	138,917
Total liabilities	4,104,841	738,756	1,106,847	2,766,518	1,735,137	10,452,099
Net maturity mismatch	(1,388,570)	(224,477)	(687,600)	(2,466,425)	5,686,964	919,892

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

32. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

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

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

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

32. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(c) Liquidity risk (contd.)

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

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

2018	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Total RM'000
Liabilities							
Deposits from customers	4,005,966	743,701	1,129,873	2,765,773	1,007,581	-	9,652,894
Deposits and placements of banks and other financial institutions	158	1,821	1,170	5,864	244,895	-	253,908
Recourse obligation on financing sold to Cagamas	-	3,936	3,928	7,831	550,171	-	565,866
Subordinated Sukuk	-	-	3,575	3,575	28,600	162,175	197,925
Other financial liabilities	100,927	603	152	554	35,964	-	138,200
	4,107,051	750,061	1,138,698	2,783,597	1,867,211	162,175	10,808,793
Items not recognised in the statement of financial position							
Financial guarantees	8,415	23,523	11,994	29,188	90,184	11,009	174,313
Credit related commitments and contingencies	1,510,591	5,592	5,254	12,162	331,681	528	1,865,808
Total financial liabilities	5,626,057	779,176	1,155,946	2,824,947	2,289,076	173,712	12,848,914

32. FINANCIAL RISK MANAGEMENT POLICIES (CONTD.)

(d) Operational and Shariah Compliance Risk

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

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

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

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

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

33. CAPITAL AND LEASE COMMITMENTS

(a) Capital commitments

	2019 RM'000	2018 RM'000
Capital expenditure:		
Authorised and contracted for	722	387
Authorised and not contracted for	496	496

(b) Lease commitments

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

	2019 RM'000	2018 RM'000
Within one year	307	307
Between one year to five years	153	460
	460	767

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

34. 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.

35. CAPITAL ADEQUACY

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

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

	2019	2018
Before deducting proposed dividends		
CET 1 capital ratio	11.690%	12.569%
Tier 1 capital ratio	12.950%	12.569%
Total capital ratio	15.762%	15.421%
After deducting proposed dividends		
CET 1 capital ratio	11.339%	12.198%
Tier 1 capital ratio	12.599%	12.198%
Total capital ratio	15.411%	15.050%

	2019 RM'000	2018 RM'000
CET I Capital		
Paid-up share capital	400,000	400,000
Retained profits	522,931	498,216
Regulatory reserves	9,060	21,430
FVOCI/revaluation reserves	18,795	246
	950,786	919,892
Less: Regulatory adjustments		
- Intangible assets	(897)	(1,058)
- Deferred tax assets	(11,156)	(1,250)
- 55% of FVOCI/revaluation reserves	(10,337)	(135)
- Regulatory reserves	(9,060)	(21,430)
Total CET I Capital	919,336	896,019
Additional Tier 1 Sukuk Wakalah	99,113	-
Total Tier I Capital	1,018,449	896,019
Tier II Capital		
Subordinated Sukuk Murabahah	129,634	129,543
Expected credit losses/collective assessment allowance and regulatory reserves	91,478	73,810
Total Tier II Capital	221,112	203,353
Total Capital	1,239,561	1,099,372

35. CAPITAL ADEQUACY (CONTD.)

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

	2019 RM'000	2018 RM'000
Credit risk	7,318,223	6,638,122
Operational risk	546,146	490,929
Total RWA and capital requirements	7,864,369	7,129,051

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

36. CAPITAL

The capital management of Alliance Islamic Bank Berhad is under the purview of Alliance Bank Group’s (“the Group”) capital management with the objectives:

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

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

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

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

37. RESTRICTED INVESTMENT ACCOUNT

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

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

	2019 RM'000
RIA	
Financing and advances	179,795

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

(ii) Movement in the RIA

	2019 RM'000
At 1 April 2018	-
Funding inflows/outflows	
New placement during the year	200,000
Repayment during the year	(20,000)
Wakalah fee	(205)
	179,795
Investment assets	
Term financing	200,000

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

38. 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:

	2019 RM'000	2018 RM'000
Credit-related exposures		
Direct credit substitutes	160,578	154,702
Transaction-related contingent items	68,909	77,381
Short-term self-liquidating trade-related contingencies	46,589	19,611
Irrevocable commitments to extend credit:		
- maturity exceeding one year	415,302	289,834
- maturity not exceeding one year	1,599,060	1,498,593
	2,290,438	2,040,121

Included in direct credit substitutes and transaction-related contingent items are financial guarantee contract of RM203,665,000 (2018: RM174,313,000) of which the fair value at the time of issuance is RMNil (2018: RM Nil).

39. 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 as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high. These would include government securities, corporate private debt securities, corporate notes and repurchase agreements.

(iii) Financial instruments in Level 3

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

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

39. 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:

2019	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Financial investment at fair value through other comprehensive income				
- Money Market Instruments	-	1,064,786	-	1,064,786
- Unquoted Securities	-	1,036,101	-	1,036,101
2018				
Financial assets				
Financial investments available-for-sale				
- Money Market Instruments	-	731,648	-	731,648
- Unquoted Securities	-	1,040,854	-	1,040,854

There were no transfers between Level 1 and 2 of the fair value hierarchy for the Bank during the financial year ended 31 March 2019 and 31 March 2018.

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

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

	Fair value				Carrying
	Level 1	Level 2	Level 3	Total	amount
2019	RM'000	RM'000	RM'000	RM'000	RM'000
Financial assets					
Financing and advances	-	-	9,505,711	9,505,711	9,306,879
Financial liabilities					
Deposits from customers	-	9,935,642	-	9,935,642	9,932,901
Deposits and placements of banks and other financial institutions	-	233,560	-	233,560	243,731
Recourse obligation on financing sold to Cagamas	-	563,047	-	563,047	500,592
Subordinated Sukuk	-	228,747	-	228,747	228,855
2018					
Financial assets					
Financing and advances	-	-	8,204,369	8,204,369	8,027,331
Financial liabilities					
Deposits from customers	-	9,441,381	-	9,441,381	9,439,065
Deposits and placements of banks and other financial institutions	-	231,445	-	231,445	243,848
Recourse obligation on financing sold to Cagamas	-	576,600	-	576,600	500,667
Subordinated Sukuk	-	140,644	-	140,644	129,602

39. FAIR VALUE MEASUREMENTS (CONTD.)

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

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

(i) Financing investments at amortised cost

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

(ii) Financing and advances

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

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

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 loans and financing sold to Cagamas

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

(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.

40. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

There is a new issuance of 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.

41. SUBSEQUENT EVENTS

There were no material events subsequent to the reporting date that require disclosure or adjustment to the financial statements.

42. CHANGES IN ACCOUNTING POLICY

Adoption of MFRS 9 "Financial Instruments"

The Bank has adopted MFRS 9 retrospectively with the date of initial application of 1 April 2018

In accordance with the transition provision provided in MFRS 9, comparative for 2018 was not restated and continue to be reported under the previous accounting policies governed under MFRS 139. The cumulative effect of initially applying MFRS 9 were recorded as an adjustment to the opening balances of the retained profits as at 1 April 2018.

(a) Classification and Measurement

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss (“FVTPL”) and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and profit.

There was no significant impact arising from the changes in classification and measurement of the financial assets.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities. The main changes are:

(i) For financial liabilities classified as FVTPL, the fair value changes due to own credit risk should be recognised directly to OCI. There is no subsequent recycling to profit or loss.

(ii) When a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss, being the difference between the original contractual cash flows and the modified cash flows discounted at the original effective profit rate, should be recognised immediately in profit or loss.

There will be no changes to the Bank’s accounting for financial liabilities. All the financial liabilities, except for financial liabilities designated at fair value and derivatives financial liabilities, will remain as amortised cost as there has not been significant change in the requirements for financial liabilities under MFRS 9.

42. CHANGES IN ACCOUNTING POLICY (CONTD.)

Adoption of MFRS 9 "Finnacial Instruments" (contd.)

(b) Impairment of Financial Assets

MFRS 9 introduces an expected credit loss ("ECL") model on impairment that replaces the incurred loss impairment model used in MFRS 139. The ECL model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised. The level of allowances for expected credit losses is explained under the significant accounting policies.

As a result of the adoption of the MFRS 9 ECL model in determining the allowances for ECL, the total ECL allowances computed under MFRS 9 is lower by RM19,414,000, than the total allowances of impairment losses on financial assets under MFRS 139.

42. CHANGES IN ACCOUNTING POLICY (CONTD.)

(c) Financial effect

A reconciliation of the statement of financial position of the Bank upon adoption of MFRS 9 as at 1 April 2018 are as follows:

Statement of Financial Position as at 31 March 2018

	MFRS 139 measurement category	MFRS 9 measurement category	MFRS 139 carrying amount 31 March 2018	Reclassification	Remeasurement	Expected credit losses	Restated 1 April 2018
			RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS							
Cash and short-term funds	Financing and receivables	Amortised Cost	1,290,567	-	-	-	1,290,567
Financial investments at fair value through other comprehensive income	NA	FVOCI	-	1,772,502	-	-	1,772,502
Financial investments available-for-sale	AFS	NA	1,772,502	(1,772,502)	-	-	-
Financing and advances	Financing and receivables	Amortised Cost	8,027,331	-	(7,745)	(37,209)	7,982,377
Other assets	Financing and receivables	Amortised Cost	2,064	-		-	2,064
Tax recoverable			-	-	1,394	12,898	14,292
Statutory deposits with Bank Negara Malaysia	Financing and receivables	Amortised Cost	276,888	-	-	-	276,888
Property, plant and equipment			331	-	-	-	331
Deferred tax assets			1,250	-	-	-	1,250
Intangible assets			1,058	-	-	-	1,058
TOTAL ASSETS			11,371,991	-	(6,351)	(24,311)	11,341,329
LIABILITIES AND EQUITY							
Deposits from customers	Amortised Cost	Amortised Cost	9,439,065	-	-	-	9,439,065
Deposits and placements of banks and other financial institutions	Amortised Cost	Amortised Cost	243,848	-	-	-	243,848
Recourse obligation on financing sold to Cagamas	Amortised Cost	Amortised Cost	500,667	-	-	-	500,667
Other liabilities			138,200	-	-	16,460	154,660
Provision for taxation			465	-	(465)	-	-
Provision for zakat			252	-	-	-	252
Subordinated Sukuk	Amortised Cost	Amortised Cost	129,602	-	-	-	129,602
TOTAL LIABILITIES			10,452,099	-	(465)	16,460	10,468,094
Share capital			400,000	-	-	-	400,000
Reserves			519,892	-	(5,886)	(40,771)	473,235
- Regulatory reserves			*21,430*	-	-	*(21,430)*	-
- FVOCI reserves			-	*246*	-	*73*	*319*
- Revaluation reserves			*246*	*(246)*	-	-	-
- Retained profits			*498,216*	-	*(5,886)*	*(19,414)*	*472,916*
TOTAL EQUITY			919,892	-	(5,886)	(40,771)	873,235
TOTAL LIABILITIES AND EQUITY			11,371,991	-	(6,351)	(24,311)	11,341,329

ALLIANCE ISLAMIC BANK BERHAD
(Incorporated in Malaysia)

42. CHANGES IN ACCOUNTING POLICY (CONTD.)

(c) Financial effect (contd.)

The following table reconciles the prior year's losses measured in accordance with MFRS 139 incurred loss model to the new expected credit losses measured in accordance with MFRS 9 expected credit losses as at 1 April 2018:

	MFRS 139 carrying amount 31 March 2018 RM'000	Remeasurement RM'000	MFRS 9 carrying amount 1 April 2018 RM'000
Financing and advances	86,206	37,209	123,415
Other assets	1,404	-	1,404
Other liabilities	-	16,460	16,460
FVOCI reserve	-	73	73
	87,610	53,742	141,352

The following table reconciles the Statement of Changes in Equity as at 31 March 2018 and 1 April 2018 from the adoption of MFRS 9:

	RM'000
Regulatory reserve	
Closing balance under MFRS 139 as at 31 March 2018	21,430
- Recognition of expected credit losses under MFRS 9	(21,430)
Opening balance under MFRS 9 as at 1 April 2018	-
FVOCI reserve	
Closing balance under MFRS 139 as at 31 March 2018	-
- Transfer from revaluation reserve	246
- Recognition of expected credit losses under MFRS 9	73
Opening balance under MFRS 9 as at 1 April 2018	319
Revaluation reserve	
Closing balance under MFRS 139 as at 31 March 2018	246
- Transfer to FVOCI reserve	(246)
Opening balance under MFRS 9 as at 1 April 2018	-
Retained profits	
Closing balance under MFRS 139 as at 31 March 2018	498,216
- Remeasurement of financial assets	(7,745)
- Tax effect arising from remeasurement of financial assets	1,859
- Recognition of expected credit losses under MFRS 9	(53,742)
- Tax effect arising from recognition of expected credit losses under MFRS 9	12,898
- Transfer from regulatory reserve	21,430
Opening balance under MFRS 9 as at 1 April 2018	472,916