هوڠ ليوڠ اسلاميك بڠك

Hong Leong Islamic Bank

Annual Report 2019

Corporate

Financials

To be a Highly Digital and Innovative Financial Services Company

Hong Leong Islamic Bank **Story**

Since its inception as a division within Hong Leong Bank Berhad ("HLB"), Hong Leong Islamic Bank ("HLISB") in turn forms an integral part of the larger Hong Leong Financial Group. Subsequent to its incorporation as a separate legal entity, it was officially launched as a wholly-owned subsidiary of HLB in July 2005 acting as a Shariah compliant business entity with main involvement in Islamic Banking activities. HLISB continues to benefit from HLB's shared services and strong distribution network in offering Islamic banking products and services.

In November 2011, HLISB completed its merger with EONCap Islamic Bank Berhad as part of a larger merger between HLB and EON Bank Berhad. This milestone marked the first of such mergers between two Islamic banks in Malaysia and had provided HLISB with an improved scale and a deepened foothold within the highly competitive Islamic banking industry.

Strategically focused on the provision of holistic solutions based on the tenets and principles of Shariah law, HLISB offers its customers a wide range of innovative solutions which amongst others include structured finance, business and corporate banking, personal financial services, Islamic global markets, investment account and wealth management. These offerings are supported by continuous and deliberate efforts towards achieving excellence in service delivery, of which has rewarded HLISB with strong financial results; a testament to the solid core competencies and fundamentals in its current form.

HLISB has since expanded on its scope and breadth of banking solutions to include the mass Malay Market segment and wider non-Muslim customers fulfilling the needs of the larger Malaysian populations. This wide-ranging approach has seen the Bank growing from strength to strength as evidenced by its financial performance, which, in turn, vital in growing and developing its Banking assets.

The financial year ended 30 June 2019 marks yet another year of achievement and growth for HLISB at the back of healthy financial results which continues to be delivered as reflective of its solid core competencies and fundamentals. This solidifies further HLISB's commitment and effort in contributing to the success of Islamic finance agenda.

The **Business**

"Hong Leong Islamic Bank Berhad ("HLISB") is a wholly-owned subsidiary of Hong Leong Bank Berhad.

HLISB has a shareholders' fund of

RM2,591 million

as of 30 June 2019"

HLISB offers a comprehensive suite of Shariah compliant products and services in areas such as:

- Personal Financial Services-i
- Business and Corporate Banking-i
- Global Markets-i

HLISB operates through five full-fledged Islamic branches, in addition to a shared network with Hong Leong Bank ("HLB") branches and self-service terminals nationwide and a full serviced call centre.

Chairman's **Statement**

"Malaysia maintains its position as the global leader in Islamic Finance industry. In 2018, Islamic finance spearheaded the growth of the Malaysian banking sector where Islamic financing continued to show double digit growth by 10.5% to RM668.7 billion. The Islamic financing share increased to 36.6% of the total financing in the Malaysian banking industry. Deposits also continued expanding at a healthy pace of 12.4%, following its commendable 14.2% growth the preceding year."

The financial outlook on the Malaysian Islamic banking remains stable supported by strong capitalisation. The overall profitability indicator is expected to stand stable despite slight margin compression and the asset-quality indicators should stay resilient. The industry players are strengthening their funding profile nearing the implementation deadline of net stable funding ratio ("NSFR") requirement.

Amid the challenging market condition, HLISB delivered a strong performance in FY2019 with Profit before Tax and Zakat increased by 17% to RM440 million over the previous year. Total assets reached RM35.1 billion with a growth rate of 12% while Gross Islamic financing assets also grew by 14% to RM26.1 billion, contributed 19% of Hong Leong Bank Group's total financing.

HLISB's asset quality remained strong and resilient, with gross impaired financing ratio of 0.68%. HLISB also improved its operating efficiencies with Cost to Income ratio further enhanced from 32.05% to 29.98%.

HLISB is committed to deliver sustainable growth of its business and move forward with other Islamic finance industry players in supporting Malaysia to strengthen its position as the global leader in Islamic Finance.

Total Profit before Tax and Zakat increased by 17% to

RM440

Million

Total assets reached

RM35.1

Billion with a growth rate of

12%

Total Gross Islamic financing assets also grew by 14% to

RM 26.1

Billion

DIGITALISATION

The competition has been very intense in the digitalisation space as 66% of banks in Malaysia aim to reach digital maturity by 2020. Meanwhile, the Islamic banking industry has been experiencing a rapid evolutionary pace to meet the demand for innovative and up-to-date financial products that are also compliant with Shariah principles.

As our digital transformation plan is on the right track, we have been fortifying our position as the front-runner in the Islamic digital banking space by investing in the latest financial technology and infrastructure. We have achieved many significant milestones that further solidified our current position.

We strive to digitalise the financial journey of our customers to provide them with the unrivalled digital banking experience. Our digitalisation efforts have been steadily materialising in the field of Islamic wealth management, business banking products, cash management solutions and trade finance intermediation. We are also leveraging digitalisation to optimise behind-the-scene processes including back-office tasks and Shariah governance processes.

INVESTMENT INTERMEDIATION

> HLISB has entered into the investment intermediation sphere with the introduction of our Term Investment Account-i "TIA-i" product in early 2019.

HLISB has entered into the investment intermediation sphere with the introduction of our Term Investment Account-i ("TIA-i") product in early 2019. Unlike similar products in the market, TIA-i extends the values of convenience and simplicity substitute to traditional investment experience. Being the first Islamic Bank to enable Investment Account via digital channel, we aim to multiply our efforts and value offerings in the Islamic digital wealth management space by striking balance against values and customers centricity.

In manifesting our commitment towards BNM investment intermediation agenda, we are progressing into the next category of Investment Account, namely Restricted Investment Account (RA). With the desire to promote investment mindset in a digital savvy community, we infuse the investment journey education to ensure constructive knowledge building is acquired effectively. We will continue to strive towards making Investment Account as an instrument that is built around our customers' requisition abridging sustainable values for the community and industry in the future to come.

WEALTH MANAGEMENT PROPOSITION

HLISB remains upbeat in capturing the Islamic Wealth Management space as our key growth area to enable our customers to diversify and maximize their financial returns. We also aspire to give our customers the access towards a comprehensive package of Islamic wealth management. The good news is, several of them are currently in the advanced development stage.

The aforementioned investment account product is the new component to our existing Islamic wealth management products such as Islamic Unit Trust, Takaful solutions and Will Writing-i. Our journey as the agent for Amanah Saham Nasional Berhad ("ASNB") Funds has been very inspiring and rewarding. HLISB has been growing its unit trust offering to 16 funds consisting of variable and fixed funds. We also provides our customers with the option of securing financing for the subscription of ASB units.

THE PROSPECT OF HALAL MARKET

The increasing global demand set to grow the global Halal industry at an exponential rate with the size is expected to reach USD 9.71 trillion by 2025. The global halal market will benefit immensely from the growing Muslim consumers coupled with the increasing offering of halal-certified products.

Chairman's Statement

The Malaysia External Trade Development Corporation ("MATRADE") is anticipating the Malaysian export value of halal products and services to expand by 5% in 2019 (2018: RM40 billion) by encouraging more participation from the local small and medium enterprises ("SMEs") to take advantage of the country's vibrant and fast growing Halal industry.

The government has acknowledged the Islamic finance industry as the key enabler to support the development of halal industry. It shows that the integration of the Islamic finance industry with the halal industry in Malaysia has been very positive. This progress can be translated into an enormous business opportunity for HLISB via providing a comprehensive financial solution to facilitate the Halal trade activities.

PAVING THE WAY FOR BUMIPUTERA MARKET

The Bumiputera community makes up 68.8% of the total population in Malaysia which indicates that the prospect of this market segment has lots to offer, especially as the crucial component of the country's national agenda.

In intensifying Bumiputera wealth creation and driving their economic participation, HLISB has been executing various programs specifically designed for the Bumiputera SME companies, to improve their financial and credit standing amid the fast paced economic environment.

Our continued collaboration with several government agencies has built our momentum in providing financing facilities to Bumiputera companies. Under the TERAS program launched in September 2017, HLISB has provided RM285 million financing facilities for Bumiputera companies under the programme, out of which more than RM170 million was approved during this FYE 30 June 2019.

HLISB will continue to participate in other Bumiputera-based programs as our commitment towards Bumiputera economic transformation.

SME

Supporting the SME market is part of the national agenda to boost their share to the country's domestic economy as it is currently contributing more than a third of gross GDP. SMEs' main source of funding is the banking institutions where they are providing more than 90% of total financing in the country. Promoting the development of SME market segment has been the core component of HLISB's corporate strategy.

To reach more prospective SME clients, HLISB has been collaborating with government agencies such as TERAJU, SME Corporation and Corporate Guarantee Corporation Malaysia ("CGC"). We have been participating in various schemes under these collaborations, a sign of our constant and relentless support towards this vital segment. We are also active in sharing our Islamic financial expertise through involvement in various public conferences and programs related to the SME industry.

VALUE BASED INTERMEDIATION

Introduced in 2017 by Bank Negara Malaysia, Value-Based Intermediation ("VBI") has been a game changer for the Islamic banking industry in steering the industry towards its full potential by generating positive and sustainable impacts to the economy, community and environment.

HLISB is on a good momentum in integrating VBI principles into our business strategies and sustainability vision. We believe that with the development of banking practices based on VBI principles, it will not only creating new business opportunities, but also delivering positive values to our stakeholders.

HLISB are focusing on three underpinning VBI thrusts which are:

- Community empowerment:
  Participation in initiatives and programs supporting the SME market.
- Knowledge sharing:
  Development of Islamic Finance Chatbot and Islamic finance article publications.
- Good governance & best conduct:
  Shariah Thought Leadership through various positions in institutions related to the Islamic finance industry.

TALENT DEVELOPMENT

We believe our staff are the valuable resources in realizing our mission and vision. Through various structured trainings and content development, we have facilitated our staff with the opportunity to enhance their competency with the right technical and critical knowledge. This is to ensure that they stay relevant with the current fast paced Islamic finance environment and provides opportunities for their career growth.

Recently, six talents have successfully completed our very own Shariah Graduate Training Program ("SGTP") and they are being placed at various divisions. HLISB had also been committing to the Skim Latihan 1 Malaysia ("SL1M"). Rebranded as the Professional Training And Education For Growing Entrepreneurs programme ("PROTÉGÉ") in early 2019, HLISB has further on-boarded eight trainees under the program. The program is pioneered by the Entrepreneur Development Ministry which aims to boost employability

Chairman's Statement

among the youth. Besides hands-on learning and on-the-job experience at various business and support units, the trainees also derived benefit from the knowledge sharing and career guidance session with the Bank Director and top management. At the end of the program, these graduates would have developed personal skills and learned best work practices and place them in a better position in their future careers.

APPRECIATION

On behalf of HLISB, I take this opportunity to express our gratitude to our customers and stakeholders for your continuous trust, loyalty and support. Many thanks also goes to my colleagues at HLISB for their dedication and hard work that led to the success achieved by HLISB today.

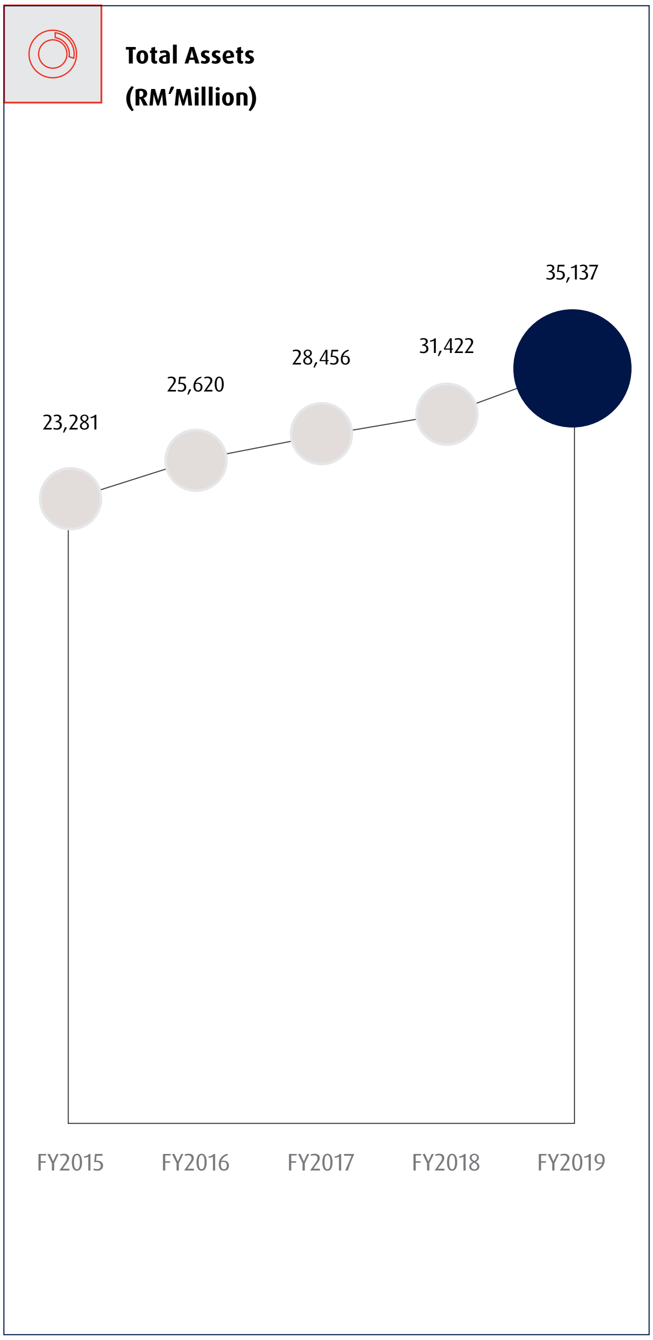
My appreciation to my fellow directors for their dedication and commitment in sharing their knowledge and expertise in driving HLISB to its position today. Also to the Shariah Committee members for their devotion in executing their oversight role over Shariah matters at HLISB.

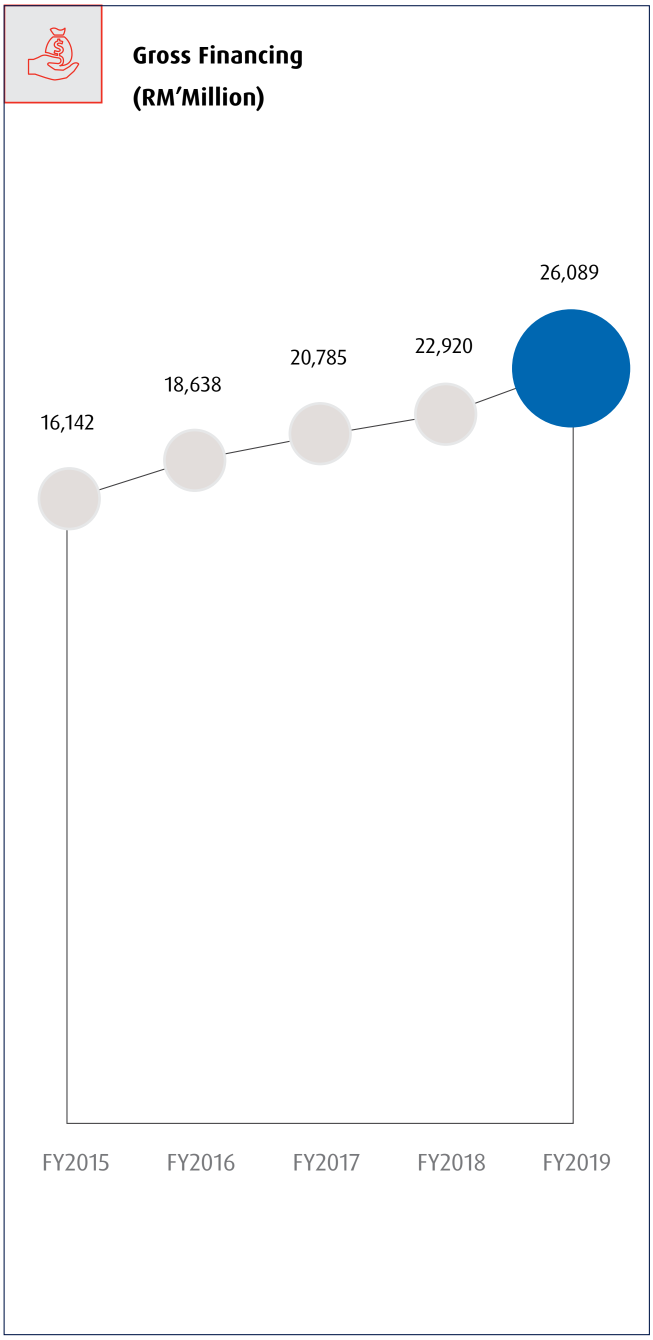
Last but not least, my gratitude to the regulators and authorities for their constant guidance and support to HLISB.

DATUK DR MD HAMZAH BIN MD KASSIM
Chairman

11 September 2019

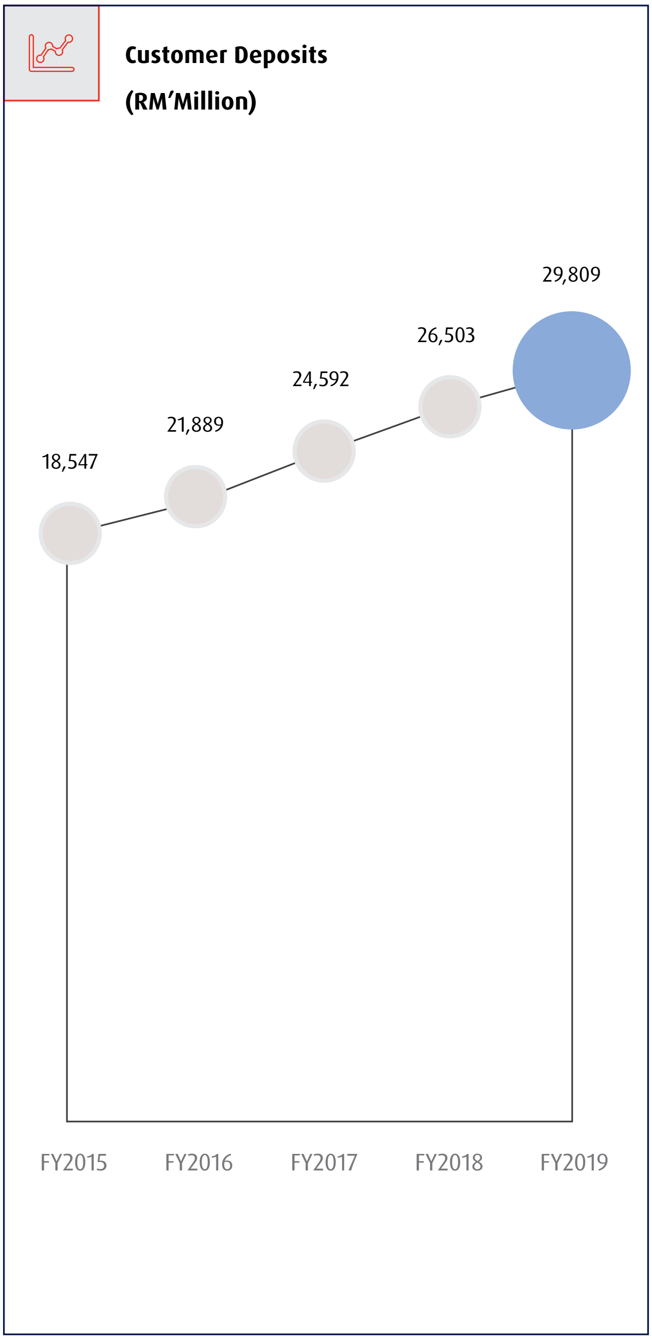
Financial **Highlights**

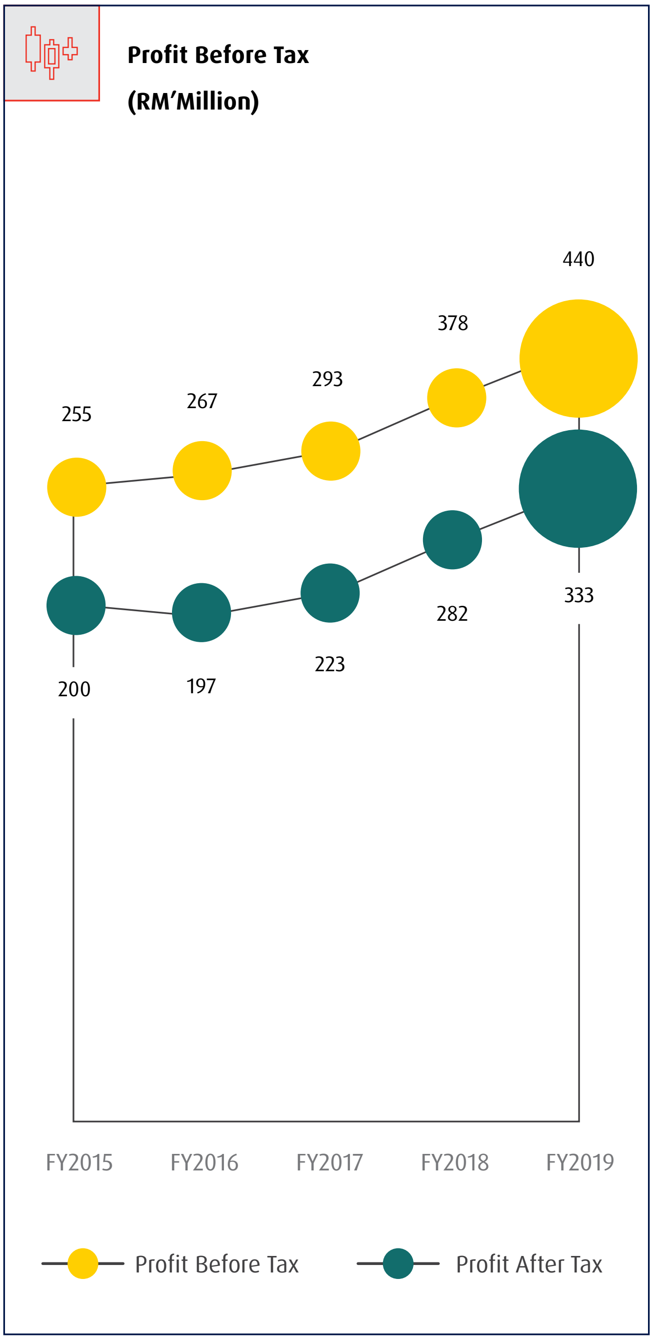




	FY2015 RM'Million	FY2016 RM'Million	FY2017 RM'Million	FY2018 RM'Million	FY2019 RM'Million
Total Assets	23,281	25,620	28,456	31,422	**35,137**
Gross Financing	16,142	18,638	20,785	22,920	**26,089**

Financial Highlights





	FY2015 RM'Million	FY2016 RM'Million	FY2017 RM'Million	FY2018 RM'Million	FY2019 RM'Million
Customer Deposits	18,547	21,889	24,592	26,503	**29,809**
Profit Before Tax	255	267	293	378	**440**
Profit After Tax	200	197	223	282	**333**

Chief Executive Officer's **Statement**

Hong Leong Islamic Bank ("HLISB") is committed to deliver sustainable growth of its business and move forward with other Islamic finance industry players in supporting Malaysia to strengthen its position as the global leader in Islamic Finance.

Malaysia maintains its position as the global leader in Islamic Finance industry. In 2018, Islamic finance spearheaded the growth of the Malaysian banking sector where Islamic financing continued to show double digit growth by 10.5% to RM668.7 billion. The Islamic financing share increased to 36.6% of the total financing in the Malaysian banking industry. Deposits also continued expanding at a healthy pace of 12.4%, following its commendable 14.2% growth the preceding year.

The financial outlook on the Malaysian Islamic banking remains stable supported by strong capitalisation. The overall profitability indicator is expected to stand stable despite slight margin compression and the asset-quality indicators should stay resilient. The industry players are strengthening their funding profile nearing the implementation deadline of net stable funding ratio (NSFR) requirement.

PERFORMANCE REVIEW

Our business strategies and focus have been delivering a positive progress in FY18/19. HLISB delivered a strong performance in FY2019 with Profit before Tax and Zakat increased by 17% to RM440 million over the previous year. Total assets reached RM35.1 billion with a growth rate of 12% while gross Islamic financing assets also grew by 14% to RM26.1 billion, contributed 19% of Hong Leong Bank Group's total financing.

We credit our achievement due to the good progress of our business plan and action throughout our core business segments which are retail, business and corporate, and global market. These are being translated into strong asset growth, well contained operating expenses and lower credit costs.

Chief Executive Officer's Statement

The total income for the Bank expanded 9.5% to RM707 million as compared to RM646 million recorded in FY2018, underpinned by the income from the fund based and non-fund based activities from each business segment. Our PFS-i showing an asset growth of 11.9%, further strengthening its position in the retail segment. The newly ventured Islamic wealth management space provides the Bank with additional source to further grow our fee based income.

In respect of our BCB-i segment, Islamic trade intermediation and SME segment have been showing a good traction, as the Bank benefitted from the higher financing growth rate in the SME segment and fee based income activities especially from the increased trade financing activities. The Global Market also continued to provide the Bank's with revenue and asset growth as a result of higher contribution from funding, investment and liquidity management activities. All of the achievements were made possible after much effort by the team along with research development work undertaken which have resulted in the launch of a full array and holistic product offerings for PFS-i, BCB-i and Global Market-i segments during the financial year.

The Bank's operating cost is well contained with cost to income ratio remained low at 30.0% as compared to 32.1% in FY2018 which signifies our efficiency and discipline in managing our operating cost. HLISB's asset quality remained strong and resilient, with gross impaired financing ratio of 0.68% as compared to 0.9% in FY2018.

HLISB is committed to deliver sustainable growth of its business and move forward with other Islamic finance industry players in supporting Malaysia to strengthen its position as the global leader in Islamic Finance.

STRIKING BALANCE AND BANKING ON VALUES

From a humble beginning in 2005, Hong Leong Islamic Bank has been navigating through a rapidly changing business environment and continue to grow progressively in the Islamic banking industry. We are confident that our progressive approach to integrating sustainability into our business practices empowers us to become among the forefront in the Islamic banking industry while creating positive impacts for stakeholders and contributing to our communities.

In achieving our goals, we have been embedding the economic, environmental and social footprint into our policies, practices and products. One of our guiding principles under this approach is our Group's promise to be "here for the long term" and our commitment to delivering long-lasting sustainable solutions.

That is why the Value-Based Intermediation ("VBI") concept, introduced by Bank Negara Malaysia ("BNM"), has never been a stranger to us. We do not only view VBI as showing our commitment towards the aspiration of BNM, but also as a platform to show the values that have always been embedded in our business strategies and practices.

Direction towards VBI also provides our stakeholders to explore new business areas and opportunities that are in line with sustainable practices. While focusing on three underpinning VBI thrusts on community empowerment, knowledge sharing and good governance, we are committed to deliver positive impact through our business towards three areas, Prosperity, People and Planet ("3P").

Prosperity (Economic Resiliency and Inclusion)	People (Social Empowerment)	Planet (Environment Regeneration)
1. Islamic Wealth Management 2. Bumiputera Agenda 3. Halal Industry 4. SME Agenda	1. Democratizing Islamic Financial Services – reachable to everyone 2. Knowledge Sharing and Islamic Financial literacy	1. HLB Environmental Practices 2. Green and Circular Economy

Our intention in solidifying our impacts towards 3P has been receiving a strong commitment from our stakeholders. Moving forward, as we are intensifying our business strategies and efforts, 3P will be our main consideration and guiding value in performance reporting, management systems and product and services. With regard to management systems, we focus on how our risk management framework identifies positive impacts and negative externalities from our business operation in embedding 3P. For the product and services, we envision to provide product and service features that demonstrates VBI principles and consideration of 3P. It will be materialized by relooking at our product development process and product delivery (marketing, sales and after sales services) to be more customer centric and create better values to customers.

Chief Executive Officer's Statement

DIGITALIZATION

As a responsible corporate citizen, HLISB strive to provide inclusive banking services and accessible financial support for the community at large in line with our 'Digital at the Core' strategy. We believe it can be achieved through our progressive transition towards overarching digitalized financial services and experience. By leveraging the cutting-edge technologies, we aim to drive the creation of a financially empowered community and supporting the new generation of a more informed customers with better access to the digital products, reliable services and simple financial guidance that they need.

At the Group level, the number and value of digital transactions completed by our customers continue to rise. Our Group's digitalization efforts in FY2019 yielding total cost savings of 2.6% reduction of total cost base with a 15% increase in the number of customers using digital products in FY2019, with the total number of digital users now amounting to nearly 50% of our total customer base.

During the year, we have launched the Customer Experience ("CX") Lab, a step that is pivotal to our "Digital at The Core" strategy. The CX Lab aims to create a holistic digitalized customer experience and user interface (CX/UI) for the existing and potential customers. It involves cross-functional business, operations and technology team work together with external partners to co-create the next generation of digital banking products and services. With the new CX/UI infrastructure in place, we at HLISB poise to engage the Group digital innovation expertise and have initiated projects to improve on our Islamic customers digital financial journey experience and find ways to improve on our service delivery plus operational efficiency in the coming financial year.

REIMAGINING WEALTH MANAGEMENT JOURNEY

Islamic Wealth Management is one of our core offering to our retail customers. We strive to provide them with the best avenue for their investment decision and financial planning to fulfil every cycle of their Islamic wealth management needs, in particular wealth accumulation, wealth preservation, wealth distribution and wealth purification accessible via our all-in-one digital platform. Our holistic approach towards Islamic wealth management and efforts undertaken to operationalize this capabilities will in turn create a unique value proposition to our customers and future potential clients.

It was just a few years since we entered the Islamic wealth management space. We are proud to announce that HLISB was awarded with the 'Inspirational Starz Award' at the Amanah Saham Nasional Berhad (ASNB) Starz Award Nite 2018 for our outstanding accomplishment in driving the sales of ASNB unit trust funds. HLISB will also digitise several processes under HLISB's ASBN funds and ASB Financing-i in our efforts to enable more processes and transactions to be performed online.

In early 2019, HLISB successfully launched its very own Term Investment Account-i ("TIA") product on HL Connect that offers a digital alternative to the traditional investment experience. We are proud to be the first Islamic bank in Malaysia to offer a fully digital onboarding of Term Investment Account to the public, further bolstering our motto being "Digital at the Core" and ensuring that the investment journey is both simple and seamless.

Our next phase would be to develop Restricted Investment Account (RA) to promote investment mindset among the digital natives, as another piece of our Islamic wealth management journey. Unlike the existing TIA, this product aims to cater for sophisticated investors in achieving potential higher return. We will continue to drive towards making Investment Account as an instrument that is built around our customers' requisition abridging sustainable values for the community and industry in the future to come.

We also envision to enrich our Muslims customers with a seamless access beyond financial products in fulfilling Islamic financial obligation by enhancing the customers experience in zakat payments, waqaf (endowment) and sadaqah (charity) payments. It just cannot get any better for the digital natives.

SMALL MEDIUM ENTERPRISES ("SME") AND HALAL INDUSTRY

HLISB's commitment is to create value for the communities in which we operate and we express it by extending our reach towards an industry that is undisputedly crucial to the domestic economy, i.e. the Small and Medium Enterprise (SME) industry. HLISB has been supporting the growth and capability development of SMEs through the provision of relevant tools, knowledge, and banking products and services. These include access to financing, specially tailored digital and banking products and payment collection solutions.

We understand their transactions history and business ecosystem to identify any opportunities for HLISB to offer a comprehensive and interconnected supply chain products. We are connecting the financial needs of the supplier, buyer, raw materials supplier, logistics and payment & collection. The service rendered does not only centered on asset financing, but we also equip them with the best Islamic trade, Islamic

Chief Executive Officer's Statement

foreign exchange products offerings plus business takaful product propositions.

Besides facilitating access to financing for underserved SMEs, we enhance our values delivery and fostering relationship with our SME customers by sharing our knowledge and expertise through structured mentorships and support programs. All these were made possible with our continued collaboration with TERAJU, Corporate Guarantee Corporation Malaysia (CGC) and SME Corporation which have been very supportive through collaboration in various schemes beneficial to the SME industry.

We will continue to engage our SME clients to develop products, structure vendor programs, supply chain capabilities along with financial technology payments capabilities with our SME clients so as to capitalize on the growth potential of this market segment. To us, this is the best approach in the facilitation of the SME business journey.

In meeting the growing demand of the Halal industry, HLISB is on the right track to boost its market share in the industry evidenced by the growing interest in our Islamic banking products targeted to the Halal industry players. With the full array of islamic trade and foreign exchange products in place, we are also putting efforts to develop the halal ecosytem especially in the development of halal supply chain financing and payment solutions to satisfy the financial needs of the Halal industry players.

As for our branding strategy in building strong connections to this industry, our team participated in various Halal trade expos and conferences throughout the country including serving as a forum panelist at the World Halal Conference as well as participation in Malaysia International Halal Showcase (MIHAS) 2019. Marketing initiatives are also in place to strengthen our business presence in every Halal segment which are Halal Food, Modest Fashion, Halal Travel and Halal Pharmaceutical.

ENHANCING ISLAMIC FINANCIAL LITERACY

Improving financial literacy is crucial in driving financial wellbeing, particularly in underserved or economically disadvantaged areas of society. As a responsible provider of Islamic banking solutions, HLISB undertake to increase awareness on Islamic banking and financial services to enable our customers to identify the banking solutions that best fit their needs and requirements.

To better advise customers and the general public on the topic of Islamic banking principles, we have successfully developed an AI-enabled Islamic banking knowledge platform, Shariah UNiversal Digital Assistant for You ("SUNDAY") developed in partnership with the University of Malaya ("UM"). The public user is able to seamlessly access general knowledge on Islamic banking and Shariah contracts using the chatbot. We are proud to say that SUNDAY is the first AI-enabled chatbot in Malaysia that is equipped with Islamic banking and finance knowledge and able to relay this information and converse with the public in the Malaysian language, Bahasa Malaysia. This is among our proud Islamic finance digital milestone besides our HLB A.I. Chatbot accessible via HL Connect and HLISB website that is capable to answer our customers' queries relating to basic knowledge of Shariah and Islamic finance along with information on our products. Internally, our staff is also able to leverage on our e-learning application via Smartup to keep them up-to-date with the Islamic finance knowledge, product knowledge and development in the Islamic Finance industry.

Chief Executive Officer's Statement

By providing these digital educational platforms, the Bank ensures that our knowledge-sharing efforts are readily accessible by the broader Group staff plus across the country and delivered in an easily digestible and user-friendly format for a maximum uptake of information.

In FY2019, members of the HLISB team also participated in several industry seminars and conferences to share their knowledge and expertise with other industry stakeholders. We also delivered educational programmes for Malaysian students to promote financial planning and awareness of Islamic banking, reaching a total of 250 students at the high school, undergraduate and postgraduate levels.

GENERATING SUSTAINABLE VALUE THROUGH REGULATORY COMPLIANCE AND SHARIAH GOVERNANCE

As the regulators continue to set high expectations towards regulatory compliance and Shariah governance, HLISB has been maintaining a strong compliance and risk management capabilities within our norms and values to ensure a resilient Islamic banking business operation while remaining Shariah compliant. We create a culture where we proactively identify potential compliance and Shariah governance issues. For us, a strong regulatory and Shariah compliance risk culture makes good business sense and protects the integrity of our institution.

Our rapid move towards digitalization poses a new risk paradigm that demands deep thinking about the new risks associated with the fast evolving financial technology. It also changes the way we approach regulatory compliance and Shariah Governance.

With the dynamism of Shariah application in the Islamic finance industry, adhering to the highest Shariah standard and best practices has been the utmost importance in our product offerings, activities and processes. In anticipation of the upcoming new regulatory requirements on Shariah governance before the end of calendar year 2019, HLISB is ready with the anticipated requirements to elevate Shariah governance to a new level.

Chief Executive Officer's Statement

We have been undergoing up-to-date Islamic finance capacity building programs and various Shariah compliance awareness measures at HLISB and Hong Leong Banking Group. We are also building and developing a future ready Shariah Committee and Shariah team that are capable to provide Shariah articulation towards new and emerging development in the industry, including financial technology.

FIT FOR FUTURE WORKFORCE

It is crucial for us to ensure our human capitals are highly adaptable to the ever-evolving business environment and possess data driven skills to make sense of everything related to our stakeholders. Transforming our workforce is as important as transforming our product offerings and processes.

To realize this potential, we facilitate our workforce with a continuous learning and skills development to create an organization culture that is learning oriented, long-term oriented and result oriented.

As commitment in enhancing our workforce professionalism, we support our staff undertaking professional certifications offered by reputable professional bodies such as Asian Institute of Chartered Banker (AICB) and Chartered Institute of Islamic Finance (CIIF). Our team are also familiarizing themselves with emerging banking issues, particularly on digitization and data science analytics with customer journey experiences thinking mind set, through participation in relevant workshops and seminars related to these topics.

This approach is critical for us to build skills that are in demand and build resiliency in our people. As part of the critical capabilities, it is vital that our workforce are fully capable to understand and manage risks in a digitalized world of financial services and embrace digital governance.

MARKET OUTLOOK

Islamic banking continued to expand at a much faster pace than the conventional banking in FY18, coming in at 11% financing growth compared with the latter's 3.3% loan growth. Islamic banking sector is expected to sustain the positive trend in FY19/20.

Notwithstanding the encouraging outlook, Islamic banking need to expand its market share in the Halal Market, SME, Wealth Management and Islamic social finance along with enhancing its digital footprint to further accelerate the growth of the industry.

Cost management will continue to be an area of concern with the need to sustain a strong profitability position to support business growth. To remain competitive and resilient, HLISB will endeavour to preserve a good Return on Asset, Return on Equity and grow the non-financing income stream and expand our market reach.

ACKNOWLEDGEMENT

I take this opportunity to express my thanks to our loyal customers and valued shareholders for placing their unwavering trust and confidence in HLISB. A special note of appreciation to my colleagues at HLISB as well as Hong Leong Bank for their relentless support and resolute contribution towards our success so far.

My sincere gratitude goes out to the Board members and Hong Leong Bank's senior leadership team for their leadership and invaluable guidance, and Shariah Committee of HLISB for their Shariah supervisory role. Last but not least, to BNM and other regulatory authorities for their support throughout HLISB journey.

JASANI BIN ABDULLAH
Chief Executive Officer

11 September 2019

Management Discussion & Analysis
Financial Review

1. FINANCIAL HIGHLIGHTS

	FY2018	FY2019	Growth %
Profitability & Efficiency (RM'million)			
Total income	646	**707**	9.5%
Operation profit	439	**495**	12.8%
Profit before zakat and taxation	378	**440**	16.5%
Earning per share (sen)	40.3	**47.6**	18.1%
Cost to income ratio	32.1%	**30.0%**	2.1%
Return on assets	0.94%	**1.00%**	0.06%
Return on equity	13.2%	**13.8%**	0.6%
Assets and deposits (RM'million)			
Total assets	31,422	**35,137**	11.8%
Gross financing and advances	22,920	**26,089**	13.8%
Customer deposits	26,503	**29,809**	12.5%
Asset Quality			
Gross impaired financing ratio	0.9%	**0.7%**	0.2%
Financing impairment coverage ratio	95.5%	**140.2%**	44.7%
Financing impairment coverage ratio (including regulatory reserve)	142.6%	**213.5%**	70.9%
Liquidity and Capital			
Financing to deposit ratio	86.5%	**87.5%**	1.0%
Total capital ratio	15.5%	**15.2%**	-0.3%

The Bank recorded a new milestone in its financial performance for the Financial Year Ended 30 June 2019 ("FY2019"), underpinned by strong assets growth, well contained operating expenses and lower credit costs.

The Bank's Profit before Zakat and Taxation reached a new high of RM440 million in FY2019, translated into 16.5% Year-on-Year ("YoY") growth as compared to Financial Year Ended 30 June 2018 ("FY2018").

The Bank Return on Assets ("ROA") improved to 1.00%, against 0.94% in FY2018, while Return on Equity was higher at 13.8% as compared to 13.2% in the previous financial year.

The Bank achieved most of its Key Performance Indicators (KPI) for FY2019.

Management Discussion & Analysis Financial Review

Statement of Income Summary

RM' million	FY2018	FY2019	Growth %
Total income*	646	**707**	9.5%
Overheads and other expenditures	207	**212**	2.4%
Operating profit*	439	**495**	12.8%
Net allowance for impairment on financing and other impairments	61	**55**	-9.7%
Profit before zakat and taxation	**378**	**440**	**16.5%**
Net profit for the financial year	**282**	**333**	**18.1%**

* *before allowance for impairment.*

Operating profit was commendable, reporting an increase of 12.8% to RM495 million, as compared to RM439 million in the previous year.

Total incomes including other operating income for the Bank improved 9.5% to RM707 million as compared to RM646 million recorded in FY2018.

Net fund based income or net profit income remained as the main contributor to the Bank's revenue, increased by 4% to RM628 million from RM602 million previously, on the back of higher asset base which mitigated the effects of a challenging net income margin arising from competitive deposits business environment.

Non-funded income grew remarkably by 79.9% to RM79 million, compared to RM44 million in FY2018, with higher contribution from our Islamic wealth management, treasury and business and corporate banking transactional incomes.

The Bank's total operating expenses increased by 2.4% to RM212 million in FY2019 in line with business expansion. The Bank continued to demonstrate efficiency and discipline in cost management which was reflected by improvement in cost to income ratio to 30.0% as compared to 32.1% in FY2018. The Bank's cost-to-Income ratio was among the lowest as compared to other peers.

2. STATEMENT OF FINANCIAL POSITIONS

Statement of Financial Positions Summary

RM' million	FY2018	FY2019	Growth %
Cash and placements with banks	1,353	**109**	-91.9%
Securities	6,574	**7,711**	17.3%
Net financing and advances	22,721	**25,840**	13.7%
Deposits from customers	26,503	**29,809**	12.5%
Invesment account of customers	-	**2**	100.0%
Subordinated Sukuk issued	802	**802**	0.0%
Total Assets	31,422	**35,137**	11.8%
Total Equity	2,252	**2,591**	15.0%

Management Discussion & Analysis Financial Review

Total Assets registered double digit growth of 11.8% to RM35.1 billion, compared to FY2018, spearheaded by strong growth momentum in financing business and treasury financial instruments.

Net financing and advances surged at a healthy pace of 13.7% ended at RM25.8 billion, driven by a strong performance of our retail banking as well as business banking financing portfolios.

Gross Financing and Advance

	FY2018		FY2019		
Gross Financing and Advances	**RM' million**	**% Contribution to Bank**	**RM' million**	**% Contribution to Bank**	**Growth% (YoY)**
Total Bank	**22,920**		**26,089**		**14%**
Residential properties	11,968	52%	**13,497**	**52%**	13%
Transport vehicle	3,474	15%	**3,617**	**14%**	4%
SME	2,807	12%	**3,531**	**14%**	26%

Gross Financing and advances continued to grow at steady pace of 14% to RM26.1 billion as at the end of FY2019, from RM22.9 billion as at the end of FY2018.

The Bank's financing activities was mainly driven by the retail segment, which largely comprised of financing of residential properties and vehicles. Total retail financing portfolio maintained its steady growth momentum, expanded by 11.9% YoY contributing 75.3% to the Bank's total gross financing as at the end of FY2019. The growth in retail financing was led by residential properties which increased 13% to RM13.5 billion YoY.

Financing to Small and medium enterprises expanded at a healthy pace of 26% to RM3.5 billion as at the end of FY2019, in line with the Bank's strategic initiatives to grow this important segment.

Asset Quality

	FY2018	FY2019	Average Industry
Gross Impaired Financing ratio	0.9%	**0.7%**	1.3%

The Bank's continued to uphold a strong asset quality as a key priority and metrics.

Asset quality continued to improve in FY2019 where the Bank's net financing impairment allowances declined by 9.7% to RM55.2 million in FY2019 compared to RM61.2 million in the previous year, translated to a lower net credit charge of 0.21% in FY2019 versus 0.27% in FY2018.

Our assets quality remained prudent with Gross Impaired Financing (GIF) ratio stood at 0.7%, improved from 0.9% as compared to FY2018. Our GIF ratio is one of the lowest in the industry and continues to be well below the industry average of 1.3%.

Management Discussion & Analysis Financial Review

Customer Deposits

Customer deposits	FY2018 RM' million	FY2018 % Contribution to Bank	FY2019 RM' million	FY2019 % Contribution to Bank	Growth% (YoY)
By key product type of deposits					
Current and saving accounts (CASA)	6,010	23%	**5,859**	**20%**	-3%
Fixed deposits/Term deposits	15,452	58%	**18,893**	**63%**	22%
By key type of customers					
Individual	10,113	38%	**11,033**	**37%**	9%
Business enterprises	14,056	53%	**14,813**	**50%**	5%
Total core deposits	**21,462**	**81%**	**24,753**	**83%**	**15%**
Total customer deposits	**26,503**	**100%**	**29,809**	**100%**	**12%**

The Bank's Customer deposits, expanded 12.5% YoY to RM29.8 billion, continued providing stable funding and liquidity profiles while the Bank's key liquidity indicators were well maintained within the regulatory requirements. Core deposits, comprising demand deposits, savings deposits and fixed deposits, grew by 15% to RM24.8 billion driven by the inflow of term deposits which increased by 22% YoY. Individual deposits expanded 9% which was translated into individual deposit mix of 37% ahead of average industry ratio.

Current and saving accounts contributed 20% to our total customer deposits while term deposits contributed 63% to the total deposit base.

Liquidity Position

	FY2018	FY2019	Minimum requirement in Year 2018	Minimum requirement by Year 2019
Liquidity Coverage Ratio (LCR)	114%	**123%**	90%	**100%**

The Bank's maintains a high quality and well diversified liquid assets to meet its liquidity needs.

Under the Basel III liquidity requirement, Liquidity Coverage Ratio ("LCR") was designed to ensure that a bank maintains an adequate level of unencumbered, high quality assets that can be converted into cash to meet liquidity needs for a 30-day window when it occurs during an acute liquidity stress scenario as specified by the regulators.

The Bank was well funded with a healthy Financing to Fund and Equity (FTFE) ratio of 83.3% as at end of FY2019 whilst the Liquidity Coverage Ratio (LCR) stood at 123% surpassing the minimum requirement of 100%.

Management Discussion & Analysis
Financial Review

Capital Adequacy Ratio

			Regulatory min with CCB*	
	FY2018	FY2019	FY2018	FY2019
CET 1	10.46%	**10.53%**	6.38%	**7.00%**
Tier 1	12.40%	**12.26%**	7.88%	**8.50%**
Total Capital	15.48%	**15.15%**	9.88%	**10.50%**

* *ccb is referring to Capital Conservation Buffer.*

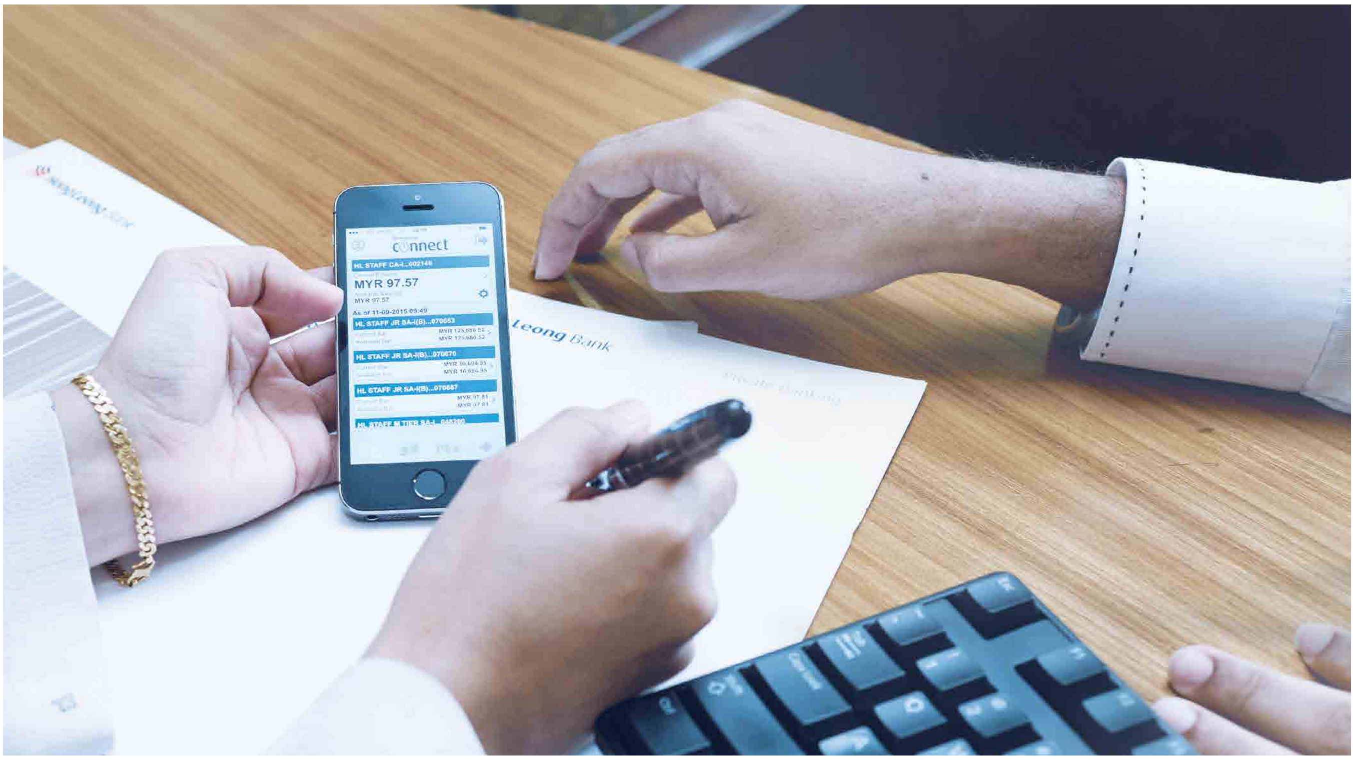
Total Capital Ratio stood at 15.15%, well within the regulatory minimum requirements.

The Bank is proactively reviewing its capital position to ensure effective capital management and healthy capital positions that aligns with the regulatory requirement and strategic business objective of the Bank.

The Bank has established a capital Programme under the Multi-currency Subordinated Sukuk Programme of RM2.0 billion in November 2017 to allow the Bank to access to the market in a timely manner when prevailing conditions are favourable.

RAM RATINGS

During the Year, RAM ratings reaffirmed AAA for long-term Financial Institution Ratings ("FIR") and P1 for its short-term FIR of P1. The AAA financial institution rating reflects the Bank's superior capacity to meet its financial obligations, while the P1 rating reflects a strong capacity to meet its short-term financial obligations.



Management Discussion & Analysis
Business Operation Review

1. PERSONAL FINANCIAL SERVICES-I ("PFS-I")

Personal Financial Services-i (PFS-i) is one of our essential business segments that serves our retail customers with a wide range of Islamic banking products and services such as savings account-i, current account-i, term deposit-i, personal financing-i, property financing-i, Islamic wealth management and other Islamic retail banking solutions.

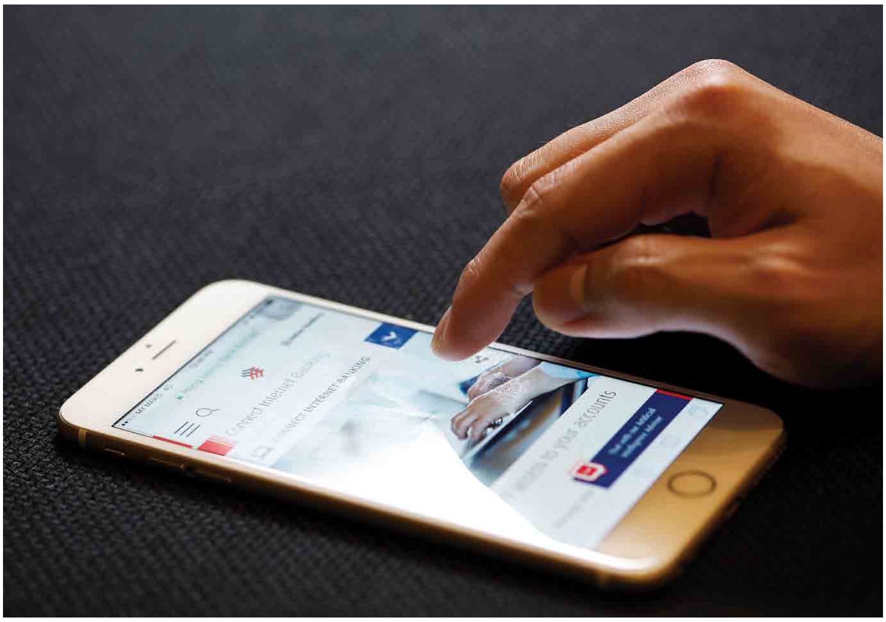
PFS-i remained as the largest contributor to our business, representing 55% of the total assets of the Bank. For the year, retail financings portfolio grew by 11.9% driven mainly by residential properties. Retail deposits continued to provide the Bank with a stable liquidity where PFS-i registered growth in its deposit base of 7.6% as compared to FY2018. Retail deposit was strong with individual deposit mix stood at 37% above the average industry ratio.

The Islamic wealth management is among PFS-i's key offering to provide our retail customers and future potential clients with the best platform and unique value proposition to manage their personal wealth and investment portfolio. Besides its existing product offerings such as Takaful, Islamic Unit Trust and Will Writing, PFS-i has accomplished significant milestones in FY2019.

For our outstanding performance in accelerating the sales of ASNB unit trust funds, we are proud to announce that HLISB is awarded with the 'Inspirational Starz Award' at the Amanah Saham Nasional Berhad (ASNB) Starz Award Nite 2018. Far from being satisfied with our current milestone, we are also in the midst of digitising several processes under HLISB's ASBN funds and ASB Financing-i to enable them participating in this investment opportunity through online platform. This year we also developed new products and services to cater to the needs of our Islamic customers, including ASB Financing ("ASBF-i") and regular contribution Takaful products, namely i-Saver20 and Amanah Saver.

Our newly launched Term Investment Account-I ("TIA") is another HLISB's significant breakthrough in the investment intermediary segment. Not your ordinary traditional investment experience, our TIA is the first investment account product that can be fully subscribed online, signifying our "Digital at the Core" ethos. As of now, we are progressing into the next category of Investment Account, namely Restricted Investment Account (RA), an investment with a specific mandate that aims to cater for sophisticated investors in achieving potential higher return.

Efforts are also being deployed to enhance our customers' digital experience by equipping them with a seamless digital access to relevant Islamic social finance institutions such as Zakat institution, Wakaf institution and Tabung Haji.



Management Discussion & Analysis
Business Operation Review

2. BUSINESS & CORPORATE BANKING-I ("BCB-I")

During the year, BCB-i business progress was commendable, where its financing assets base registered a commendable annual growth rate of 20.2% to RM6.4 billion, largely contributed by the SME segments.

EXPANDING ISLAMIC BANKING OPPORTUNITIES IN THE SME MARKET

HLISB is expanding its footprint in the SME and Bumiputera market through collaboration with SME Corporation Malaysia to offer the Shariah Compliant SME Financing Scheme ("SSFS") and partnering with Unit Peneraju Agenda Bumiputera ("TERAJU") as a panel bank for its Program Syarikat Bumiputera Berprestasi Tinggi ("TERAS") programme. The objective of the TERAS programme is to identify high-potential Bumiputera companies and help those companies improve their businesses by providing business opportunities based on merit.

In recognition of the efficient and effective financial tools that we have established for SMEs to enhance their business performance, our Group was awarded 'Best SME Bank in Malaysia' at the Asian Banker International Excellence in Retail Financial Services Awards 2019. Our Group was also named 'Top Financial Institution Partner-Overall Category' at the CGC SME Awards Ceremony 2019 in recognition of our active participation in CGC's financing schemes and our continued commitment towards supporting the financing needs of Malaysian SMEs.

We are also exploring to leverage financial technology to maximize our support to the SME industry through digital business solutions, e-commerce marketplaces, supply chain financing and straight-through financing applications with the use of scorecards/data science in decision making.

HALAL INDUSTRY

Thanks to its comprehensive halal certification system, steady economic growth and social stability, Malaysia has emerged as a leader in the global halal industry. Our FY2019 outreach initiatives to support the Islamic SME sector included participation in Halal trade expos and summits throughout Malaysia, including serving as a forum panelist at the World Halal Conference as well as participation in MIHAS 2019. We also undertook a six-month Halal financing campaign to encourage front-liners to support the Halal Pharmaceutical and Food and Beverage industries.

In addition, to better support the halal business communities, an industry handbook was also designed to facilitate better understanding of the halal industry as a whole, its certification processes and due diligence, as well as general financing requirements in order to provide our relationship managers with a guide to advise and acquire prospective clients within the industry.

The strength of our presence in the Halal business community was reflected in growing uptake of our Islamic banking products targeted to these customers. In FY2019, we recorded high interest in these services from new customers to the Bank, indicating that our engagement strategy is building strong connections to a previously untapped customer base.

Moving forward, we intend to continue our support for the industry through participation in outreach events and the on-boarding of Halal industry experts to increase our ability to connect with the Halal business community. It is also to enable their growth and further enhance Malaysia's reputation as a global centre for the halal industry.

Management Discussion & Analysis
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3. GLOBAL ISLAMIC MARKET

Global Islamic Markets (GIM) is a key product partner of PFS-i and BCB-i in the FX space, while also being the key unit in managing the Bank's liquidity through various investments and Money Market instruments.

Global Islamic Markets closed the year with 38.6% growth in net revenue of RM91.5 million (FY2018: RM66.0 million) led by strong performance from the trading income and capital gain. Total securities expanded by 17% from RM6.6 billion last year to RM7.7 billion his year, contributing 22% (FY2018: 21%) to the Bank's Total Assets.

A growth opportunity of our client base is expected to continue as BCB-i embarks on new opportunities to further grow its Commercial and SME financing portfolio. Further to this, we continue to push for client penetration for Islamic solutions as Hong Leong Islamic Bank is one of the few banks in Malaysia with a comprehensive Islamic product suite.

DIGITALIZATION

Technological advances and societal shifts are changing the face of financial services. Digitalization provides an opportunity to improve the functionality, accessibility and affordability of banking transactions. At its core, digitalization is both about technology and relationships. As banks embrace digital offerings, it is essential that a balance is achieved between rapid inclusion of new digital services and the needs of customers. Building trust is the key towards unlocking true digital transformation.

"Digital at the Core" is our aspiration that drives us to become the forefront in the Islamic digital financial ecosystem. Leveraging on our cutting edge technology and expertise, we seek to offer our customers with the unrivalled customer experience and seamless access towards our product and service offerings.

In FY2020, our Group will allocate up to RM150 million of capital expenditure for digital capability enhancements and initiatives. This will include investments into our AI-enabled virtual assistant and investments into increased mobile functionality.

We also invested in compliance initiatives to ensure the protection of our customers and our business. In doing so, we remain focused on maintaining robust cyber security capabilities to safeguard customer data, privacy and security.

The central strategy for our digital journey is Design Thinking ("DT") through the newly launched Customer Experience ("CX") Lab, by designing products and services with the customer experience at the forefront. We provide awareness-level DT workshops for our team to drive a culture of customer-centric thinking and equips employees with the skills to ideate and prototype new offerings and for employees to put these new skills to use in their work. We also engage the HLB Group digital innovation expertise and have initiated projects to enhance our Islamic customers' digital financial journey experience and find ways to improve on our service delivery plus operational efficiency in the future.

HLISB DIGITALIZATION INITIATIVES AND MILESTONES

01 RETAIL SEGMENT

- Term Investment Account-i: the first investment account product that can be fully subscribed online
- ASBN funds and ASB Financing-i: access through online platform
- Synchronizing HL Connect and Islamic Social Institutions: to perform Islamic social obligations such as Zakat, Wakaf and Sadaqah

02 BUSINESS SEGMENT

- SMEs solutions: digital accounting, payroll and HR, advertising and tax advisory services for businesses
- Expanding e-payment ecosystem towards social institutions: Islamic social institutions (Zakat, Wakaf etc), education sector and healthcare sector

03 FINANCIAL LITERACY

- Shariah UNiversal Digital Assistant for You ("SUNDAY"): Developed in partnership with the University of Malaya ("UM") that provide the public an access towards general knowledge on Islamic banking and Shariah contracts
- HLB A.I Chatbot: capable to answer our customers' queries relating to basic knowledge of Shariah and Islamic Finance

Management Discussion & Analysis
Business Operation Review

WORKFORCE EMPOWERMENT

Our aim is to create a best in class workforce that is resilient, adaptable and equipped to provide the highest level of service in addressing future business challenges and the dynamism of Shariah compliance. HLISB has been investing into our employee's skills and technical competencies via adequate capacity building, continuous learning opportunities and progression in their career.

Aligning to the industry needs, we encourage our team to raise their competency by pursuing professional certifications offered by reputable professional bodies such as Asian Institute of Chartered Banker (AICB) and Chartered Institute of Islamic Finance (CIIF). Our team also attended various conferences and seminars related to the emerging Islamic banking issues such as digitalization, Islamic Financial Technology (Fintech), blockchain, Customer Experience & User Interface (CX/UI) and others.

We have been engaging external training providers to develop and provide structured in-house training on Shariah and Islamic Finance for HLISB and HLB staff. This is as part of our continuous and comprehensive capacity-building initiatives for all staff directly or indirectly involved with Islamic transactions. Among the initiatives are:

1. Islamic Finance 2.0: 3,438 employees participated as of FY2019 year end

2. Islamic Finance Qualification ("IFiQ") Intermediate Level: 444 employees participated as of FY2019 year end

3. Islamic Finance Qualification ("IFiQ") Advanced Level: 391 employees participated as of FY2019 year end

The Shariah Division team are also undergoing the Certified Shariah Advisor ("CSA") and Certified Shariah Practitioner ("CSP"). A total of 7 employees had completed Level I of the CSA/CSP programs and are working to complete their Level II modules.

Recently, all participants from the first and second batch of the Shariah Graduate Training Program graduated in February 2019 and June 2019, comprising of three participants from each batch respectively. Moving forward, the Program will be rebranded to "Islamic Graduate Trainee Programs" which focuses not only exposure at the Shariah functions, but on other areas relevant to Islamic Banking practices such as corporate and retail banking, finance, strategy and product development. This rebranded program is targeted to begin in FY2020.

HLISB also supports the Malaysian government's efforts to enhance employability among Malaysian graduates through participation in the Group's PROTEGE Program, (previously known as Skim Latihan 1 Malaysia). Under PROTEGE, graduates receive structured training and exposure to the operations of the Bank with the goal to boost employability among the youth.

We also reach out to high-potential first- and second-year students through our comprehensive 12 week internship framework for undergraduates seeking job experience within Islamic banking. Both programs serves as part of our recruitment strategy by building stronger relations with the youngest members of the up-and-coming workforce.

Our Management Associate (MA) Programme focuses on cultivating future leaders by enabling candidates to develop fundamental and transferable skill sets with fast-track progression opportunities to management levels. A candidate from our 2017 batch has been successfully placed within HLISB as a Business Development Manager, as HLISB continues to strengthen its proposition as a preferred employer of choice with the MA Programme.

All of these efforts have helped us to nurture and cultivate our own internal talent pool, enabling them to move into key roles as part of HLISB's mission to provide expanded learning and career progression opportunities.

VALUE BASED INTERMEDIATION (VBI)

Value-Based Intermediation (VBI) sets up a new inspiration on the Islamic banking industry towards realizing the intended outcome of Shariah (Maqasid Shariah). HLISB is in a good position to implement VBI considering that our strategies and business philosophies are very much embracing the VBI pillars. We are striving towards generating positive and sustainable impact towards 3P, i.e. Prosperity, People and Planet:

1. Prosperity (Economic Resiliency and Inclusion), through:
   a. Islamic Wealth Management
   b. Bumiputera Agenda
   c. Halal Industry
   d. SME Agenda

2. People (Social Empowerment) through:
   a. Democratizing Islamic Financial services to be reachable to everyone
   b. Knowledge sharing and Islamic Financial Literacy

3. Planet (Environment Regeneration)
   a. HLB Environmental practices
   b. Green and Circular Economy

Direction towards VBI also provide our stakeholders to explore new business areas and opportunities that are in line with sustainable practices while delivering positive values to our stakeholders.

Management Discussion & Analysis
Business Operation Review

SHARIAH

HLISB maintains to uphold a high standards of Shariah practices in its product offerings, activities and processes. Thus, the effective management of Shariah compliance is paramount, especially with the growing importance of Islamic banking as a key element of the financial system, domestically and globally.

Shariah Governance is among the instrumental tool in ensuring that HLISB is able to achieve the above outcome. As the BNM's proposed new regulatory requirements on Shariah governance for Islamic financial institutions is expected to be finalized before the end of calendar year 2019, HLISB is positive that it will be able to comply with the new requirements and consistent in maintaining its best practices with regard to Shariah Governance.

Interactive learning at the lobby of Menara Hong Leong and HLISB Brown Bag Lunch & Learn for Shariah Compliance Month

Management Discussion & Analysis
Business Operation Review

On top of the e-learning (Introduction to Islamic Banking and Islamic Finance modules in Mandatory Learning and the Divisions Channel of SmartUp respectively) and classroom training, other internal initiatives include Brown Bag Lunch & Learn Sessions ("Shariah Compliance: Where Could We go Wrong?" and "ASB Financing") and monthly huddles as part of Hong Leong Bank Group's drive to strengthen compliance culture. All managers are responsible for driving a weekly or monthly huddle with employees based on a structured and consistent framework provided to them.

Besides the capacity building initiative for Islamic finance and raising our Shariah team capability and expertise through the Certified Shariah Advisor ("CSA") and Certified Shariah Practitioner ("CSP") programmes, Shariah Division team have employed various initiatives to enhance the practice of Shariah Governance up to the level of best practices. Among them are:

1. Shariah Thought Leadership
   In contributing to the Islamic finance industry, our Shariah Division expert is sharing his knowledge and experience on Islamic Finance and Shariah Governance through holding various important roles in Islamic finance bodies such as Association of Islamic Banking Institutions Malaysia (AIBIM), Association of Shariah Advisors in Islamic Finance (ASAS) and Chartered Institute of Islamic Finance (CIIF).

2. Awareness Channel
   The Shariah Team had been contributing significantly to the development of two Islamic finance Chatbots, such as:
   a. HLB Chatbot that is able to answer basic Islamic finance knowledge.
   b. An AI-enabled Islamic banking knowledge platform for the public, namely Shariah UNiversal Digital Assistant for You or "SUNDAY". It is developed in partnership with the University of Malaya ("UM"). It is equipped with general Shariah knowledge regarding the authorities, articles and scholarly discussions in relation to Shariah contracts.

Sustainability **Statement**

The contents of this Sustainability Statement present an overview of our sustainability approach, describing how we identify and manage economic, environmental and social risks and opportunities as part of our business activities. As a wholly owned subsidiary of Hong Leong Bank ("HLB"), Hong Leong Islamic Bank ("HLISB" or "the Bank") adheres to the policies, standards and procedures established by HLB to drive sustainability, in addition to our own Islamic-related standards. Detailed disclosure of these practices is presented in HLB's standalone Sustainability Report 2019, which provides a more comprehensive overview of the progress we have made to integrate sustainability into our business practices, products and services.

The HLB Sustainability Report 2019 covers the operations of HLB and HLISB in Malaysia in the financial year from 1 July 2018 – 30 June 2019 ("FY2019"), unless otherwise stated. It has been prepared in accordance with the Global Reporting Initiative Standards ("GRI Standards") Core option and Bursa Malaysia Sustainability Reporting Guide (2nd Edition). It has been further guided by the Recommendations of the Task Force of Climate-related Disclosures ("TCFD") and the United Nations Sustainable Development Goals ("UN SDGs").

The Report has been reviewed and approved by HLB's senior management and its Board of Directors. Its content has been externally assured by an independent body, Malaysia's leading certification, inspection and testing body, SIRIM QAS International Sdn Bhd.

Sustainability Statement

SUSTAINABILITY THEMES

Our sustainability approach represents the Bank's approach to integrating economic, environmental and social considerations into all that we do. This encompasses our range of business activities within the sphere of traditional and Islamic banking, as well as our internal operations and our impact on local communities and the environment at large. A fundamental value of the Hong Leong Banking Group is that we are "Here for the long term". In upholding this value, HLISB commits to delivering long-lasting sustainable solutions.

HLISB Corporate Vision

"Highly digital and innovative Islamic financial services company"

HLISB Mission

To help clients succeed through simple, relevant, personal and fair banking;
To provide our people with the best opportunities to realise their potential;
To create stakeholder value.

HLISB Sustainability Themes

Digital at the Core	Fit-For-Future Workforce	Environmentally and Socially Responsible	SME Growth
Embracing digital transformation and building internal capability to enhance customer and employee experience, accessibility and efficiency.	Acquiring strategic skills to enhance critical and core capabilities. Hiring and retaining a high performing inclusive workforce fit for the digital era.	Managing the environmental footprint of our operations. Advocating social and environmental responsibility through our products and services, and through business partners, suppliers and associates that we do business with.	Supporting the growth and capability development of SMEs through the provision of relevant tools, knowledge and banking products and services. Facilitating access to financing for underserved SMEs. Supporting the entrepreneurial spirit of start-ups and FinTechs to build a vibrant future business community.

Our Material Topics

Digital at the Core	Fit-For-Future Workforce	Environmentally and Socially Responsible	SME Growth
• Digital Innovation • Customer Experience • Cyber Security and Data Privacy • Fair Banking	• Employee Experience • Ethics, Integrity and Compliance	• Responsible Financing • Managing our Environmental Footprint • Supplier Assessment	• Community Banking

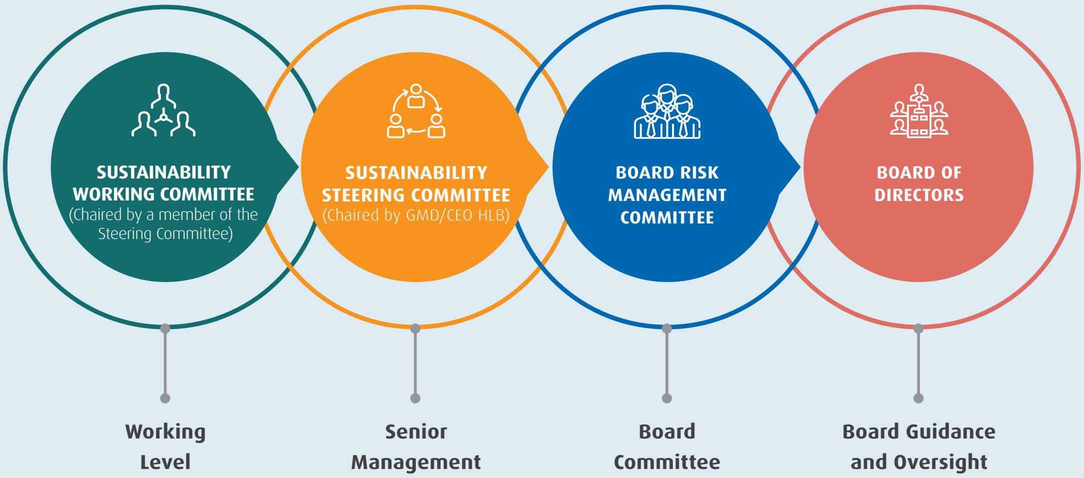
Sustainability Risk Management

Sustainability Statement

HOW SUSTAINABILITY IS GOVERNED

Sustainability is driven by the Group Board of Directors. Members of the Board, and especially the Board Risk Management Committee, oversee our sustainability and climate change-related actions and policies, ensuring they are aligned with our corporate values and supportive of our business goals and vision.

HLB Group Sustainability Governance Chart FY2019



In FY2019, the Bank embedded Environmental Risk in the Risk Management Structure as depicted below:

Top Down
▼
Set Risk Appetite & Tolerance Limit
▼
Set Policies and Capital Allocation

Board of Directors

Effective stewardship and control

Board Risk Management Committee

Present single view of risks and to ensure adequate policies and controls within the Group

Group Risk Management & Group Compliance

Monitoring and Reporting
▲
Bottom Up

Credit Risk	Market Risk	Operational Risk	Liquidity Risk	IT & Cyber Risk	Regulatory Compliance	Environmental Risk

Daily management of risk, limits, policies, procedures and reports

Environmental risk is actual or potential threat of adverse effects on living organisms and environment by effluents, emissions, wastes, resource depletion and other impacts arising out of an organisation's activities. In our case, given our role in the economy, in addition to our own activities, we are cognisant of the fact that people and companies we do business with also have an impact on the environment, and hence we ensure that our financing and procurement policies, for example, take this risk into account.

For other key risks, further information can be found in our Annual Report 2019, under Corporate Governance Overview, Risk Management & Internal Control Statement.

Sustainability Statement

OUR SUSTAINABILITY APPROACH

HLISB's sustainability strategy represents our approach to integrating economic, environmental and social considerations into all that we do. This encompasses our range of business activities within the sphere of traditional and Islamic banking, as well as our internal operations and our impact on local communities and the environment at large. One of our guiding principles under this approach is our promise to be "here for the long term" and our commitment into delivering long-lasting sustainable solutions and value creation.

Our approach to sustainability is anchored in our ability to build deeper and meaningful relationships with our stakeholders. By analysing our impacts as a solution provider, we are able to holistically manage the economic, environmental, and social contexts in which we operate. Beyond that, we are able to support the growth and success of our stakeholders through our products and services.

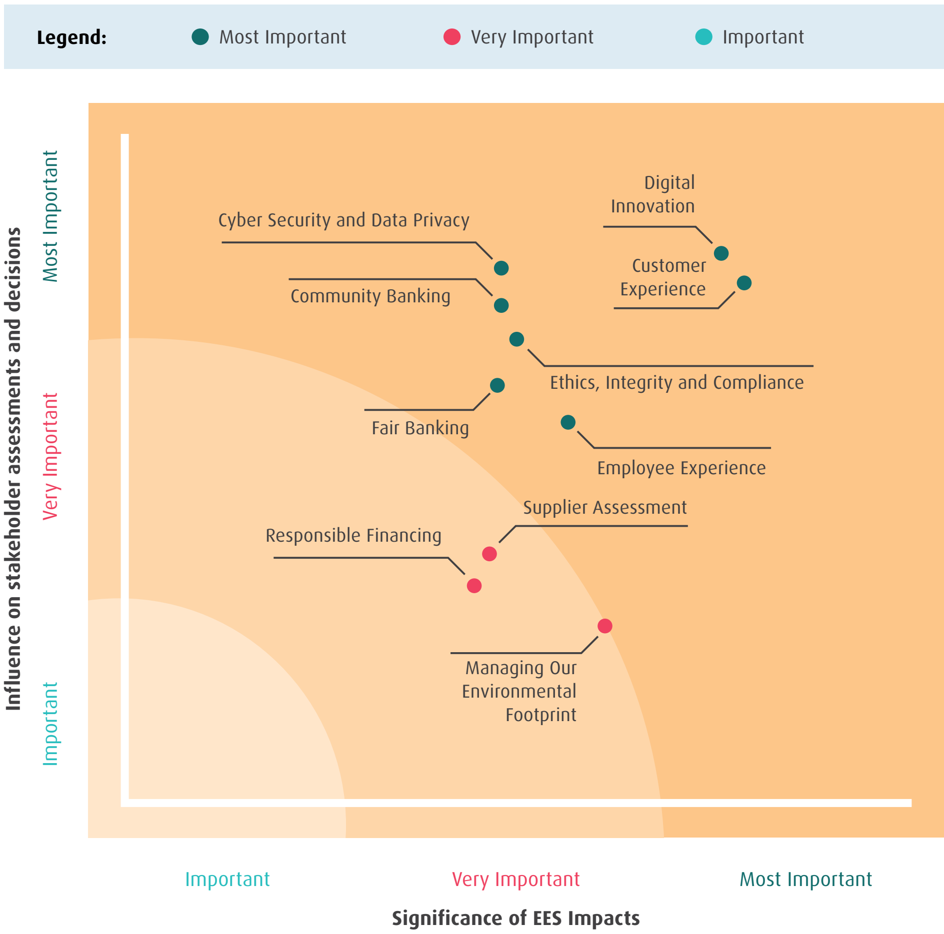
OUR MATERIAL SUSTAINABLE TOPICS

In FY2019, our sustainability approach was guided by the materiality matrix established by the Bank in the previous year. This matrix maps out the relative importance of ten material business topics according to the Bank's business priorities and information provided by customers, employees, suppliers and community development partners. By analysing the interests of both internal and external stakeholders, our materiality process aims to facilitate the development of a strategy for long-term value creation which aligns with the needs of each group.

OUR MATERIAL MATRIX

Sustainability Topics Identified

- Digital Innovation
- Customer Experience
- Employee Experience
- Ethics, Integrity and Compliance
- Community Banking
- Fair Banking
- Cyber Security and Data Privacy
- Responsible Financing
- Managing Our Environmental Footprint
- Supplier Assessment



Core Principles	Material Topic	GRI Topic	Topic Boundary	Description
Digital at the Core	**Digital Innovation**	-	HLISB	We strive to innovate with digital products and services for greater customer accessibility and convenience.
	Customer Experience	-	Customers of HLISB	We focus on delivering products and services that are relevant to our customers' needs. We strive to create positive customer experiences in all of our banking operations. This includes meeting our customers' dynamic demands for innovative digital banking services.
	Cyber Security and Data Privacy	Customer Privacy	HLISB	We protect our organisation and customer data from unauthorised access or attacks aimed to exploit such information. This involves implementing measures to prevent, identify and address vulnerabilities and threats to personal and confidential customer data.
	Fair Banking	Marketing and Labelling	HLISB	We aim to provide products and services that meet our customers' expectations and take into consideration the interests of both parties in terms of fairness in all aspects.
Fit-For-Future Workforce	**Employee Experience**	Employment, Labour/ Management Relations, Training and Education, Diversity, Equal Opportunity	Employees of HLISB	We foster a high-performance culture and aim to attract, develop and retain the next generation of leaders to ensure we are fit for the future. Our employees are empowered to deliver and take ownership of results. We provide relevant learning and development opportunities, competitive rewards and recognition programmes and a conducive work environment that ensures our people are highly trained and well-equipped to serve the community.
	Ethics, Integrity and Compliance	Socioeconomic Compliance, Anti Corruption	HLISB	We are committed to meeting all applicable regulations and core operational regulations (e.g. Companies Commission of Malaysia and Bank Negara Malaysia Regulations, Data Protection Acts, Anti-Money Laundering Acts). We inculcate and expect our employees to adhere to our values, principles, standards and behavioural norms, as outlined in our Code of Conduct and Ethics. This is supported by a Whistleblowing Policy.

Sustainability Statement

Sustainability Theme	Material Topic	GRI Topic	Topic Boundary	Description
Environmentally and Socially Responsible	**Responsible Financing**	Product Portfolio	HLISB and Customers	We have policies, principles and codes of conduct to ensure the interests of HLISB are aligned with the interests of existing and potential customers. These include audits to assess and screen for environmental and social risks, financial health assessments of existing and potential customers, and the provision of basic banking products to those who cannot afford to pay for fees so that they can participate in the financial system.
	Managing Our Environmental Footprint	Materials, Energy, Emissions	HLISB	We endeavour to reduce waste (such as paper and water) and use energy efficiently to reduce our greenhouse gas ("GHG") emissions and carbon footprint at all levels of our operations.
	Supplier Assessment	-	HLISB and Suppliers	We have an Independent Tender Review Committee that assess diligence reviews of suppliers' financial strength and performance, disaster recovery and business continuity plans and cyber security capabilities. Suppliers have to satisfy our zero tolerance for corruption and unfair practices, whilst also meeting our environmental assessment requirements before we onboard them as business partners.
SME Growth	**Community Banking**	Local Communities	HLISB and Hong Leong Foundation	We seek to engage and to help local communities develop their SME ecosystem via programmes that have been designed to meet their specific needs.

HLISB Material Topics' relevance to the United Nations Sustainable Development Goals ("UN SDGs")

At HLISB, we are mindful of global sustainability frameworks and agendas and recognise our responsibility to contextualise our material topics in relation to these frameworks. Of the 17 UN SDGs, we have identified 7 of the goals that we are able to positively contribute to.

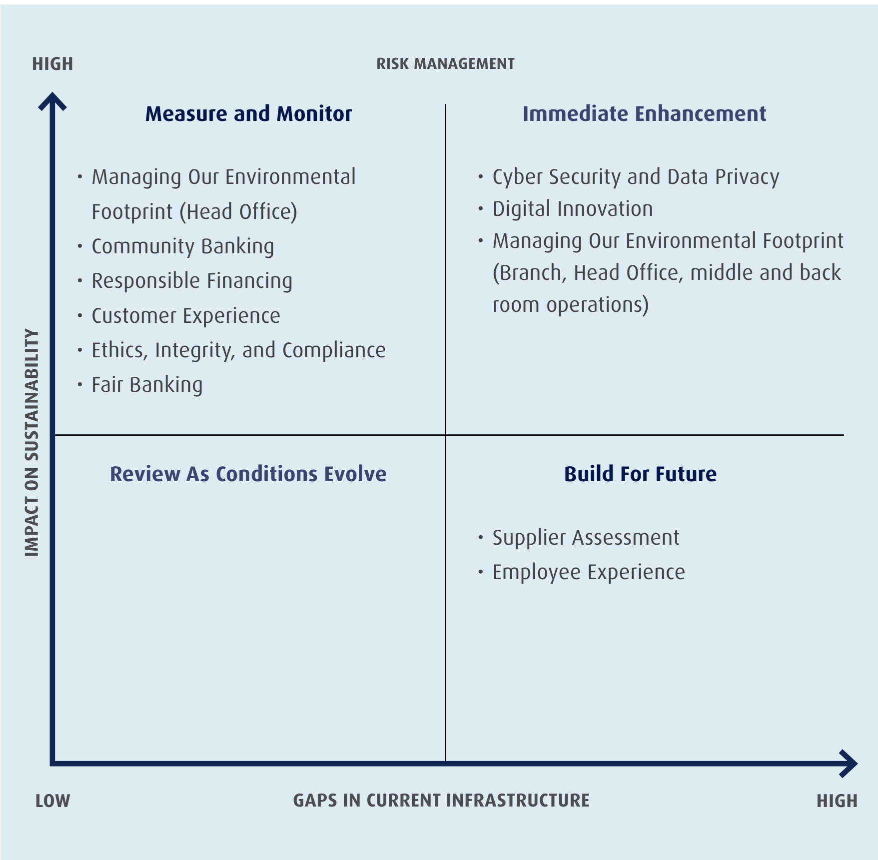
SUSTAINABILITY RISK MANAGEMENT

Sustainability risk is the risk that the Bank is not able to achieve its sustainability goals. Sustainability risk management involves the design and implementation of a risk management framework to mitigate the risks.

If the Bank is not able to achieve its sustainability goals, the impacts can be classified into three categories:

Impact Categories when Sustainability Goals are Not Achieved	Description
Sanctions	Failure to comply with sustainability regulations could result in sanction(s) imposed on the Bank.
Financial Performance	Failure of the Bank or the Bank's customers to comply with sustainability regulations and/or requirements could result in deteriorated financial performance of the Bank or its customers, which may adversely impact the asset quality of our portfolio.
Investor Preference	Research demonstrates that the equity price performance of companies that incorporate sustainability practices is better than other companies. Increasingly, institutional investors prefer to invest in companies that embrace sustainability goals. The inability of the Bank to achieve its sustainability goals could affect the Bank adversely in the equity market as investors choose companies that have successfully achieved their sustainability goals.

HLISB, under HLB, has further categorised the 10 sustainability topics into the matrix below. To support these initiatives, the Group Risk Management division identified and assessed the impact on sustainability and the gaps in the current infrastructure of the Bank. Improvement plans have been established and are in varying stages of implementation.



Measure and Monitor

Quadrant indicates topics that have low gaps in current infrastructure and a high impact on sustainability. These topics would be continuously measured, monitored and reported on periodically. Risk thresholds may be applied where appropriate.

Immediate Enhancement

Quadrant indicates topics that have some gaps in current infrastructure and a high impact on sustainability. Areas of improvement are required to be identified and immediate actions taken.

Review as Conditions Evolve

Quadrant indicates topics that have low gaps in current infrastructure and a low impact on sustainability. This means that the topics will be reviewed annually or as conditions evolve.

Build for Future

Quadrant indicates topics that have gaps in current infrastructure and a low impact on sustainability. Areas of improvement need to be identified for these topics. It is important for the Bank to 'build for the future'.

Sustainability Statement

Measure, monitor and review

HLISB Sustainability Themes	Sustainability Topics
Digital at the core	• Customer Experience • Ethics, Integrity and Compliance
Fit-for-Future workforce	• Ethics, Integrity and Compliance
Environmentally and socially responsible	• Managing Our Environmental Footprint (Head Office) • Responsible Financing • Fair Banking • Community Banking
SME growth	• Community Banking

Actionable Areas

HLISB Sustainability Themes	Sustainability Topics
Digital at the core	• Digital Innovation • Cyber Security and Data Privacy
Fit-for-Future workforce	• Employee Experience
Environmentally and socially responsible	• Managing Our Environmental Footprint (Branch) • Supplier Assessment

The Bank has allocated resources in these areas and will regularly measure and monitor outcomes.

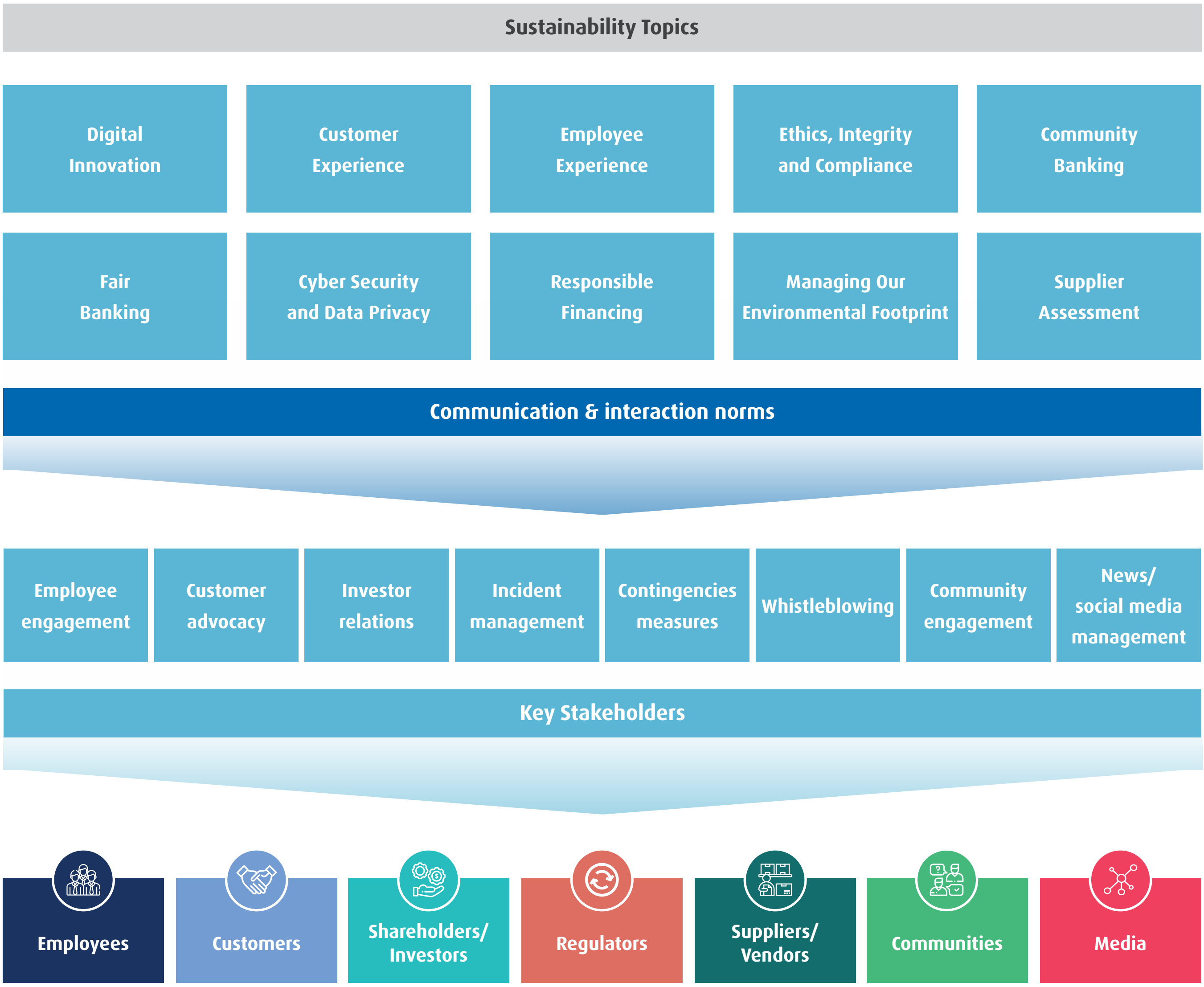
KEY SUSTAINABILITY INITIATIVES IMPLEMENTATION IN FY2019

HLISB, under HLB, has implemented various initiatives to continuously embed sustainability practices and risk management. Below are some of the key initiatives undertaken at both HLISB and HLB.

- Enhanced our policies to embed sustainability risk management. This include the Bank's credit policy to require sales and credit staff to review the customers' compliance with applicable environmental and social laws and review of the same at annual reviews of financing facilities to ensure ongoing compliance;
- Implemented supplier attestation to uphold the Bank's sustainability values;
- Monitored the energy, emissions and water consumption in HLB Group's two main corporate towers, Menara Hong Leong and PJ City;
- Monitored all waste generated in Menara Hong Leong and PJ City;
- Reduced bank-wide printing and paper consumption;
- Recruited a renewable energy industry specialist to focus on building internal knowledge to boost our capacity for renewable energy financing;
- Developed a renewable energy industry handbook for BCB-i front line staff to equip them with the knowledge to better serve industry stakeholders; and
- Conducted regular employee education and awareness programmes to promote waste reduction and practice the separation of recyclable waste streams at Menara Hong Leong.

STAKEHOLDER ENGAGEMENT

To enhance our growth as an organisation, we need to be open to dialogue and engagement. This is because stakeholder needs are constantly evolving. We have in place structured channels of engagement at HLISB and the Group continue to explore new ways of reaching out to stakeholders.



Stakeholder	Engagement Method	Frequency of Engagement	Interests
Employees	Bank-wide Town Hall sessions	Minimum twice yearly	Our employees want to know that their concerns are being heard by management. They also voice interest in the availability of opportunities for upskilling and programmes for employee retention, as well as a systematic rewards programme.
	Group Managing Director Bankwide communications	Ongoing	
	Social media and career fairs	Ongoing	
	Performance management process	Goal setting, mid-year review and final year appraisal, supported by Individual Development Plan discussion	
	Learning and Development initiatives	Ongoing	
	Scholarship programme	Ongoing as per request	
	Graduate programmes	Based on business unit requirements	
	SmartUp bite-size learning	24/7	
	HALI helpdesk chatbot	24/7	
	Employee engagement survey, themed My Thoughts, Our Future ("MTOF")	Annually	
	Apple e-Touch appreciation platform	Annual Apple-ciation Day Quarterly-basis for Apple e-Touch programme	
	HLISB/HLB Games	Ongoing	
	Whistleblowing channel	Contact information published on HLISB's website as and when channeled by whistleblower to the Bank	
Customers	At our branches	Daily	Our customers are interested in the protection of their personal data and the banking principles that are upheld by the Bank. They also prioritise user-friendly systems and easily accessible banking products and services.
	Self-Service Terminals	24/7	
	Internet and mobile banking	24/7	
	Customer surveys	Daily	
	Telephone and email	24/7	
	Customer events organised by HLISB and the Group	Multiple engagements a year, including festive season celebrations	
	Whistleblowing channel	Contact information published on HLISB's website as and when channeled by whistleblower to the Bank	

Sustainability Statement

Stakeholder	Engagement Method	Frequency of Engagement	Interests
Investors	Annual General Meetings ("AGMs")	Annually	Our investors want to know about the stability of the Bank and the security of savings and deposits. They are also interested in the enhancement of stakeholders' value.
	Investor roadshows	At least 2 conferences a year	
	Meetings with investors and analysts	At least 120 investors and analysts in a year	
Regulators	Bank Negara Malaysia ("BNM")	As and when required	Industry regulators seek to ensure that the Bank is fully compliant with relevant laws and regulations. This includes meeting the expectations and requirements of banking regulators and compliance with Shariah requirements where applicable.
	Bursa Malaysia	As and when required	
	Perbadanan Insurans Deposit Malaysia ("PIDM")	Yearly engagement	
	Securities Commission ("SC")	As and when required	
	Federation of Investment Managers Malaysia ("FIMM")	As and when required	
	Personal Data Protection Act ("PDPA") Commissioner	As and when required	
	Ombudsman for Financial Services ("OFS")	As and when required	
Suppliers	Supplier engagement rating process	Minimum once yearly	Our suppliers and outsourcing service providers ("OSP") seek transparency in HLISB's procurement process and want to ensure that they are fulfilling the Bank's "service level agreement".
	e-Bidding (live auction)	Monthly	
	Tender process	Monthly	
	Proof of Concept engagements	Based on project. Ongoing	
	Supplier onboarding programme	Ongoing	
	Supplier due diligence review	Annually	
	Outsourcing Service Provider onboarding programme	Ongoing	
	Outsourcing Service Provider due diligence review	Annually	
	Supplier and vendor whistleblowing channel	Contact information published on HLISB's website as and when channeled by whistleblower to the Bank	

Sustainability Statement

Stakeholder	Engagement Method	Frequency of Engagement	Interests
Community	SME segment engagement programmes	Ongoing through various activities, relationship manager, regional and national managers	Community members are interested in the availability and accessibility of funds and programmes for those in need.
	Corporate Social Responsibility events	Monthly	
	Hong Leong Foundation's programmes	Monthly	
Media	Press conferences	Financial results: 2 times a year Products/Services: As and when required CSR: Minimum 2 times a year	Media groups require adequate communication platforms and expect to see proactive media engagement from HLISB and the Group.
	Media get-togethers	Minimum 2 engagements a year	
	Media announcements	Ongoing basis	
	Social media	Daily communication	

GOOD BUSINESS CONDUCT

A culture of ethics and good conduct is fundamental to the positive growth of the organisation. We have incorporated various policies, processes and systems to ensure an enhanced culture of good conduct at HLISB, in alignment to HLISB's commitment to Good Governance and Best Conduct. These are also in support of the Value-Based Intermediation (VBI) implementation in our practices, conduct and offerings of being an Islamic bank. HLISB therefore also adheres to the corporate governance culture of HLB.

CORPORATE GOVERNANCE

Sound leadership is an essential component of any business sustainability strategy. Our experienced Board of Directors of HLISB and HLB Group provides strong leadership and independent oversight in line with best practices for corporate governance. Along with our management team, the Board's play an important role in overseeing the implementation of the Bank's stringent principles and policies for responsible business conduct. These include policies and procedures related to whistleblowing, anti-money laundering, anti-bribery and corruption and ethical conduct, among others. Policies are frequently reviewed and updated to ensure that we continue to meet best practice standards.

ETHICS AND INTEGRITY

We hold ourselves to the highest standards of professional conduct. Our Code of Conduct and Ethics outlines expected standards of behaviour for all HLISB and the Group's employees. The Code of Conduct and Ethics applies to all HLISB and the Group's employees, subsidiaries and affiliates of our vendors and business partners. In order to ensure employees' adherence to the Code of Conduct and Ethics, new employees are provided with awareness training on its contents during their on-boarding programme. Effective 2020, the Board of Directors will provide annual attestation to the Code of Conduct and Ethics.

Pillars of Hong Leong Bank Group's Code of Conduct and Ethics

COMPETENCE

The Banking Group is committed to ensuring that its employees develop and maintain the relevant knowledge, skills and behaviours such that our activities are conducted professionally and proficiently.

INTEGRITY

The Banking Group's values-based culture guides decisions, actions and interactions as a key enabler for the success of our business.

FAIRNESS

A core mission of the Banking Group is to help our clients succeed through simple, relevant, personal and fair banking. We must act responsibly and be fair and transparent in our business practices, including treating our colleagues, customers and business partners with respect. We must consider the impact of our decisions and actions on all stakeholders.

CONFIDENTIALITY

The Banking Group is committed to providing a safe, reliable and secured banking experience for our customers.

OBJECTIVITY

Employees must not allow any conflict of interest, bias or undue influence of others to override their business and professional judgement. Employees must not be influenced by friendships or association in performing their role. Decisions must be made on a strictly arms-length business basis.

ENVIRONMENT

The Banking Group is committed to reduce the effect of our operations on the environment to build our franchise in a safe and healthy environment. We aim to do this by managing resources across the Banking Group and raising staff awareness about the importance of caring for the environment. The Banking Group will be mindful of its activities with employees, business partners and the community we operate within to ensure human rights are safeguarded. Where there are adverse impacts, we are committed to addressing these.

Value-Based Intermediation Initiative for Islamic Banking

At HLISB, we are increasingly integrating a Value-Based Intermediation ("VBI") approach into our business practices and the financial products and services that we offer. This is done in accordance with the VBI Framework issued by Bank Negara Malaysia in 2017, and these efforts include the provision of greater access to financial services. Examples of this approach include our Islamic chatbot, which we have pioneered to promote public knowledge-sharing for Islamic finance. We continue to operate additional channels for the enhancement of Islamic financial literacy and financial services, with the goal of supporting a robust and sustainable Islamic banking system in Malaysia.

RESPONSIBLE BANKING

The Bank makes every effort to be fully compliant with all applicable laws, regulations and standards in each of the jurisdictions in which we operate, namely Malaysia, Singapore, Hong Kong, Cambodia, Vietnam and China. Our Group Compliance Policy serves as a guide for ensuring uniformity in understanding the roles, responsibilities, processes and practices related to compliance within the Bank.

PROMOTING A CULTURE OF COMPLIANCE

"A strategic priority for us is to promote understanding among our organisation and business partners of our internal policies and the external regulations we adhere to. This fosters transparency and awareness and, in doing so, builds a strong compliance culture."

Domenic Fuda, Group Managing Director

We ensure adherence to the highest standards of integrity and professionalism by providing employees with regular compliance training. Our efforts include training that is delivered bank-wide, via our digital learning app, as well as role-based training based on specific risks associated with individual positions.

Training is customised for each division and supported by business subject matter experts. In FY2019, the Group established a 'No Training, No Sales Policy' to ensure that all new and existing personal financial services front-line sales employees are equipped with the necessary product and compliance knowledge to ensure competency in their role. We also conducted AML awareness-training workshops for the Board of Directors and senior management and Business General Managers, Branch Managers, Customer Service and Operations Managers and front-line employees. For the year, a total of 8,463 employees received blended training (Brown Bag Series Lunch & Learn, e-learning compliance modules and compliance huddles and classroom trainings).

WHISTLEBLOWING POLICY

In order to safeguard the integrity of the Bank's operations, we encourage all employees, business associates and customers to raise any concerns about improper conduct at the earliest opportunity. Our Whistleblowing Policy outlines the channels available for doing so as well as the procedures to be followed by the Bank in addressing such concerns. If a report of non-compliance or improper conduct is received, specified officers will independently investigate the concerns.

Sustainability Statement

DIGITAL AT THE CORE

We seek to find opportunities in challenges and develop innovative ways to meet customer expectations while continuously enhancing our internal capabilities and the accessibility of our products for the delivery of an ever-improving customer experience.

As we progress along our digital journey, we strive to serve not just as a financial services provider, but as a trusted partner for our customers and business partners. We aim to drive the creation of a financially empowered society, in which those who are presently underserved gain easy and reliable access to financial services through improved financial literacy and convenient digital platforms. Ultimately, we hope to support a new generation of more informed customers with better access to the digital products, reliable services and sophisticated financial guidance that they need.

The Group's investments in our 'Digital at the Core' business strategy have already paid dividends, with new digitisation initiatives introduced within the financial year yielding total Group cost savings of approximately RM55 million, equivalent to a cost reduction of 2.6% over total cost base.

Digitisation Initiatives

Digitisation to Simplify Workflow

Digitisation to Lower Purchasing Cost

Resulted in a 2.6% reduction over total Group cost base in FY2019

Sustainability Statement

DIGITAL AT THE CORE (CONTINUED)

Digital Highlights in FY2019

81%
of total transactions completed digitally

53%
increase in mobile transactions

36%
reduction in physical branch transactions

DIGITAL ENHANCEMENTS

Several digital enhancements were executed across HLISB and the Group to make transactions easier for customers. In FY2019, HLISB had also developed new products and services, including ASB Islamic Financing ("ASBF-i") and regular contribution Takaful products, i-Saver20 and Amanah Saver. In recognition of our efforts to provide diversified Islamic finance products to Malaysians, we were awarded the 'Inspirational Starz Award' at the Amanah Saham Nasional Berhad Starz Award Nite 2018. The award comes less than a year after the Bank commenced its ASNB Fund distribution partnership with ASNB.

HLB CONNECT AND CONNECTFIRST

Our digital banking platform, HL Connect, offers a host of digital banking services online and via mobile applications allowing our retail customers to bank with ease across multiple devices. In FY2019, updates to HL Connect included enabling a higher transaction limit for e-Fixed Deposits, introducing seven new credit card self-service functions and launching a Call-for-Cash function for instantaneous financing. In FY2019, HLISB also saw success with the launch of an exciting new Investment Account ("IA") service on HL Connect that offers a digital alternative to the traditional investment experience.

To better serve the needs of our corporate, commercial and SME customers, we offer a comprehensive suite of advanced cash, trade and foreign exchange solutions via our HL ConnectFirst platform. We are currently investing significant efforts and resources into improving the client experience for BCB-i customers through re-designing and digitising the account-opening and credit application and approval processes. Soon, HLISB clients will be able to open a business current account and apply for merchant facilities via HL ConnectFirst, without the need to visit our branches.

DIGITISATION OF THE CUSTOMER EXPERIENCE

With more than half of the Group's customers presently utilising our digital banking services, both the number and value of digital transactions completed by our customers continue to rise.

At HLB Group, we are also ushering in a new era for brick-and-mortar banking with our Digital Branches. Designed to improve efficiency and enhance the customer experience, the branches leverage new technology to depart from conventional methods of in-branch service delivery. In FY2019, the Group opened our second Digital Branch in Penang, based on the concept implemented at the Group's flagship Digital Branch in Damansara City, Kuala Lumpur.

HLB Group Digital Branch **Customer Journey**

Customer walks in

Upon entering the branch, account holders and new customers are greeted by our ROBOT named Nao.

During consultation with branch Personal Financial Consultants

Tellers equipped with an app-enabled digital tablet help customers complete their banking transactions immediately, without the need to queue. The seamless customer journey is further enabled by biometric capabilities within the tablets which easily pull up biometric data for efficient verification. The process is streamlined and made paper free through the digital approach.

Teller-Assisted Units

Teller Assisted Units for accepting, recycling and dispensing notes are now placed in open areas rather than behind banking counters, as was traditionally done. This allows for more transparent and secure management of cash deposits and withdrawals.

Tellers

With digital solutions automating mundane data-entry and processing tasks, employees' roles are reconfigured to include more engaging and customer-facing responsibilities.

General Digital Branch Space

A suite of digital banking capabilities such as wireless terminals and applications, allow customers to quickly perform banking transactions.

Innovation aside, achieving success in the integration of banking services and digital technologies requires careful consideration of our customers' experience with the banking solutions that the Bank offers. As customers increasingly transition towards the use of our digital banking products and services, we ensure that these offerings are focused on delivering an optimal customer experience. In FY2019, our HL Connect App Satisfaction score, measured by customers who had chosen 'Satisfied' or 'Very Satisfied' was an 84% satisfaction rate.

DIGITAL AT THE CORE (CONTINUED)

DIGITISATION IN SHARIAH KNOWLEDGE SHARING

As a responsible provider of Islamic banking solutions, HLISB strives to increase awareness of Islamic banking and financial services to enable our customers to identify the banking solutions that best fit their needs.

To better advise customers and the general public on the topic of Islamic banking principles we developed an AI-enabled Islamic banking knowledge platform, Shariah UNiversal Digital Assistant for You ("SUNDAY"), developed in partnership with University of Malaya ("UM"). This chatbot is equipped with general Shariah knowledge regarding the authorities, articles and scholarly discussions in relation to Shariah contracts. Through SUNDAY, users compare the Islamic banking products and services and receive real-time advice for banking products. SUNDAY is the first platform and chatbot in Malaysia that is equipped with Islamic banking and finance knowledge, and is able to relay information and responses in Bahasa Malaysia.

By providing these digital educational platforms, we ensure that our knowledge-sharing efforts are accessible across the country and delivered in an easily digestible and user-friendly format for maximum uptake of information.

TOWARDS A CASHLESS SOCIETY

HLB Group is at the forefront of the development of an integrated financial ecosystem in which financial transactions can be seamlessly woven into daily life through cashless transactions. At HLISB, we leverage financial technology to promote cashless transactions to our customers through debit card usage, mobile payment methods and online banking. We also continue to focus on expanding our merchant network by seeking out business owners and offering incentives such as low transaction rates, waived desktop terminal rental fees and complimentary set-up services.

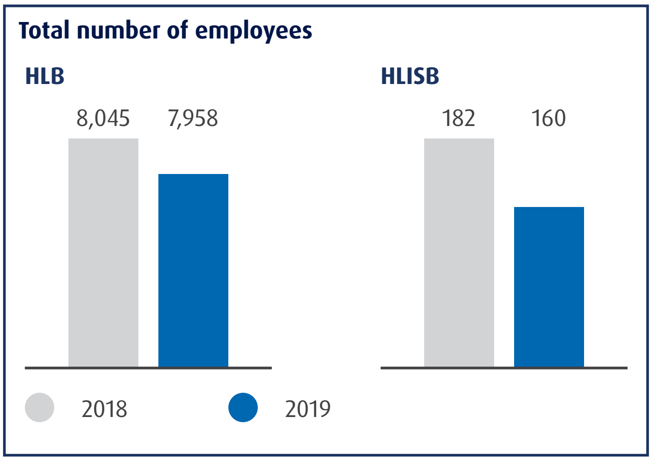
ENHANCING CYBER SECURITY AND DATA PRIVACY

In order to drive business success while protecting our customers from online malice, we continue to invest in digital defence infrastructure while simultaneously educating our clients on fraud and other digital risks. We are involved with national and international early warning systems for cyber security risks, including the Financial Services – Information Sharing and Analysis Centre and Recorded Future.

To govern the secure receipt, storage and protection of customers' private and sensitive information in compliance with the Personal Data Protection Act (2010) ("PDPA"), the Bank has established a Group Data Protection and Customer Secrecy Policy. Stakeholders are informed about the Bank's handling of the confidential personal information entrusted to us by our customers, employees and business partners, via the Bank's Privacy Notice. The Privacy Notice, which is available in both English and Bahasa Malaysia, serves to help these individuals understand how the Bank handles their personal information and what rights and protection they are entitled to as a data owner.

Sustainability Statement

FIT-FOR-FUTURE WORKFORCE



Our aim is to create a best in class workforce that is resilient, adaptable and equipped to provide the highest level of service in a digital age. We seek to attract, develop and retain individuals who will diversify our thinking, develop new ideas and demonstrate the skills needed to address future business challenges. For more details of our workforce strategy, please refer to the *Human Resource Management Discussion and Analysis* within this Annual Report 2019 as well as HLB Group's Annual Report 2019 and the *Fit-For-Future Workforce* chapter within *HLB Sustainability Report 2019*.

TALENT ACQUISITION AND DEVELOPMENT

We operate a comprehensive talent acquisition programme to drive business success within the Bank, including graduate and intern recruitment schemes and executive and management programmes such as Management Associates Programme, Graduate Trainee Programme, PROTÉGÉ Programme and Internship Programme for recruiting promising young talent.

To ensure that our employees remain competitive within the industry, we focus on the continuous development of their skills, experience and knowledge. This is done through general training delivered across the bank, such as our comprehensive onboarding programme, as well as tailored, role-specific programmes and technical accreditation programmes to enhance individuals' specific capacities. We implement a 70:20:10 Learning Framework whereby 70% of learning occurs through on-the-job learning, 20% occurs through learning from others and 10% occurs through formal training.

A key component of our competency-building strategy is SmartUp, a mobile and web-based micro learning app, which delivers fun, bite-sized learning content to our workforce on the go. The content, which has been crafted by internal and external subject matter experts, is easily digestible, eye-catching and available anytime, anywhere. It includes e-learning programmes, reading materials and assessments which must be completed within 60 days from programme initiation, participation and completion, which can be tracked across the Bank.

Brown Bag 'Lunch & Learn' Series

To encourage employees to upskill themselves within a flexible learning environment, we continued to drive the Brown Bag 'Lunch & Learn' Series in FY2019. These sessions focus on topics related to the Bank's sustainability themes, covering topics from wellness to social responsibility and Industry 4.0 technology. As of 18 June 2019, the attendance rate by the Group's employees to all 11 Brown Bag 'Lunch & Learn' Series came up to 1,891 since the programme's introduction. In alignment to our business priorities, the Group also leveraged this format to deliver compliance-themed talks at HLISB/HLB's branches, such as Fair Banking for Customers, which was held at HLISB/HLB's branches in 11 states.

Sustainability Statement

FIT-FOR-FUTURE WORKFORCE (CONTINUED)

Islamic Finance Training

We have in place a comprehensive capacity-building initiative for Islamic Finance in order to facilitate the future growth of our business in this area. The initiative includes engaging external training providers to develop and provide structured in-house training on Shariah and Islamic Finance. Employees who are directly or indirectly involved with handling Islamic transactions are required to undergo a one-day training session, named Islamic Finance 2.0. As of FY2019, 3,438 employees completed the training.

In addition to our training programmes, we support the accreditation of our employees working in the Islamic financial industry. This includes Islamic Finance Qualification ("IFiQ"), which is required for all staff directly involved with Islamic transactions. The IFiQ is offered at two different levels, namely Intermediate and Advanced. As of FY2019, 444 employees completed the IFiQ Intermediate qualification, with 391 of them completing the IFiQ Advanced qualification.

The Shariah Division team are also undergoing the Certified Shariah Advisor ("CSA") and Certified Shariah Practitioner ("CSP") programmes which consist of three certification levels, with participants undertaking either CSA or CSP based on their prior qualifications. A total of 7 employees completed Level I of the CSA/CSP programmes and are working to complete their Level II modules as of FY2019.

NURTURING A CULTURE OF HIGH PERFORMANCE

At HLISB, we are committed to nurturing a high performance culture. Our focus is on ensuring that we add value in our dealings with all stakeholders, whether they are customers or employees, while adhering to the highest standards of personal and professional integrity. A key example of this is the enrolment of our employees in design thinking workshops to upskill them. These new skillsets were then put into practice with the employees' edition hackathon that was held in June 2019. Further information on our commitment to ethical conduct and regulatory compliance, including the training provided to employees on these topics, can be found in HLB Group Sustainability Report 2019.

Our Code of Conduct and Ethics guides the establishment of a safe and inclusive workplace, strictly prohibiting discrimination of any kind.

As of December 2018, the Group had 7 full-time employees who identify as differently abled.

CARING FOR OUR TEAM

We take a comprehensive approach to caring for our workforce and support their wellbeing across multiple areas, including mental, physical, personal and financial. We promote open and regular communication with the Group employees through a number of channels, including the newly launched HLB Workplace and Workchat platforms, launched in FY2019. We also conduct regular employee engagement surveys and in response to survey feedback of FY2018, we established Engagement Champions across our international network in FY2019 to promote employee participation in engagement activities. In FY2019, the Group employee engagement survey had a 91% response rate.

We have in place Occupational Health and Safety Procedures to provide practical advice and controls for all workplaces in accordance with relevant standards. As part of our onboarding programme, employees are introduced to HLB's health and safety systems, processes and practices and trained in the identification and control of risks. In FY2019, the Group revised the boundary for our health and safety programme metrics to focus exclusively on those incidents that are directly related to factors under our control. Under this scope, the Group recorded 5 workplace accidents and a total of 109 workdays lost due to accidents.

Sustainability Statement

ENVIRONMENTALLY AND SOCIALLY RESPONSIBLE

OUR ENVIRONMENTAL FOOTPRINT

At HLISB, a commitment to reducing our environmental impact is part and parcel of our future-focused business strategy. Our digital transformation is a key driving force behind this, reducing our reliance on material resources through our transition to resource and energy-efficient alternatives. For more details of our environmental progress, please refer to the *Environmentally and Socially Responsible* chapter within *HLB Sustainability Report 2019*.

In order to monitor our progress and to establish meaningful goals and targets, we monitor our consumption of several key metrics. At HLB Group's two main corporate towers, PJ City and Menara Hong Leong, the Group tracks electricity consumption with the goal of achieving a 5% reduction in electricity consumption in PJ City Tower by 2020 compared to 2017 baseline levels. The Group also tracks water consumption in both towers, as well as the fuel consumed by our company-owned vehicles.

We have undertaken several measures to reduce paper use by customers and our internal bank operations. These include reducing the distribution of passbooks, fixed deposit certificates and cheques issued as well as promoting e-payment solutions. Internally, we continue to use 100% recycled paper for letterhead material and 100% FSC certified paper for our copier machines and computer forms.

77%
reduction in accounts opened with passbook since July 2018

21%
reduction in cheques issued in 2019

Increased
64%
conversion from paper statements to e-statements as at FY2019 end

As at FY2019 end, we saved
41.7
metric tonnes of paper

In FY2019, Menara Hong Leong was awarded a Green Building Index 'Silver' rating, in recognition of its environmentally friendly design and operations.

SUPPLIER ASSESSMENTS

At HLB Group, we hold our suppliers to the same standards of sustainability practices in our business operations. Suppliers and vendors are expected to uphold the HLISB and the Group's sustainable values through self-declaration of their environmental and social responsibility during the screening process. Our whistleblowing policy is also incorporated in all procurement and purchase orders as well as in the on-boarding vendor profile form, to ensure that it is always available to suppliers.

ENVIRONMENTALLY AND SOCIALLY RESPONSIBLE (CONTINUED)

RESPONSIBLE FINANCING

As a responsible financial institution, HLISB considers the protection and healthy growth of our nation and communities throughout all stages of our banking operations. This includes who we choose to finance to as well as how our operations in areas like procurement and marketing reflect a socially and environmentally responsible culture. Due diligence activities that we practice include site visits, environmental record assessments and third-party reviews of potentially harmful business proposals. We also ensure that all employees are cognisant of responsible banking practices decisions by requiring that all employees are aware of and compliant with all relevant regulations.

GREEN FINANCING

Climate change is fundamentally altering the risks that businesses and the financial sector face throughout the world. To better support the renewable energy business community, in FY2019, the Group recruited a renewable energy industry specialist and developed an industry handbook for front line staff engaging with prospective clients to propel the Bank's investments into climate-positive financing. The handbook includes an overview of the industry, renewable energy mix and development, incentive programs and general financing requirements to equip staff with the knowledge to better serve industry stakeholders. This handbook will be updated periodically to reflect latest trends and solutions. The Group also hosted a briefing for clients to share the latest developments in the renewable energy sector and opportunities for development.

FAIR BANKING

We are committed to ensure that our operations are fully compliant with relevant regulations. This includes Bank Negara Malaysia's Principles for Fair and Effective Financial Market, Guidelines on Prohibited Business Conduct, Guidelines on Product Transparency and Disclosure, and Guidelines on Responsible Financing. All new products and product variations, including those developed by the Group's subsidiary companies, are assessed by a Product Evaluation and Approval Committee, which evaluates all products against relevant regulatory requirements, associated risks and the Bank's responsibilities to customers.

RESPONSIBLE MARKETING

It is fundamental that customers can depend on the integrity of the advice that they receive and trust that HLISB is acting in their best interest. In order to protect consumers from misleading advertisements and unfair consequences, all advertising and promotional materials comply with applicable rules, regulations and guidelines issued by Bank Negara Malaysia and other regulatory authorities. We have in place internal policies, including Standard Operating Procedures ("SOPs") for Marking and Product Management which all business units and departments must adhere to. The SOPs are reviewed and updated regularly to ensure that our business practices keep pace with new product development and regulatory changes.

HLB JUMPSTART

The Group's flagship CSR programme, HLB JumpStart, was launched in September 2018 to support social enterprises by empowering them with the knowledge, skills and tools needed to succeed. Under JumpStart, we partner with knowledge specialists in the fields of finance, branding and advertising, design and volunteerism to improve the ability of social enterprises to sustain their businesses. Following two successful collaborations in FY2019, JumpStart has set its sights on a third social enterprise to partner with in FY2020.

HONG LEONG FOUNDATION

Aside from the financial products and services offered by the Bank to support lower income groups, the Group's charitable arm, Hong Leong Foundation ("HLF" or "the Foundation"), carries out several philanthropic and social outreach programmes. The Foundation focuses on delivering meaningful change under the themes of Education and Community Development.

Education

HLF's education-based initiatives focus on enhancing curriculum-content for schoolchildren and providing additional academic support for skills development. This year, the Foundation invested RM2,802,592 into 6 education programmes, including scholarships and learning enrichment programmes.

Community Development

HLF provides year-round philanthropic contributions to the community through the delivery of structured community and social development programmes. This year, the total investment in 11 community development initiatives amounted to RM337,308.

COMMUNITY INITIATIVES AT THE DIVISION LEVEL

In addition to the programmes funded by the Hong Leong Foundation, HLISB also supports various community causes of their own. HLISB also undertook several campaigns to give back to the community, including the donation of Braille Al-Quran, non-perishable food and cash vouchers.

HLISB COMMUNITY OUTREACH INITIATIVES

Rental of Space at Bazaar Ramadhan, Kampung Seri Jugra Banting	HLISB rented five spaces at the bazaar Ramadhan to help single mothers expand the reach of their products and services. The initiative helped about 10 single mothers at a cost of RM1,300 in total for the rental of bazaar booths.
Braille Al-Quran to the Sightless	In conjunction with Nuzul Al-Quran, HLISB contributed ten units of Braille Al-Quran. The contribution, which amounted to a total value of RM2,500, was made to the Malaysia Braille Resources of the Blind and benefitted ten sightless individuals from Klang Valley and Pakistan.
'Kempen Seorang Sekampit Beras' (KSSB) Programme	For the past three years, HLISB has been participating in 'Kempen Seorang Sekampit Beras' programme during the month of Ramadhan to provide dry food supplies and financial contributions to underprivileged recipients. The programme is organised by the Association of Islamic Banking Institutions Malaysia. In FY2019, HLISB participated in the event held on 14 May 2019 at Dewan Belia Rembau, Negeri Sembilan, the first destination outside of Kuala Lumpur, where we hand delivered supplies to the homes of five underprivileged recipients in Rembau. HLISB contributed a total of RM12,000 in the form of non-perishable food and cash to 40 families.
'HLISB Turun Padang' Campaign	As part of HLISB Gives Back campaign, in December 2018, HLISB launched the 'HLISB Turun Padang' activity. Under this programme, HLISB made door-to-door visits in PPR Taman Melati, Gombak for the distribution of AEON and KFC vouchers for each family. AEON cash vouchers were also distributed to families in need in Kampung Seri Jugra, Banting. In total, RM5,400 worth of vouchers were distributed under these initiatives in FY2019 benefitting eight families from the PPR area and ten families from Kampung Seri Jugra.
HLISB Embraces the Elderly During Ramadhan and Raya	Approximately 25 HLISB HQ staff volunteers came together to purchase and distribute items such as diapers, non-perishable food, detergent and other necessities to two retirement homes in Puchong. This initiative has impacted about 120 of the elderly from both houses combined. Approximately RM17,330 worth of food was supplied to both houses combining both events of Ramadhan and Raya.

SME GROWTH

FINANCIAL TOOLS FOR SMES

In order to support the development of SMEs within Malaysia and broader economic growth within the country, HLISB offers a comprehensive suite of financial solutions for SMEs. To help SMEs secure financings for property purchases and refinancing, we also offer our property-backed SME financing program, SMElite. The scheme, which is guaranteed by Credit Guarantee Corp Malaysia Bhd, provides financings of up to RM10 million, bundled with working capital requirements of up to a 150% margin of financing.

To promote the accessibility of our financial products and services among SMEs and drive the acquisition of new banking clients, we deployed over 170 Community Business Managers ("CBM") throughout the country in FY2019. The CBMs will be based at branches across local communities nationwide with the aim of improving uptake of our SME services within their areas of coverage.

SME FINANCING

The Bank remains committed to enhancing the availability of financing for SMEs with the target to approve RM7.5 billion worth of financing to Malaysian SMEs in 2019. We are also working closely with government agencies and SME development bodies to further our SME outreach.

EXPANDING ISLAMIC BANKING OPPORTUNITIES FOR SMEs

HLISB is also taking steps to expand its footprint in the SME and Bumiputera market through collaboration with SME Corporation Malaysia and partnership with Unit Peneraju Agenda Bumiputera. Our FY2019 outreach initiatives to support the Islamic SME sector included participation in Halal trade expos and summits throughout Malaysia, including serving as a forum panellist at the World Halal Conference. We also undertook a six-month Halal financing campaign to encourage front-liners to support the Halal Pharmaceutical and Food and Beverage industries. An industry handbook was designed to facilitate better understanding of the halal industry as a whole, its certification processes and due diligence, as well as general financing requirements in order to help our relationship managers advise and acquire prospective clients within the industry.

Corporate **Information**

DIRECTORS

YBHG DATUK DR MD HAMZAH BIN MD KASSIM (Chairman)

MR KWEK LENG HAI

ENCIK ALAN HAMZAH SENDUT

MR DOMENIC FUDA

PUAN ROWINA GHAZALI SETH

CHIEF EXECUTIVE OFFICER

Encik Jasani Bin Abdullah

COMPANY SECRETARY

Mr Jack Lee Tiong Jie
MAICSA 7060133

AUDITORS

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146)
Chartered Accountants
Level 10, 1 Sentral
Jalan Rakyat
Kuala Lumpur Sentral
50706 Kuala Lumpur
Tel : 03-2173 1188
Fax: 03-2173 1288

REGISTERED OFFICE

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No. 6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel : 03-2080 9888
Fax: 03-2080 9801

WEBSITE

www.hlisb.com.my

Board of Directors' Profile

YBHG DATUK DR MD HAMZAH BIN MD KASSIM

Position

Chairman/Non-Executive Director/Independent

Nationality/Age/Gender

Malaysian/70/Male

YBhg Datuk Dr Md Hamzah bin Md Kassim holds a PhD in Business from Aston University, United Kingdom and a Master in Business Administration. He was inducted in 2012 into the Alumni Hall of Achievement of Monmouth College in Illinois, USA where he did his undergraduate education.

YBhg Datuk Dr Md Hamzah had over 20 years experience as strategy and management consultant in global firms specialising in large scale technology and business transformation, working across several sectors with established organisations, ranging from banks to telecommunication companies, public institutions and foreign governments. He is the Co-Founder of The iA Group, where he currently serves as an Advisor. The iA Group, which was established in 2002, specialises in business and public sector transformation, technology and human capital.

Prior to The iA Group, he was the Executive Director/Partner of international firm of Ernst & Young, Vice President and Country Head of the global consulting firm of Cap Gemini and member of the global management team and Country Head of PA Consulting Group.

Before joining the consulting industry in 1995, YBhg Datuk Dr Md Hamzah held various senior positions in the government for over 18 years related to industrial R&D management and public policy on technology development and innovation. He also served as a member of expert/advisory groups in various national and international organisations such as United Nations Conference on Trade and Development and Islamic Development Bank, Jeddah. He was the Project Director for the Industrial Technology Master Plan for Malaysia in the Institute of Strategic and International Studies and subsequently took up the position as Director of Science and Technology, Ministry of Science, Technology and Environment to spearhead the implementation of the plan as part of the national strategies to accelerate economic growth and technology development.

In 2006, YBhg Datuk Dr Md Hamzah was appointed as the Consulting Advisor to the National Implementation Task Force chaired by the Prime Minister to oversee the 9th Malaysia Development Plan and in 2009, he was appointed as member of the National Economic Advisory Council (NEAC). YBhg Datuk Dr Md Hamzah was a member of the Review and Operational Panel to the Malaysian Anti-Corruption Commission from 2013 to February 2015. In 2015, he was appointed as member of the Anti-Corruption Advisory Board by the DYMM Yang Di Pertuan Agong and completed his term in 2018.

YBhg Datuk Dr Md Hamzah was appointed to the Board of Directors ("Board") of Hong Leong Islamic Bank Berhad ("HLISB") on 15 December 2015. He is presently the Chairman of HLISB and a Member of the Board Audit and Risk Management Committee ("BARMC"), Remuneration Committee ("RC") and Nomination Committee ("NC") of HLISB.

YBhg Datuk Dr Md Hamzah is also a Director of Hong Leong Bank Berhad ("HLB"), a company listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

Board of Directors' Profile

MR KWEK LENG HAI

Position

Non-Executive Director/Non-Independent

Nationality/Age/Gender

Singaporean/66/Male

Mr Kwek Leng Hai is qualified as a Chartered Accountant and has extensive experience in financial services, manufacturing and property investment.

Mr Kwek was appointed to the Board of HLISB on 23 June 2005. He is also a Director of HLB, a company listed on the Main Market of Bursa Securities and Hong Leong Company (Malaysia) Berhad, a public company.

Mr Kwek is the Executive Chairman of Guoco Group Limited ("GGL"). He was appointed as a director of GGL in 1990 and assumed the position of President, Chief Executive Officer from 1995 to 1 September 2016. He is also the Chairman of Lam Soon (Hong Kong) Limited ("LSHK"). Both GGL and LSHK are listed on Hong Kong Stock Exchange. Mr Kwek is also a director of GGL's key subsidiaries, including his positions as the Non-Executive Chairman of GL Limited and a Director of GuocoLand Limited, both public listed companies in Singapore. He is also a Director of Bank of Chengdu Co., Ltd, a public company listed on Shanghai Stock Exchange.

ENCIK ALAN HAMZAH SENDUT

Position

Non-Executive Director/Independent

Nationality/Age/Gender

Malaysian/59/Male

Encik Alan Hamzah Sendut graduated with a Bachelor of Science (Hons) degree in Accountancy and Computer Science from the University of Wales, United Kingdom. He is a Chartered Accountant (Institute of Chartered Accountants in England and Wales) by profession and a member of the Malaysian Institute of Accountants.

Encik Alan Hamzah Sendut began his career in 1982 as an auditor with Price Waterhouse, London, United Kingdom. He returned to Malaysia in 1986 where he served with several multinational companies such as the Shell Malaysia Group and CarnauldMetalBox Malaysia.

Encik Alan Hamzah Sendut joined the Sime Darby Group in 1996 as Group Finance Director of Tractors Malaysia Holdings Berhad, a company listed on the Main Market of Bursa Securities. He served in many senior roles within the Sime Darby Group such as Group Finance Director for Sime Plantations, Project Director for the Northern Corridor Project and Senior Vice-President for Sime Darby Shared Services during his 19+ years with Sime Darby Group.

From 2009 to 2010, Encik Alan Hamzah Sendut joined BHP Billiton as the Global Head of Shared Services. He later returned to the Sime Darby Group as the Executive Vice President for Strategy, Business Development and Investor Relations. He became the Managing Director of Sime Darby Energy and Utilities Division (Non China) from April 2015 to June 2016.

Encik Alan Hamzah Sendut is currently a Director of Hengyuan Refining Company Berhad, a company listed on the Main Market of Bursa Securities.

Encik Alan Hamzah Sendut was appointed to the Board of HLISB on 26 September 2016 and is the Chairman of the BARMC, RC and NC of HLISB.

Board of Directors' Profile

MR DOMENIC FUDA

Position

Executive Director/Non-Independent

Nationality/Age/Gender

Australian/52/Male

Mr Domenic Fuda holds a Bachelor of Economics from Macquarie University, Sydney, as well as a Master of Business (Banking & Finance) and a Master of Business Administration (M.B.A.), both from University of Technology, Sydney. Mr Domenic Fuda is a Chartered Banker of the Asian Institute of Chartered Bankers ("AICB").

He was the Managing Director and Deputy Group Head, Consumer Banking & Wealth Management of DBS Bank Ltd ("DBS"), Singapore. He joined DBS in March 2010 as Chief Financial Officer of Regional Consumer Banking & Wealth Management. During his tenure with DBS, Mr Domenic Fuda was responsible for the formulation and execution of a multi-year growth strategy for the 6 Asian markets in which DBS operates its consumer and wealth management businesses.

Prior to his position in DBS, he spent 16 years at Citigroup where he served in various senior management roles across Asia, the latest being Chief Operating Officer for South East Asia Pacific, Australia and New Zealand, where he helped to drive execution of Citi's strategy across 10 countries, launched Citi's Consumer Banking business in Vietnam and helped to manage the banking operations during the 2008/2009 financial crises.

Mr Domenic Fuda was appointed to the Board of HLISB on 27 October 2016 and a member of the NC of HLISB.

Mr Domenic Fuda is currently the Group Managing Director/Chief Executive Officer of HLB. He is also a Director of Hong Leong Bank (Cambodia) PLC and a Council of Member of Hong Leong Bank Vietnam Limited.

He is also a Council Member of AICB and The Association of Banks in Malaysia.

PUAN ROWINA GHAZALI SETH

Position

Non-Executive Director/Independent

Nationality/Age/Gender

Malaysian/57/Female

Puan Rowina Ghazali Seth graduated with a Bachelor of Science degree in Computer Science from the Northern Illinois University, United States.

Puan Rowina Ghazali Seth began her career in SHELL in the Information Technology Division in 1985, where she assumed various local and global positions in SHELL's upstream, downstream and business operations. She rose to senior posts, including as SHELL Malaysia's General Manager Corporate Affairs and Director of SHELL Business Services Sdn Bhd.

Her last position was Director, Government Affairs at SHELL Malaysia, building the function from inception and pioneering the lead role.

As a senior member of SHELL's management, she has more than 30 years' experience in the Oil & Gas industry, and adept in all aspects of strategic government relations, external and reputation management.

Puan Rowina Ghazali Seth is currently a Director of Velesto Energy Berhad (formerly known as UMW Oil & Gas Corporation Berhad) and UEM Edgenta Berhad, both companies listed on the Main Market of Bursa Securities.

Puan Rowina Ghazali Seth was appointed to the Board of HLISB on 24 October 2017 and a member of the BARMC and RC of HLISB.

Shariah **Committee Profile**

DR. AB. MUMIN BIN AB. GHANI

Position

Chairman

Dr. Ab. Mumin Ab. Ghani graduated from Universiti Kebangsaan Malaysia (UKM) in 1979, with Bachelor of Economics (Honours). He later obtained Diploma in Education (UKM) in 1979, Diploma in Public Administration (INTAN) in 1983 and MBA (UKM) in 1987. He finished his PhD (Islamic Studies) in 1998 at University of Malaya (UM).

Previously he served as an Administrative Diplomatic Officers (PTD). During that period, he was attached to several units in Department of Prime Minister, among others are Economic Planning Unit and Islamic Economic Resources Development Committee.

At Academy of Islamic Studies UM, he was previously the Deputy Dean, Faculty of Shariah; Head, Department of Shariah and Management; and Deputy Director of the Academy. He, at present, is the Chairman of SC for Hong Leong MSIG Takaful Berhad and contributes as an academic panel for several institutions of higher education. Besides, he involved in establishing the Ummah Development Index, IKIM. He has written various books and articles related to Islamic transactions (Fiqh al-Muamalat), Islamic economics, Islamic management, Islamic banking and finance, Zakat, Dinar and Dakwah.

ASSOC. PROF. DR. NURUL AINI BINTI MUHAMED

Dr. Nurul Aini binti Muhamed is an Associate Professor at the Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia (USIM). She obtained a Bachelor Degree in Shariah (Management) from University of Malaya (2001) and an MBA from Universiti Kebangsaan Malaysia (2003). She was awarded with PhD (Business and Management) from University of South Australia (2009). She also serves as a Research Fellow of Institute of Halal Research and Management (IHRAM), USIM.

She was a Visiting Academic at Universiti Brunei Darussalam (UBD School of Business and Economics) and Universiti Islam Sultan Sharif Ali (UNISSA) (Faculty of Economics and Islamic Finance), Brunei Darussalam. Previously, she was a Deputy Dean (Academic and Research) and Head Program of Bachelor Degree of Muamalat Administration. She has teaching several subjects including Fiqh Mualamat and Management of Islamic Banking and Takaful Institutions. Her research areas include the Islamic Transaction Law, Islamic Banking and Finance, Halal Compliance and Corporate Governance.

She is also a Shariah Committee member of Hong Leong MSIG Takaful Berhad since 2013.

Shariah Committee Profile

EN. IMRAN BIN MOHAMMAD KHAYAT

En. Imran bin Mohammad Khayat is currently the General Manager of Shariah Division of Lembaga Tabung Haji. He is spearheading the establishment and putting the structure of Shariah Governance Framework of Lembaga Tabung Haji. He graduated from Universiti of Yarmouk, Jordan in 2004, with a Bachelor of Syariah (Islamic Jurisprudence and Its Foundation). Besides, he is a Certified Shariah Advisor and Auditor (CSAA), Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI), Bahrain and completed a Global Islamic Banking Leaders (GIBL) Programme of KFH Malaysia.

He has the essential qualifications in the field of Fiqh al-Muamalat (Islamic Law of Transactions), *Usul al-fiqh*, and Islamic legal maxims. Prior to his current position, he has eight (8) years of experience working with the Middle Eastern based Islamic bank in Kuala Lumpur covering Shariah matters relating to product development, treasury, wholesale banking, retail banking, capital market, fund management, private equity and direct investment.

Prior to joining the Islamic Finance industry, he was a lecturer at a private college in east coast of Malaysia.

DR. MOHAMAD @ MD. SOM BIN SUJIMON

Dr. Mohamad @ Md Som bin Sujimon, graduated from University of Al-Azhar, Cairo with a B.A Hons from the Faculty of Islamic Jurisprudence and Law in 1979. He obtained his Master of Arts in Teaching from Mississippi State University (MSU), USA in 1982 and completed his Ph.D in 1997 in Islamic and Middle Eastern Studies, the Faculty of Arts, University of Edinburgh, Scotland, United Kingdom.

He was an Assoc. Prof. at the Faculty of Shariah and Law, Universiti Islam Sultan Sharif Ali (UNISSA), Brunei Darussalam. He published many papers including Fikah Kekeluargaan; The Problems of the Illegitimate Child (*walad zina*) and Foundling (laqit) in the Sunni School of Law; Kes-Kes Kehakiman Berkaitan Jenayah Hudud, Qisas dan Kekeluargaan Di zaman Khulafa' al-Rashidin; Konsep dan Pelaksanaan Mu'amalat pada Zaman Khulafa' al-Rashidin [Concept and Implemention of Islamic Finance During the Caliphate of Islam] Translated from Arabic work by Dr. Subhi Mahmasani; Modelling Retail Sukuk in Indonesia and Manual Mazhab Hanafi Yang Dilupakan Murshid al-Hayran ila Ma'rifat Ahwal al-Insan Karya Kadri Pasha [The Forgotten Hanafite Manual of Murshid al-Hayran ila Ma'rifat Ahwal al-Insan by Kadri Pasha; Pertukaran dan Perdagangan Matawang Dalam Islam: Satu Sorotan Awal [Exchange and Money Transaction in Islam: A Preliminary Survey] and other notable intellectual writings in Shariah and Islamic Transaction.

Before this, he was the Chief Executive Officer (Rector) of Johor Islamic College, Johor Bahru and Senior Researcher at the International Shariah Research Academy (ISRA). At present, he is a registered Shariah Advisors with the Securities Commission Malaysia. He is a member of the Association of Shariah Advisors in Islamic Finance Malaysia (ASAS). In Johore, he is a Shariah Committee of REIT and REIT Al-Salam. Currently, he serves as Shariah Committee of FWD Takaful Berhad (formerly known as HSBC Amanah Takaful Malaysia) since 2011 and also a Shariah Committee for Hong Leong Islamic Bank since October 2016. He is also currently the Chairman of Shariah Supervisory Board for International Halal Labuan Foundation. He was appointed as Associate Research Fellow at International Research Centre of Islamic Economics and Finance (IRCIEF) of International Islamic University College Selangor (KUIS) in 2018.

Shariah Committee Profile

PROF. DR. RUSNI BINTI HASSAN

Dr. Rusni Hassan is a Professor at the IIUM Institute of Islamic Banking and Finance, IIUM. She graduated with LLB (Honours), LLB (Shariah) (First Class), Master of Comparative Laws (MCL) and Ph.D in Law.

She was a member of Shariah Advisory Council Bank Negara Malaysia, the highest legal body that ascertained the Islamic law for the purposes of Islamic financial business in the country from 2010 to 2016. She is the Shariah Committee member for a number of institutions in Malaysia including Association of Islamic Banking Institutions Malaysia (AIBIM) as well as Waqf Al-Nur and Koperasi J-Corp. Internationally, she is the Shariah Committee member for Housing Development Finance Corporation and Housing Development Corporation, Maldives. She is a registered Shariah Advisor with the Securities Commission Malaysia.

She is also active in the Association of Shariah Advisors in Islamic Finance Malaysia (ASAS) and the International Council of Islamic Finance Educators (ICIFE) where she is the Secretary and the Assistant Secretary for both associations respectively. She has spoken extensively in seminars, workshops, conferences and trainings on various Islamic Finance issues. Her publication includes books on Islamic Banking and Takaful, Islamic Banking under Malaysian Law; Corporate Governance of Islamic Financial Institutions; Islamic Banking Cases and Commentaries; and many articles in local and international journals. She has received awards as a Promising Researcher at IIUM in 2012.

Her works and contribution to Islamic Finance has also been recognized internationally when she was listed among the Top 10 Women in Islamic Finance by CPI Financial in 2013 and been awarded as Most Talented Women Professional in Islamic Banking, Asia Islamic Banking Excellence Awards, CMO Asia, 2014; and Women of Distinction in her contribution in the field of Islamic Finance and Law by Venus International Women Awards (VIWA 2016); The Top 50 Most Influential Women in Islamic Finance 2018 by Cambridge IFA and Disinguished Women in Management (Islamic Finance). Her contribution to Islamic Finance in Maldives has been recognised by the Government of Maldives when she was awarded the National-Recognition for Outstanding Contribution of Females to Develop and Sustain Islamic Finance Industry in Maldives.

Board Audit & Risk Management **Committee Report**

CONSTITUTION

The Board Audit and Risk Management Committee ("BARMC") of Hong Leong Islamic Bank Berhad ("HLISB" or "the Bank") was established on 29 September 2005.

The BARMC is established to support the Board in discharging the following responsibilities:

1. Oversee management's implementation of the Bank's governance framework and internal control framework/ policies.
2. Ensure management meets the expectations on risk management as set out in the policy document on Risk Governance.
3. Oversee that management has a reliable and transparent financial reporting process within the Bank by providing independent oversight of internal and external audit functions.
4. Oversee management's implementation of compliance risk management.
5. Promote the adoption of sound corporate governance principles as set out in the policy document on Corporate Governance within the Bank.

COMPOSITION

Encik Alan Hamzah Sendut
(Chairman, Independent Non-Executive Director)

YBhg Datuk Dr Md Hamzah bin Md Kassim
(Independent Non-Executive Director)

Puan Rowina Ghazali Seth
(Independent Non-Executive Director)

SECRETARY

The Secretary(ies) to the BARMC is/are the Company Secretary(ies) of the Bank.

TERMS OF REFERENCE

The terms of reference of the BARMC are published on the Bank's website ('www.hlisb.com.my').

AUTHORITY

The BARMC is authorised by the Board to review any activity of the Bank within its Terms of Reference. It is authorised to seek any information it requires from any Director or member of management and all employees are directed to co-operate with any request made by the BARMC.

The BARMC is authorised by the Board to obtain independent legal or other professional advice if it considers necessary.

MEETINGS

The BARMC meets at least six (6) times a year and additional meetings may be called at any time as and when necessary. All meetings to review the quarterly reports and annual financial statements are held prior to such quarterly reports and annual financial statements being presented to the Board for approval.

The Group Managing Director ("GMD") of Hong Leong Bank Berhad ("HLB"), Chief Executive Officer ("CEO") of HLISB, Chief Internal Auditor ("CIA"), Chief Risk Officer ("CRO"), Chief Financial Officer ("CFO"), Chief Compliance Officer ("CCO"), Chief Shariah Officer ("CSO"), other senior management and external auditors may be invited to attend the BARMC meetings, whenever required.

At least twice a year, the BARMC will have separate sessions with the external auditors without the presence of Executive Directors and management.

Issues raised, discussions, deliberations, decisions and conclusions made at the BARMC meetings are recorded in the minutes of the BARMC meetings. A BARMC member who has, directly or indirectly, an interest in a material transaction or material arrangement shall not be present at the BARMC meeting where the material transaction or material arrangement is being deliberated by the BARMC.

Two (2) members of the BARMC, who shall be independent, shall constitute a quorum and the majority of members present must be independent director.

After each BARMC meeting, the BARMC shall report and update the Board on significant issues and concerns discussed during the BARMC meetings and where appropriate, make the necessary recommendations to the Board.

Board Audit & Risk Management Committee Report

REVISION OF THE TERMS OF REFERENCE

Any revision or amendment to the Terms of Reference, as proposed by the BARMC, shall first be presented to the Board for its approval. Upon the Board's approval, the said revision or amendment shall form part of the Terms of Reference which shall be considered duly revised or amended.

ACTIVITIES

The BARMC carried out its duties in accordance with its Terms of Reference.

During the financial year ended 30 June 2019, seven (7) BARMC meetings were held and the attendance of the BARMC members were as follows:

Member	Attendance
Encik Alan Hamzah Sendut	7/7
YBhg Datuk Dr Md Hamzah bin Md Kassim	6/7
Puan Rowina Ghazali Seth	7/7

HOW THE BARMC DISCHARGES ITS RESPONSIBILITIES

Risk Management

The BARMC reviewed major risk management strategies, policies and risk tolerance levels for Board's approval.

In addition, the BARMC has reviewed periodic risk management reports, i.e. Risk Management Dashboards covering among others Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Shariah Compliance Risk and IT Risk. The BARMC also reviewed periodic group compliance reports, i.e. Regulatory Compliance Highlights and New Regulations Update.

Bank-wide compliance matters are also deliberated by the BARMC. The BARMC continuously provides oversight of the Bank's compliance activities to ensure that the Bank is in compliance with all established policies, guidelines and external regulations.

Financial Reporting

The BARMC reviewed the quarterly reports and financial statements of the Bank focusing particularly on:

(i) any changes in accounting policies and practices;
(ii) significant adjustments arising from the audit;
(iii) the going concern assumptions; and
(iv) compliance with accounting standards and other legal requirements.

BARMC also reviewed with Management the progress update reports, replies to the surveys conducted by Bank Negara Malaysia. The legal and regulatory environment was monitored and consideration given to changes in law, regulation, accounting policies and practices including financial reporting standards in the pipeline.

External Audit

The external auditors of the Bank for the financial year ended 30 June 2019 was PricewaterhouseCoopers PLT ("PwC PLT"). The BARMC discussed and reviewed with the external auditors, before the audit commences for the financial year:

(i) the audit plan and timetable for the financial audit of the Bank including the focus areas and approach to the current financial year's audit and any significant issues that can be foreseen, either as a result of past year's experiences or due to new accounting standards or other changes in statutory requirements; and

(ii) the methodology and timetable of the Statement on Risk Management and Internal Control.

The BARMC reviewed the report and audit findings of the external auditors and considered management's responses to the external auditors' audit findings and investigations. The BARMC also had two (2) private sessions with the external auditors without the presence of the Executive Director and management whereby matters discussed include key reservations noted by the external auditors during the course of their audit; whilst the BARMC Chairman maintained regular contact with the audit partner throughout the year.

The BARMC reviewed the external auditors' audit fees and their scope of services. The approved and incurred audit and regulatory related fees for the financial year ended 30 June 2019 amounted to RM550,680. The BARMC assessed the objectivity and independence of the external auditors prior to the appointment of the external auditors for ad-hoc non-audit services.

The BARMC also evaluated the performance of PwC PLT in the following areas in relation to its re-appointment as auditors for the financial year ended 30 June 2019 and considered PwC PLT to be independent:

(i) level of knowledge, capabilities, experience and quality of previous work;
(ii) level of engagement with BARMC;
(iii) ability to provide constructive observations, implications and recommendations in areas which require improvements;
(iv) adequacy in audit coverage, effectiveness in planning and conduct of audit;
(v) ability to perform the audit work within the agreed timeframe;

Board Audit & Risk Management Committee Report

(vi) non-audit services rendered by PwC PLT does not impede independence;
(vii) ability to demonstrate unbiased stance when interpreting the standards/policies adopted by HLISB; and
(viii) risk of familiarity in respect of PwC PLT's appointment as external auditors.

PwC PLT, in accordance with professional ethical standards, has provided the BARMC with confirmation of their independence for the duration of the financial year ended 30 June 2019 and the measures used to control the quality of their work.

The BARMC has therefore recommended to the Board that PwC PLT be re-appointed as the auditors. Resolution concerning the re-appointment of PwC PLT will be proposed to the shareholder at the 2019 Annual General Meeting.

Related Parties Transactions

The BARMC conducted quarterly review of the recurrent related party transactions ("RRPT") entered into by the Bank to ensure that such transactions are undertaken on commercial terms and on terms not more favourable to the related parties than those generally available to and/or from the public.

The Bank had put in place the procedures and processes to monitor, track and identify the RRPT as well as to ensure that the RRPT are conducted on commercial terms consistent with the Bank's usual business practices and policies and on terms not more favourable to the related parties than those generally available to and/or from the public, where applicable.

The BARMC reviewed the said procedures and processes on an annual basis and as and when required, to ensure that the said procedures are adequate to monitor, track and identify RRPT in a timely and orderly manner, and are sufficient to ensure that the RRPT will be carried out on commercial terms consistent with the Bank's usual business practices and policies and on terms not more favourable to the related parties than those generally available to and/or from the public.

Credit Transactions And Exposure With Connected Parties

The Bank is guided by the Guidelines on Credit Transactions and Exposures with Connected Parties to ensure that credit transactions with connected parties are carried out on an arm's length basis on terms and conditions not more favourable than those entered into with other counterparties with similar circumstances and creditworthiness.

The BARMC had conducted quarterly review of credit transactions of the Bank with connected parties to ensure compliance with the said Guidelines.

Internal Audit

The BARMC reviewed the adequacy of internal audit scope, internal audit plan and resources of the various internal audit functions within Group Internal Audit Division ("GIAD").

During the financial year, BARMC noted that GIAD had effectively carried out internal audits to all business entities of the Bank, and reviewed the GIAD's reports on the audits performed on the Bank as set out in the Internal Audit Function section below.

The BARMC has reviewed the audit findings and recommendations of the GIAD, including any findings of internal investigations, and has ensured that management has taken the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements and policies. The BARMC also reviewed at every BARMC meeting the status update of management's corrective action plans for the resolution of internal audit's findings and recommendations. Recommendations were made by BARMC to ensure that the root causes raised by GIAD in their audit reports were effectively resolved and that any outstanding audit findings be tracked for timely resolution.

GROUP INTERNAL AUDIT DIVISION ("GIAD")

The GIAD assists the BARMC in the discharge of its duties and responsibilities. GIAD employs a risk-based assessment approach in auditing the Bank's business and operational activities. The high risk activities are given due attention and audited on a more regular basis while the rest are prioritised to potential risk exposure and impact.

During the financial year ended 30 June 2019, GIAD carried out its duties covering audits on branches, and risk-based audits on Personal Financial Services, Business Corporate Banking and Global Markets businesses, Group Operations and Technology, Group Functions, Shariah compliance, investigation and other assignments as directed. These audits are performed in line with the BNM Guidelines on Internal Audit Function.

The division also worked closely with HLISB Shariah Division, Group Risk Management and Group Compliance Divisions to review, evaluate and improve the risk management framework, its effective deployment and Shariah compliance review.

This BARMC Report is made in accordance with the resolution of the Board of Directors.

Corporate Governance Overview, **Risk Management & Internal Control Statement**

"

Corporate Governance is the process and structure used to direct and manage the business and affairs of the Company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interest of other stakeholders.

"

Finance Committee on Corporate Governance

The Board of Directors ("Board") is pleased to present this statement with an overview of the corporate governance ("CG") practices of the Bank which supports the three key principles of the Malaysian Code on Corporate Governance ("MCCG") namely board leadership and effectiveness; effective audit and risk management; and integrity in corporate reporting and meaningful relationship with stakeholders.

The Board also reviewed the manner in which the Bank Negara Malaysia's ("BNM") policy document on Corporate Governance ("BNM CG Policy") is applied in the Bank, where applicable, as set out below.

A. ROLES AND RESPONSIBILITIES OF THE BOARD

The Board assumes responsibility for effective stewardship and control of the Bank and has established terms of reference ("TOR") to assist in the discharge of this responsibility.

In discharging its responsibilities, the Board has established functions which are reserved for the Board and those which are delegated to management. The key roles and responsibilities of the Board are set out in the Board Charter, which was reviewed periodically by the Board. The Board Charter is published on the Bank's website, www.hlisb.com.my ("the Bank's website"). The key roles and responsibilities of the Board broadly cover formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Bank's businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage those risks; and reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals, and major capital expenditure and such other responsibilities that are required as specified in the guidelines and circulars issued by BNM from time to time. The day-to-day business of the Bank is managed by the Chief Executive Officer ("CEO") who is assisted by the management team. The CEO and his management team are accountable to the Board for the performance of the Bank. In addition, the Board has established Board Committees which operate within clearly defined TOR primarily to support the Board in the execution of its duties and responsibilities.

To discharge its oversight roles and responsibilities more effectively, the Board has delegated the independent oversight over, inter alia, internal and external audit functions and internal controls; and risk management to the Board Audit and Risk Management Committee ("BARMC"). The Nomination Committee ("NC") is delegated the authority to, inter alia, assess and review Board, Board Committees and CEO appointments and re-appointments and oversee management succession planning. Although the Board has granted such authority to Board Committees, the ultimate responsibility and the final decision rest with the Board. The chairmen of Board Committees report to the Board on matters dealt with at their respective Board Committee meetings. Minutes of Board Committee meetings are also tabled at Board meetings.

There is a clear division of responsibilities between the Chairman of the Board and the CEO. This division of responsibilities between the Chairman and the CEO ensures an appropriate balance of roles, responsibilities and accountability.

The Chairman leads the Board and ensures its smooth and effective functioning.

The CEO is responsible for formulating the vision and recommending policies and the strategic direction of the Bank for approval by the Board, implementing the decisions of the Board, initiating business ideas and corporate strategies to create competitive edge and enhancing shareholder wealth, providing management of the day-to-day operations of the Bank and tracking compliance and business progress.

Corporate Governance Overview, Risk Management & Internal Control Statement

A. ROLES AND RESPONSIBILITIES OF THE BOARD (CONTINUED)

Independent Non-Executive Directors ("INEDs") are responsible for providing insights, unbiased and independent views, advice and judgment to the Board and bring impartiality to Board deliberations and decision-making. They also ensure effective checks and balances on the Board. There are no relationships or circumstances that could interfere with or are likely to affect the exercise of INEDs' independent judgment or their ability to act in the best interest of the Bank and its shareholder.

The Bank continues to operate in a sustainable manner and seeks to contribute positively to the well-being of stakeholders. The Bank takes a progressive approach in integrating sustainability into its businesses as set out in the Bank's Sustainability Statement which forms part of its Annual Report.

The Board observes the Code of Ethics for Company Directors established by the Companies Commission of Malaysia ("CCM") and Hong Leong Bank Group Code of Conduct & Ethics, which have been adopted by the Board and published on the Bank's Website. Details of the Hong Leong Bank Group Code of Conduct & Ethics are set out in Section G of this Statement.

B. BOARD COMPOSITION

The Board currently comprises five (5) Directors. The five (5) Directors are made up of one (1) Executive Director and four (4) Non-Executive Directors, of whom three (3) are independent. The profiles of the members of the Board are set out in the Annual Report.

The Bank is guided by BNM CG Policy in determining its board composition. The Board shall determine the appropriate size of the Board to enable an efficient and effective conduct of Board deliberation. The Board shall have a balance of skills and experience to commensurate with the complexity, size, scope and operations of the Bank. Board members should have the ability to commit time and effort to carry out their duties and responsibilities effectively.

The Board recognises the merits of Board diversity in adding value to collective skills, perspectives and strengths to the Board. The Board will consider appropriate targets in Board diversity including gender balance on the Board and will take the necessary measures to meet these targets from time to time as appropriate.

Based on the review of the Board composition in July 2019, the Board is of the view that the current size and composition of the Board are appropriate and effective for the control and direction of the Group's strategy and business. The composition of the Board also fairly reflects the investment of shareholder in the Bank.

C. BOARD COMMITTEES

Board Committees have been established by the Board to assist in the discharge of its duties.

(A) BARMC

The composition of the BARMC and a summary of its activities in the discharge of its functions and duties for the financial year and explanation on how the BARMC had met its responsibilities are set out in the BARMC Report in this Annual Report.

The BARMC's functions and responsibilities are set out in the TOR which is published on the Bank's Website.

(B) NC

The NC was established on 29 September 2005. The composition of the NC is as follows:

- Encik Alan Hamzah Sendut (Chairman)
- YBhg Datuk Dr Md Hamzah bin Md Kassim
- Mr Domenic Fuda

The NC's functions and responsibilities are set out in the TOR which is published on the Bank's Website.

The Bank has in place Fit and Proper ("F&P") Policy as a guide for the following process and procedure for assessment of (i) new appointments and re-appointments of Chairman, Directors and CEO, (ii) appointment of Board Committee members, and (iii) Annual F&P Assessment of Chairman, Directors and CEO, and the criteria and guidelines used for such assessments. Upon the approval of the Board, an application on the prescribed forms will be submitted to BNM for approval in respect of new appointments and re-appointments.

C. BOARD COMMITTEES (CONTINUED)

(B) NC (CONTINUED)

(i) New Appointments

The nomination, assessment and approval process for new appointments is as follows:

Identification of candidates	▶	Meeting with candidates	▶	• Assessment against Assessment Criteria and BNM Guidelines • F&P Declaration by candidates • Relevant Credit Bureau Checks • CTOS (Bankruptcy) search • Recommendation by the NC	▶	Deliberation by the Board and decision thereof

In assessing the candidates for Board appointments, the NC will take into account, inter alia, the strategic and effective fit of the candidates for the Board, the overall desired composition and the mix of expertise and experience of the Board as a whole and having regard to the candidates' attributes, qualifications, management, leadership, business experience and their F&P Declarations in respect of their probity, competence, personal integrity, reputation, qualifications, skills, experience and financial integrity in line with the standards required under the relevant BNM Guidelines. The Bank has taken steps to build and maintain a pool of potential Board candidates from internal and external introductions, recommendations and independent sources with Director databases in its search for suitable Board candidates.

In the case of CEO, the NC will take into account the candidate's knowledge and experience in the industry, market and segment. The NC will also consider the candidate's F&P Declaration in line with the standards required under the relevant BNM Guidelines.

(ii) Re-Appointments

The assessment and approval process for re-appointments is as follows:

CTOS (Bankruptcy) search	▶	• Assessment against Assessment Criteria and BNM Guidelines • F&P Declaration • Relevant Credit Bureau Checks • Recommendation by the NC	▶	Deliberation by the Board and decision thereof

For re-appointments, the Chairman, Directors and CEO will be evaluated on their performance in the discharge of duties and responsibilities effectively, including, inter alia, contribution to Board deliberations, time commitment as well as the Annual Board Assessment (as defined below) results, contributions during the term of office, attendance at Board meetings, F&P Declarations in respect of their probity, competence, personal integrity, reputation, qualifications, skills, experience and financial integrity in line with the standards required under the relevant BNM Guidelines and for Independent Directors, their continued independence.

C. BOARD COMMITTEES (CONTINUED)

(B) NC (CONTINUED)

(iii) Board Committee Appointments

The nomination, assessment and approval process for appointments to Board Committees ("Board Committee Appointments") is as follows:

Identification of Directors for Board Committees membership	▶	• Assessment against Assessment Criteria and BNM Guidelines • Recommendation by the NC	▶	Deliberation by the Board and decision thereof

The assessment for Board Committee Appointments will be based on the Directors' potential contributions and value-add to the Board Committees with regard to Board Committees' roles and responsibilities.

In addition, a formal evaluation process has been put in place to assess the effectiveness of the Board as a whole, the Board Committees and the contribution and performance of each individual Director on an annual basis ("Annual Board Assessment") in conjunction with the annual F&P assessment of Chairman, Directors and CEO per BNM Guidelines. The NC will deliberate on the results of the Annual Board Assessment and submit its recommendation to the Board for consideration and approval. For newly appointed Chairman, Directors and CEO, the Annual Board Assessment will be conducted at the next annual assessment exercise following the completion of one year of service.

Assessment criteria for Board as a whole include, inter alia, the effectiveness of the Board composition in terms of size and structure vis-à-vis the complexity, size, scope and operations of the Bank; the core skills, competencies and experience of the Directors; and the Board's integrity, competency, responsibilities and performance. The assessment criteria for Board Committees include the effectiveness of the respective Board Committees' composition in terms of mix of skills, knowledge and experience to carry out their respective roles and responsibilities per the Board Committees' TOR and the contribution of Board Committees members. Each individual Director is assessed on, inter alia, the effectiveness of his/her competency, expertise and contributions. The skills, experience, soundness of judgment as well as contributions towards the development of business strategies and direction of the Bank and analytical skills to the decision-making process are also taken into consideration.

For management succession planning, it has been embedded in the Group's process over the years to continuously identify, groom and develop key talents from within the Group. The Group also has a talent development programme to identify, retain and develop young high potential talents.

The NC meets at least once in each financial year and additional meetings may be called at any time as and when necessary.

During the financial year ended 30 June 2019 ("FYE 2019"), three (3) NC meetings were held and the attendances of the NC members were as follows:

Member	Attendance
Encik Alan Hamzah Sendut	3/3
YBhg Datuk Dr Md Hamzah bin Md Kassim	3/3
Mr Domenic Fuda	3/3

C. BOARD COMMITTEES (CONTINUED)

(B) NC (CONTINUED)

(iii) Board Committee Appointments (continued)

The NC carried out the following activities in the discharge of its duties in accordance with its TOR during the FYE 2019:

- Carried out the Annual Board Assessment and was satisfied that the Board as a whole, Board Committees and individual Directors have continued to effectively discharge their duties and responsibilities in accordance with their respective TORs, and that the current Board composition in terms of Board balance, size and mix of skills is appropriate and effective for the discharge of its functions. The NC took cognisance of the merits of Board diversity including women participation on the Board, in adding value to the Bank;

- Carried out the Annual Assessment and was satisfied that the Shariah Committee and individual Shariah Committee members have continued to effectively discharge their duties and responsibilities in accordance with the Shariah Governance Framework;

- Considered and assessed the position of Independent Directors of the Bank and was satisfied that the Independent Directors met the regulatory requirements for Independent Directors;

- Reviewed the F&P Declarations by Directors, CEO and Shariah Committee members in line with the BNM policy document on F&P Criteria and was satisfied that the Directors, CEO and Shariah Committee members met the requirements as set out in BNM policy document on F&P Criteria;

- Reviewed the re-appointments of Directors and Shariah Committee members in accordance with the F&P Policy, BNM CG Policy and Shariah Governance Framework and recommended to the Board for consideration and approval;

- Reviewed the appointment of Company Secretary in accordance with the BNM CG Policy and recommended to the Board for consideration and approval; and

- Reviewed and recommended to the Board for adoption the revisions to the F&P Policy of the Bank on assessment criteria and guidelines for appointment and re-appointment of Chairman, Directors and CEO.

(C) REMUNERATION COMMITTEE ("RC")

The RC was established on 29 September 2005. The composition of the RC is as follows:

- Encik Alan Hamzah Sendut (Chairman)
- YBhg Datuk Dr Md Hamzah bin Md Kassim
- Puan Rowina Ghazali Seth

The RC's functions and responsibilities are set out in the TOR which is published on the Bank's Website.

During the FYE 2019, two (2) RC meetings were held and the attendances of the RC members were as follows:

Member	Attendance
Encik Alan Hamzah Sendut	2/2
YBhg Datuk Dr Md Hamzah bin Md Kassim	2/2
Puan Rowina Ghazali Seth	2/2

Corporate Governance Overview, Risk Management & Internal Control Statement

C. BOARD COMMITTEES (CONTINUED)

(D) REMUNERATION COMMITTEE ("RC") (CONTINUED)

The Bank's remuneration scheme for Executive Directors is linked to performance, service seniority, experience and scope of responsibility and is periodically benchmarked to market/industry surveys conducted by human resource consultants. Performance is measured against profits and targets set in the Bank's annual plan and budget.

The level of remuneration of Non-Executive Directors reflects the scope of responsibilities and commitment undertaken by them.

The RC, in assessing and reviewing the remuneration packages of Executive Directors, ensures that a strong link is maintained between their rewards and individual performance, based on the provisions in the Group's Human Resources Manual, which are reviewed from time to time to align with market/industry practices. The fees of Directors are recommended and endorsed by the Board for approval by the shareholder of the Bank at its Annual General Meeting ("AGM").

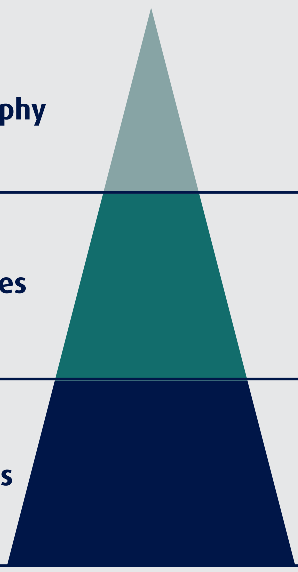
The detailed remuneration of each Director during the FYE 2019 is as set out in Note 36 of the Audited Financial Statements in this Annual Report.

REMUNERATION PHILOSOPHY & FRAMEWORK

The remuneration strategy of Hong Leong Bank Group ("HLB Group") supports and promotes a high performance culture to deliver the Bank's Vision to be a highly digital & innovative ASEAN financial services company. It also forms a key part of our Employer Value Proposition with the aim to drive the right behaviors, create a workforce of strong values, high integrity, clear sense of responsibility and high ethical standards.

The remuneration framework provides a balanced approach between fixed and variable components that is measured using a robust and rigorous performance management process that incorporates meritocracy in performance, the Bank's values, prudent risk-taking and key behaviours in accordance to our Code of Conduct and risk and compliance management as part of the key performance indicators for remuneration decisions.

OVERVIEW OF REMUNERATION POLICY FRAMEWORK



A. Philosophy	Remuneration philosophy hinges on: - Our values and commitment to the employees of the Bank - High performance culture - Strong alignment between prudent risk taking and reward
B. Principles	Remuneration principles are based on 3 key principles: - Oversight by Remuneration Committee & Board of Directors - Prudent Risk Taking - Governance Process for Bonus, Increment and Promotion (BIP)
C. Practices	Remuneration practices: - Details how the remuneration principles will be achieved in practice - Includes remuneration structures, design, implementation and workflow/procedures

C. BOARD COMMITTEES (CONTINUED)

GUIDING PRINCIPLES

Principle 1 – Oversight by Remuneration Committee & Board of Directors

The Remuneration Committee's (RC) responsibilities are to recommend to the Board the framework and policies that govern the remuneration of the directors, Chief Executive Officer, senior management officers and other material risk takers. The RC ensures that the remuneration system is in line with the business and risk strategies, corporate values and long-term interests of the Bank and that it has a strong link between rewards, collective and individual performance and is periodically benchmarked to market/industry. The Board ensures that the corporate governance disclosures on remuneration are accurate, clear, and presented in a manner that is easily understood by our shareholders, customers and other relevant stakeholders.

Principle 2 – Prudent Risk Taking

Remuneration for employees within the Bank is aligned with prudent risk-taking. Hence, remuneration outcomes must be symmetric with risk outcomes. This includes ensuring that remuneration is adjusted to account for all types of risk, and must be determined by both quantitative measures and qualitative judgement.

Principle 3 – Governance Process for Bonus, Increment and Promotion ("BIP")

The Bank has established a robust BIP process to ensure proper governance and sufficient controls are in place. Provision for variable remuneration is tied to the performance of the Bank and the pool is allocated according to the performance of each business unit and then the individual contribution to that performance. To safeguard the independence and authority of individuals engaged in control functions, the Bank ensures that the remuneration of such individuals is based principally on the achievement of control functions objectives and determined in a manner that is independent from the business lines they oversee.

REMUNERATION PRACTICES

Measurement of Performance

The Bank's performance is determined in accordance with a balanced scorecard which includes key measures on profitability, cost, capital, shareholders' return, medium to long-term strategic initiatives, as well as risk, audit and compliance outcomes.

For each employee, performance is tracked through Key Result Areas (KRAs) in a balanced scorecard. It focuses on the achievement of key objectives which are aligned to value creation for our shareholders and the multiple stakeholders we serve. At the end of the year, performance of the employee is assessed through the performance management framework which is based on 70% of KRAs (with mandatory weightage for Compliance and Training) and 30% on demonstrating embodiment of the Bank's Values.

Pay Mix Delivery and its Purpose

The overall Total Compensation for the CEO, members of the senior management team and other material risk takers generally includes base pay, fixed cash allowances, performance-based variable pay, long term incentives, benefits and other employee programmes.

1. Fixed Pay (base pay and fixed cash allowances)

   Fixed pay is delivered at an appropriate level taking into account skills, experience, responsibilities, competencies and performance; ensuring its competitiveness vis-à-vis comparable institutions for attraction and retention purposes.

Corporate Governance Overview, Risk Management & Internal Control Statement

C. BOARD COMMITTEES (CONTINUED)

REMUNERATION PRACTICES (CONTINUED)

Pay Mix Delivery and its Purpose (continued)

2. Performance-based variable pay

Performance-linked variable pay in the form of bonuses is paid out at the end of the Financial Year subject to the Bank's performance and in recognition of individual performance and key achievements during the year. It focuses on the achievement of key objectives which are aligned to value creation for shareholders and our multiple stakeholders. A robust key performance indicator ("KPIs") setting process that incorporates risk management as part of the scorecards are also in place to ensure excessive risk taking behaviours by staff is minimised and sufficient control mechanism are in place. Variable bonus awards for individuals in senior management position and in excess of a certain amount thresholds will be deferred over a period of time, to ensure that outcomes are sustainable and any risks associated with the generation of the income in a particular year have sufficient time to emerge and manifest themselves before employees have access to the full amount of the variable portion.

3. Long term incentives

In addition, the Bank also recognises and rewards individuals for their contributions towards the Bank's long-term business achievements (both in qualitative and quantitative measures) through a combination of cash and non-cash (i.e. shares or share-linked instruments) elements that are subject to partial deferment over a period of time (typically over a few years) with built-in clawback mechanism.

The clawback mechanism can be triggered when there are non-compliances to regulations and policies and where Management deemed necessary due to achievements of performance targets that are not sustainable. Clawbacks are typically (and not limited to) applied in the case of Gross Misconduct, Financial Misstatements, Material Risks and/or Malfeasance of Fraud.

The variable portion of remuneration (both Performance-based variable pay and Long term incentives) increases along with the individual's level of accountability. By subjecting an adequate portion of the variable remuneration package to forfeiture, it takes into account potential financial risks that may crystallize over a period of time, reinforces the Bank's corporate and risk culture in promoting prudent risk taking behaviours.

4. Employee Benefits and Programmes

Employee benefits (e.g. screening, health and medical, leave passage) are used to foster employee value proposition and wellness to ensure the overall well-being of our employees. These are being reviewed annually to ensure the Bank remains competitive in the industry and that the employees are well taken care of.

C. BOARD COMMITTEES (CONTINUED)

REMUNERATION PRACTICES (CONTINUED)

Remuneration Disclosure

The following depicts the total value of remuneration awarded to the CEO, Senior Management team and Other Material Risk Takers for the FYE 2019:

CEO, Senior Management and Other Material Risk Takers	No. of officers received	Unrestricted (RM)	Deferred (RM)	Total amount of outstanding deferred remuneration as at 30.6.2019 (RM)	Total amount of outstanding deferred remuneration paid out (vested) in FYE 2019 (RM)
Fixed Remuneration					
Cash-based	10	4,182,066	-	-	-
Shares and share-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Variable Remuneration					
Cash-based	10	2,098,537	-	-	-
Shares and share-linked instruments	-	-	-	-	-
Other	-	-	-	-	-

Note: The value of share is based on the valuation used for MFRS2 Accounting.

D. INDEPENDENCE

The Bank has in place a policy in relation to the tenure for Independent Directors of the Bank ("Tenure Policy") under the F&P Policy of the Bank. Pursuant to the Tenure Policy, an Independent Director who has served on the Board of the Bank for a period of 9 years cumulatively shall submit a Letter of Intent to the NC informing of his intention to continue in office or to retire from the Board as an Independent Director, upon:

(a) the expiry of his term of office approved by BNM; or
(b) the due date for his retirement by rotation pursuant to the Constitution of the Bank.

If the intention is to continue in office, the NC shall consider based on the assessment criteria and guidelines set out in the F&P Policy and make the appropriate recommendation to the Board. If the intention is to retire from office, an application shall be made to BNM to seek approval in accordance with BNM CG Policy.

The Board seeks to strike an appropriate balance between tenure of service, continuity of experience and refreshment of the Board. Although a longer tenure of directorship may be perceived as relevant to the determination of a Director's independence, the Board recognises that an individual's independence should not be determined solely based on tenure of service. Further, the continued tenure of directorship brings considerable stability to the Board, and the Bank benefits from Directors who have, over time, gained valuable insight into the Bank, its market and the industry.

Corporate Governance Overview, Risk Management & Internal Control Statement

D. INDEPENDENCE (CONTINUED)

The tenure of all the Independent Directors on the Board of the Bank does not exceed 9 years. The Independent Directors have declared their independence, and the NC and the Board have determined, at the annual assessment carried out, that the Independent Directors have continued to bring independent and objective judgment to Board deliberations and decision making.

E. COMMITMENT

The Directors are aware of their responsibilities and devote sufficient time to carry out such responsibilities. Directors provide notifications to the Board for acceptance of any new Board appointments. This ensures that their commitment, resources and time are focused on the affairs of the Bank to enable them to discharge their duties effectively. Board meetings are scheduled a year ahead in order to enable full attendance at Board meetings. Additional meetings may be convened on an ad-hoc basis as and when necessary. Where appropriate, decisions are also taken by way of Directors' Circular Resolutions. Directors are required to attend at least 75% of Board meetings held in each financial year pursuant to the BNM CG Policy.

All Board members are supplied with information in a timely manner. The Bank has moved towards electronic Board reports. Board reports are circulated electronically prior to Board and Board Committee meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, updates on the performance of the Bank and management's proposals which require the approval of the Board.

All Directors have access to the advice and services of a qualified and competent Company Secretary to facilitate the discharge of their duties effectively. The Company Secretary is qualified to act under Section 235 of the Companies Act 2016. The Company Secretary supports the effective functioning of the Board, provides advice and guidance to the Board on policies and procedures, relevant rules, regulations and laws in relation to corporate secretarial and governance functions and facilitates effective information flow amongst the Board, Board Committees and senior management. All Directors also have access to the advice and services of the internal auditors and in addition, to independent professional advice, where necessary, at the Bank's expense, in consultation with the Chairman or the CEO of the Bank or the Group Managing Director/CEO of Hong Leong Bank Berhad, the immediate holding company of the Bank.

At Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretary accordingly. A Director who has, directly or indirectly, an interest in a material transaction or material arrangement shall not be present at the board meeting where the material transaction or material arrangement is being deliberated by the Board.

The Board met six (6) times for the FYE 2019 with timely notices of issues to be discussed. Details of attendance of each Directors were as follows:

Director	Attendance
YBhg Datuk Dr Md Hamzah bin Md Kassim	6/6
Mr Kwek Leng Hai	6/6
Encik Alan Hamzah Sendut	6/6
Mr Domenic Fuda	6/6
Puan Rowina Ghazali Seth	6/6

The Bank recognises the importance of continuous professional development and training for its Directors.

The Bank is guided by a Directors' Training Policy, which covers an Induction Programme and Continuing Professional Development ("CPD") for Directors of the Bank. The Induction Programme is organised for newly appointed Directors to assist them to familiarise and to get acquainted with the Bank's business, governance process, roles and responsibilities as Director of the Bank. The CPD encompasses areas related to the industry or business of the Bank, governance, risk management and regulations through a combination of courses and conferences. A training budget is allocated for Directors' training programmes.

The Bank regularly organises in-house programmes, briefings and updates by its in-house professionals. The Directors are also encouraged to attend seminars and briefings in order to keep themselves abreast with the latest developments in the business environment and to enhance their skills and knowledge. Directors are kept informed of available training programmes on a regular basis.

The Bank has prepared for the use of its Directors, a Director Manual which highlights, amongst others, the major duties and responsibilities of a Director vis-à-vis various laws, regulations and guidelines governing the same.

Corporate Governance Overview, Risk Management & Internal Control Statement

E. COMMITMENT (CONTINUED)

In assessing the training needs of Directors, the Board has determined that appropriate training programmes covering matters on corporate governance, finance, legal, risk management, information technology, cyber security, internal control and/or statutory/regulatory compliance, be recommended and arranged for the Directors to enhance their contributions to the Board.

During the FYE 2019, the Directors received regular briefings and updates on the Bank's businesses, strategies, operations, risk management and compliance, internal controls, corporate governance, finance and any changes to relevant legislation, rules and regulations from in-house professionals. The Bank also organised an in-house programme for its Directors and senior management.

The Directors of the Bank have also attended various programmes and forums facilitated by external professionals in accordance with their respective needs in discharging their duties as Directors.

During the FYE 2019, the Directors of the Bank, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- AIBIM (Association of Islamic Banking and Financial Institution Malaysia) – Global Islamic Finance Forum 2018
- AMLATFPUAA 2001 (Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001) – Risk, Challenges & Vulnerabilities Towards Risk Based Approach
- Bursa Malaysia – Demystifying the Diversity Conundrum: The Road to Business Excellence
- BNM – MyFintech Week 2019
- CG Board Asia Pacific – Sustainability: Governance 2019 Towards long term value creation
- Deloitte – Cyber Security in Boardroom – Accelerating from Acceptance to Action
- Directors' Duties & Powers – Recent Developments in the Law and How It Affects You
- FIDE Forum – Masterclass on Cybersecurity: Unseen Threats
- FIDE Forum – IBM THINK Malaysia
- FIDE Forum – Dinner Talk: "The Director as Coach": An exclusive dialogue with Dr Marshall Goldsmith and Launch of FIDE Forum's "DNA of a Board Leader"
- FIDE Forum – Dinner Talk: "Digital Assets: Global Trends Legal Requirements and Opportunities for Financial Institutions"
- Insight of Value-Based Intermediation
- ICLIF – Anti-Money Laundering/Counter Financing of Terrorism – Banking Sector
- ICLIF – Emerging Risks, the Future Board and Return on Compliance
- ICLIF – Understanding the Evolving Cybersecurity Landscape
- ICDM – 'Revisiting the Misconception of Board Remuneration by Mark Reid'
- ICDM – 'Would A Business Judgement Rule Help Directors Sleep Better At Night?'
- ISRA Consultancy – Islamic Finance for Board of Directors Programme
- Malaysian Institute of Corporate Governance: 'Enterprise Risk Management – The Essential Building Blocks For A Holistic & Robust ERM Framework'
- Malaysian Institute of Corporate Governance: 'Introduction to Corporate Liability Provision: What it is, how will my Company be affected, and what do I need to put in place by way of safeguards?'
- Malaysian Alliance of Corporate Directors – The Human Firewall: Five Critical Concepts for Cultivating a Cyber Security Culture
- PNB (Permodalan Nasional Berhad) – Leadership Forum
- Tricor (Tricor Knowledge House Sdn Bhd) – 'Roles and Responsibilities of Directors, Board and Board Committees Under the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad, Malaysian Code on Corporate Governance and Corporate Disclosure Policy Under the MMLR
- Update on regulations in relation to the increase in additional buyer stamp duty rates and tightening loan-to-value limits
- Update on Code of Corporate Governance 2018
- Update on Singapore Stock Exchange Listing Rules
- Briefing on Developers (Anti-Money Laundering and Terrorism Financing) Bill
- Update on Guidelines on Use, Collection and Disclosure of NRIC numbers and Changes to the Employment Act

Corporate Governance Overview, Risk Management & Internal Control Statement

F. SHARIAH

(I) SHARIAH GOVERNANCE

The Shariah Committee ("SC") was established in 2005. The SC is among the key functions established under the Shariah Governance Board Policy ("SGBP") of HLISB.

The SGBP of HLISB comprises the following:

(i) The Board oversight on Shariah compliance aspects of HLISB's overall operations. The Board is ultimately responsible for the establishment of an appropriate Shariah governance framework of HLISB;
(ii) SC with qualified members who are able to deliberate Islamic finance issues brought before them and provide sound Shariah decisions;
(iii) Effective management responsibilities in providing adequate resources and capable manpower support to every function involved in the implementation of Shariah governance, in order to ensure that the execution of business operations are in accordance with the Shariah;
(iv) Shariah Advisory to provide day-to-day Shariah advice and consultancy to relevant stakeholders;
(v) Shariah Compliance Review to conduct regular assessment on a continuous basis, to review all processes and deliverables, to ensure that such processes and outcomes comply with Shariah;
(vi) Shariah Audit to conduct regular review on an annual basis, verifying that HLISB's key functions and business operations comply with Shariah;
(vii) Shariah Risk Management to identify all possible Shariah non-compliance risks and, where appropriate, remedial measures that need to be taken to reduce the risk;
(viii) Shariah Research & Secretariat to conduct research on Shariah; and issuance & dissemination of Shariah decisions to the relevant stakeholders.

(II) SHARIAH COMMITTEE MEMBERS

The SC comprises of five (5) qualified Shariah scholars as required by BNM Shariah Governance Framework ("BNM SGF"). The members of SC appointed by HLISB are as follows:

a. Dr. Ab. Mumin bin Ab. Ghani (Chairman)
b. Assoc. Prof. Dr. Nurul Aini binti Muhamed
c. Encik Imran bin Mohammad Khayat
d. Dr. Mohamad @ Md. Som bin Sujimon
e. Prof. Dr. Rusni Hassan

(III) MEETINGS

The SC met twelve (12) times during the financial year. All SC members fulfilled the minimum attendance requirement as per BNM Shariah Governance Framework which provides that SC member must attend at least 75% of the SC meetings held in each financial year.

Detail attendance of the members at the meetings is as follows:

Member	Attendance
Dr. Ab. Mumin bin Ab. Ghani	12/12
Assoc. Prof. Dr. Nurul Aini binti Muhamed	12/12
Encik Imran bin Mohammad Khayat	12/12
Dr. Mohamad @ Md. Som bin Sujimon	12/12
Prof. Dr. Rusni Hassan	12/12

(IV) DUTIES AND RESPONSIBILITIES

In order to ensure that the Bank's business operations and activities are in compliance with Shariah rules and principles, the SC have undertaken various roles such as the following:

a. Oversight role on Shariah matters related to the Bank's operations and activities;
b. 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;
c. Review principles and contracts relating to the products introduced by the Bank, transactions and application of Shariah principles to the Bank's operations, that being disclosed to the SC. In the review process, SC is guided by the resolutions and decisions made by the Shariah Advisory Council ("SAC") of Bank Negara Malaysia and Securities Commission where applicable;

F. SHARIAH (CONTINUED)

(IV) DUTIES AND RESPONSIBILITIES (CONTINUED)

d. Endorse Shariah policies and procedures, product documentations and relevant disclosures that being presented to SC;
e. Render opinion whether the Bank's operations are in compliance with the Shariah principles, based on representation made by the management and review of the financial reports;
f. Ensure that the calculation and payment of zakat are in compliance with Shariah principles; and
g. Ensure rectification of any Shariah noncompliant events, preventive actions to avoid the recurrence of such events and disposal of the tainted income received from such events to the charitable bodies or Baitulmal have been undertaken by the Bank accordingly.

(V) ENGAGEMENT BETWEEN SHARIAH COMMITTEE AND BOARD OF DIRECTORS

In enhancing an effective communication between the SC, Board of Directors and the Management of HLISB, the Bank has established joint meetings with the Board of Directors and SC.

Among the objectives of the joint meetings are as follows.

(a) To serve as a platform to establish effective communication with the SC on matters relating to Shariah governance;
(b) To strengthen the Board's oversight on accountability and responsibilities over Shariah governance and the requirements for the SC to provide objective and sound advice to the Bank;
(c) To provide an opportunity for the Board to align the SC's advisory roles with the Bank's strategy and Key Performance Indicators ("KPIs");
(d) To provide an opportunity for the SC to keep abreast with the business developments and risk strategies of the Bank; and
(e) To address and promote the latest developments in legal and regulatory requirements in Islamic finance, especially in relation to Shariah governance;

There were two (2) joint meetings held between the SC and Board during the financial year 2018/2019 and one session with the SC and Board on the Insight on Value-Based Intermediation. The presence of these meetings had improved the quality of engagement between the Board with SC and the Board also received regular updates on significant matters deliberated during the SC's meetings.

(VI) TRAINING SESSIONS

As part of the requirement to undertake continuous learning and training programmes required by BNM SGF, the following are the conferences and courses attended by the SC members:

(1) 12th Muzakarah Cendekiawan Syariah Nusantara 2018;
(2) 13th International Shari'ah Scholars Forum (ISSF 2018);
(3) Ijtima' ASAS 2018;
(4) 2nd Islamic Fintech Dialogue (IFD 2019);
(5) Liqa' ASAS Peringkat Kebangsaan 2019; and
(6) Certified Shariah Advisor Programme.

(VII) SHARIAH COMMITTEE ASSESSMENT

Pursuant to the BNM SGF, HLISB is required to adopt a formal process of assessing the performance and competencies of the SC members to ensure that the SC members are capable of implementing Shariah governance.

HLISB has conducted internal evaluation process and this evaluation is to assess the effectiveness of the SC members in meeting its objectives and discharging their fiduciary duties. The summary of the evaluation/assessment is tabled to the Nomination Committee and Board of Directors meeting.

The profiles of the Bank's SC members are set out in pages 55 to 57 of this Annual Report.

G. STRENGTHENING CORPORATE GOVERNANCE CULTURE

HONG LEONG BANK GROUP CODE OF CONDUCT & ETHICS

A fundamental value of the HLB Group is that we are 'Here for the Long Term'. In upholding this value, the HLB Group commits to a high standard of professionalism and ethics in the conduct of our business and professional activities as set out in this Code of Conduct & Ethics ("Code").

Corporate Governance Overview, Risk Management & Internal Control Statement

G. STRENGTHENING CORPORATE GOVERNANCE CULTURE (CONTINUED)

The Code is applicable to:

- All employees who work in the HLB Group across the jurisdictions in which we operate – including but not limited to permanent, part-time and temporary employees;
- Board of Directors of the HLB Group; and
- Any other persons permitted to perform duties or functions within the HLB Group – including but not limited to contractors, secondees, interns, industrial attachment and agency staff.

As the Code forms part of the terms and conditions of employment, our employees are required to adhere to a high standard of professionalism and ethics in the conduct of their business, professional activities and personal lives, which might otherwise reflect poorly on the reputation of the HLB Group.

Principles

There are six key pillars to the HLB Code of Conduct & Ethics:

PRINCIPLE 1: COMPETENCE
The HLB Group is committed to ensuring that its employees develop and maintain the relevant knowledge, skills and behaviour to ensure that our activities are conducted professionally and proficiently.

PRINCIPLE 2: INTEGRITY
The HLB Group's Vision, Mission and Values identifies a strong values-based culture to guide decisions, actions and interactions with stakeholders as a key enabler for the success of the HLB Group.

PRINCIPLE 3: FAIRNESS
A core mission of the HLB Group is to help our clients succeed through simple, relevant, personal and fair banking. We must act responsibly and be fair and transparent in our business practices, including treating our colleagues, customers and business partners with respect. We must consider the impact of our decisions and actions on all stakeholders.

PRINCIPLE 4: CONFIDENTIALITY
The HLB Group is committed to providing a safe, reliable and secured banking environment and experience for our customers.

PRINCIPLE 5: OBJECTIVITY
Employees must not allow any conflict of interest, bias or undue influence of others to override their business and professional judgement. Employees must not be influenced by friendships or association in performing their role. Decisions must be made on a strictly arms-length business basis.

PRINCIPLE 6: ENVIRONMENT
The HLB Group is committed to reduce the effect of our operations on the environment so that we are able to build our franchise in a safe and healthy environment. We aim to do this by managing the resources we use across the HLB Group and raising staff awareness about the importance of caring for the environment. The HLB Group will be mindful of its activities with employees, business partners and the community we operate within to ensure human rights are safeguarded. Where there are adverse impacts, we are committed to addressing these.

Whistleblowing Policy

The Bank has also established a Whistleblowing Policy and it provides a structured channel for all employees of the HLB Group and any other persons providing services to, or having a business relationship with the HLB Group, to report any concerns about any improper conducts, wrongful acts or malpractice committed within the HLB Group. The Whistleblowing Policy is published on the Bank's Website.

Other Policies and Codes of the HLB Group

For good governance, the HLB Group has various other policies such as Group Compliance Policy, Group Financial Crime Compliance Policy, Code of Conduct For Wholesale Financial Markets, Group Whistleblowing Policy, Group IT Security Policy, Privacy Policy, Group Media and Public Relations Policy and Procurement Policy.

Continuous Training & Awareness

Multiple training channels, such as mandatory e-Learning modules on SmartUp, the Bank's mobile-first bite-sized learning app, are in place to enable easy access for employees to be upskilled. Attestation to the Code is conducted at time of joining the HLB Group and on an annual basis.

Corporate Governance Overview, Risk Management & Internal Control Statement

H. ACCOUNTABILITY AND AUDIT

The Bank has put in place a framework of processes whereby Board committees provide oversight on critical processes of the Bank's reporting of financial statements, in order to ensure that accountability and audit are integral components of the said processes.

(I) FINANCIAL REPORTING

The Board has a fiduciary responsibility to ensure the proper maintenance of accounting records of the Bank. The Board receives the recommendation to adopt the financial statements from the BARMC, which assesses the integrity of financial statements with the assistance of the external auditors.

(II) RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for maintaining a system of internal controls which covers financial and operational controls and risk management. This system provides reasonable but not absolute assurance against material misstatements, losses and fraud.

The BARMC is delegated with the responsibility to provide oversight on the Bank's management of critical risks that the Bank faces and review the effectiveness of internal controls implemented in the Bank.

The Statement on Risk Management and Internal Control as detailed under Section J of this Statement provides an overview of the system of internal controls and risk management framework of the Bank.

(III) RELATIONSHIP WITH AUDITORS

The appointment of external auditors is recommended by the BARMC, which determines the remuneration of the external auditors. The BARMC reviews the suitability and independence of the external auditors annually. In this regard, an annual assessment is conducted by the BARMC to evaluate the performance, independence and objectivity of the external auditors prior to making any recommendation to the Board on the reappointment of the external auditors.

The Bank also has a Policy on the Use of External Auditors for Non-Audit Services to govern the professional relationship with the external auditors in relation to non-audit services. Assessment will be conducted by the BARMC for non-audit services to ensure that the provision of non-audit services does not interfere with the exercise of independent judgment of the external auditors.

During the financial year under review, the external auditors met with the BARMC to:

- present the scope of the audit before the commencement of audit; and
- review the results of the audit as well as the management letter after the conclusion of the audit.

The external auditors meet with the BARMC members at least twice a year without the presence of Executive Directors and management.

I. INVESTOR RELATIONS

The Bank has a website at 'www.hlisb.com.my' which investors can access for information which includes corporate information, announcements/press releases/ briefings, financial information, products information and investor relations.

In addition, investors can have a channel of communication with the following persons to direct queries and provide feedback to the Bank:

GENERAL MANAGER, CORPORATE COMMUNICATION & CSR

Tel No.	: 03-2081 8888 ext. 61914
Fax No.	: 03-2081 7801
e-mail address	: capr@hongleong.com.my

HEAD, CORPORATE FINANCE & INVESTOR RELATIONS

Tel No.	: 03-2081 2972
Fax No.	: 03-2081 8924
e-mail address	: capr@hlbb.hongleong.com.my

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

(I) INTRODUCTION

The Board recognises that practice of good governance is an important process and has established the Board Audit and Risk Management Committee ("BARMC") to ensure maintenance of a sound system of internal controls and good risk management practices. The processes for risks and controls assessments and improvements are on-going and are regularly reviewed in accordance with the guidelines on the 'Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers'.

Corporate Governance Overview, Risk Management & Internal Control Statement

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

(II) BOARD RESPONSIBILITIES

The Board acknowledges its overall responsibility for the risk management and internal control environment and its effectiveness in safeguarding shareholders' interests and the Bank's assets. The risk management and internal control framework is designed to manage rather than to eliminate the risk of failure in the achievement of goals and objectives of the Bank, and therefore only provide reasonable assurance and not absolute assurance, against material misstatement or loss.

The system of risk management and internal control instituted throughout the Bank is updated from time to time to align with the dynamic changes in the business environment as well as any process improvement initiatives undertaken. The Board confirms that its Management team responsibly implements the Board policies, Management policies and standard operating procedures ("SOP") on risk management and internal control.

(III) RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The organisational structure of the Bank clearly defines the lines of accountability and responsibility. Risk assessment and evaluation are integral part of the Bank's strategic planning cycle and are responsive to business environment and opportunities. Management committees are appropriately set up to ensure proper utilisation and investment of the Bank's assets for effective risk return rewards or to limit losses. The Group Risk Management ("GRM") and Group Compliance ("GC") divisions have implemented an enterprise-wide risk management framework to inculcate continuous risk, regulatory compliance and Shariah compliance awareness, understanding of procedures and controls thus improving the overall control environment.

Operationally, the Bank operates multiple lines of defence to effect a robust control framework. At the first level, the operating business and support units are responsible for the day-to-day management of risks inherent in the various business activities. Regulatory and operational compliance units are set up in the various lines of business and support departments. They oversee the day-to-day compliance to all regulatory requirements, business and process controls. At the second level, GRM is responsible for setting the risk management framework and developing tools and methodologies for the identification, measurement, monitoring, and control of risks; whereas GC is responsible for ensuring that controls to manage compliance risks are adequate and operating as intended. At the third level, the Group Internal Audit division complements GRM and GC by monitoring and evaluating significant exposures to risk and contributing to the improvement of risk management and internal control systems. It also provides an independent perspective and assessment on the adequacy and effectiveness of the risk management framework governance systems and processes, including those instituted by the compliance function.

The above is depicted in the following diagram:

First Line of Defence

Business and Support

Regulatory and Operational

Manage inherent risks and ensure compliance to policies and SOPs in day-to-day activities.

Second Line of Defence

Group Risk Management

Group Compliance

Sets policies, reviews portfolio risks and provides oversight of risk management and compliance matters.

Third Line of Defence

Group Internal Audit

Independent assessment of adequacy and effectiveness of policies and processes.

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

(III) RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTINUED)

(a) Risk Management

Managing risks is an integral part of the Bank's overall business strategy. It involves a process of identifying, assessing and managing risks and uncertainties that could inhibit the Bank's ability to achieve its strategy and strategic objectives.

Risk governance oversight is underpinned by the core pillars of risk culture, appetite, policies, surveillance, escalation and capacity. Above all, the approaches need to be relevant, forward looking and sustainable.

The Bank's risk management framework incorporates the components depicted in the diagram below:

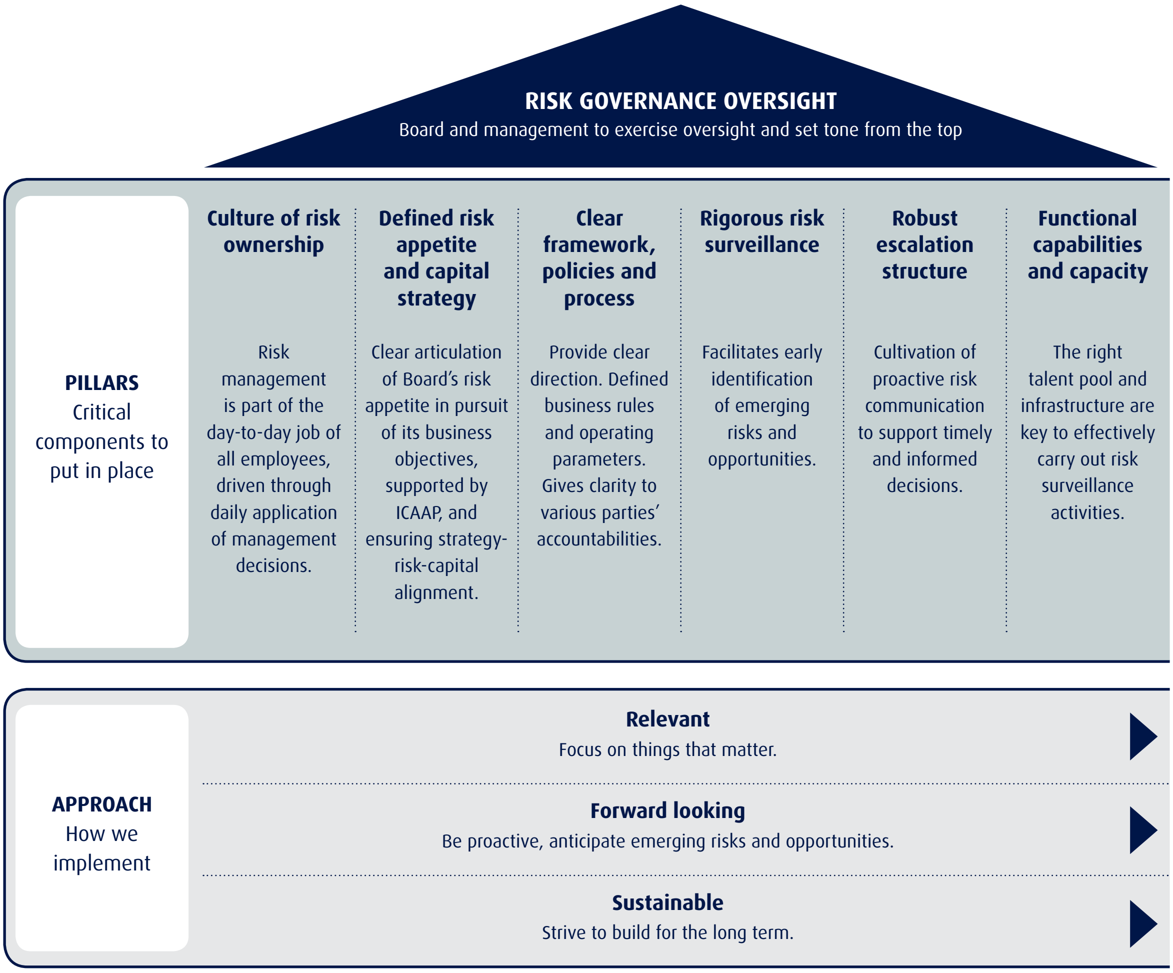


Figure 1: Risk Management Framework

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

(III) RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTINUED)

(a) Risk Management (continued)

In addition, the risk management framework is effected through an organisational construct and escalation structure as depicted below:

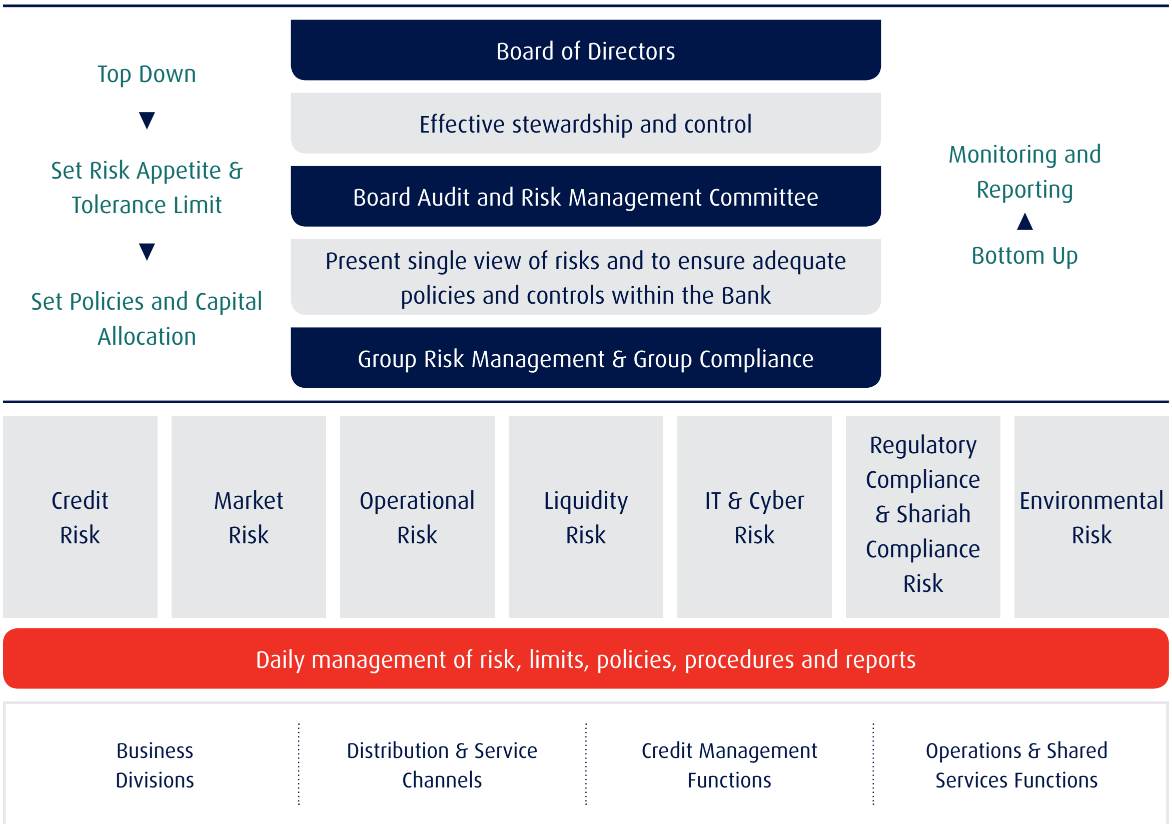


Figure 2: Risk Management Structure

The Board has the overall responsibility to ensure there is proper oversight of the management of risks in the Bank. The Board sets the risk appetite and tolerance level, and allocates the Bank's capital that is consistent with the Bank's overall business objectives and desired risk profile. GRM monitors and reports the Bank's Credit, Market, Liquidity, Operational, IT and Shariah Compliance Risks. GC identifies, assesses, monitors and reports compliance issues in addition to advising, providing guidance and training on regulatory requirements. These risks are presented to BARMC regularly.

The BARMC deliberates and evaluates the reports prepared by GRM and GC, and provides updates to the Board, and where appropriate, make necessary recommendations to the Board.

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

(III) RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTINUED)

(a) Risk Management (continued)

HONG LEONG ISLAMIC BANK'S KEY RISKS	
Type of Risk	**Mitigating Actions Taken/Strategy**
CREDIT RISK Credit Risk is the risk of loss if a customer or counterparty in a transaction fails to meet its obligations.	• The Bank has established a credit risk management framework (via the Credit Risk Governance Board Policy) to ensure that exposure to credit risk is kept within the Bank's financial capacity to withstand potential future losses. Financing activities are also guided by internal credit policies. The above policies are subject to reviews and enhancements, at least on an annual basis. • Credit portfolio strategies are developed to achieve a desired portfolio risk tolerance level and sector concentration distribution. • To assess the credit risk of retail customers, the Bank employs risk scoring models and financing templates that are designed to assess the credit worthiness and the likelihood of the obligors to repay their obligations. • To assess the credit risk of SME, commercial and corporate customers, they are evaluated based on the assessment of relevant factors such as the customer's financial position, industry outlook, types of facilities and collaterals offered; and are assigned with a credit rating. • The Bank has a comprehensive credit approving process. While the business units are responsible for credit origination, the credit decisioning function rests mainly with the Credit Evaluation Departments, the MCC and the CSC. The Board delegates the approving and discretionary authority to the MCC and various personnel based on job function and designation. • For any new products, credit risk assessment also forms part of the new product sign-off process to ensure that the new product complies with the appropriate policies and guidelines, prior to their introduction. • Credit risk reports are presented to the relevant management and board level committees. Such reports identify adverse credit trends and asset quality to enable the Bank to take prompt corrective actions and/or take appropriate risk-adjusted decisions. • In addition, the Bank also conducts periodic stress testing of its credit portfolios to ascertain the credit risk impact to capital under the relevant stress scenarios.

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

(III) RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTINUED)

(a) Risk Management (continued)

HONG LEONG ISLAMIC BANK'S KEY RISKS	
Type of Risk	**Mitigating Actions Taken/Strategy**
OPERATIONAL RISK Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which also include outsourcing and business continuity risks.	• Management oversight on operational risk management ("ORM") matters are effected through the Risk and Compliance Governance Committee ("RCGC") whilst Board oversight is effected through the BARMC. • The Bank's ORM strategy is based on a framework of continuous improvements, good governance structure, policies and procedures as well as the employment of risk mitigation strategies. The objective is to create a strong risk and internal control culture by ensuring awareness of the significance of operational risk, its methodology of identification, analysis, assessment, control and monitoring. • The Bank adopts ORM tools such as loss event reporting, risk and control self assessment and key risk indicators to manage operational risks and are used to assess risk by taking into consideration key business conditions, strategies and internal controls.
MARKET RISK Market Risk is the risk of loss in financial instruments or the balance sheet due to adverse movements in market factors such as benchmark and exchange rates, prices, spreads, volatilities, and/or correlations.	• Market risk is primarily managed through various risk limits and controls following an in-depth risk assessment and review. The types and level of market risk that the Bank is able and willing to take in pursuit of its business objectives and risk-taking strategies are used as a basis for setting market risk appetite for the Bank. • Market risk limits, the monitoring and escalation processes, delegation of authority, model validation and valuation methodologies are built into the Bank's market risk policies, which are reviewed and concurred by the Asset and Liability Management Committee ("ALCO"), endorsed by the BARMC and approved by the Board. • Regular market risk stress tests are conducted on the trading book to measure the loss vulnerability under stressed market conditions.

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

(III) RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTINUED)

(a) Risk Management (continued)

HONG LEONG ISLAMIC BANK'S KEY RISKS	
Type of Risk	**Mitigating Actions Taken/Strategy**
LIQUIDITY RISK Liquidity Risk is the risk of loss resulting from the unavailability of sufficient funds to fulfill financial commitments, including customers' liquidity needs, as they fall due. Liquidity Risk also includes the risk of not being able to liquidate assets in a timely manner.	• The Bank adopts a prudent liquidity management that includes establishing comprehensive policies and procedures, risk controls, reviews and monitoring. The liquidity risk policies and governance are reviewed by ALCO, endorsed by the BARMC and approved by the Board. • The key elements of liquidity risk management includes proactive monitoring and management of cashflow, maintenance of high quality liquid assets, diversification of funding sources and maintaining a liquidity compliance buffer to meet any unexpected cash outflow. • The Bank also designs and conducts regular stress test programmes in accordance with the board-approved risk appetite and risk management policies. The appropriate management action plans would be developed and recommended to the Board if there is any potential vulnerabilities identified during the stress test exercise.
IT & CYBER RISK Information Technology Risk is the risk of technological failure which may disrupt business operations such as system defects or service outages. This also includes cyber security risk, which is the risk of possible threat that might exploit a vulnerability to breach system security and therefore cause possible harm.	• New technology initiatives are subjected to a rigorous evaluation process which assesses the potential risks and readiness of the initiative prior to its implementation. • The Bank performs continuous monitoring on system performance to ensure minimal system disruption, while ensuring that redundancies in IT infrastructure and Disaster Recovery Plans are regularly tested. • In addition to continuously improving the Bank's cyber resilience by upgrading technology capabilities to mitigate cyber threats, cyber risks are also managed by closely monitoring key risk metrics and progressively enhancing its cyber threat intelligence gathering capabilities to improve the Bank's situational awareness. • Management oversight on IT and cyber risk management matters are effected through the IT Steering Committee ("ITSC") and Information Security Governance Council ("ISGC") whilst Board oversight is effected through the BARMC.

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

(III) RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTINUED)

(a) Risk Management (continued)

HONG LEONG ISLAMIC BANK'S KEY RISKS	
Type of Risk	**Mitigating Actions Taken/Strategy**
REGULATORY COMPLIANCE & SHARIAH COMPLIANCE RISK Regulatory Compliance and Shariah Compliance Risk is the risk of legal or regulatory sanctions, material financial loss or loss to reputation as a result of failure to comply with laws and regulations including Shariah rules and regulations.	• The Bank undertakes robust monitoring of developments in laws and regulations and assesses its impact to its processes, where applicable. The assessments are undertaken to identify gaps in existing processes so that actions are taken within defined timeframes to ensure that the Bank is in compliance.
ENVIRONMENTAL RISK Environmental risk is actual or potential threat of adverse effects on living organisms and environment by effluents, emissions, wastes, resource depletion and other impacts, arising out of an organization's activities. In our case, given our role in the economy, in addition to our own activities, we are cognisant of the fact that people and companies we do business with also have an impact on the environment, and hence, we ensure that our financing and procurement policies, for example, take this risk into account.	• The Bank has policies, principles and codes of conduct to ensure the interests of the Bank are aligned with the interests of stakeholders on responsible financing. These include assessments to screen for and review environmental and social risks, financial evaluation of existing and potential customers, and the provision of basic banking products to those who cannot afford to pay for fees so that they can participate in the financial system. • We have credit policies that require sales and credit staff to review the customers' compliance with applicable environmental and social laws and review of the same at annual reviews of financing facilities to ensure ongoing compliance. • The Bank manages environmental footprint through reduction of waste (such as paper and water) and efficient usage of energy. • The Bank has an Independent Tender Review Committee that assesses diligence reviews of suppliers' across a number of risks, not just financial strength and operational performance. We take into account considerations on environment and social track record and policies, business continuity plans and cyber security capabilities. Suppliers have to satisfy our zero tolerance for corruption and unfair practices.

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

(III) RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTINUED)

(b) Basel II and III

The Bank places great importance on Basel II and III and views Basel II and III as a bank-wide initiative that will ensure that the Bank continues to meet international best practices for the Bank's credit, market, operational and liquidity risk management practices. By adopting Basel II and III, the Bank is able and will continue to enhance and embed sound risk management practices within the Bank and be equipped with the right risk management discipline, practices, processes and systems.

For Basel II Pillar 1, the Bank is in compliance with the regulatory standards and is progressively employing advance risk measurement in the respective businesses. For Basel II Pillar 2, the Bank has established an Internal Capital Adequacy Assessment Process ("ICAAP") Board Policy that forms an integrated approach to manage the Bank's risk, capital and business strategy. For Basel II Pillar 3, which is related to market discipline and disclosure requirements, the Bank has provided the disclosures under a separate Pillar 3 section in this Annual Report.

For Basel III, the Bank has put in place plans to continuously strengthen its capital and liquidity positions well ahead of the Basel Committee's time schedule.

(c) Internal Audit

The Group Internal Audit Division ("GIAD") performs the internal auditing function for the various entities in the financial services group. GIAD regularly reviews the critical operations (as defined in BNM Guidelines on Internal Audit Function of Licensed Institutions) and critical controls in the Information Technology environment (as outlined in BNM GPIS) of the Group to ensure that the internal controls are in place and working effectively.

The results of the audits conducted by GIAD are reported to the BARMC. Follow-up actions and the review of the status of corrective action plans are carried out by Management via the RCGC chaired by the Chief Executive Officer, whose members comprise senior management. The minutes of meetings of RCGC are tabled to the BARMC for notation.

Implementation of corrective action plans are followed up on a monthly basis and reported to the BARMC. Highlights of the BARMC meetings are submitted to the Board for review and further deliberation.

In addition, internal controls are also effected through the following processes:

- The Board receives and reviews regular reports from Management on the key operating statistics, business dynamics, legal matters and regulatory issues that would have implications on internal control measures.
- The BARMC regularly reviews and holds discussions with Management on the actions taken on internal control issues identified in reports prepared by GIAD, external auditors and regulatory authorities.
- Policies on delegation and authority limits are strictly implemented to ensure a culture that respects integrity and honesty, and thereby reinforce internal controls.
- Policies and procedures are set out in operation manuals and disseminated throughout the organisation in support of a learning culture, so as to reinforce an environment of internal controls discipline.
- Policies for recruitment, promotion and termination of staff are in place to ensure the Bank's human resources comply with internal controls.

J. STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

(IV) ASSESSMENT OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Board has received assurances from the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Internal Auditor and Chief Compliance Officer that the Bank's risk management and internal control system are operating adequately and effectively.

Based on the assurances it has received from Management, the Board is of the view that the Bank's risk management and internal control system are operating adequately and effectively for the financial year under review and up to the date of approval of this report.

K. DIRECTORS' RESPONSIBILITY IN FINANCIAL REPORTING

The directors are satisfied that in preparing the financial statements of the Bank for the FYE 2019, the Bank has used the appropriate accounting policies and applied them consistently.

The directors are also of the view that relevant approved accounting standards have been followed in the preparation of these financial statements.

This Statement on Corporate Governance, Risk Management and Internal Control is made in accordance with the resolution of the Board.

Shariah
Committee Report

In the name of Allah, The Beneficent, The Merciful.

To the Shareholders of Hong Leong Islamic Bank Berhad,

In carrying out the roles and responsibilities of the Bank's Shariah Committee as prescribed in the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia and in compliance with the letter of appointment, we are required to submit the following report:

We, the members of the Shariah Committee (SC) of the Bank are responsible to perform an oversight role on Shariah matters related to the Bank's business operations and activities.

We have conducted twelve (12) meetings to discuss, elaborate and review various products structures and documentations, transactions, services and operations of the Bank during the financial year ended 30 June 2019.

We also have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank during the financial year ended 30 June 2019. We have provided the Shariah opinion on various aspects to the Bank and conducted our review to form an opinion as to whether the Bank has complied with the Shariah rulings, resolutions and guidelines issued by us, the Shariah Advisory Council (SAC) of Bank Negara Malaysia and SAC of Securities Commission (for capital market related matters).

The Bank's Management is responsible for ensuring that the Bank conducts its business in accordance with Shariah rules and principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank and to report to you.

We have assessed the work carried out by Shariah review and Shariah audit, as presented to us, which included examining the relevant transaction documents and procedures adopted by the Bank.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Shariah principles.

In our opinion:

a) the contracts, transactions and dealings entered into by the Bank during the year ended 30 June 2019, that we have reviewed are to the best of our knowledge in compliance with the Shariah rules and principles;

b) the main sources and investments of the Bank disclosed to us conform to the basis that had been approved by us in accordance with Shariah rules and principles;

c) the distribution of profit relating to Mudharabah based Investment Account conform to the basis that had been approved by us;

d) the calculation and payment of zakat are in compliance with Shariah rules and principles. In this financial year, the Bank has fulfilled its obligation to pay zakat for its business on behalf of its shareholders to state zakat authorities and it is computed based on net asset method;

e) the necessary actions to mitigate any possible occurrence of Shariah non-compliance events have been undertaken by the Bank. During the financial year, no Shariah non-compliance event was identified;

f) All earnings that have been realised from sources or by means prohibited by the Shariah rules and principles including all profits associated with the Shariah non-compliance events for the financial year ended 30 June 2019 of RM25,807.34 (2018: RM26,408.25) have been considered for disposal to charitable causes.

   During the year, the amount of RM19,616.19 (2018: RM52,514.33) has been channeled to the list of eligible beneficiaries as endorsed by the Shariah Committee.

To the best of our knowledge, based on the information provided and disclosed to us during discussions and meetings, we, the members of the SC of the Bank, do hereby confirm that the operations of the Bank for the financial year ended 30 June 2019 have been conducted in conformity with the Shariah rules and principles.

We beg Allah the Almighty to grant us all the success and straight-forwardness. Allah Knows Best.

Chairman of the Shariah Committee:
Dr. Ab. Mumin Ab. Ghani

Shariah Committee Members:
Dr. Mohamad @ Md.Som Sujimon
Prof. Dr. Rusni Hassan
Assoc. Prof. Dr. Nurul Aini Muhamed
En. Imran Mohammad Khayat

Directors' Report

for the financial year ended 30 June 2019

The Directors of Hong Leong Islamic Bank Berhad ("the Bank" or "HLISB") have pleasure in presenting their report together with the audited financial statements of the Bank for the financial year ended 30 June 2019.

PRINCIPAL ACTIVITIES

The Bank was incorporated for the purpose of undertaking the Islamic Banking Business pursuant to Subsection 3(4) of the Islamic Banking Act, 1983, which is now superseded by the Islamic Financial Services Act, 2013. The Bank operates through its head office located at Level 23, Hong Leong Tower, No. 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur.

The Bank is principally engaged in the Islamic banking business and related financial services. There have been no significant changes in the principal activities of the Bank during the financial year.

FINANCIAL RESULTS

	RM'000
Profit after zakat before taxation	439,650
Taxation	(106,492)
Net profit for the financial year	333,158

OUTLOOK FOR NEW FINANCIAL YEAR

The Bank maintains a positive outlook for the Islamic Banking industry and is therefore optimistic of continued growth in its Shariah compliant banking business. It continues to focus on existing businesses, the development of non-financing income streams, as well as the development of its digital and transactional banking initiatives.

DIVIDENDS

The Directors do not recommend the payment of any final dividend in respect of the financial year ended 30 June 2019.

An interim single tier dividend for the financial year ended 30 June 2019 of RM0.0286 per share amounting to RM20,020,000 was paid on 25 March 2019.

ISSUE OF SHARES AND DEBENTURES

There was no new ordinary shares or debentures issued during the financial year.

RESERVES AND PROVISIONS

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

Directors' Report
for the financial year ended 30 June 2019

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

There are no material significant events during the financial year.

SUBSEQUENT EVENTS

There are no material significant subsequent event during the financial year that require disclosure or adjustment to the financial statements.

DIRECTORS

The Directors who had held office during the financial year and during the period from the end of the financial year to the date of this report are:

YBhg Datuk Dr Md Hamzah bin Md Kassim	Chairman, Independent Non-Executive Director
Mr Kwek Leng Hai	Non-Independent Non-Executive Director
Encik Alan Hamzah Sendut	Independent Non-Executive Director
Mr Domenic Fuda	Non-Independent Executive Director
Puan Rowina Ghazali Seth	Independent Non-Executive Director

RESPONSIBILITY STATEMENT BY THE BOARD OF DIRECTORS

In the course of preparing the annual financial statements of the Bank, the Directors are collectively responsible in ensuring that these financial statements are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

It is the responsibility of the Directors to ensure that the financial reporting of the Bank present a true and fair view of the state of affairs of the Bank as at 30 June 2019 and of the financial results and cash flows of the Bank for the financial year ended 30 June 2019.

The financial statements are prepared on the going concern basis and the Directors have ensured that proper accounting records are kept, applied the appropriate accounting policies on a consistent basis and made accounting estimates that are reasonable and fair so as to enable the preparation of the financial statements of the Bank with reasonable accuracy.

DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in Note 36 to the financial statements.

Directors' Report
for the financial year ended 30 June 2019

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings kept by the Bank under Section 59 of the Companies Act 2016, no Director holding office at the end of the financial year had any beneficial interest in the ordinary shares and/or preference shares and/or unsecured financing stocks and/or options over ordinary shares of the Bank and/or its related corporations during the financial year ended 30 June 2019 except for Mr Domenic Fuda whose beneficial interest is as follows and Mr Kwek Leng Hai, whose beneficial interests are disclosed in the Directors' Report of the holding company, Hong Leong Bank Berhad, as provided under Section 59 of the Companies Act 2016:

	Shareholdings in which a Director has direct interests Number of ordinary shares issued or to be issued or acquired arising from the exercise of options*			
	As at 01.07.2018	Acquired	Sold/ Exercised	As at 30.06.2019
Interest of Domenic Fuda in:				
Hong Leong Bank Berhad	350	342,495	342,000	845
	8,000,000*	-	-	8,000,000

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Bank received or became entitled to receive any benefit (other than the benefits shown under Directors' Remuneration in Note 36 to the financial statements) by reason of a contract made by the Bank or its related corporations 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.

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any other arrangements to which the Bank is a party, with the object or objects of enabling the Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate. Other than share option granted pursuant to the executive share scheme of its holding company, Hong Leong Bank Berhad.

CORPORATE GOVERNANCE

The corporate governance disclosure are set out in the Corporate Governance, Risk Management and Internal Control Statement as disclosed in the annual report.

PERFORMANCE REVIEW AND MANAGEMENT REPORTS

The Board receives and reviews regular reports from the Management on key financial and operating statistics as well as legal and regulatory matters. The performance of each business unit is assessed against the approved budgets and business objectives whilst explanation is provided for significant variances.

Directors' Report
for the financial year ended 30 June 2019

STATUTORY INFORMATION REGARDING THE BANK

(I) As at the end of the financial year

(a) Before the financial statements of the Bank were prepared, the Directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and financing and the making of allowance for doubtful debts and financing and had satisfied themselves that all known bad debts and financing had been written off and that adequate allowance had been made for doubtful debts and financing; and

(ii) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including the values of current assets as shown in the accounting records of the Bank had been written down to an amount which the current assets might be expected so to realise.

(b) In the opinion of the Directors, the results of the operations of the Bank during the financial year had not been substantially affected by any item, transaction or event of a material and unusual nature.

(II) From the end of the financial year to the date of this report

(a) The Directors are not aware of any circumstances:

(i) which would render the amount written off for bad debts and financing or the amount of the allowance for doubtful debts and financing in the financial statements of the Bank, inadequate to any substantial extent;

(ii) which would render the values attributed to current assets in the financial statements of the Bank misleading, and

(iii) which had arisen which would render adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate.

(b) In the opinion of the Directors:

(i) the results of the operations of the Bank for the financial year ended 30 June 2019 are not likely to be substantially affected by any item, transaction or event of a material and unusual nature which had arisen in the interval between the end of the financial year and the date of this report; and

(ii) no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Bank to meet its obligations as and when they fall due.

(III) As at the date of this report

(a) There are no charges on the assets of the Bank which had arisen since the end of the financial year to secure the liabilities of any other person.

(b) There are no contingent liabilities which had arisen since the end of the financial year.

(c) The Directors are not aware of any circumstances not otherwise dealt with in the report or financial statements of the Bank which would render any amount stated in the financial statements misleading.

Directors' Report
for the financial year ended 30 June 2019

DISCLOSURE OF SHARIAH COMMITTEE

The Bank's business activities are subject to the Shariah compliance and confirmation by the Shariah Committee consisting of 5 Shariah scholars, appointed by the Board of Directors of the Bank for a 3 years term.

The primary role of the Shariah Committee is mainly advising on matters relating to the business operation and products of the Bank and providing support by attending regular Shariah Committee meetings to ensure that the Bank's business operations are in conformity with Shariah rules and principles.

HOLDING, PENULTIMATE AND ULTIMATE HOLDING COMPANIES

The holding, penultimate and ultimate holding companies are Hong Leong Bank Berhad, Hong Leong Financial Group Berhad and Hong Leong Company (Malaysia) Berhad respectively. The companies are incorporated in Malaysia.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 35 to the financial statements.

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to continue in office.

This report was approved by the Board of Directors on 11 September 2019. Signed on behalf of Board of Director:

Datuk Dr Md Hamzah Bin Md Kassim

Domenic Fuda

Kuala Lumpur

Statements of Financial Position

as at 30 June 2019

	Note	2019 RM'000	2018 RM'000
Assets			
Cash and short term funds	3	**109,314**	1,152,146
Deposits and placements with banks and other financial institutions	4	**-**	200,852
Financial assets at fair value through profit or loss	5	**515,295**	-
Financial assets held-for-trading	6	**-**	350,837
Financial investments at fair value through other comprehensive income	7	**2,956,180**	-
Financial investments available-for-sale	8	**-**	2,779,142
Financial investments at amortised cost	9	**4,239,826**	-
Financial investments held-to-maturity	10	**-**	3,443,678
Financing and advances	11	**25,840,011**	22,721,111
Islamic derivative financial instruments	20	**29,644**	13,474
Other assets	12	**604,829**	50,249
Statutory deposits with Bank Negara Malaysia	13	**814,736**	688,096
Property and equipment	14	**16,332**	17,484
Intangible assets	15	**828**	1,197
Deferred tax assets	16	**10,224**	3,274
Total assets		**35,137,219**	31,421,540
Liabilities			
Deposits from customers	17	**29,808,605**	26,503,406
Investment account of customers	18	**2,235**	-
Deposits and placements of banks and other financial institutions	19	**659,313**	1,001,463
Bills and acceptances payable		**29,939**	37,458
Islamic derivative financial instruments	20	**28,012**	64,158
Recourse obligation on financing sold to Cagamas Berhad	21	**50,637**	-
Other liabilities	22	**1,124,087**	730,302
Provision for taxation		**41,556**	30,651
Tier II subordinated Sukuk Ijarah	23	**-**	400,630
Tier II subordinated Sukuk Murabahah	24	**400,758**	-
Multi-currency Additional Tier I subordinated Sukuk Wakalah	25	**401,233**	401,067
Total liabilities		**32,546,375**	29,169,135
Equity			
Share capital	26	**700,000**	700,000
Reserves	27	**1,890,844**	1,552,405
Total equity		**2,590,844**	2,252,405
Total Equity and Liabilities		**35,137,219**	31,421,540
Commitments and contingencies	42	**12,553,505**	10,553,258

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

Statements of Income

for the financial year ended 30 June 2019

	Note	2019 RM'000	2018 RM'000
Income derived from investment of depositors' funds and others	28	**1,455,046**	1,279,994
Income derived from investment of shareholders' funds	29	**176,972**	137,742
Income derived from investment of investment account of customer	30	**12**	-
Allowance for impairment on financing and advances	31	**(55,223)**	(61,185)
Allowance for impairment on financial investment and other assets	32	**(20)**	-
Total distributable income		**1,576,787**	1,356,551
Income attributable to the depositors	33	**(924,754)**	(771,672)
Income attributable to the depositors on investment account of customer	34	**(7)**	-
Total net income		**652,026**	584,879
Overheads and other expenditures	35	**(212,026)**	(207,095)
Profit before zakat and taxation		**440,000**	377,784
Zakat		**(350)**	(350)
Profit after zakat before taxation		**439,650**	377,434
Taxation	37	**(106,492)**	(95,372)
Net profit for the financial year		**333,158**	282,062
Basic earnings per share – (sen)	38	**47.59**	40.29

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

Statements of Comprehensive Income

for the financial year ended 30 June 2019

	Note	2019 RM'000	2018 RM'000
Net profit for the financial year		**333,158**	282,062
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss			
Net fair value changes on financial investments at fair value through other comprehensive income	41	**47,138**	-
Net fair value changes on financial investments available-for-sale	41	**-**	(14,683)
Income tax relating to the components of other comprehensive income	41	**(11,621)**	3,524
Other comprehensive loss for the financial year, net of tax		**35,517**	(11,159)
Total comprehensive income for the financial year		**368,675**	270,903

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

Statements of Changes in Equity

for the financial year ended 30 June 2019

	Note	Non Distributable			Distributable	
		Share capital RM'000	Fair value reserve RM'000	Regulatory reserve RM'000	Retained profits RM'000	Total RM'000
At 1 July 2018		**700,000**	**(13,350)**	**97,901**	**1,467,854**	**2,252,405**
Effect of adopting MFRS 9	52	**-**	**7,996**	**18,234**	**(36,446)**	**(10,216)**
At 1 July, as restated		**700,000**	**(5,354)**	**116,135**	**1,431,408**	**2,242,189**
Comprehensive income						
Net profit for the financial year		**-**	**-**	**-**	**333,158**	**333,158**
Net fair value changes on financial investments at fair value through other comprehensive income, net of tax		**-**	**35,517**	**-**	**-**	**35,517**
Total comprehensive income		**-**	**35,517**	**-**	**333,158**	**368,675**
Transactions with owner						
Transfer to regulatory reserve		**-**	**-**	**14,093**	**(14,093)**	**-**
Dividend paid:						
- Interim dividend for the financial year ended 30 June 2019	40	**-**	**-**	**-**	**(20,020)**	**(20,020)**
Total transactions with owner		**-**	**-**	**14,093**	**(34,113)**	**(20,020)**
At 30 June 2019		**700,000**	**30,163**	**130,228**	**1,730,453**	**2,590,844**
At 1 July 2017		700,000	(2,191)	91,433	1,235,660	2,024,902
Comprehensive income						
Net profit for the financial year		-	-	-	282,062	282,062
Net fair value changes on financial investments available-for-sale, net of tax		-	(11,159)	-	-	(11,159)
Total comprehensive income		-	(11,159)	-	282,062	270,903
Transactions with owner						
Transfer to regulatory reserve		-	-	6,468	(6,468)	-
Dividend paid:						
- Interim dividend for the financial year ended 30 June 2018	40	-	-	-	(43,400)	(43,400)
Total transactions with owner		-	-	6,468	(49,868)	(43,400)
At 30 June 2018		700,000	(13,350)	97,901	1,467,854	2,252,405

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

Statements of Cash Flow

for the financial year ended 30 June 2019

	2019 RM'000	2018 RM'000
Cash flows from operating activities		
Profit after zakat before taxation	**439,650**	377,434
Adjustment for:		
Zakat	**350**	350
Depreciation of property and equipment	**3,286**	2,925
Amortisation of intangible assets	**803**	852
Net gain from on disposal of property and equipment	**-**	(66)
Property and equipment written off	**280**	408
Intangible assets written off	**2**	14
Net realised gain on financial investments at fair value through other comprehensive income	**(17,001)**	-
Net realised gain on financial investment available-for-sale	**-**	(4,165)
Net realised gain on financial investments at fair value through profit or loss	**(5,637)**	-
Net realised gain on financial investments at amortised cost	**(2,864)**	-
Net realised loss on financial assets held-for-trading	**-**	422
Profit expense on Tier II subordinated Sukuk Ijarah	**18,487**	19,275
Profit expense on Tier II subordinated Sukuk Murabahah	**788**	-
Profit expense on Multi-currency Additional Tier I subordinated Sukuk Wakalah	**20,686**	12,071
Profit expense on recourse obligation on financing sold to Cagamas Berhad	**637**	-
Amortisation of prepaid expenses	**190**	74
Allowance made for impairment losses on financing and advances	**76,812**	83,859
Impaired financing written off	**2,671**	3,727
Allowance for impairment losses on financial instruments and other financial assets	**20**	-
Net unrealised gain on revaluation of financial investments at fair value through profit or loss and derivative financial instruments	**(4,481)**	-
Net unrealised gain on revaluation of financial assets held-for-trading and derivative financial instruments	**-**	(94)
Amortisation of fair value changes arising from terminated fair value hedges	**(12)**	(28)
Accretion of discounts less amortisation of premium	**(27,801)**	(46,623)
Finance income from financial investments at fair value through other comprehensive income	**(124,021)**	-
Finance income from financial investments available-for-sale	**-**	(109,674)
Finance income from financial investments at amortised cost	**(150,820)**	-
Finance income from financial investments held-to-maturity	**-**	(105,969)
Operating profit before working capital changes	**232,025**	234,792
(Increase)/decrease in operating assets		
Financing and advances	**(3,215,887)**	(2,194,966)
Statutory deposits with Bank Negara Malaysia	**(126,640)**	(93,710)
Other assets	**(554,580)**	95,429
Islamic derivatives financial instruments	**(36,134)**	14,208
Deposits and placement with banks and other financial institutions	**220,986**	(20,033)
Financial investments at fair value through profit or loss	**(327,878)**	-
Financial assets held-for-trading	**-**	478,825

Statements of Cash Flow

for the financial year ended 30 June 2019

	Note	2019 RM'000	2018 RM'000
Increase/(decrease) in operating liabilities			
Deposits from customers		**3,305,199**	1,910,955
Investment account of customers		**2,235**	-
Deposits and placements of banks and other financial institutions		**(342,150)**	281,336
Bills and acceptances payable		**(7,519)**	23,745
Other liabilities		**393,613**	98,478
Islamic derivatives financial instruments		**(16,170)**	(92)
Cash flows (used in)/generated from operations		**(472,900)**	828,967
Zakat paid		**(350)**	(350)
Income taxes paid		**(112,263)**	(86,806)
Net cash flows (used in)/generated from operating activities		**(585,513)**	741,811
Cash flows from investing activities			
Net purchases of financial investments at fair value through other comprehensive income		**90,858**	-
Net purchase of from financial investment available-for-sale		**-**	(5,924)
Net purchases of financial investments at amortised cost		**(515,314)**	-
Net purchase of financial investment held-to-maturity		**-**	(777,018)
Proceeds from disposal of property and equipment		**149**	-
Purchase of property and equipment		**(2,565)**	(2,603)
Purchase of intangible assets		**(436)**	(22)
Net cash flows used in investing activities		**(427,308)**	(785,567)
Cash flows from financing activities			
Dividend paid		**(20,020)**	(43,400)
Proceeds from recourse obligation on financing sold to Cagamas Berhad		**50,000**	-
Redemption of Tier II subordinated Sukuk Ijarah		**(400,000)**	-
Proceeds from issuance of Tier II subordinated Sukuk Murabahah		**400,000**	-
Proceeds from issuance of Multi-currency Additional Tier I subordinated Sukuk Wakalah		**-**	400,000
Profit paid on Tier II subordinated Sukuk		**(19,171)**	(19,222)
Profit paid on Multi-currency Additional Tier I subordinated Sukuk Wakalah		**(20,686)**	(10,272)
Net cash flows (used in)/generated from financing activities		**(9,877)**	327,106
Net (decrease)/increase in cash and cash equivalents		**(1,022,698)**	283,350
Cash and cash equivalents at beginning of the financial year		**1,132,012**	848,662
Cash and cash equivalents at end of the financial year		**109,314**	1,132,012
Cash and cash equivalents comprise the following:			
Cash and short-term funds	3	**109,314**	1,152,146
Deposits and placements with banks and other financial institutions	4	**-**	200,852
		109,314	1,352,998
Less:			
Cash and short-term funds and deposits and placements with banks and other financial institutions with original maturity of more than three months		**-**	(220,986)
		109,314	1,132,012

Statements of Cash Flow

for the financial year ended 30 June 2019

An analysis of changes in liabilities arising from financing activities for the financial year ended 30 June 2019 is as follows:

2019	Cash Changes: Balance at the beginning of the financial year RM'000	Cash Changes: Proceeds from issuance/ (redemption) RM'000	Cash Changes: Profit paid RM'000	Non-Cash Changes: Accrued profit RM'000	Non-Cash Changes: Amortisation/ (Accretion) RM'000	Balance at the end of the financial year RM'000
Tier II subordinated Sukuk Ijarah	**400,630**	**(400,000)**	**(19,171)**	**18,487**	**54**	**-**
Tier II subordinated Sukuk Murabahah	**-**	**400,000**	**-**	**788**	**(30)**	**400,758**
Multi-currency Additional Tier I subordinated Sukuk Wakalah	**401,067**	**-**	**(20,686)**	**20,686**	**166**	**401,233**
Recourse obligation on financing sold to Cagamas Berhad	**-**	**50,000**	**-**	**637**	**-**	**50,637**
	801,697	**50,000**	**(39,857)**	**40,598**	**190**	**852,628**

2018	Cash Changes: Balance at the beginning of the financial year RM'000	Cash Changes: Proceeds from issuance RM'000	Cash Changes: Profit paid RM'000	Non Cash Changes: Accrued profit RM'000	Non Cash Changes: Amortisation/ (Accretion) RM'000	Balance at the end of the financial year RM'000
Tier II subordinated Sukuk Ijarah	400,503	-	(19,222)	19,275	74	400,630
Multi-currency Additional Tier I subordinated Sukuk Wakalah	-	400,000	(10,272)	12,071	(732)	401,067
	400,503	400,000	(29,494)	31,346	(658)	801,697

Notes to the Financial Statements

for the financial year ended 30 June 2019

The following accounting policies have been used consistently in dealing with items that are considered material in relation to the financial statements.

1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported financial year. 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 are disclosed in Note 51.

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

The Bank has applied the following amendments for the first time for the financial year beginning on 1 July 2018:

- 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 Cycle: MFRS 128 'Investments in Associates and Joint Ventures'

The Bank has adopted MFRS 9 and MFRS 15 for the first time in the 2019 financial statements, which resulted in changes in accounting policies.

The Bank has applied MFRS 9 retrospectively with the date of initial application of 1 July 2018. In accordance with the transitional provisions provided in MFRS 9, comparative information for 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 earnings as at 1 July 2018. The detailed impact of change in accounting policies arising from adoption of MFRS 9 are disclosed in Note 52 to the financial statements.

The Bank has applied MFRS 15 with the date of initial application of 1 July 2018 by using the modified retrospective transition method. Under the modified retrospective transition method, the Bank applies the new policy retrospectively only to contracts that are not completed contracts at the date of initial application. Accordingly, the 2018 comparative information was not restated and the cumulative effects of initial application of MFRS 15 were recognised as an adjustment to the opening balance of retained earnings as at 1 July 2018. The comparative information continued to be reported under the previous accounting policies governed under MFRS 118 'Revenue'.

1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

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

The adoption of MFRS 15 do not have material impact to the financial statements to the Bank as most of the revenue of the Bank are already recognised in accordance with the principles of MFRS 15. Accordingly, the cumulative effects of initial application of MFRS 15 were not recognised as an adjustment to the opening retained earnings as at 1 July 2018.

Other than MFRS 9, the adoption of other standards and amendments noted above did not have any material impact on the current period or any prior period and is not likely to affect future periods.

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

(i) Financial year beginning on/after 1 July 2019

* MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related.

  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 ("ROU") asset is depreciated in accordance with the principle in as set out in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with profit expense recognised in statement of income.

  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 will apply this standard from its mandatory adoption date of 1 July 2019. The Bank intends to apply the modified retrospective approach and will not restate comparative amounts for the financial year prior to the first adoption. ROU assets for property leases will be measured on transition as if the new rules had always been applied. All other ROU assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). The adoption is expected to increase ROU assets and increase financial liabilities with no significant effect on net assets or retained profits of the Bank.

* IC Interpretation 23 'Uncertainty over Income Tax Treatments' (effective 1 January 2019) 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.

Notes to the Financial Statements

for the financial year ended 30 June 2019

1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

B Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank that have been issued but not yet effective (continued)

(i) Financial year beginning on/after 1 July 2019 (continued)

* Amendments to MFRS 9 'Prepayment features with negative compensation' (effective 1 January 2019) 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.

* Annual Improvements to MFRSs 2015 – 2017 Cycle:

  * Amendments to MFRS 112 'Income Taxes' (effective from 1 January 2019) 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' (effective from 1 January 2019) 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.

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

C Changes in regulatory requirements

(i) Capital Adequacy Framework for Islamic Banks

The Capital Adequacy Framework for Islamic Banks in relation to Basel II – Risk-Weighted Assets and Capital Components was updated and reissued by Bank Negara Malaysia ('BNM') on 2 February 2018.

The updates focused mainly on the following changes:

* Revised definition of General Provision and Specific Provision arising from the implementation of MFRS 9 'Financial Instruments';
* Definition of General Provision and its recognition in Tier II capital;
* Alignment of terminologies used under MFRS 9 for the purpose of capital recognition and regulatory adjustments; and
* Clarification on the capital treatment of bargain purchase gains and right-of-use assets.

The updates above mainly address clarification on capital recognition and regulatory adjustment requirements arising from the implementation of MFRS 9.

1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

C Changes in regulatory requirements (continued)

(ii) BNM's Revised Policy Documents on Financial Reporting for Islamic Banking Institutions

On 2 February 2018, BNM had issued the revised policy document on Financial Reporting which prescribe the regulatory reserves to be maintained by banking institutions. The revised policy document requires the banking institutions to 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.

The financial effects of the adoption of the revised policy document are presented in Note 52.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A Recognition of profit income and profit expense

Profit income and expense for all profit-bearing financial instruments are recognised within "profit income" and "profit expense" in the statement of income using the effective profit method.

The effective profit method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the profit income or profit expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective profit rate, the Bank takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate, but not future credit losses.

<u>Accounting policies applied from 1 July 2018</u>

Profit income is calculated by applying the effective profit rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective profit rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

<u>Accounting policies applied until 30 June 2018</u>

When a financing receivable is impaired, the Bank reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective profit rate of the instrument, and continue unwinding the discount as profit income. Profit income on impaired financing receivables are recognised using the original effective profit rate.

<u>Tawarruq</u>

A tawarruq consists of two sale and purchase contracts. The first involves the sale of an asset by a seller to a purchaser on a deferred basis. Subsequently, the purchase of the first sale will sell the same asset to a third party on a cash spot basis. The tawarruq concept is applicable for the purpose of deposit taking and financing.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A Recognition of profit income and profit expense (continued)

Murabahah

A sale and purchase of an asset where the acquisition cost and the mark-up are disclosed to the purchase.

Ijarah Muntahia Bittamlik/Al-Ijarah Thumma Al-Bai’ (AITAB)

A contract of lease ending either with gift or sale transaction to transfer ownership of the asset from the lessor to the lessee. The lessee enjoys the usufruct of the assets at an agreed rental during an agreed period while the ownership remains with the lessor. The transfer of the ownership of the assets may takes place at the end of the Ijarah tenure or at any point of time during the tenure subject to the agreed terms and conditions between the contracting parties. Income is recognised on contracted profit rate basis over the lease term.

Bai’ Bithaman Ajil

A contract of sale of an asset in which the payment of price is deferred either be paid in lump-sum or instalment basis within an agreed period of time. Income is recognised on effective profit rate basis over the expected life of the contract based on outstanding financing amount.

Wadiah

Safe keeping contract in which a party entrusted his assets to another party for safe keeping and to be returned upon request.

Qard

Qard refers to a contract of lending money by a lender to a borrower where the latter is bound to repay an equivalent replacement amount to the lender.

B Recognition of fees and other income

Financing arrangement fees and commissions are recognised as income when all conditions precedent are fulfilled. Guarantee fees which are material are recognised as income based on time apportionment. Services charges and other fee income are recognised as income when the services are rendered.

Dividends from financial assets held at fair value through profit or loss and financial investment at fair value through other comprehensive income (2018: financial investments available-for-sale) are recognised when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

From 1 July 2018 onward, dividends that clearly represented a recovery of part of the cost of an investment is recognised in other comprehensive income if it relates to the investment in equity instruments measured at fair value through other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B Recognition of fees and other income (continued)

Net gain or loss from disposal of financial assets held at fair value through profit or loss and financial investments at fair value through other comprehensive income (2018: financial instruments available-for-sale) are recognised in statement of income upon disposal of the securities, as the difference between net disposal proceeds and the carrying amount of the securities.

C Financial assets

Accounting policies applied from 1 July 2018

(i) Classification

From 1 July 2018, the Bank has applied MFRS 9 and classified its financial assets in the following measurement categories in accordance with MFRS 9 requirements:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and
- those to be measured at amortised cost.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The Bank does not change the classification of the remaining financial assets held in the business model, but consider the circumstances leading to the model change when assessing newly originated or newly purchased financial assets going forward.

Business model assessment

The Bank conducts assessment of the objective of a business model to align with how an asset held within a portfolio is being managed. Factors that are being considered include the key objectives of a portfolio whether the business strategy is to earn contractual profit income, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising a portfolio through sale of assets. Other factors considered also include the frequency and volume of sales in prior periods, how the asset's performance is evaluated and reported to key management personnel.

Assessment whether contractual cash flows are solely payments of principal and income ("SPPI")

Where the business model is to hold the financial assets to collect contractual cash flows, or to collect contractual cash flows and sell, the Bank assesses whether the financial assets' contractual cash flows represent solely payment of principal and profit. In applying the SPPI test, the Bank considers whether the contractual cash flows are consistent with a basic financing arrangement, i.e. profit includes only consideration for time value of money, credit risk, other basic financing risks and a profit margin that is consistent with a basic financing arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic financing arrangement, the related financial asset is classified and measured at fair value through profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and profit.

Notes to the Financial Statements

for the financial year ended 30 June 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C Financial assets (continued)

Accounting policies applied from 1 July 2018 (continued)

(ii) Recognition and derecognition

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

(iii) Measurement

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

Debt instruments

Subsequent measurement of debt instruments depends on the Bank's business model for managing the financial asset and the cash flow characteristics of the financial asset. There are three measurement categories into which the Bank classifies its debt instruments:

(a) Amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at fair value through profit or loss, are measured at amortised cost using the effective profit method. Profit income from these financial assets is included in profit income using the effective profit method. Any gain or loss arising on derecognition is recognised directly in statement of income as presented in net realised gain or loss on financial instruments. Impairment losses are presented as separate line item (as per Note 31 and Note 32) in the statement of income.

(b) Fair value through other comprehensive income

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the financial assets' cash flows represent SPPI, and that are not designated at fair value through profit or loss, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, profit income and foreign exchange gains and losses which are recognised in 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 net realised gain or loss on financial instruments. Profit income from these financial assets is included in profit income using the effective profit method. Foreign exchange gains and losses are presented in other income and impairment losses are presented as separate line item (as per Note 32) in the statement of income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C Financial assets (continued)

Accounting policies applied from 1 July 2018 (continued)

(iii) Measurement (continued)

Debt instruments (continued)

(c) Fair value through profit or loss

Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. The Bank may also irrevocably designate financial assets at fair value through profit or loss 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 net unrealised gain or loss on revaluation in the period which it arises.

Equity instruments

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the management has elected, at initial recognition to irrevocably designate an equity instrument at fair value through other comprehensive income. Where the Bank's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to statement of income following the derecognition of the investment. Cumulative gain or loss previously recognised in OCI is not subsequently reclassified to statement of income, but is to transferred to retained profits. Dividends from such investments continue to be recognised in statement of income as other income when the Bank's right to receive payments is established.

Changes in the fair value of equity instruments designated as financial assets at fair value through profit or loss are recognised in net unrealised gain or loss on revaluation in the statement of income.

(iv) Reclassification policy

Reclassification of financial assets is required when, and only when, the Bank changes its business model for managing the assets. In such cases, the Bank is required to reclassify all affected financial assets.

However, it will be inappropriate to reclassify financial assets that have been designated at fair value through profit or loss, or equity instruments that have been designated as at fair value through other comprehensive income even when there is a change in business model. Such designations are irrevocable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C Financial assets (continued)

Accounting policies applied until 30 June 2018

(i) Classification

The Bank classifies its financial assets into the following categories: at fair value through profit or loss, financing and receivables, financial investments held-to-maturity and financial investments available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classifications of its securities 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.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise of financial assets held-for-trading and other financial assets designated by the Bank as fair value through profit or loss upon initial recognition.

A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held-for-trading unless they are designated and effective as hedging instruments.

(b) Financing and receivables

Financing and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financing and receivables consist of Tawarruq, Murababah, Ijarah, Ijarah Muntahia Bittamlik/Al-Ijarah Thumma Al-Bai', Bai' Bithaman Ajil and Qard contracts. These contracts are initially recognised at fair value, including direct and incremental transactions costs, and subsequently measured at amortised cost using the effective profit method. These contracts are stated net of unearned income and any amounts written off and/or impaired.

(c) Financial investments held-to-maturity

Financial investments held-to-maturity are non-derivative instruments 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 sells other than an insignificant amount of financial investments held-to-maturity, the entire category will be tainted and reclassified as financial investments available-for-sale.

(d) Financial investments available-for-sale

Financial investments available-for-sale are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in profit rates, exchange rates or equity prices or that are not classified as financial assets at fair value through profit or loss, financing and receivables and financial investments held-to-maturity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C Financial assets (continued)

Accounting policies applied until 30 June 2018 (continued)

(ii) Recognition and initial measurement

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. Transaction costs for securities carried at fair value through profit or loss are taken directly to the statement of income.

(iii) Subsequent measurement

Financial assets at fair value through profit or loss and financial investments available-for-sale are subsequently carried at fair value, except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured in which case the investments are stated at cost. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the statement of income in the period which they arise. Gains and losses arising from changes in fair value of financial investments available-for-sale are recognised directly in other comprehensive income, until the securities are derecognised or impaired at which time the cumulative gains or loss previously recognised in other comprehensive income are recognised in the statement of income. Foreign exchange gains or losses of financial investments available-for-sale are recognised in the statement of income in the period it arises.

Financial investments held-to-maturity are subsequently measured at amortised cost using the effective profit method. Gains or losses arising from the de-recognition or impairment of the securities are recognised in the statement of income.

Profit from financial assets held at fair value through profit or loss, financial investments available-for-sale and financial investments held-to-maturity is calculated using the effective profit method and is recognised in the statement of income. Dividends from available-for-sale equity instruments are recognised in the statement of income when the entity’s right to receive payment is established.

Financing and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the financing including the transaction costs, and measured subsequently at amortised cost using the effective rate method. Profit on financing is included in the statement of income. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the financing and recognised in the statement of income.

(iv) Reclassification of financial assets

The Bank may choose to reclassify a non-derivative financial assets held-for-trading out of the held-for-trading category if the financial asset is no longer held for the purposes of selling in the near term. Financial assets other than financing 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C Financial assets (continued)

Accounting policies applied until 30 June 2018 (continued)

(iv) Reclassification of financial assets (continued)

Reclassifications are made at the fair value at the date of the reclassification. The fair values of the securities becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before the reclassification date are subsequently made. The effective profit rates for the securities reclassified to held-to-maturity category are determined at the reclassification date. Further changes in estimates of future cash flows are recognised as an adjustment to the effective profit rates.

D Financial liabilities

Financial liabilities are measured at amortised cost, except for trading liabilities and liabilities designated at fair value, which are held at fair value through profit or loss. Financial liabilities are initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in statement of income. Financial liabilities are de-recognised when extinguished.

(i) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held-for-trading and financial liabilities designated at fair value through profit or loss upon initial recognition.

A financial liability is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held-for-trading unless they are designated and effective as hedging.

The Bank has also designated structured deposits at fair value through profit or loss as permitted under MFRS 9 “Financial Instruments”: as it significantly reduces accounting mismatch that would otherwise arise from measuring that corresponding assets and liabilities of different basis.

(ii) Financial liabilities at amortised cost

Other financial liabilities are initially recognised at fair value plus transaction costs. Subsequently, other financial liabilities are remeasured at amortised cost using the effective profit rate.

Other financial liabilities measured at amortised cost are deposits from customers, investment account of customers, deposits and placements of banks and other financial institutions, bills and acceptances payable, recourse obligation on financings sold to Cagamas Bhd and other financial liabilities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E Property and equipment and depreciation

Property and equipment are initially recorded at cost net of the amount of goods and service tax ("GST") except where the amount of GST incurred is not recoverable from the government. When the amount of GST incurred is not recoverable from the government, the GST is recognised as part of the cost of acquisition of the property and equipment. The cost of an item of property and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost also includes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. With effective from 1 June 2018, GST is reduced from 6% to 0%.

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. 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 charged to the statement of income during the financial period in which they are incurred.

Freehold land is not depreciated as it has an infinite life. Other property and equipment are depreciated on a straight line basis to write off the cost of the assets to their residual values over their estimated useful lives, summarised as follows:

Office furniture, fittings, equipment and renovations and computer equipment	10% - 33%
Motor vehicles	25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at end of each reporting period.

Depreciation on assets under construction commences when the assets are ready for their intended use.

Property and equipment are reviewed for indication of impairment at each statement of financial position date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in statement of income.

F Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 8 years.

Notes to the Financial Statements

for the financial year ended 30 June 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G Leases

(i) Finance lease

Assets purchased under lease which in substance transfers substantially all the risks and rewards of ownership of the assets to the Bank are capitalised under property and equipment. The assets and the corresponding lease obligations are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased assets at the beginning of the lease term. Such leased assets are subject to depreciation on the same basis as other property and equipment.

Leases which do not meet such criteria are classified as operating lease and the related rentals are charged to statement of income.

(ii) Operating lease

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

H Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the statement of income unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount of non-financial assets (other than goodwill) is recognised in the statement of income unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

I Current and deferred income taxes

The tax expense for the period comprises current and deferred income tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in 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 recognised in other comprehensive income or directly in equity, respectively. The liabilities in relation to tax penalties or its associated income are included within the taxation liability on the statement of financial position and charged to the tax expense in the statement of income as under provision of prior year tax.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I Current and deferred income taxes (continued)

Current income tax expense is determined according to the tax laws enacted or substantially enacted at the end of the reporting period of each jurisdiction in which the Bank operates and generates taxable income and includes all taxes based upon the taxable profits.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences of unused tax losses or unused tax credits can be utilised.

Deferred income tax related to fair value re-measurement of financial instruments at fair value through other comprehensive income (2018: financial instruments available-for-sale), which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statement of income together with the deferred gain or loss.

Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

J Derivative financial instruments and hedging

The Bank has elected an accounting policy choice under MFRS 9 to continue to apply the hedge accounting requirement under MFRS 139 on the adoption of MFRS 9 on 1 July 2018.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the statement of income. Cash collateral held in relation to derivative transactions are carried at amortised cost.

The best evidence of fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits immediately.

Notes to the Financial Statements

for the financial year ended 30 June 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J Derivative financial instruments and hedging (continued)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designated certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge) or (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge) or (3) hedges of a net investment in a foreign operation (net investment hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the transaction, the Bank documents the relationship between hedging instruments and hedged items, as well as their risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

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

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective profit method is used is amortised to statement of income over the period to maturity using a recalculated effective profit rate.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain and loss relating to the ineffective portion is recognised immediately in the statement of income. Amounts accumulated in equity are recycled to the statement of income in the financial periods in which the hedged item will affect statement of income.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to the statement of income.

(iii) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of income.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J Derivative financial instruments and hedging (continued)

(iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the statement of income.

K Currency translations

(i) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia, which is the Bank's functional and presentation currency.

(ii) Foreign currency 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 financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to items that form part of the net investment in a foreign operation.

Changes in the fair value of monetary securities denominated in foreign currency classified as financial instruments at fair value through other comprehensive income (2018: financial instruments 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 the amortised cost are recognised in the statement of income, and other changes in the 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 is 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 such as equities held at fair value through profit or loss are recognised in income as part of the financial instruments fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as financial assets at fair value through other comprehensive income (2018: financial instruments available-for-sale) are included in the fair value reserve in other comprehensive income.

L Employee benefits

(i) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related services are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

The Bank recognises a liability and an expense for bonuses. The Bank recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L Employee benefits (continued)

(ii) Defined contribution plan

A defined contribution plan is a pension plan under which the Bank pay fixed contributions into a separate entity (a fund) on a mandatory, contractual or voluntary basis and the Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior financial periods.

The Bank contributes to a national defined contribution plan (the Employee Provident Fund) on a mandatory basis and the amounts contributed to the plan are charged to the statement of income in the financial period to which they relate. Once the contributions have been paid, the Bank have no further payment obligations.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

M Impairment of financial assets

Accounting policies applied from 1 July 2018

MFRS 9 introduces a new impairment model that requires the recognition of expected credit loss ("ECL"), replacing the incurred loss methodology model under MFRS 139, for all financial assets, except for financial assets classified or designated as fair value through profit or loss and equity securities classified under fair value through other comprehensive income, which are not subject to impairment assessment. Off-balance sheet items that are subject to ECL include undrawn financing commitments and financial guarantees.

The Bank assesses on a forward looking basis the ECL associated with its financial assets carried at amortised cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Bank assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. The Bank first assesses whether objective evidence of impairment exists for financial assets which are individually significant. If the Bank determines the objective evidence of impairment exists, i.e. credit-impaired for an individually assessed financial asset, a lifetime ECL will be recognised for impairment loss. Financial assets which are collectively assessed are grouped on the basis of similar credit risk characteristics.

The Bank had adopted the general approach for ECL.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M Impairment of financial assets (continued)

Accounting policies applied from 1 July 2018 (continued)

(i) Financial assets accounted for at amortised cost, fair value through other comprehensive income and with the exposure arising from financing commitments and financial guarantee contracts – General Approach

ECL will be assessed using an approach which classified financial assets into three stages which reflects the change in credit quality of the financial assets since initial recognition:

(a) Stage 1: 12-months ECL – not credit impaired

Stage 1 includes financial assets which have not had a significant increase in credit risk since initial recognition or which have low credit risk at reporting date. 12-months ECL is recognised and profit income is calculated on the gross carrying amount of the financial assets.

(b) Stage 2: Lifetime ECL – not credit impaired

Stage 2 includes financial assets which have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but do not have objective evidence of impairment. Lifetime ECL is recognised and profit income is calculated on the gross carrying amount of the financial assets.

(c) Stage 3: Lifetime ECL – credit impaired

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. Lifetime ECL is recognised and profit income is calculated on the net carrying amount of the financial assets.

Significant increase in credit risk

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition to determine whether the exposure is subject to 12-month ECL or lifetime ECL. This is performed by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. When determining whether the risk of default has increased significantly since initial recognition, the Bank considers both quantitative and qualitative information and assessments based on the Bank's historical experience and credit risk assessments, including forward-looking information. A backstop of 30 days or 1 month past due from its contractual payment is applied and a financial asset will still be designated as having significant increase in credit risk regardless if it meets both the quantitative and qualitative assessments.

Definition of default and credit-impaired financial assets

The definition of credit-impaired of the Bank remained the same under MFRS 139 and MFRS 9. At each reporting period, the Bank assesses whether financial assets are impaired. Qualitative and quantitative information are used to determine if a financial asset is credit impaired. Nevertheless, a backstop is applied and a financial asset is considered as credit impaired if it is more than 90 days or 3 months past due on its contractual payments.

Notes to the Financial Statements

for the financial year ended 30 June 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M Impairment of financial assets (continued)

Accounting policies applied from 1 July 2018 (continued)

(i) Financial assets accounted for at amortised cost, fair value through other comprehensive income and with the exposure arising from financing commitments and financial guarantee contracts – General Approach (continued)

Definition of default and credit-impaired financial assets (continued)

As part of the assessment of impairment of financial assets under ECL model, the default definition, which is largely align with regulatory reporting purposes, has been applied to three main components, which is a probability of default ("PD") model, a loss given default ("LGD") model and exposure at default ("EAD") model respectively.

Where measurement of ECL is relying on external published sources, in determining if a financial asset is credit-impaired, the Bank will consider factors, such as, but not limited to, rating agencies' assessment of creditworthiness and country's ability to access to capital markets for new debt issuance.

Measurement of ECL

ECL are measured using three main components, which include PD, LGD and EAD. These components are derived from internally developed statistical models and adjusted to reflect forward-looking information as set out below.

The 12-month and lifetime PD represent the expected point-in-time probability of default over the next 12 months and remaining lifetime of a financial instrument, based on conditions that exist at the reporting date and taking into consideration of future economic conditions that affect credit risk. The LGD component represents that expected loss if a default event occurs at a given time, taking into account the mitigating effect of collateral, its expected value when realised and time value of money. The EAD represents the expected exposure at default, taking into account the repayment of principal and profit from the reporting date to the default event together with expected drawdown and utilisation of a facility. The 12-month ECL is equal to the discounted sum over the next 12 months of monthly PD multiplied by LGD and EAD. The discount rate used in the ECL measurement is the original effective profit rate or an approximation thereof.

The measurement of ECL reflects an unbiased and probability-weighted amount that is derived by evaluating a range of possible macroeconomic outcome, the time value of money together with reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecast of future economic conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M Impairment of financial assets (continued)

Accounting policies applied from 1 July 2018 (continued)

(i) Financial assets accounted for at amortised cost, fair value through other comprehensive income and with the exposure arising from financing commitments and financial guarantee contracts – General Approach (continued)

Forward looking information

The Bank has internally developed methodologies for the application of forward looking macroeconomic ("MEV") which consist of economic indicators and industry statistics in the measurement of ECL. This involves the incorporation of MEV forward looking into PD estimation, which is determined based on probability-weighted outcome from a range of economic scenarios. No MEV was incorporated into LGD estimation due to insufficient data points and lack of solid statistical results supporting the said application.

The measurement of ECL incorporates a broad range of forward-looking information as economic inputs, such as but not limited to:

- Gross Domestic Product ("GDP")
- Unemployment Rate
- Consumer Price Index
- House Price Index

The Bank applies three economic scenarios to reflect an unbiased probability-weighted range of possible future outcome in estimating ECL:

Base case: This represents 'most likely outcome' of future economic conditions which are backed by consensus forecast from various sources.

Best and Worst case: This represent the 'upside' and 'downside' outcome of future economic conditions by making references to past historical cyclical conditions together with incorporation of best estimates and judgements on an unbiased basis.

Notes to the Financial Statements

for the financial year ended 30 June 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M Impairment of financial assets (continued)

Accounting policies applied until 30 June 2018

(i) Assets carried at amortised cost

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The criteria the Bank uses to determine that there is objective evidence of impairment loss include indications that the customers or a group of customers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default of delinquency in profit or payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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 discounted at the financial assets' original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a financing or financial investments held-to-maturity have a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

Financial assets that have not been individually assessed are grouped together for portfolio 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 assets 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 group.

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.

When a financing is uncollectible, it is written off against the related allowance for financing impairment and any shortfall will be recognised to statement of income. Such financing are written off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

If in a subsequent period, the amount of impairment losses 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 previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M Impairment of financial assets (continued)

Accounting policies applied until 30 June 2018 (continued)

(ii) Assets classified as available-for-sale

The Bank assesses at each date of the statement of financial position whether there is objective evidence that 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 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 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 available-for-sale financial assets, 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 available-for-sale are not reversed through profit or loss in subsequent periods.

N Derecognition of financial assets and financial liabilities

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral furnished by the Bank under standard repurchase agreements transactions is not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

O Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position where 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.

Notes to the Financial Statements

for the financial year ended 30 June 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P 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 liability is initially measured at fair value.

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.

Accounting policies applied from 1 July 2018

Financial guarantee contracts are subsequently measured at the higher of the amount determined in accordance with the ECL model under MFRS 9 and the amount initially recognised less cumulative amount of income recognised in accordance with the principles of MFRS 15, where appropriate.

Accounting policies applied until 30 June 2018

Financial guarantee contracts are subsequently measured 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.

Q Bills and acceptances payable

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

R Tier II subordinated Sukuk Ijarah

Tier II subordinated Sukuk Ijarah is recognised initially at fair value, net of transaction costs incurred. Tier II subordinated Sukuk Ijarah is subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of income over the period of the financing using the effective profit method.

All other Tier II subordinated Sukuk Ijarah costs are recognised in the statement of income in the period in which they incurred.

S Tier II subordinated Sukuk Murabahah

Tier II subordinated Sukuk Murabahah is recognised initially at fair value, net of transaction costs incurred. Tier II subordinated Sukuk Murabahah is subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of income over the period of the financing using the effective profit method.

All other Tier II subordinated Sukuk Murabahah costs are recognised in the statement of income in the period in which they incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T Multi-currency Additional Tier I subordinated Sukuk Wakalah

Multi-currency Additional Tier I subordinated Sukuk Wakalah is recognised initially at fair value, net of transaction costs incurred. Multi-currency Additional Tier I subordinated Sukuk Wakalah is subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of income over the period of the financing using the effective profit method.

All other Multi-currency Additional Tier I subordinated Sukuk Wakalah costs are recognised in the statement of income in the period in which they incurred.

U Provisions

Provisions are recognised by the Bank when all of the following conditions have been met:

(i) the Bank has a present legal or constructive obligation as a result of past events;
(ii) it is probable that an outflow of resources to settle the obligation will be required; and
(iii) a reliable estimate of the amount of obligation can be made.

Where the Bank expects a provision to be reimbursed by another party, 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 values of management's best estimate of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to passage of time is recognised as profit expense.

V Cash and cash equivalents

Cash and short-term funds in the statement of financial position comprise cash balances and deposits with financial institutions and money at call with a maturity of one month or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash and short-term funds and deposits and placements with financial institutions, with original maturity of three months or less.

W Zakat

The calculation and payment of zakat are in compliance with Shariah rules and principles. The Bank has fulfilled its obligation to pay zakat for its business on behalf of its shareholders to the state zakat authorities and the minimum amount payable is computed based on net asset method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

X Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources and assesses the performance of the operating segments of an entity. The Bank has determined the Board of Directors as the collective body of chief operating decision makers.

Segment revenue, expense, assets and liabilities are those amount resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment.

Y Share capital

(i) Classification

Ordinary shares are classified as equity. Other shares are classified as equity and/or liability according to the substance of the particular instrument.

(ii) Share issue costs

Incremental external costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(iii) Dividends

Dividends to shareholders are recognised directly in equity. Liability is recognised for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Bank, on or before the end of the reporting period but not distributed at the end of the reporting period.

Z Contingent assets and contingent liabilities

The Bank does not recognise contingent assets and liabilities, but discloses 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AA Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

* the profit attributable to owners of the Bank excluding any costs of servicing equity other than ordinary shares
* 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.

(ii) 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.

3 CASH AND SHORT TERM FUNDS

	2019 RM'000	2018 RM'000
Cash and balances with banks and other financial institutions	**59,314**	106,171
Money at call and deposit placements maturing within one month	**50,000**	1,045,975
	109,314	1,152,146

4 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019 RM'000	2018 RM'000
Other financial institutions	**-**	200,852

5 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

	2019 RM'000	2018 RM'000
Money market instruments		
Malaysian Government investment certificates	**515,295**	-

Notes to the Financial Statements

for the financial year ended 30 June 2019

6 FINANCIAL ASSETS HELD-FOR-TRADING

	2019 RM'000	2018 RM'000
Money market instruments		
Malaysian Government investment certificates	-	151,027
Negotiable Islamic debt certificates	-	199,810
	-	350,837

7 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI")

	2019 RM'000	2018 RM'000
At fair value – Debt instruments		
Money market instruments		
Cagamas bonds	265,885	-
Khazanah Bonds	9,039	-
Malaysian Government investment certificates	1,152,139	-
Negotiable Islamic debt certificates	298,765	-
	1,725,828	-
Quoted securities		
Foreign currency bonds	33,114	-
	1,758,942	-
Unquoted securities		
Malaysian Government Sukuk	167,440	-
Corporate bonds and sukuk	1,029,798	-
	1,197,238	-
	2,956,180	-

The carrying amount of debt instruments at FVOCI is equivalent to their fair value. The expected credit losses is recognised in other comprehensive income and does not reduce the carrying amount in the statement of financial position.

Notes to the Financial Statements

for the financial year ended 30 June 2019

7 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI") (CONTINUED)

Movement in expected credit losses of debt instruments at FVOCI are as follows:

2019	Note	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total ECL RM'000
At 1 July		-	-	-	-
Effect of adopting MFRS 9	52	35	-	-	35
At 1 July, as restated		35	-	-	35
New financial assets originated or purchased		37	-	-	37
Financial assets derecognised		(10)	-	-	(10)
Changes due to change in credit risk		(6)	-	-	(6)
At 30 June		56	-	-	56

8 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	2019 RM'000	2018 RM'000
Money market instruments		
Cagamas bonds	-	166,466
Malaysian Government investment certificates	-	1,204,633
Khazanah Bonds	-	34,842
	-	1,405,941
Quoted securities		
Foreign currency bonds	-	11,278
	-	11,278
Unquoted securities		
Malaysian Government sukuk	-	361,265
Corporate bonds and sukuk	-	1,000,658
	-	1,361,923
	-	2,779,142

Notes to the Financial Statements

for the financial year ended 30 June 2019

9 FINANCIAL INVESTMENTS AT AMORTISED COST

	2019 RM'000	2018 RM'000
Money market instruments		
Khazanah Bonds	**36,429**	-
Malaysian Government investment certificates	**2,834,823**	-
	2,871,252	-
Unquoted securities		
Malaysian Government sukuk	**962,898**	-
Corporate bonds and sukuk	**405,676**	-
	1,368,574	-
	4,239,826	-

10 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	2019 RM'000	2018 RM'000
Money market instruments		
Malaysian Government investment certificates	**-**	2,831,055
Unquoted securities		
Malaysian Government sukuk	**-**	612,623
	-	3,443,678

11 FINANCING AND ADVANCES

(i) By type and Shariah contract

2019	Bai' Bithaman Ajil RM'000	Ijarah RM'000	Ijarah Muntahia Bittamlik/ AITAB RM'000	Tawarruq RM'000	Murabahah RM'000	Other Principles RM'000	Total RM'000
Cash line	-	-	-	466,785	-	27,948	494,733
Term financing							
- House financing	4,870,091	-	-	9,781,921	-	-	14,652,012
- Hire purchase receivables	-	-	3,615,867	-	-	-	3,615,867
- Other term financing	300,942	40,290	-	5,134,035	-	-	5,475,267
Bills receivable	-	-	-	90,824	6,106	3	96,933
Islamic trust receipt	-	-	-	-	8,639	-	8,639
Claims on customers under acceptance credits	-	-	-	83,434	669,841	-	753,275
Revolving credits	-	-	-	987,882	-	-	987,882
Staff financing	2,187	-	-	1,764	-	-	3,951
Others	4	-	-	-	355	-	359
Gross financing and advances	5,173,224	40,290	3,615,867	16,546,645	684,941	27,951	26,088,918
Less: Allowance for impairment losses							
- Stage 1 – 12-months ECL							(57,935)
- Stage 2 – Lifetime ECL not credit impaired							(111,500)
- Stage 3 – Lifetime ECL credit impaired							(79,472)
							(248,907)
Total net financing and advances							25,840,011

Included in financing and advances are housing financing sold to Cagamas with recourse to the Bank amounting to RM48,258,000 (2018: Nil).

Notes to the Financial Statements

for the financial year ended 30 June 2019

11 FINANCING AND ADVANCES (CONTINUED)

(i) By type and Shariah contract (continued)

2018	Bai' Bithaman Ajil RM'000	Ijarah RM'000	Ijarah Muntahia Bittamlik/ AITAB RM'000	Tawarruq RM'000	Murabahah RM'000	Other Principles RM'000	Total RM'000
Cash line	-	-	-	326,638	-	17,518	344,156
Term financing							
- House financing	5,390,520	-	-	7,734,345	-	-	13,124,865
- Hire purchase receivables	-	-	3,472,014	-	-	-	3,472,014
- Other term financing	497,293	50,545	-	3,447,400	-	-	3,995,238
Bills receivable	-	-	-	62,886	3,375	3	66,264
Islamic trust receipt	-	-	-	-	8,067	-	8,067
Claims on customers under acceptance credits	-	-	-	8,067	530,125	-	538,192
Revolving credits	-	-	-	1,367,782	-	-	1,367,782
Staff financing	2,777	-	-	465	-	-	3,242
Others	4	-	-	-	-	-	4
Gross financing and advances	5,890,594	50,545	3,472,014	12,947,583	541,567	17,521	22,919,824
Unamortised fair value charges arising from terminated fair value hedges							(12)
							22,919,812
Less: Allowance for impairment losses							
- Collective assessment allowance							(176,875)
- Individual assessment allowance							(21,826)
							(198,701)
Total net financing and advances							22,721,111

11 FINANCING AND ADVANCES (CONTINUED)

(ii) The maturity structure of financing and advances is as follows:

	2019 RM'000	2018 RM'000
Maturing within:		
- One year	**2,484,752**	2,452,828
- One year to three years	**1,099,258**	992,355
- Three years to five years	**2,493,831**	2,242,215
- Over five years	**20,011,077**	17,232,426
	26,088,918	22,919,824

(iii) The financing and advances are disbursed to the following type of customers:

	2019 RM'000	2018 RM'000
Domestic non-bank financial institutions	**100,250**	348,337
Domestic business enterprises:		
- small medium enterprises	**3,530,884**	2,806,629
- others	**3,554,806**	2,951,568
Government and statutory bodies	**1,996**	11,571
Individuals	**18,698,558**	16,592,627
Other domestic entities	**875**	427
Foreign entities	**201,549**	208,665
Gross financing and advances	**26,088,918**	22,919,824

(iv) Financing and advances analysed by profit rate sensitivity are as follows:

	2019 RM'000	2018 RM'000
Fixed rate		
- Housing financing	**559,600**	814,066
- Hire purchase receivables	**3,615,867**	3,472,014
- Other fixed rate financing	**1,518,243**	1,396,550
Variable rate		
- Base rate/Islamic financing rate plus	**18,645,413**	15,323,152
- Cost plus	**1,749,795**	1,914,042
Gross financing and advances	**26,088,918**	22,919,824

11 FINANCING AND ADVANCES (CONTINUED)

(v) Financing and advances analysed by economic purposes are as follows:

	2019 RM'000	2018 RM'000
Purchase of securities	**254,977**	1,174
Purchase of transport vehicles	**3,616,571**	3,474,389
Purchase of landed property:		
- residential	**13,497,309**	11,968,295
- non-residential	**2,565,303**	1,977,155
Purchase of fixed assets (excluding landed properties)	**262,538**	48,984
Personal use	**1,225,302**	1,048,957
Construction	**649,104**	397,816
Mergers and acquisition	**186,923**	183,331
Working capital	**3,532,355**	3,500,979
Other purposes	**298,536**	318,744
Gross financing and advances	**26,088,918**	22,919,824

(vi) Financing and advances analysed by geographical distribution are as follows:

	2019 RM'000	2018 RM'000
In Malaysia	**26,088,918**	22,919,824

(vii) Movements in the impaired financing and advances are as follows:

	2018 RM'000
At 1 July	179,844
Classified as impaired during the financial year	377,510
Reclassified as non-impaired during the financial year	(236,083)
Amount written back in respect of recoveries	(56,535)
Amount written off	(56,765)
At 30 June	207,971
Gross impaired financing and advances as a % of gross financing and advances	0.91%

11 FINANCING AND ADVANCES (CONTINUED)

(viii) Impaired financing and advances analysed by economic purposes are as follows:

	2019 RM'000	2018 RM'000
Purchase of securities	**46**	-
Purchase of transport vehicles	**31,222**	32,799
Purchase of landed property:		
- residential	**95,329**	95,284
- non-residential	**7,433**	5,540
Personal use	**21,149**	17,162
Construction	**608**	567
Working capital	**21,771**	56,049
Other purposes	**-**	570
Gross impaired financing and advances	**177,558**	207,971

(ix) Impaired financing and advances analysed by geographical distribution is as follows:

	2019 RM'000	2018 RM'000
In Malaysia	**177,558**	207,971

(x) Movements in expected credit losses for financing and advances are as follows:

2019	Note	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total ECL RM'000
At 1 July					**198,701**
Effect of adopting MFRS 9	52				**34,392**
At 1 July, as restated		**50,990**	**99,617**	**82,486**	**233,093**
Changes in ECL due to transfer within stages		**(17,541)**	**(24,281)**	**41,822**	**-**
- Transfer to Stage 1		**2,290**	**(2,280)**	**(10)**	**-**
- Transfer to Stage 2		**(19,829)**	**46,106**	**(26,277)**	**-**
- Transfer to Stage 3		**(2)**	**(68,107)**	**68,109**	**-**
New financial assets originated		**13,785**	**592**	**38**	**14,415**
Financial assets derecognised		**(7,285)**	**(13,434)**	**(12,045)**	**(32,764)**
Changes due to change in credit risk		**17,985**	**49,005**	**27,532**	**94,522**
Amount written off		**-**	**-**	**(55,171)**	**(55,171)**
Exchange difference		**1**	**1**	**-**	**2**
Other movements		**-**	**-**	**(5,190)**	**(5,190)**
At 30 June		**57,935**	**111,500**	**79,472**	**248,907**

Notes to the Financial Statements

for the financial year ended 30 June 2019

11 FINANCING AND ADVANCES (CONTINUED)

(xi) Movements in the allowance for impaired financing and advances are as follows:

	2019 RM'000	2018 RM'000
Collective assessment allowance		
At 1 July	**176,875**	157,826
Effect of adopting MFRS 9	**(176,875)**	-
At 1 July, as restated	**-**	157,826
Net allowance made during the financial year	**-**	74,481
Amount written off	**-**	(52,446)
Unwinding income	**-**	(2,986)
As at end of the financial year	**-**	176,875

	2019 RM'000	2018 RM'000
Individual assessment allowance		
At 1 July	**21,826**	13,664
Effect of adopting MFRS 9	**(21,826)**	-
At 1 July, as restated	**-**	13,664
Net allowance made during the financial year	**-**	9,378
Amount written off	**-**	(1,208)
Unwinding income	**-**	(8)
As at end of the financial year	**-**	21,826

11 FINANCING AND ADVANCES (CONTINUED)

(xii) Movements in the gross carrying amount of financing and advances that contributed to changes in the expected credit losses are as follows:

2019	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total ECL RM'000
At 1 July				
Effect of adopting MFRS 9				22,919,823
At 1 July	21,415,352	1,296,500	207,971	22,919,823
Changes due to financing and advances recognised as at 1 July:	(653,460)	531,239	122,221	-
- Transfer to Stage 1	309,127	(308,977)	(150)	-
- Transfer to Stage 2	(961,914)	1,208,810	(246,896)	-
- Transfer to Stage 3	(673)	(368,594)	369,267	-
New financial assets originated	3,564,138	6,480	55	3,570,673
Financial assets derecognised	(467,579)	(56,093)	(35,768)	(559,440)
Changes due to change in credit risk	417,777	(174,272)	(61,750)	181,755
Amount written off	-	-	(55,171)	(55,171)
Exchange difference	31,278	-	-	31,278
At 30 June	24,307,506	1,603,854	177,558	26,088,918

12 OTHER ASSETS

	2019 RM'000	2018 RM'000
Foreclosed properties	10,990	-
Sundry debtors and other prepayments	7,223	7,641
Interbranch clearing with holding company	571,263	-
Treasury and cheque clearing	14,156	41,378
Other receivables	1,197	1,230
	604,829	50,249

Notes to the Financial Statements
for the financial year ended 30 June 2019

13 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

	2019 RM'000	2018 RM'000
Statutory deposits with Bank Negara Malaysia ("BNM")	**814,736**	688,096

The non-profit bearing statutory deposits are maintained with BNM in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009, the amount of which is determined at set percentages of total eligible liabilities.

14 PROPERTY AND EQUIPMENT

2019	Office furniture, fittings, equipment and renovations RM'000	Computer equipment RM'000	Motor vehicles RM'000	Capital work in progress RM'000	Total RM'000
Cost					
At 1 July	8,257	21,653	134	1,428	31,472
Additions	83	877	-	2,028	2,988
Reclassification/Transfer	994	1,562	-	(2,979)	(423)
Disposals/Write off	(2,258)	(911)	-	-	(3,169)
At 30 June	7,076	23,181	134	477	30,868
Accumulated depreciation					
At 1 July	5,518	8,442	28	-	13,988
Charge for the financial year	700	2,557	29	-	3,286
Disposals/Write off	(1,955)	(783)	-	-	(2,738)
At 30 June	4,263	10,216	57	-	14,536
Net book value as at 30 June	2,813	12,965	77	477	16,332

Notes to the Financial Statements

for the financial year ended 30 June 2019

14 PROPERTY AND EQUIPMENT (CONTINUED)

2018	Office furniture, fittings, equipment and renovations RM'000	Computer equipment RM'000	Motor vehicles RM'000	Capital work in progress RM'000	Total RM'000
Cost					
At 1 July	9,985	20,712	21	2,910	33,628
Additions	40	340	118	2,105	2,603
Reclassification/Transfer	860	2,616	-	(3,587)	(111)
Disposals/Write off	(2,628)	(2,015)	(5)	-	(4,648)
At 30 June	8,257	21,653	134	1,428	31,472
Accumulated depreciation					
At 1 July	7,229	8,054	20	-	15,303
Charge for the financial year	639	2,273	13	-	2,925
Disposals/Write off	(2,350)	(1,885)	(5)	-	(4,240)
At 30 June	5,518	8,442	28	-	13,988
Net book value as at 30 June	2,739	13,211	106	1,428	17,484

15 INTANGIBLE ASSETS

	2019 RM'000	2018 RM'000
Computer Software		
Cost		
At 1 July	**7,608**	9,015
Additions	**13**	22
Reclassification/Transfer	**423**	-
Disposals/Write off	**(20)**	(1,429)
At 30 June	**8,024**	7,608
Accumulated amortisation		
At 1 July	**6,411**	6,974
Amortisation during the financial year	**803**	852
Disposals/Write off	**(18)**	(1,415)
At 30 June	**7,196**	6,411
Net book value as at 30 June	**828**	1,197

Notes to the Financial Statements

for the financial year ended 30 June 2019

16 DEFERRED TAXATION

Deferred income 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 authority. The following amount determined after appropriate set off, are shown in statement of financial position:

	2019 RM'000	2018 RM'000
Deferred tax assets	**21,879**	5,754
Deferred tax liabilities	**(11,655)**	(2,480)
	10,224	3,274

The analysis of deferred tax assets and deferred tax liabilities after the appropriate set off is as follows:

	2019 RM'000	2018 RM'000
Deferred tax assets/(liabilities)		
- To be recovered within 12 months	**21,615**	2,248
- To be recovered after more than 12 months	**(11,391)**	1,026
	10,224	3,274

The movements in deferred tax assets and liabilities during the financial year are as follows:

	Note	Property and equipment RM'000	Financial investments at FVOCI/ available--for-sale RM'000	Expected credit losses RM'000	Provision RM'000	Total RM'000
Deferred tax assets/(liabilities)						
2019						
At 1 July		**(2,479)**	**3,448**	**-**	**2,305**	**3,274**
Effect of adopting MFRS 9	52	**-**	**(1,336)**	**-**	**-**	**(1,336)**
At 1 July, as restated		**(2,479)**	**2,112**	**-**	**2,305**	**1,938**
Charged to statement of income	37	**333**	**-**	**19,826**	**(252)**	**19,907**
Charged to equity	41	**-**	**(11,621)**	**-**	**-**	**(11,621)**
At 30 June		**(2,146)**	**(9,509)**	**19,826**	**2,053**	**10,224**
2018						
At 1 July		(2,992)	(76)	-	2,005	(1,063)
Credited to statement of income	37	513	-	-	300	813
Credited to equity	41	-	3,524	-	-	3,524
At 30 June		(2,479)	3,448	-	2,305	3,274

17 DEPOSITS FROM CUSTOMERS

(i) By type of deposit and Shariah contract

	2019 RM'000	2018 RM'000
Amortised cost		
Savings Deposit		
Wadiah	**-**	203
Commodity Murabahah (via Tawarruq arrangement)	**2,997,547**	2,864,056
	2,997,547	2,864,259
Demand Deposit		
Wadiah	**-**	471,245
Commodity Murabahah (via Tawarruq arrangement)	**2,861,566**	2,674,678
	2,861,566	3,145,923
Term Deposit		
Commodity Murabahah (via Tawarruq arrangement)	**18,833,227**	15,386,723
General investment deposits		
Mudarabah	**60,198**	65,186
Negotiable islamic debt certificate		
Bai' Bithaman Ajil	**1,524,757**	1,497,356
Short-term corporate deposits		
Commodity Murabahah (via Tawarruq arrangement)	**3,029,896**	-
Wadiah	**-**	2,263,262
Others		
Commodity Murabahah (via Tawarruq arrangement)	**154,621**	132,118
	23,602,699	19,344,645
	29,461,812	25,354,827
At fair value through profit and loss		
Callable range accrual notes, at cost	**347,127**	1,201,737
Fair value changes arising from designation at fair value through profit or loss*	**(334)**	(53,158)
Commodity Murabahah (via Tawarruq arrangement)/Bai' Bithaman Ajil	**346,793**	1,148,579
	29,808,605	26,503,406

* The Bank has issued structured deposits (Callable Range Accrual Notes) which are linked to profit rate derivatives and designated them at fair value through profit or loss. This designation is permitted under MFRS 9 as it significantly reduces accounting mismatch. These instruments are managed by the Bank on the basis of fair value and include terms that have substantive derivative characteristic.

The fair value changes of the structured deposits which are link to profit rate derivatives that are attributable to the changes in own credit risk are not significant.

The carrying amount of the structured deposits of the Bank is RM1,793,000 (2018: RM46,421,000 lower), higher than the contractual amount of maturity.

Notes to the Financial Statements

for the financial year ended 30 June 2019

17 DEPOSITS FROM CUSTOMERS (CONTINUED)

(ii) The maturity structure of negotiable islamic debt certificate, general investment deposits, Commodity Murabahah term deposits and short-term corporate deposits are as follows:

	2019 RM'000	2018 RM'000
Due within:		
- six months	**20,637,375**	15,084,407
- six months to one year	**2,627,386**	3,915,051
- one year to five years	**183,317**	213,069
	23,448,078	19,212,527

(iii) The deposits are sourced from the following customers:

	2019 RM'000	2018 RM'000
Government and statutory bodies	**3,168,742**	1,960,093
Business enterprises	**14,813,353**	14,056,426
Individuals	**11,033,260**	10,112,503
Others	**793,250**	374,384
	29,808,605	26,503,406

18 INVESTMENT ACCOUNT OF CUSTOMERS

	2019 RM'000	2018 RM'000
Unrestricted investment account		
Mudarabah with maturity	**2,235**	-

The underlying assets for the investments are house financing, personal financing and other term financing.

Notes to the Financial Statements

for the financial year ended 30 June 2019

19 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019 RM'000	2018 RM'000
Qard		
Licensed banks	**99,159**	-
Licensed Islamic banks	**301,538**	-
	400,697	-
Commodity Murabahah (via Tawarruq arrangement)		
Licensed Islamic banks	**58,032**	-
Other financial Institutions	**200,584**	-
	258,616	-
Wadiah		
Licensed banks	**-**	959,027
Licensed Islamic banks	**-**	42,436
	659,313	1,001,463
The maturity structure of deposits and placement of banks and other financial institutions:		
- Less than one year	**659,313**	1,001,463

20 ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS

	2019 RM'000	2018 RM'000
Islamic derivatives assets at fair value through profit or loss		
- Islamic profit rate swaps	**23,521**	5,532
- Foreign exchange related contracts	**6,123**	7,942
Islamic derivative financial instruments assets	**29,644**	13,474
Islamic derivatives liabilities at fair value through profit or loss		
- Islamic profit rate swaps	**(9,946)**	(34,554)
- Foreign exchange related contracts	**(5,503)**	(5,666)
- Swaption	**(12,563)**	(23,938)
Islamic derivative financial instruments liabilities	**(28,012)**	(64,158)

21 RECOURSE OBLIGATION ON FINANCING SOLD TO CAGAMAS BERHAD

This represents the proceed received from housing financing sold directly to Cagamas Berhad with recourse to the Bank. Under this agreement, the Bank undertake to administer the financing on behalf of Cagamas Berhad and to buy-back any financing which are regarded as defective based on prudential criteria set by Cagamas Berhad. Such financing transactions and the obligation to buy back the financing are reflected as liability on Statement of Financial Position. These financial liabilities are stated at amortised cost.

Notes to the Financial Statements
for the financial year ended 30 June 2019

22 OTHER LIABILITIES

	2019 RM'000	2018 RM'000
Amount due to holding company	**12,600**	42,152
Expected credit losses of financial guarantee contracts (a)	**811**	-
Treasury and cheque clearing	**386,221**	-
Financing advance payment	**659,925**	643,427
Provision for zakat	**350**	350
Provision for bonus and staff related expenses	**4,832**	4,493
Sundry creditors and accruals	**29,671**	27,392
Other accruals and payables	**29,677**	12,488
	1,124,087	730,302

(a) Movement in expected credit losses of financial guarantee contracts is as follows:

	Note	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total ECL RM'000
At 1 July					-
Effect of adopting MFRS 9	52				172
At 1 July, as restated		157	15	-	172
New financial assets originated		123	2	-	125
Financial assets derecognised		(2)	-	-	(2)
Changes due to change in credit risk		527	(11)	-	516
At 30 June		805	6	-	811

23 TIER II SUBORDINATED SUKUK IJARAH

	2019 RM'000	2018 RM'000
RM400.0 million Tier II subordinated sukuk, at par	**-**	400,000
Add: Profit payable	**-**	684
	-	400,684
Less: Unamortised discounts	**-**	(54)
	-	400,630

23 TIER II SUBORDINATED SUKUK IJARAH (CONTINUED)

Securities Commission Malaysia had on 6 May 2014 approved and authorised HLISB proposed Subordinated Sukuk Ijarah Programme of up to RM1.0 billion in nominal value.

The proceeds from the Subordinated Sukuk Ijarah Programme is for working capital, general banking and other corporate purpose and/or if required, the refinancing of any existing financing obligations of the issuer and/or any existing Subordinated Sukuk Ijarah issued under the Subordinated Sukuk Ijarah Programme. For the avoidance of doubt, the utilisation of proceeds shall be for Shariah-compliant purpose only.

On 17 June 2014, the Bank had completed the first issuance of RM400.0 million nominal value of Tier II Subordinated Sukuk Ijarah (Subordinated Sukuk Ijarah) out of its RM1.0 billion Tier II Subordinated Sukuk Ijarah Programme. The RM400.0 million Subordinated Sukuk Ijarah will mature in 2024 and is callable at end of year 5 and on each subsequent coupon payment dates thereafter subject to approval of BNM. The Subordinated Sukuk Ijarah which bears profit of 4.80% per annum is payable semi-annually in arrears.

The Subordinated Sukuk Ijarah constitute direct, unconditional, subordinated and unsecured obligations of HLISB and subordinated in right and priority of payment, to the extend and in the manner provided in the Subordinated Sukuk Ijarah, ranking pari passu among themselves. The Subordinated Sukuk Ijarah is subordinated in right of payment to all deposit liabilities and other liabilities of HLISB, except in each case to those liabilities which by their terms rank equally in right of payment with or are subordinated to the Subordinated Sukuk Ijarah. The Subordinated Sukuk Ijarah may be written-off, either fully or partially at the discretion of BNM and the Malaysia Deposit Insurance Corporation (““PIDM””) at the point of non-viability as determined by BNM and PIDM. The Subordinated Sukuk Ijarah qualify as Tier II capital for the purpose of determining the capital adequacy ratio of HLISB.

On 17 June 2019, the Bank fully redeemed the Tier II Subordinated Sukuk Ijarah of RM400.0 million on its the first call date at end of year 5.

24 TIER II SUBORDINATED SUKUK MURABAHAH

	2019 RM’000	2018 RM’000
RM400.0 million Tier II subordinated sukuk Murabahah at par	**400,000**	-
Add: Profit payable	**788**	-
	400,788	-
Less: Unamortised prepaid expenses	**(30)**	-
	400,758	-

On 14 June 2019, the Bank issued a nominal value RM 400.0 million perpetual Tier II subordinated Sukuk Murabahah under the RM2.0 billion Subordinated Sukuk Programme of which was fully subscribed by its holding company, Hong Leong Bank Berhad (“HLB”). The subordinated Sukuk Murabahah, which qualify as Tier II capital for the Bank, carry a distribution rate of 4.23% per annum. The subordinated Sukuk Murabahah is perpetual with Issuer’s first optional redemption on 14 June 2024 at the end of year 5.

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25 MULTI-CURRENCY ADDITIONAL TIER I SUBORDINATED SUKUK WAKALAH

	2019 RM'000	2018 RM'000
RM400.0 million Multi-currency Additional Tier I subordinated Sukuk Wakalah at par	**400,000**	400,000
Add: Profit payable	**1,799**	1,799
	401,799	401,799
Less: Unamortised prepaid expenses	**(566)**	(732)
	401,233	401,067

On 30 November 2017, the Bank issued a nominal value RM400.0 million perpetual Multi-currency Additional Tier I subordinated Sukuk Wakalah. The subordinated Sukuk Wakalah of which was fully subscribed by its holding company, HLB, which qualify as Additional Tier I capital for the Bank, carry a distribution rate of 5.13% per annum. The subordinated Sukuk Wakalah is perpetual with Issuer's call option to redeem at the end of year 5.

26 SHARE CAPITAL

	2019 RM'000	2018 RM'000
Ordinary shares issued and fully paid:		
As at beginning/end of the financial year	**700,000**	700,000

27 RESERVES

	Note	2019 RM'000	2018 RM'000
Retained profits	(a)	**1,730,453**	1,467,854
Regulatory reserve	(b)	**130,228**	97,901
Fair value reserve	(c)	**30,163**	(13,350)
		160,391	84,551
		1,890,844	1,552,405

27 RESERVES (CONTINUED)

(a) The Bank can distribute dividends out of its entire retained earnings under the single-tier system.

(b) Regulatory reserves represent the Bank's compliance with BNM's Revised Policy Documents on Financial Reporting and Financial Reporting for Islamic Banking Institutions with effect from 1 July 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 July 2018, the Bank complies with BNM's Policy on Classification and Impairment Provisions for Financing, to maintain, in aggregate, the collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding financing, net of individual impairment allowances.

On 2 February 2018, BNM issued the revised policy document on Financial Reporting which prescribe the regulatory reserves to be maintained by banking institutions. With effect from 1 January 2018, 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.

The financial effects of the adoption of the revised policy documents are presented in Note 52.

(c) Movement of the fair value reserve is as follows:

	Note	2019 RM'000	2018 RM'000
At 1 July		**(13,350)**	(2,191)
Effect of adopting MFRS 9	52	**7,996**	-
At 1 July, as restated		**(5,354)**	(2,191)
Net gain from change in fair value		**47,138**	(14,462)
Reclassification adjustment to net profit on disposal and impairment		**-**	(221)
Deferred taxation	16	**(11,621)**	3,524
Net change in fair value reserve		**35,517**	(11,159)
At 30 June		**30,163**	(13,350)

28 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	2019 RM'000	2018 RM'000
Income derived from investment of:		
(i) Term deposits/general investment deposits	**996,390**	839,566
(ii) Other deposits	**458,656**	440,428
	1,455,046	1,279,994

Notes to the Financial Statements

for the financial year ended 30 June 2019

28 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS (CONTINUED)

(i) Income derived from investment of term deposits/general investment deposits

	2019 RM'000	2018 RM'000
Finance income and hibah		
Financing and advances	**776,487**	664,166
Financial assets at fair value through profit or loss	**5,742**	-
Financial investments at fair value through other comprehensive income	**78,133**	-
Financial investments at amortised cost	**95,017**	-
Financial assets held-for-trading	**-**	5,391
Financial investments available-for-sale	**-**	66,901
Financial investments held-to-maturity	**-**	64,641
Money at call and deposits with financial institutions	**5,330**	8,402
	960,709	809,501
Accretion of discounts less amortisation of premium	**17,515**	28,440
Total finance income and hibah	**978,224**	837,941
Other operating income		
Net gain on financial assets at fair value through profit or loss		
- Realised	**3,551**	-
- Unrealised	**2,100**	-
Net realised gain on financial investments at fair value through other comprehensive income	**10,711**	-
Net realised gain on financial investments at amortised cost	**1,804**	-
Net loss on financial assets held-for-trading		
- Realised	**-**	(257)
- Unrealised	**-**	(659)
Net realised gain on financial investments available-for-sale	**-**	2,541
	18,166	1,625
	996,390	839,566
Of which:		
Financing income earned on impaired financing and advances	**978**	7,284

28 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS (CONTINUED)

(ii) Income derived from investment of other deposits

	2019 RM'000	2018 RM'000
Finance income and hibah		
Financing and advances	**357,431**	348,415
Financial assets at fair value through profit or loss	**2,643**	-
Financial investments at fair value through other comprehensive income	**35,966**	-
Financial investments at amortised cost	**43,738**	-
Financial assets held-for-trading	**-**	2,828
Financial investments available-for-sale	**-**	35,096
Financial investments held-to-maturity	**-**	33,910
Money at call and deposits with financial institutions	**2,453**	4,408
	442,231	424,657
Accretion of discounts less amortisation of premium	**8,062**	14,919
Total finance income and hibah	**450,293**	439,576
Other operating income		
Net gain on financial assets at fair value through profit or loss		
- Realised	**1,635**	-
- Unrealised	**967**	-
Net realised gain on financial investment at fair value through other comprehensive income	**4,930**	-
Net realised gain on financial investments at amortised cost	**831**	-
Net loss on financial assets held-for-trading		
- Realised	**-**	(135)
- Unrealised	**-**	(346)
Net realised gain on financial investments available-for-sale	**-**	1,333
	8,363	852
	458,656	440,428
Of which:		
Financing income earned on impaired financing and advances	**450**	3,821

Notes to the Financial Statements

for the financial year ended 30 June 2019

29 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	2019 RM'000	2018 RM'000
Finance income and hibah		
Financing and advances	**98,602**	76,216
Financial assets at fair value through profit or loss	**729**	-
Financial investments at fair value through other comprehensive income	**9,922**	-
Financial investments at amortised cost	**12,065**	-
Financial assets held-for-trading	**-**	619
Financial investments available-for-sale	**-**	7,677
Financial investments held-to-maturity	**-**	7,418
Money at call and deposits with financial institutions	**677**	964
	121,995	92,894
Accretion of discounts less amortisation of premium	**2,224**	3,264
Total finance income and hibah	**124,219**	96,158
Other operating income		
Fee and commission:		
- Commission	**22,034**	9,357
- Service charges and fees	**8,608**	9,442
- Guarantee fees	**2,741**	1,956
- Other fees income	**6,354**	8,032
Net gain on financial assets at fair value through profit or loss		
- Realised	**451**	-
- Unrealised	**267**	-
Net realised gain on financial investment at fair value through other comprehensive income	**1,360**	-
Net realised gain on financial investments at amortised cost	**229**	-
Net loss on financial assets held-for-trading		
- Realised	**-**	(30)
- Unrealised	**-**	(75)
Net realised gain on financial investments available-for-sale	**-**	291
Net gain from foreign exchange transactions	**7,997**	10,341
Amortisation of fair value changes arising from terminated fair value hedges	**12**	28
Net gain/(loss) arising from Islamic derivative financial instruments		
- Realised	**414**	(128)
- Unrealised	**1,147**	1,174
Other income	**1,139**	1,196
	52,753	41,584
	176,972	137,742
Of which:		
Financing income earned on impaired financing and advances	**124**	836

30 INCOME DERIVED FROM INVESTMENT OF INVESTMENT ACCOUNT OF CUSTOMER

	2019 RM'000	2018 RM'000
Financing and advances income	**12**	-

31 ALLOWANCE FOR IMPAIRMENT ON FINANCING AND ADVANCES

	2019 RM'000	2018 RM'000
Allowance made for impairment losses on financing and advances		
- Expected credit losses*	**76,812**	-
- Collective assessment allowance	**-**	74,481
- Individual assessment allowance	**-**	9,378
Impaired financing and advances:		
- Recovered from bad debt written off	**(24,260)**	(26,401)
- Written off	**2,671**	3,727
	55,223	61,185

* This comprises the expected credit losses on financing and advances and financial guarantee contracts.

32 ALLOWANCE FOR IMPAIRMENT ON FINANCIAL INVESTMENT AND OTHER ASSETS

	2019 RM'000	2018 RM'000
Expected credit losses on:		
- Debt instruments at fair value through other comprehensive income	**21**	-
- Cash and short term funds	**(1)**	-
	20	-

Notes to the Financial Statements

for the financial year ended 30 June 2019

33 INCOME ATTRIBUTABLE TO THE DEPOSITORS

	2019 RM'000	2018 RM'000
Deposits from customers:		
- Mudarabah	**1,919**	2,281
- Wadiah	**64,616**	139,448
- Commodity Murabahah (via Tawarruq arrangement)	**797,947**	582,997
Deposits and placements of banks and other financial institutions:		
- Qard	**5,116**	-
- Commodity Murabahah (via Tawarruq arrangement)	**11,714**	-
- Wadiah	**2,844**	15,600
Recourse obligation on financing sold to Cagamas Berhad	**637**	-
Tier II subordinated Sukuk Ijarah	**18,487**	19,275
Tier II subordinated Sukuk Murabahah	**788**	-
Multi-currency Additional Tier I subordinated Sukuk Wakalah	**20,686**	12,071
	924,754	771,672

34 INCOME ATTRIBUTABLE TO THE DEPOSITORS ON INVESTMENT ACCOUNT OF CUSTOMERS

	2019 RM'000	2018 RM'000
Unrestricted investment account of customer Mudarabah with maturity	**7**	-

(i) Movement in the investment account of customers

	2019 RM'000	2018 RM'000
Mudarabah		
Unrestricted Investment Account		
At 1 July	**-**	-
Funding inflows/(outflows)		
New placement during the year	**2,345**	-
Redemption during the year	**(116)**	-
	2,229	-
Profit payable to Investment Account Holder	**6**	-
At 30 June	**2,235**	-
Investment Asset		
House financing	**843**	-
Term financing	**834**	-
Personal financing	**273**	-
High quality liquid assets ("HQLA")	**279**	-
Total investment	**2,229**	-

34 INCOME ATTRIBUTABLE TO THE DEPOSITORS ON INVESTMENT ACCOUNT OF CUSTOMERS (CONTINUED)

(ii) Profit Sharing Ratio ("PSR") and Rate of Return ("ROR"):

	2019	
	Average PSR %	Average ROR %
Unrestricted investment accounts:		
- 3 Months	**82**	**3.38**
- 6 Months	**86**	**3.40**

35 OVERHEADS AND OTHER EXPENDITURES

	Note	2019 RM'000	2018 RM'000
Personnel costs	(i)	**30,850**	29,806
Establishment costs	(ii)	**13,229**	12,042
Marketing expenses	(iii)	**4,849**	3,413
Administration and general expenses	(iv)	**163,098**	161,834
		212,026	207,095

(i) Personnel costs comprise the followings:

	2019 RM'000	2018 RM'000
Salaries, bonus and allowances	**28,532**	26,799
Medical expenses	**769**	676
Training and convention expenses	**855**	1,574
Staff welfare	**16**	160
Other employees benefits	**678**	597
	30,850	29,806

(ii) Establishment costs comprise the followings:

	2019 RM'000	2018 RM'000
Depreciation of property and equipment	**3,286**	2,925
Amortisation of intangible assets	**803**	852
Electricity, water and sewerage	**462**	393
Rental of premises	**2,282**	2,522
Hire of plant and machinery	**618**	618
Information technology expenses	**4,097**	3,207
Security services	**834**	845
Others	**847**	680
	13,229	12,042

Notes to the Financial Statements

for the financial year ended 30 June 2019

35 OVERHEADS AND OTHER EXPENDITURES (CONTINUED)

(iii) Marketing expenses comprise the followings:

	2019 RM'000	2018 RM'000
Advertisement and publicity	**2,250**	2,911
Others	**2,599**	502
	4,849	3,413

(iv) Administration and general expenses comprise the followings:

	2019 RM'000	2018 RM'000
Teletransmission expenses	**127**	140
Stationery and printing expenses	**506**	640
Professional fees	**2,133**	2,337
Insurance fees	**5,022**	4,972
Stamp, postage and courier	**277**	247
Travelling and transport expenses	**145**	115
Registration and license fees	**292**	312
Brokerage and commission	**1,801**	1,697
Shared service cost	**150,008**	145,855
Others	**2,787**	5,519
	163,098	161,834

The above expenditure includes the following statutory disclosures:

	2019 RM'000	2018 RM'000
Directors' remuneration (Note 36)	**515**	465
Auditors' remuneration*		
- statutory audit	**286**	184
- regulatory related fees	**235**	276
- tax compliance	**30**	28
- other services	**-**	28

* There was no indemnity given to or insurance effected for the auditors of the Bank during the financial year.

36 CHIEF EXECUTIVE OFFICER ("CEO"), DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION

Forms of remuneration in aggregate for CEO, all Directors and Shariah Committee members for the financial year are as follows:

2019	Salaries, bonuses, allowances and defined contribution retirement plan RM'000	Director fees RM'000	Estimated money value for benefits-in-kind RM'000	Total RM'000
CEO				
Encik Jasani Abdullah	1,493	-	21	1,514
Non-executive Directors				
YBhg Datuk Dr Md Hamzah bin Md Kassim	15	168	-	183
Mr Kwek Leng Hai	-	-	-	-
Encik Alan Hamzah Sendut	16	158	-	174
Mr Domenic Fuda	-	-	-	-
Puan Rowina Ghazali Seth	14	144	-	158
Directors' remuneration	45#	470	-	515
Shariah Committee members' remuneration:				
- fees	-	-	-	246
Total CEO, Directors' and Shariah Committee members remuneration	1,538	470	21	2,275

The movement and details of the Directors of the Bank in office and interests in shares and share options are reported in the Directors' report.

Director meeting attendance allowance.

Note: The Directors' Remuneration in the current financial year represents remuneration for the Bank to comply with the requirements of the Companies Act 2016. During the financial year, Directors and Officers of the Bank are covered under the Directors' & Officers' Liability Insurance in respect of liabilities arising from acts committed in their capacity as, inter alia, Directors or Officers of the Bank subject to the terms of the policy. The total amount of Directors' & Officers' Liability Insurance effected for the Directors & Officers of the penultimate holding company was RM10.0 million. The total amount of premium paid for the Directors' & Officers' Liability Insurance by Hong Leong Financial Group and the Bank was RM67,688 and RM6,802 respectively.

36 CHIEF EXECUTIVE OFFICER ("CEO"), DIRECTORS AND SHARIAH COMMITTEE MEMBERS' REMUNERATION (CONTINUED)

Forms of remuneration in aggregate for CEO, all Directors and Shariah Committee members for the financial year are as follows: (continued)

2018	Salaries and bonuses and defined contribution retirement plan RM'000	Director fees RM'000	Estimated money value for benefits-in-kind RM'000	Total RM'000
CEO and Executive Director				
Encik Jasani Abdullah	1,391	-	20	1,411
Non-executive Directors				
YBhg Datuk Dr Md Hamzah bin Md Kassim	15	168	-	183
Mr Kwek Leng Hai	-	-	-	-
Encik Alan Hamzah Sendut	15	158	-	173
Mr Domenic Fuda	-	-	-	-
Puan Rowina Ghazali Seth	10	99	-	109
Directors' remuneration	40#	425	-	465
Shariah Committee members' remuneration:				
- fees	-	-	-	246
Total CEO, Directors' and Shariah Committee members remuneration	1,431	425	20	2,122

Director meeting attendance allowance.

Note: The Directors' Remuneration in the current financial year represents remuneration for the Bank to comply with the requirements of the Companies Act 2016. During the financial year, Directors and Officers of the Bank are covered under the Directors' & Officers' Liability Insurance in respect of liabilities arising from acts committed in their capacity as, inter alia, Directors or Officers of the Bank subject to the terms of the policy. The total amount of Directors' & Officers' Liability Insurance effected for the Directors & Officers of the penultimate holding company was RM10.0 million. The total amount of premium paid for the Directors' & Officers' Liability Insurance by Hong Leong Financial Group was RM67,688.

37 TAXATION

	Note	2019 RM'000	2018 RM'000
Malaysian income tax:			
- current year		**131,303**	95,782
- under/(over) accrual in prior years		**(4,904)**	403
Deferred taxation	16	**(19,907)**	(813)
		106,492	95,372

The effective tax rate for the Bank differs from the statutory rate of taxation due to:

	2019 RM'000	2018 RM'000
Profit after zakat before taxation	**439,650**	377,434
Tax calculated at a rate of 24%	**105,516**	90,584
Tax effects of:		
- expenses not deductible for tax purposes	**5,880**	4,385
- (over)/under accrual in prior years	**(4,904)**	403
Taxation	**106,492**	95,372

38 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit after taxation by the weighted average number of ordinary shares in issue during the financial year.

	2019 RM'000	2018 RM'000
Net profit for the financial year	**333,158**	282,062
Weighted average number of ordinary shares in issue ('000)	**700,000**	700,000
Basic earnings per share (sen)	**47.59**	40.29

Notes to the Financial Statements

for the financial year ended 30 June 2019

39 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related parties and relationships

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

Related parties	Relationship
Hong Leong Company (Malaysia) Berhad	Ultimate holding company
Hong Leong Share Registration Services Sdn Bhd, HLCM Capital Sdn Bhd, Hong Leong Fund Management Sdn Bhd and HL Management Co Sdn Bhd	Subsidiary companies of ultimate holding company
Hong Leong Financial Group Berhad	Penultimate holding company
Subsidiary companies of Hong Leong Financial Group Berhad as disclosed in its financial statements	Subsidiary companies of penultimate holding company
Hong Leong Bank Berhad ('HLB')	Holding company
Subsidiary and associated companies of Hong Leong Bank Berhad or disclosed in its financial statements	Subsidiary and associated companies of holding company
Hong Leong Industries Berhad and its subsidiary and associated companies as disclosed in its financial statements	Subsidiary and associated companies of penultimate holding company
Hume Industries (Malaysia) Berhad and its subsidiary and associated companies as disclosed in its financial statements	Subsidiary and associated companies of ultimate holding company
Guoco Group Limited and its subsidiary and associated companies as disclosed in its financial statements	Subsidiary and associated companies of ultimate holding company
GuocoLand (Malaysia) Berhad and its subsidiary and associated companies as disclosed in its financial statements	Subsidiary and associated companies of ultimate holding company
Key management personnel	The key management personnel of the Bank consists of all Directors of the Bank.
Related parties of key management personnel (deemed as related to the Bank)	(i) Close family members and dependents of key management (ii) Entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

39 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Related party transactions and balances

	Holding company RM'000	Other related companies RM'000	Key management personnel RM'000
2019			
Income			
Commission on Group product/services sold	-	4,873	-
***Expenditure**			
Rental and maintenance	-	1,558	-
Insurance	-	824	-
Profit paid on deposits			
- current accounts and term deposits	-	-	4
- Special/General investment account	-	150	-
Profit paid on placements	9,295	-	-
Profit paid on negotiable Islamic debt certificate	2,798	-	-
Shared service costs	150,008	-	-
Dividend paid	20,020	-	-
Others miscellaneous expenses	29	186	-
	182,150	2,718	4
Amounts due from			
Others	-	388	-
Derivative asset	13,838	-	-
	13,838	388	-
Amounts due to			
Current account and term deposit	-	11,830	267
Interbank placement	99,159	-	-
Derivative liabilities	22,187	-	-
Intercompany	12,600	-	-
	133,946	11,830	267
Commitments and Contingencies			
Derivative related contracts	1,651,031	-	-

* Pursuant to requirements as set out in Bank Negara Malaysia's ("BNM") circular dated 28 March 2018 on Standards on Intercompany Charges paid/payable to Foreign Shareholders/Related Entities, the intercompany payments by the Bank are primarily transacted with related parties domiciled in Malaysia.

Notes to the Financial Statements

for the financial year ended 30 June 2019

39 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Related party transactions and balances (continued)

	Holding company RM'000	Other related companies RM'000	Key management personnel RM'000
2018			
Income			
Commission on Group product/services sold	-	4,745	-
***Expenditure**			
Rental and maintenance	-	1,653	-
Insurance	-	265	-
Profit paid on deposits			
- current accounts and term deposits	-	-	1
- Special/General investment account	-	60	-
Profit paid on placements	9,253	-	-
Profit paid on negotiable Islamic debt certificate	82	-	-
Income attributable to Tier 2 Subordinated Sukuk Ijarah	-	984	-
Shared service costs	140,131	-	-
Management fee	-	4	-
Dividend paid	43,400	-	-
Others	13	274	-
	192,879	3,240	1
Amounts due from			
Others	-	388	-
Derivative asset	1,888	-	-
	1,888	388	-
Amounts due to			
Current account	-	10,135	129
Interbank placement	959,027	-	-
Tier II Subordinated Sukuk Ijarah	-	20,569	-
Derivative liabilities	60,786	-	-
Intercompany	42,152	-	-
	1,061,965	30,704	129
Commitments and Contingencies			
Derivative related contracts	2,975,770	-	-

* Pursuant to requirements as set out in Bank Negara Malaysia's ("BNM") circular dated 28 March 2018 on Standards on Intercompany Charges paid/payable to Foreign Shareholders/Related Entities, the intercompany payments by the Bank are primarily transacted with related parties domiciled in Malaysia.

Notes to the Financial Statements

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39 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(c) Credit transactions and exposures with connected parties

Credit exposures with connected parties as per BNM's revised 'Guidelines on Credit Transactions and Exposures with Connected Parties' which became effective on 1 January 2008 are as follows:

	2019 RM'000	2018 RM'000
Aggregate value of outstanding credit exposures with connected parties	**22,161**	22,792
Percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	**0.08%**	0.09%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	**0.00%**	0.00%

40 DIVIDENDS

	2019		2018	
	Gross dividend per share sen	Amount of dividends net of tax RM'000	Gross dividend per share sen	Amount of dividends net of tax RM'000
Interim single tier dividend paid				
- for the financial year ended 30 Jun	**2.86**	**20,020**	6.20	43,400

No final dividend will be declared in respect of the financial year ended 30 June 2019.

41 INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

	Before tax RM'000	Tax benefits/ expense RM'000	Net of tax amount RM'000
2019			
Financial investments at fair value through other comprehensive income:			
- net fair value gain/(loss)	**47,138**	**(11,621)**	**35,517**
2018			
Financial investments available-for-sale:			
- net fair value gain/(loss)	(14,683)	3,524	(11,159)

Notes to the Financial Statements

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42 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. These commitments and contingencies are also not secured over the assets of the Bank.

The notional amounts of the commitments and contingencies constitute the following:

	2019 RM'000	2018 RM'000
Direct credit substitutes*	**50,000**	50,000
Certain transaction-related contingent items	**167,478**	77,681
Short-term self-liquidating trade-related contingencies	**17,978**	15,463
Irrevocable commitments to extend credit		
- Maturity less than one year	**3,243,442**	1,788,286
- Maturity more than one year	**4,894,769**	3,869,212
Foreign exchange related contract^		
- Less than one year	**1,634,838**	857,616
Profit rate related contracts^		
- Less than one year	**1,000,000**	500,000
- One year to less than five years	**1,015,000**	2,165,000
- Five years and above	**530,000**	1,230,000
	12,553,505	10,553,258

* Included in direct credit substitutes above are financial guarantee contracts of RM50,000,000 (2018: RM50,000,000), of which fair value at the time of issuance is zero.

^ These derivatives are revalued at gross position basis and the unrealised gains or losses have been reflected in Note 20 to the financial statements as derivatives assets or derivatives liabilities.

43 CAPITAL COMMITMENTS

Capital expenditure approved by Directors but not provided for in the financial statements are as follows:

	2019 RM'000	2018 RM'000
Authorised and contracted for	**477**	1,696
Authorised but not contracted for	**62**	167
	539	1,863

The capital commitments are in respect of property and equipment and intangible assets.

44 LEASE COMMITMENTS

The Bank has lease commitments in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the future minimum lease payments, under non-cancellable operating lease commitment are as follows:

	2019 RM'000	2018 RM'000
Not later than one year	**772**	772

45 HOLDING, PENULTIMATE AND ULTIMATE HOLDING COMPANIES

The holding, penultimate and ultimate holding companies are Hong Leong Bank Berhad, Hong Leong Financial Group Berhad and Hong Leong Company (Malaysia) Berhad respectively. The companies are incorporated in Malaysia.

46 FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

Overview and organisation

Risk Management

The Bank has implemented a risk management framework with the objective to ensure the overall financial soundness and stability of the Bank's business operations. The Bank's risk management framework outlines the overall governance structure, aspiration, values and risk management strategies that balances between risk profiles and returns objectives. Appropriate methodologies and measurements have been developed to manage uncertainties such that deviations from intended strategic objectives are closely monitored and kept within tolerable levels.

From a governance perspective, the Board has the overall responsibility to define the Bank's risk appetite and ensure that a robust risk management and compliance culture prevails. The Board is assisted by the Board Audit Risk Management Committee ("BARMC") in approving the Bank's risk management framework as well as the attendant capital management and planning policy, risk appetite statements, risk management strategies and risk policies.

Dedicated management level committees are established to oversee the development and the effectiveness of risk management policies, to review risk exposures and portfolio composition as well as to ensure appropriate infrastructures, resources and systems are put in place for effective risk management activities.

From the financial risk perspective, the BARMC is supported by the Group Risk Management ("GRM") function. The GRM function has been established to provide independent oversight on the adequacy, effectiveness and integrity of risk management practices at all levels within the Bank. The core functions of the GRM are to identify key and emerging risks for the Bank, to measure these risks, to manage the risk positions and to determine the optimum capital allocations. The Bank regularly reviews its risk management framework to reflect changes in markets, products, regulatory and emerging best market practice.

Notes to the Financial Statements
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46 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Credit Risk Management

Credit risk arises as a result of customers or counterparties not being able to or willing to fulfil their financial and contractual obligations as and when they fall due. These obligations arise from lending, trade finance and other financing activities undertaken by the Bank.

The Bank has established a credit risk management framework to ensure that exposure to credit risk is kept within the Bank's financial capacity to withstand potential future losses. Financing activities are guided by the internal credit policies and guidelines that are reviewed and concurred by the Management Credit Committee ("MCC"), endorsed by the Credit Supervisory Committee ("CSC") and the BARMC, and approved by the Board. These policies are subject to periodically review and enhancements, at least on an annual basis.

Credit portfolio strategies and significant exposures are reviewed by both BARMC and the Board. These portfolio strategies are designed to achieve a desired portfolio risk tolerance level and sector distribution within the Bank's defined policies/parameters.

The Bank's credit approving process encompasses pre-approval evaluation, approval and post-approval evaluation. While the business units are responsible for credit origination, the credit approving function rests mainly with the Credit Evaluation Departments, the MCC and the CSC, which are granted approving and discretionary authority and the various personnel based on their job function and designation.

For any new products, credit risk assessment also forms part of the new product sign-off processes to ensure that the new product complies with the appropriate risk policies and guidelines, prior to the introduction of the product.

The Bank's exposure to credit risk is mainly from its retail customers, small and medium enterprise ("SME"), commercial and corporate customers. The credit assessment for retail customers is managed on a portfolio basis and the risk scoring models and financing templates are designed to assess the credit worthiness and the likelihood of the obligors to pay their financing.

The SME, commercial and corporate customers are individually assessed and assigned with a credit rating, which is based on the assessment of relevant factors such as the customer's financial position, management expertise, industry outlook, types of facilities and collaterals offered.

46 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Credit Risk Management (continued)

Under the Basel II Standardised Approach, the Bank makes use of credit ratings assigned by credit rating agencies in its calculation of credit risk weighted assets. This is applicable for exposures to sovereigns, central banks, public sector entities, banking institutions, corporates as well as certain other specific portfolios.

The approved External Credit Assessment Institutions ("ECAI") ratings and the prescribed risk weights on the above stated asset classes are used in the computation of regulatory capital. An exposure would be deemed to have an external rating if the issuer or the issue has a rating provided by an ECAI. In cases where an exposure does not have an issuer or issue rating, the exposure shall be deemed unrated and shall be accorded a risk weight appropriate for unrated exposures in their respective exposure category.

The ECAI used by the Bank are Fitch Ratings, Moody's Investors Service and Standard & Poor's, Rating and Investment Inc ("R&I"), Malaysia Rating Corporation Berhad ("MARC") and Rating Agency Malaysia ("RAM"). ECAI ratings are mapped to a common credit quality grade as prescribed by BNM.

In addition, the Bank also conducts periodic stress testing of its credit portfolios to ascertain credit risk impact to capital under the relevant stress scenarios.

Market Risk Management

Market risk is the risk of financial loss arising from exposure to adverse changes in values of financial instruments caused by changes in market prices or rates, which include changes to profit rates.

The Bank adopts a systematic approach in managing such risks by types of instruments and nature of exposure. Market risk is primarily controlled via a series of cut-loss limits and potential loss limits, i.e. "Value at Risk" ("VaR"), set in accordance with the size of positions and risk tolerance appetites.

Portfolios held under the Bank's trading books are tracked using daily mark-to-market positions, which are compared against pre-set limits. The daily tracking of positions is supplemented by sensitivity analysis and stress tests, using VaR and other measurements.

Foreign exchange risks arising from adverse exchange rate movements, is managed by the setting of pre-set limits, matching of open positions against these pre-set limits and imposition of cut-loss mechanisms.

Profit rate risk is identified, measured and controlled through various types of limits. In addition, the Bank regularly reviews the profit rate outlook and develop strategies to protect the total net profit income from adverse changes in market rates. This applies to both profit rate risk exposure in the trading book and in the banking book. In managing the profit rate risk exposure in the banking book, the Bank adopts methodologies that measure exposure in both earnings at risk perspective and economic value or capital at risk perspective.

In addition, the Bank also conducts periodic stress testing of its respective portfolios to ascertain market risk under abnormal market conditions.

46 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Liquidity Risk Management

Liquidity risk is the risk of financial loss arising from the inability to fund increases in assets and/or meet obligations as they fall due. Financial obligations arise from the withdrawal of deposits, funding of financing committed and payment of liabilities. It is the Bank's policy to ensure there is adequate liquidity across all business units to sustain ongoing operations, as well as sufficient liquidity to fund asset growth and strategic opportunities.

Besides adhering to the Regulatory Liquidity Requirement, the Bank has put in place a robust and comprehensive liquidity risk management framework consisting of risk appetite, policies, triggers and controls which are reviewed and concurred by the Asset-Liability Committee ("ALCO"), endorsed by the BARMC and approved by the Board. The key elements of the framework cover proactive monitoring and management of cash flow, maintenance of high quality long-term and short-term marketable debt securities, diversification of funding base as well as maintained of a liquidity compliance buffer to meet any unexpected cash outflows.

The Bank has in place liquidity contingency funding plan and stress test programs to minimise the liquidity risk that may arise due to unforeseen adverse changes in the marketplace. Contingency funding plan sets out the crisis escalation process and the various strategies to be employed to preserve liquidity including an orderly communication channel during liquidity crisis scenarios. Liquidity stress tests are conducted regularly to ensure there is adequate liquidity contingency fund to meet the shortfalls during liquidity crisis scenarios.

(b) Market Risk

Market risk sensitivity assessment is based on the changes in key variables, such as profit rates and foreign currency rates, 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 assets and liabilities position of the Bank.

The scenarios used are simplified whereby it is assumed that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables. In reality, the Bank proactively seeks to ensure that the profit rate risk profile is managed to minimise losses and optimise net revenues.

Notes to the Financial Statements
for the financial year ended 30 June 2019

46 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market Risk (continued)

(i) Profit rate risk sensitivity analysis

The profit rate sensitivity results below shows the impact on profit after tax and equity of financial assets and financial liabilities bearing variable profit rates and fixed rate financial assets and financial liabilities carried at fair value.

2019	Increase/(Decrease) Impact on profit after tax RM'000	Increase/(Decrease) Impact on equity RM'000
Increase/(Decrease)		
+100 basis points ('bps')	**1,591**	**(69,102)**
-100 bps	**(1,591)**	**69,102**

2018	Increase/(Decrease) Impact on profit after tax RM'000	Increase/(Decrease) Impact on equity RM'000
Increase/(Decrease)		
+100 basis points ('bps')	10,342	(82,476)
-100 bps	(10,342)	82,476

(ii) Foreign currency risk sensitivity analysis

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on their financial position and cash flows.

The table below sets out the principal structure of foreign exchange exposures of the Bank:

	2019 RM'000	2018 RM'000
Asset/(Liability)		
United States Dollar ("USD")	**21,350**	(15,443)
Euro ("EUR")	**4,964**	3,652
Great Britain Pound ("GBP")	**5,291**	5,042
Singapore Dollar ("SGD")	**(1,457)**	958
Australian Dollar ("AUD")	**2,204**	1,592
Chinese Yuan Renminbi ("CNY")	**3,542**	768
Hong Kong Dollar ("HKD")	**966**	913
Others	**(260)**	(2)
	36,600	(2,520)

Notes to the Financial Statements

for the financial year ended 30 June 2019

46 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market Risk (continued)

(ii) Foreign currency risk sensitivity analysis (continued)

An analysis of the exposures to assess the impact of a one per cent change in the foreign currency exchange rates to the profit after tax are as follows:

	2019 RM'000	2018 RM'000
Increase/(Decrease)		
-1%		
United States Dollar ("USD")	**(162)**	117
Euro ("EUR")	**(38)**	(28)
Great Britain Pound ("GBP")	**(40)**	(38)
Singapore Dollar ("SGD")	**11**	(7)
Australian Dollar ("AUD")	**(17)**	(12)
Chinese Yuan Renminbi ("CNY")	**(27)**	(6)
Hong Kong Dollar ("HKD")	**(7)**	(7)
Others	**2**	-
	(278)	19
Increase/(Decrease)		
+1%		
United States Dollar ("USD")	**162**	(117)
Euro ("EUR")	**38**	28
Great Britain Pound ("GBP")	**40**	38
Singapore Dollar ("SGD")	**(11)**	7
Australian Dollar ("AUD")	**17**	12
Chinese Yuan Renminbi ("CNY")	**27**	6
Hong Kong Dollar ("HKD")	**7**	7
Others	**(2)**	-
	278	(19)

46 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

Profit rate risk

The tables below summarise the Bank's exposure to profit rate risks. Included in the tables are the Bank's financial assets and financial liabilities at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The net profit sensitivity gap for items not recognised in the statement of financial position represents the net notional amounts of all profit rate sensitive derivative financial instruments. As profit rates and yield curves change over time, the Bank may be exposed to loss in earnings due to the effects of profit rates on the structure of the statement of financial position. Sensitivity to profit rates arises from mismatches in the repricing dates, cash flows and other characteristics of the financial assets and their corresponding financial liabilities funding.

	Non-trading book							
2019 Financial assets	**Up to 1 month RM'000**	**1 to 3 months RM'000**	**3 to 12 months RM'000**	**1 to 5 years RM'000**	**Over 5 years RM'000**	**Non-profit rate sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
Cash and short-term funds	50,000	-	-	-	-	59,314	-	109,314
Financial assets at fair value through profit or loss	-	-	-	-	-	-	515,295	515,295
Financial investments at fair value through other comprehensive income	109,789	198,980	248,896	1,450,201	917,347	30,967	-	2,956,180
Financial investments at amortised cost	-	-	-	3,278,083	908,356	53,387	-	4,239,826
Financing and advances	21,378,965	2,676	58,584	2,153,788	2,245,998	-	-	25,840,011
- non impaired	21,377,481	2,372	57,118	2,143,631	2,161,322	-	-	25,741,924
- impaired^	1,484	304	1,466	10,157	84,676	-	-	98,087
Islamic derivative financial instruments	-	-	-	-	-	-	29,644	29,644
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	814,736	-	814,736
Other assets	-	-	-	-	-	599,985	-	599,985
Total financial assets	**2,538,754**	**201,656**	**307,480**	**6,882,072**	**4,071,701**	**1,558,389**	**544,939**	**35,104,991**

^ This represents outstanding impaired financing after deducting expected credit losses.

46 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

Profit rate risk (continued)

2019 **Financial liabilities**	Non-trading book Up to 1 month RM'000	1 to 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-profit rate sensitive RM'000	Trading book RM'000	Total RM'000
Deposits from customers	11,729,564	7,383,649	7,154,070	376,852	151,131	3,013,339	-	29,808,605
Investment account of customers	198	2,030	1	-	-	6	-	2,235
Deposits and placements of banks and other financial institutions	656,253	-	3,060	-	-	-	-	659,313
Bills and acceptances payable	1,548	6,991	7,326	-	-	14,074	-	29,939
Islamic derivative financial instruments	-	-	-	-	-	-	28,012	28,012
Recourse obligation on financing sold to Cagamas Berhad	-	-	-	50,000	-	637	-	50,637
Other liabilities	25	37	749	-	-	1,104,533	-	1,105,344
Tier II subordinated Sukuk Murabahah	-	-	-	399,970	-	788	-	400,758
Multi-currency Additional Tier I subordinated Sukuk Wakalah	-	-	-	399,434	-	1,799	-	401,233
Total financial liabilities	12,387,588	7,392,707	7,165,206	1,226,256	151,131	4,135,176	28,012	32,486,076
Net profit sensitivity gap	9,151,166	(7,191,051)	(6,857,726)	5,655,816	3,920,570			
Financial guarantees	-	-	-	-	-	66,769		
Credit related commitment and contingencies	-	-	-	-	-	8,138,211		
Net profit sensitivity gap	-	-	-	-	-	8,204,980		

46 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

Profit rate risk (continued)

2018 Financial assets	Non-trading book: Up to 1 month RM'000	1 to 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-profit rate sensitive RM'000	Trading book RM'000	Total RM'000
Cash and short-term funds	1,045,425	-	-	-	-	106,721	-	1,152,146
Deposits and placements with banks and other financial institutions	-	100,000	100,000	-	-	852	-	200,852
Financial assets held-for-trading	-	-	-	-	-	-	350,837	350,837
Financial investments available-for-sale	10,005	5,001	40,032	1,474,810	1,214,732	34,562	-	2,779,142
Financial investments held-to-maturity	-	-	541,286	2,770,497	91,706	40,189	-	3,443,678
Financing and advances	18,171,322	54,228	34,729	2,069,496	2,391,336	-	-	22,721,111
- non impaired	18,134,820	54,018	33,461	2,051,095	2,304,770	-	-	22,578,164
- impaired^	36,502	210	1,268	18,401	86,566	-	-	142,947
Islamic derivative financial instruments	-	-	-	-	-	-	13,474	13,474
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	688,096	-	688,096
Other assets	-	-	-	-	-	45,290	-	45,290
Total financial assets	19,226,752	159,229	716,047	6,314,803	3,697,774	915,710	364,311	31,394,626

^ This represents outstanding impaired financing after deducting individual assessment impairment allowance and collective assessment impairment allowance.

46 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

Profit rate risk (continued)

2018 Financial liabilities	Non-trading book: Up to 1 month RM'000	1 to 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-profit rate sensitive RM'000	Trading book RM'000	Total RM'000
Deposits from customers	10,272,787	4,853,617	6,743,383	537,878	816,050	3,279,691	-	26,503,406
Deposits and placements of banks and other financial institutions	646,792	310,965	42,820	-	-	886	-	1,001,463
Bills and acceptances payable	644	1,815	1,722	-	-	33,277	-	37,458
Islamic derivative financial instruments	-	-	-	-	-	-	64,158	64,158
Other liabilities	-	-	-	-	-	694,774	-	694,774
Tier II subordinated Sukuk Ijarah	-	-	399,946	-	-	684	-	400,630
Multi-currency Additional Tier I subordinated Sukuk Wakalah	-	-	-	399,268	-	1,799	-	401,067
Total financial liabilities	10,920,223	5,166,397	7,187,871	937,146	816,050	4,011,111	64,158	29,102,956
Net profit sensitivity gap	8,306,529	(5,007,168)	(6,471,824)	5,377,657	2,881,724			
Financial guarantees	-	-	-	-	-	64,694		
Credit related commitment and contingencies	-	-	-	-	-	5,657,498		
Net profit sensitivity gap	-	-	-	-	-	5,722,192		

46 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk

Liquidity risk is defined as the current and prospective risk arising from the inability of the Bank to meet its contractual or regulatory obligations when they become due without incurring substantial losses. The liquidity risk is identified based on concentration, volatility of source of fund and funding maturity structure and it is measured primarily using Bank Negara Malaysia's New Liquidity Framework and depositor's concentration ratios. The Bank seek to project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

(i) The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) based on the remaining contractual maturity:

2019 Assets	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Cash and short-term funds	109,314	-	-	-	-	-	-	109,314
Financial assets at fair value through profit or loss	-	-	-	-	-	515,295	-	515,295
Financial investments at fair value through other comprehensive income	-	109,960	198,980	70,705	180,290	2,396,245	-	2,956,180
Financial investments at amortised cost	-	-	-	-	-	4,239,826	-	4,239,826
Financing and advances	1,494,443	540,997	208,317	114,721	91,065	23,390,468	-	25,840,011
Islamic derivative financial instruments	69	1,747	2,855	1,813	334	22,826	-	29,644
Other assets	585,419	2,679	229	328	75	75	16,024	604,829
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	814,736	814,736
Property and equipment	-	-	-	-	-	-	16,332	16,332
Intangible assets	-	-	-	-	-	-	828	828
Deferred tax assets	-	-	-	-	-	-	10,224	10,224
Total assets	**2,189,245**	**655,383**	**410,381**	**187,567**	**271,764**	**30,564,735**	**858,144**	**35,137,219**

46 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

(i) The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) based on the remaining contractual maturity: (continued)

2019 Liabilities	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Deposits from customers	9,963,737	4,684,478	7,429,919	4,549,557	2,650,568	530,346	-	29,808,605
Investment account of customers	13	187	2,034	1	-	-	-	2,235
Deposits and placements of banks and other financial institutions	573,766	82,487	-	3,060	-	-	-	659,313
Bills and acceptances payable	22	1,527	6,991	7,326	-	-	14,073	29,939
Other liabilities	1,111,887	9	37	17	9,341	-	2,796	1,124,087
Islamic derivative financial instruments	45	1,948	3,313	511	369	21,826	-	28,012
Recourse obligation on financing sold to Cagamas Berhad	-	-	637	-	-	50,000	-	50,637
Provision for taxation	-	-	-	-	-	-	41,556	41,556
Tier II subordinated Sukuk Murabahah	-	-	-	-	788	399,970	-	400,758
Multi-currency Additional Tier I subordinated Sukuk Wakalah	-	-	-	-	1,799	399,434	-	401,233
Total financial liabilities	11,649,470	4,770,636	7,442,931	4,560,472	2,662,865	1,401,576	58,425	32,546,375
Total equity	-	-	-	-	-	-	2,590,844	2,590,844
Total liabilities and equity	11,649,470	4,770,636	7,442,931	4,560,472	2,662,865	1,401,576	2,649,269	35,137,219
Net liquidity gap	(9,460,225)	(4,115,253)	(7,032,550)	(4,372,905)	(2,391,101)	29,163,159		

46 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

(i) The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) based on the remaining contractual maturity: (continued)

2018 Assets	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Cash and short-term funds	881,727	270,419	-	-	-	-	-	1,152,146
Deposits and placements with banks and other financial institutions	-	-	100,421	100,431	-	-	-	200,852
Financial assets held-for-trading	-	199,810	-	-	-	151,027	-	350,837
Financial investments available-for-sale	-	10,261	5,057	15,128	25,430	2,723,266	-	2,779,142
Financial investments held-to-maturity	-	-	-	-	544,628	2,899,050	-	3,443,678
Financing and advances	1,349,038	707,804	207,730	99,291	54,471	20,302,777	-	22,721,111
Islamic derivative financial instruments	765	47	5,668	1,461	460	5,073	-	13,474
Other assets	41,378	2,528	198	296	76	225	5,548	50,249
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	688,096	688,096
Property and equipment	-	-	-	-	-	-	17,484	17,484
Intangible assets	-	-	-	-	-	-	1,197	1,197
Deferred tax assets	-	-	-	-	-	-	3,274	3,274
Total assets	2,272,908	1,190,869	319,074	216,607	625,065	26,081,418	715,599	31,421,540

46 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

(i) The table below analyses the carrying amount of assets and liabilities (include non-financial instruments) based on the remaining contractual maturity: (continued)

2018 Liabilities	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Deposits from customers	9,097,791	4,644,752	4,616,951	2,867,213	3,915,051	1,361,648	-	26,503,406
Deposits and placements of banks and other financial institutions	303,003	344,633	311,391	42,436	-	-	-	1,001,463
Bills and acceptances payable	364	281	1,814	1,722	-	-	33,277	37,458
Other liabilities	703,128	-	-	-	4,392	-	22,782	730,302
Islamic derivative financial instruments	407	494	3,362	1,404	432	58,059	-	64,158
Provision for taxation	-	-	-	-	-	-	30,651	30,651
Tier II Subordinated Sukuk Ijarah	-	-	-	-	-	400,630	-	400,630
Multi-currency Additional Tier I subordinated Sukuk Wakalah	-	-	-	-	-	401,067	-	401,067
Total financial liabilities	10,104,693	4,990,160	4,933,518	2,912,775	3,919,875	2,221,404	86,710	29,169,135
Total equity	-	-	-	-	-	-	2,252,405	2,252,405
Total liabilities and equity	10,104,693	4,990,160	4,933,518	2,912,775	3,919,875	2,221,404	2,339,115	31,421,540
Net liquidity gap	(7,831,785)	(3,799,291)	(4,614,444)	(2,696,168)	(3,294,810)	23,860,014		

46 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

(ii) The following table show the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturities. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and profit payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows.

2019 Liabilities	Up to 1 month RM'000	1 to 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Deposits from customers	10,210,253	7,915,279	7,697,890	4,144,752	158,924	30,127,098
Investment account of customers	199	2,045	1	-	-	2,245
Deposits and placements of banks and other financial institutions	656,415	-	3,060	-	-	659,475
Bills and acceptances payable	15,164	5,106	5,540	-	-	25,810
Other liabilities	1,104,558	37	749	-	-	1,105,344
Islamic derivative financial instruments						
- Gross settled derivatives						
- Inflow	(193,637)	(205,534)	(253,054)	-	-	(652,225)
- Outflow	195,558	207,949	253,829	-	-	657,336
- Net settled derivatives	(82)	1,102	1,817	11,721	9,039	23,597
Recourse obligation on financing sold to Cagamas Berhad	-	1,062	1,050	54,213	-	56,325
Tier II subordinated Sukuk Murabahah	-	-	16,966	467,726	-	484,692
Multi-currency Additional Tier I subordinated Sukuk Wakalah	-	-	20,576	451,384	-	471,960
Total financial liabilities	**11,988,428**	**7,927,046**	**7,748,424**	**5,129,796**	**167,963**	**32,961,657**

46 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

(ii) The following table show the contractual undiscounted cash flows payable for financial liabilities by remaining contractual maturities. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and profit payments. The contractual maturity profile does not necessarily reflect the behavioural cash flows. (continued)

2018 Liabilities	Up to 1 month RM'000	1 to 3 months RM'000	3 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Deposits from customers	13,535,359	4,955,052	6,941,302	761,979	873,214	27,066,906
Deposits and placements of banks and other financial institutions	648,043	312,646	42,820	-	-	1,003,509
Bills and acceptances payable	33,625	271	521	-	-	34,417
Other liabilities	694,774	-	-	-	-	694,774
Islamic derivative financial instruments						
- Gross settled derivatives						
- Inflow	(167,949)	(151,693)	(32,978)	-	-	(352,620)
- Outflow	168,811	154,847	34,327	-	-	357,985
- Net settled derivatives	(685)	(1,359)	(5,771)	52,441	6,074	50,700
Tier II Subordinated Sukuk Ijarah	19,147	-	419,147	-	-	438,294
Multi-currency Additional Tier I subordinated Sukuk Wakalah	-	-	20,520	471,961	-	492,481
Total financial liabilities	14,931,125	5,269,764	7,419,888	1,286,381	879,288	29,786,446

46 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The following table presents the contractual expiry by maturity of the Bank's commitments and contingencies:

	2019		
	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
Direct credit substitutes	**-**	**50,000**	**50,000**
Short term self liquidating trade related contingencies	**16,769**	**-**	**16,769**
Irrevocable commitments to extend credit	**3,243,442**	**4,894,769**	**8,138,211**
Total commitments and contingencies	**3,260,211**	**4,944,769**	**8,204,980**

	2018		
	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
Direct credit substitutes	-	50,000	50,000
Short term self liquidating trade related contingencies	14,694	-	14,694
Irrevocable commitments to extend credit	1,788,286	3,869,212	5,657,498
Total commitments and contingencies	1,802,980	3,919,212	5,722,192

Undrawn financing commitments are recognised at activation stage and include commitments which are unconditionally cancellable by the Bank. The Bank expects that not all of the contingent liabilities and undrawn financing commitments will be drawn before expiry.

46 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk

(i) Maximum exposure to credit risk

The maximum exposure to credit risk for financial assets recognised in the statement of financial position is their carrying amounts. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers. The table below shows the maximum exposure to credit risk for the Bank on financial instruments subject to impairment:

	2019 RM'000	2018 RM'000
Credit risk exposure relating to on-balance sheet assets:		
Short-term funds and placements with banks and other financial institutions	**106,922**	1,350,637
Financial assets and investments portfolios (exclude shares)		
- Financial investments at fair value through other comprehensive income	**2,956,180**	-
- Financial investments available-for-sale	**-**	2,779,142
- Financial investments at amortised cost	**4,239,826**	-
- Financial investments held-to-maturity	**-**	3,443,678
Financing and advances	**25,840,011**	22,721,111
Other assets	**599,985**	45,290
	33,742,924	30,339,858
Credit risk exposure relating to off-balance sheet items:		
Credit related commitments and contingencies	**8,204,980**	5,722,192
Total maximum credit risk exposure that are subject to impairment	**41,947,904**	36,062,050

The table below shows the credit exposure of the Bank on financial instruments that are not subject to impairment:

	2019 RM'000	2018 RM'000
Financial assets at fair value through profit or loss	**515,295**	-
Financial assets held for trading	**-**	350,837
Islamic derivative financial instruments	**29,644**	13,474
	544,939	364,311

46 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(ii) Collaterals

The main type of collaterals obtained by the Bank are as follows:

a. Commodity Murabahah term deposits, Mudarabah general investment account, negotiable instrument of deposits, foreign currency deposits and cash deposits/margins
b. Land and buildings
c. Aircrafts, vessels and automobiles
d. Quoted shares, unit trust, Malaysian Governments Bonds and securities and private debt securities
e. Endowment life policies with cash surrender value
f. Other tangible business assets, such as inventory and equipment

The Bank also accepts intangible securities such as support, guarantees from individuals, corporates and institutions, bank guarantees, debentures, assignment of contract payments, which are subject to internal guidelines on eligibility.

The outstanding balance for financing and advances for which no allowances are recognised because of collaterial as at 30 June 2019 amounted to RM1,529,000.

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements mitigate credit risk) held for financing and advances for the Bank is 85.37% (2018: 85.20%). The financial effects of collateral held for the remaining financial assets are insignificant.

The financial effect of collateral (quantification to the extent to which collateral and other credit enhancements mitigate credit risk) held for net financing and advances that are credit impaired as at 30 June 2019 for the Bank is 78.75%. The financial effects of collateral held for the remaining financial assets are insignificant.

(iii) Credit exposure by stage

Financial assets of the Bank are classified into three stages as below:

Stages	Description
Stage 1: 12 month ECL – non-credit impaired	Stage 1 includes financial assets which have not had a significant increase in credit risk since initial recognition or which have low credit risk at reporting date. 12-months ECL is recognised and income is calculated on the gross carrying amount of the financial assets.
Stage 2: Lifetime ECL – non-credit impaired	Stage 2 includes financial assets which have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but do not have objective evidence of impairment. Lifetime ECL is recognised and income is calculated on the gross carrying amount of the financial assets.
Stage 3: Lifetime ECL – credit impaired	Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. Lifetime ECL is recognised and interest income is calculated on the net carrying amount of the financial assets.

For further details on the stages, refer to accounting policy Note 2 M.

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for the financial year ended 30 June 2019

46 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iv) Credit quality

The Bank assesses credit quality of financing and advances using internal rating techniques tailored to the various categories of products and counterparties. These techniques have been developed internally and combine statistical analysis with credit officers judgement.

Credit quality description is summarised as follows:

Credit Quality	Description
Good	Obligors in this category exhibit strong capacity to meet financial commitments.
Adequate	Obligors in this category have a fairly acceptable capacity to meet financial commitments.
Marginal	Obligors in this category have uncertain capacity to meet financial commitments and is under closer monitoring.
No rating	Obligors which are currently not assigned with a credit ratings as it do not satisfy the criteria to be rated based on internal credit rating system.
Credit impaired	Obligors assessed to be impaired.

The credit quality of financial instruments other than financing and advances are determined based on the ratings of counterparties as defined equivalent ratings of other internationals rating agencies as defined below:

Credit Quality	Description
Sovereign	Refer to financial asset issued by federal government or guarantee by federal government.
Investment grade	Refers to the credit quality of the financial asset that the issuer is able to meet payment obligation and exposure bondholder to low credit risk of default.
Non-Investment grade	Refers to low credit quality of the financial asset that is highly expose to default risk.
Un-graded	Refers to financial asset which are currently not assigned with ratings due to unavailability of ratings models.
Credit impaired	Refers to the asset that is being impaired.

46 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iv) Credit quality (continued)

The following table shows an analysis of the credit exposure by stages, together with the ECL allowance provision:

	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
2019				
Short-term funds and placements with banks and other financial institutions (exclude cash in hand)				
Investment grade	106,922	-	-	106,922
Gross carrying amount	106,922	-	-	106,922
Expected credit losses	-	-	-	-
Net carrying amount	106,922	-	-	106,922
Financial investments at FVOCI				
Sovereign	2,001,730	-	-	2,001,730
Investment grade	954,450	-	-	954,450
Gross carrying amount	2,956,180	-	-	2,956,180
Expected credit losses	(56)	-	-	(56)
Financial investments at amortised cost				
Sovereign	4,239,826	-	-	4,239,826
Gross carrying amount	4,239,826	-	-	4,239,826
Expected credit losses	-	-	-	-
Net carrying amount	4,239,826	-	-	4,239,826
Financing and advances				
Satisfactory	21,743,339	556	-	21,743,895
Adequate	2,564,168	159,537	-	2,723,705
Marginal	-	1,428,373	-	1,428,373
No rating	-	15,387	-	15,387
Credit impaired	-	-	177,558	177,558
Gross carrying amount	24,307,507	1,603,853	177,558	26,088,918
Expected credit losses	(57,935)	(111,500)	(79,472)	(248,907)
Net carrying amount	24,249,572	1,492,353	98,086	25,840,011

Notes to the Financial Statements
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46 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iv) Credit quality (continued)

(a) Financing and advances

Financing and advances are summarised as follows:

	2018 RM'000
Neither past due nor impaired	20,913,541
Past due but not impaired	1,798,312
Individually impaired	207,971
Gross financing and advances	22,919,824
Unamortised fair value changes arising from terminated fair value hedges	(12)
Less: Allowance for impairment losses on financing and advances	
- Collective assessment allowance	(176,875)
- Individual assessment allowance	(21,826)
Net financing and advance	22,721,111

(i) 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 credit grading system is as follows:

		2018 RM'000
Consumer financing		
Risk Grade		
Good		15,638,646
Corporate financing		
Risk Grade	Credit Quality	
A	Exceptional	405,031
B+	Superior	921,674
B	Excellent	750,074
B-	Strong	777,101
C+	Good	1,069,111
C	Satisfactory	1,052,049
C-	Fair	213,252
D+	Adequate	43,147
D	Marginal	28,356
Un-graded		15,100
		5,274,895
Total neither past due nor impaired		20,913,541

46 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iv) Credit quality (continued)

(a) Financing and advances (continued)

(ii) Financing and advances past due but not impaired

A financial asset is defined as "past due" when the counterparty has failed to make a principal or profit payment when contractually due. Financing and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of financing and advances by class to customers that were past due but not impaired were as follows:

	2018 RM'000
Past due less than 30 days	1,153,609
Past due 30 to less than 60 days	436,166
Past due 60 to less than 90 days	208,537
Past due but not impaired	1,798,312

(iii) Financing and advances that are determined to be impaired are as follows:

	2018 RM'000
Gross amount of impaired financing	207,971
Less: Collective assessment impairment allowance	(43,198)
Less: Individual assessment impairment allowance	(21,826)
Total net amount impaired financing	142,947

46 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iv) Credit quality (continued)

(b) Other financial assets

Analysis of other financial assets by rating agency designation (where applicable), based on Moody's ratings or its equivalent are as follows:

	Short term funds and placements with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Other assets RM'000	Islamic derivative financial instruments RM'000
2018						
Neither past due nor impaired						
AAA to AA3	575,923	199,810	637,581	-	-	9,908
A1 to A3	138,373	-	11,278	-	-	6,217
Baa1 to Baa3	1,666	-	-	-	-	-
P1 to P3	-	-	-	-	-	-
Non-rated	634,675	151,027	2,130,283	3,443,678	45,290	(2,651)
	1,350,637	350,837	2,779,142	3,443,678	45,290	13,474
Individually impaired	-	-	-	-	-	-
	1,350,637	350,837	2,779,142	3,443,678	45,290	13,474

The amount of short term funds, financial assets and investment portfolios, other assets and Islamic derivative financial instruments that are past due but not impaired is not material.

46 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iv) Credit quality (continued)

Credit risk exposure analysed by industry in respect of the Bank's financial assets are set out below:

	Short term funds and placements with bank and other financial institutions RM'000	Financial assets at fair value through profit or loss RM'000	Financial investment at fair value through other comprehensive income RM'000	Financial investments at amortised cost RM'000	Financing and advances RM'000	Other assets RM'000	Islamic derivative financial instruments RM'000	Total credit risk exposures RM'000	Undrawn financing commitments and other facilities RM'000	Guarantees, endorsements and other contingent items RM'000
2019										
Agriculture	-	-	-	-	788,728	-	-	788,728	508,124	5,499
Mining and quarrying	-	-	-	-	12,947	-	-	12,947	11,235	-
Manufacturing	-	-	-	-	1,593,708	-	-	1,593,708	1,224,818	5,261
Electricity, gas and water	-	-	448,257	268,642	55,295	-	-	772,194	451,555	110
Construction	-	-	20,602	-	536,686	-	-	557,288	531,379	2,592
Wholesale and retail	-	-	-	-	1,314,674	-	-	1,314,674	902,490	3,307
Transport, storage and communications	-	-	5,125	-	169,834	-	-	174,959	100,879	-
Finance, insurance, real estate and business services	103,039	-	1,050,508	137,034	1,854,414	599,953	29,644	3,774,592	1,464,881	50,000
Government and government agencies	3,883	515,295	1,431,688	3,834,150	-	32	-	5,785,048	-	-
Education, health and others	-	-	-	-	820,146	-	-	820,146	180,689	-
Household	-	-	-	-	18,693,579	-	-	18,693,579	2,762,161	-
Others	-	-	-	-	-	-	-	-	-	-
	106,922	515,295	2,956,180	4,239,826	25,840,011	599,985	29,644	34,287,863	8,138,211	66,769

46 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(iv) Credit quality (continued)

Credit risk exposure analysed by industry in respect of the Bank's financial assets are set out below: (continued)

	Short term funds and placements with bank and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investment available-for-sale RM'000	Financial investments held-to-maturity RM'000	Financing and advances RM'000	Other assets RM'000	Islamic derivative financial instruments RM'000	Total credit risk exposures RM'000	Undrawn financing commitments and other facilities RM'000	Guarantees, endorsements and other contingent items RM'000
2018										
Agriculture	-	-	-	-	881,822	-	-	881,822	403,219	-
Mining and quarrying	-	-	-	-	39,323	-	-	39,323	315	-
Manufacturing	-	-	-	-	1,010,331	-	-	1,010,331	967,333	5,467
Electricity, gas and water	-	-	434,825	-	52,726	-	-	487,551	111,942	-
Construction	-	-	65,360	-	481,864	-	-	547,224	380,534	507
Wholesale and retail	-	-	-	-	988,644	-	-	988,644	519,475	8,720
Transport, storage and communications	-	-	5,035	-	138,579	-	-	143,614	79,352	-
Finance, insurance, real estate and business services	715,962	199,810	663,137	-	1,656,679	45,267	13,474	3,294,329	869,246	50,000
Government and government agencies	634,675	151,027	1,610,785	3,443,678	-	23	-	5,840,188	-	-
Education, health and others	-	-	-	-	821,473	-	-	821,473	17,698	-
Household	-	-	-	-	16,646,849	-	-	16,646,849	2,308,384	-
Others	-	-	-	-	2,821	-	-	2,821	-	-
	1,350,637	350,837	2,779,142	3,443,678	22,721,111	45,290	13,474	30,704,169	5,657,498	64,694

46 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(v) Repossessed collaterals

	2019 RM'000	2018 RM'000
Industrial and residential properties, lands and automobiles	**36,202**	19,900

Repossessed properties are made available-for-sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. The Bank generally does not utilise the repossessed collaterals for its business use.

(vi) Write-off policy

The Bank write off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will be written back as bad debts recovered in the income statements.

The contractual amount outstanding on financing and advances that were written off during the financial year ended, and are still subject to enforcement activities was RM55.1 million for the Bank.

(vii) Modification of contractual cash flows

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognised, the resulting modification loss is recognised within impairment in the income statements with a corresponding decrease in the gross carrying value of the asset. If the modification involved a concession that the Bank would not otherwise consider, the instrument is considered to be credit impaired and is considered forborne.

ECL for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk. These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification.

Although financing and advances may be modified for non-credit reasons, a significant increase in credit risk may occur. 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 to stage 1. This is only the case for assets which have been monitored for consecutive six months observation period or more.

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46 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(viii) Sensitivity analysis

The Bank has performed ECL sensitivity assessment on financing and advances based on the changes in key macroeconomic variables, such as consumer price index, private consumption, house price index, unemployment rates and banking system credit while all other variables remain unchanged. The sensitivity factors used are consumption based on parallel shifts in the key variables to project the impact on the ECL of the Banks.

The table below outlines the effect of ECL on the changes in key variables used while other variables remain constant:

2019

(a) Retail

	Changes
Consumer price index	+/- 50 bps
Private consumption	+/- 50 bps
House price index	+/- 150 bps
Unemployment rate	+/- 100 bps

	RM'000
Total decrease in ECL on the positive changes in key variables	**(79)**
Total increase in ECL on the negative changes in key variables	**167**

(b) Non-retail

	Changes
Banking system credit	+/- 100 bps

	RM'000
Total decrease in ECL on the positive changes in key variables	**(375)**
Total increase in ECL on the negative changes in key variables	**389**

47 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities. Fair value is price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participant at the measurement date. The information presented herein represents the estimates of fair values as at the statement of financial position date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

(a) Determination of fair value and fair value hierarchy

The Bank measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations derived from valuation techniques in which on or more significant inputs are not based on observable market data.

Valuation techniques

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities and actively exchange-traded derivatives.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Bank then determines fair value based upon valuation techniques such as discounted cash flow 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 certain corporate bonds, government bonds and derivatives.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or other analytical techniques. This category includes unquoted shares held for socio-economic reasons. Fair vaule for shares held for socio-economic reasons are based on the net tangible assets of the affected companies.

47 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

The table below analyses financial instruments carried at fair value analysed by level within the fair value is hierarchy:

	Fair Value			
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2019				
Financial assets:				
Financial assets at fair value through profit or loss				
- Money market instrument	**-**	**515,295**	**-**	**515,295**
Financial investments at fair value through other comprehensive income				
- Money market instrument	**-**	**1,725,828**	**-**	**1,725,828**
- Quoted securities	**33,114**	**-**	**-**	**33,114**
- Unquoted securities	**-**	**1,197,238**	**-**	**1,197,238**
Islamic derivative financial instruments	**-**	**29,644**	**-**	**29,644**
	33,114	**3,468,005**	**-**	**3,501,119**
Financial liabilities:				
Derivative financial instruments	**-**	**28,012**	**-**	**28,012**
Financial liabilities designated at fair value				
- Callable range accrual notes	**-**	**346,793**	**-**	**346,793**
	-	**374,805**	**-**	**374,805**
2018				
Financial assets:				
Financial assets held-for-trading				
- Money market instrument	-	350,837	-	350,837
Financial investments available-for-sale				
- Money market instrument	-	1,405,941	-	1,405,941
- Quoted securities	11,278	-	-	11,278
- Unquoted securities	-	1,361,923	-	1,361,923
Islamic derivative financial instruments	-	13,474	-	13,474
	11,278	3,132,175	-	3,143,453
Financial liabilities:				
Derivative financial instruments	-	64,158	-	64,158
Financial liabilities designated at fair value				
- Callable range accrual notes	-	1,148,579	-	1,148,579
	-	1,212,737	-	1,212,737

The Bank recognises transfer 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. There were no transfer between Level 1 and Level 2 of the fair value hierarchy during the financial year (2018: RM Nil).

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47 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy, as below:

	2019 RM'000	2018 RM'000
Financial investments at fair value through other comprehensive income Financial investments available-for-sale		
As at beginning of the year	**-**	-
Fair value changes recognised in statement of income	**-**	-
Redemption of unquoted security	**-**	-
Exchange differences	**-**	-
As at end of the financial year	**-**	-

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

Set out below is the comparison of the carrying amounts and fair values of the financial instruments of the Bank which are not carried at fair value in the financial instruments, but for which fair value is disclosed. It does not include those short term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values:

	Carrying Amount RM'000	Fair Value RM'000
2019		
Financial assets		
Financial investments at amortised cost		
- Money market instruments	**2,871,252**	**2,883,281**
- Unquoted securities	**1,368,574**	**1,398,947**
Financing and advances	**25,840,011**	**25,968,597**
	30,079,837	**30,250,825**
Financial liabilities		
Deposits from customers		
- At amortised cost	**29,461,812**	**29,517,217**
Recourse obligation on financing sold to Cagamas Berhad	**50,637**	**50,930**
Tier II subordinated Sukuk Murabahah	**400,758**	**400,086**
Multi-currency Additional Tier I subordinated Sukuk Wakalah	**401,233**	**396,498**
	30,314,440	**30,364,731**
2018		
Financial assets		
Financial investments held-to-maturity		
- Money market instruments	2,831,055	2,809,967
- Unquoted securities	612,623	600,192
Financing and advances	22,721,111	22,858,584
	26,164,789	26,268,743
Financial liabilities		
Deposits from customers		
- At amortised cost	25,354,827	25,434,756
Tier II subordinated Sukuk Ijarah	400,630	401,348
Multi-currency Additional Tier I subordinated Sukuk Wakalah	401,067	406,003
	26,156,524	26,242,107

Notes to the Financial Statements

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47 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

The following table analyses within the fair value hierarchy of the Bank's assets and liabilities not measured at fair value but for which fair value is disclosed:

	Carrying Amount RM'000	Fair Value Level 1 RM'000	Fair Value Level 2 RM'000	Fair Value Level 3 RM'000
2019				
Financial assets				
Financial investments at amortised cost				
- Money market instruments	**2,871,252**	**-**	**2,883,281**	**-**
- Unquoted securities	**1,368,574**	**-**	**1,398,947**	**-**
Financing and advances	**25,840,011**	**-**	**25,968,597**	**-**
	30,079,837	**-**	**30,250,825**	**-**
Financial liabilities				
Deposits from customers				
- At amortised cost	**29,461,812**	**-**	**29,517,217**	**-**
Recourse obligation on financing sold to Cagamas Berhad	**50,637**	**-**	**50,930**	**-**
Tier II subordinated Sukuk Murabahah	**400,758**	**-**	**400,086**	**-**
Multi-currency Additional Tier I subordinated Sukuk Wakalah	**401,233**	**-**	**396,498**	**-**
	30,314,440	**-**	**30,364,731**	**-**
2018				
Financial assets				
Financial investments held-to-maturity				
- Money market instruments	2,831,055	-	2,809,967	-
- Unquoted securities	612,623	-	600,192	-
Financing and advances	22,721,111	-	22,858,584	-
	26,164,789	-	26,268,743	-
Financial liabilities				
Deposits from customers				
- At amortised cost	25,354,827	-	25,434,756	-
Tier II subordinated Sukuk Ijarah	400,630	-	401,348	-
Multi-currency Additional Tier I subordinated Sukuk Wakalah	401,067	-	406,003	-
	26,156,524	-	26,242,107	-

47 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair values methodologies and assumptions

Short-term funds and placements with financial institutions

For short-term funds and placements with financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For short term-funds and placements with maturities six months and above, estimated fair value is based on discounted cash flows using prevailing money market profit rates at which similar short term-funds and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

Financial instruments held at fair value through profit or loss, Financial investments at amortised cost

The estimated fair value is generally based on quoted and observable market prices. Where there is no ready market in certain securities, the Bank establish the fair value by using valuation techniques.

Financing and advances

For variable rate financing, the carrying value is generally a reasonable estimate of fair value. For fixed rate financing, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of financing with similar credit risks and maturities.

Deposits from customers

For deposits from customers with maturities of less than six months, the carrying amounts are reasonable estimates of their fair values. For deposit with maturities of six months and above, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

Investment account of customers

The estimated fair value of investment accounts of customers with maturities of less than six months approximate the carrying value. For placements with maturities of six months or above, the fair values are estimated based on discounted cash flows using prevailing money market profit rates for placements with similar remaining period to maturities.

Deposits and placements of banks and other financial institutions and bills and acceptances payable

The estimated fair values of deposits and placements of banks and other financial institutions, bills and acceptances payable with maturities of less than six months approximate the carrying values. For the items with maturities six months and above, the fair values are estimated based on discounted cash flows using prevailing money market profit rates with similar remaining period to maturities.

Recourse obligation on financing sold to Cagamas Berhad

For amounts due to Cagamas Berhad with maturities of less than one year, the carrying amounts are a reasonable estimate of their fair values. For amounts due to Cagamas Berhad with maturities of more than one year, fair value is estimated based on discounted cash flows using prevailing money market profit rates with similar remaining period to maturity.

Notes to the Financial Statements
for the financial year ended 30 June 2019

47 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair values methodologies and assumptions (continued)

Subordinated Sukuk

The estimated fair value of Sukuk with maturities of less than six months approximate the carrying values. For with maturities six months or above, the fair value are estimated based on discounted cash flows using prevailing market rates for Sukuk with similar risk profile.

Other financial assets and liabilities

The carrying value less any estimated allowance for financial assets and liabilities included in "other assets and liabilities" are assumed to approximate their fair values as these items are not materially sensitive to the shift in market profit rates.

Financing related commitment and contingencies

The net fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risks and attract fees in line with market prices for similar arrangements. They are not presently sold nor traded. The fair value may be represented by the present value of fees expected to be received, less associated costs.

Foreign exchange and profit rate related contracts

The fair values of foreign exchange and profit rate related contracts are the estimated amounts the Bank would receive to sell or pay to transfer the contracts at the date of statements of financial position.

48 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

				Related amounts not set off in the statement of financial position		
	Gross amount of recognised financial assets or liabilities in the statement of financial position RM'000	Gross amount set off in the statement of financial position RM'000	Net amount presented in the statement of financial position RM'000	Financial instruments RM'000	Financial collateral RM'000	Net Amount RM'000
2019						
Financial assets						
Derivatives	**29,644**	**-**	**29,644**	**(14,442)**	**-**	**15,202**
Financial liabilities						
Derivatives	**28,012**	**-**	**28,012**	**(14,442)**	**-**	**13,570**
2018						
Financial assets						
Derivatives	13,474	-	13,474	(2,331)	-	11,243
Financial liabilities						
Derivatives	64,158	-	64,158	(2,231)	-	61,927

Notes to the Financial Statements

for the financial year ended 30 June 2019

49 CAPITAL ADEQUACY

The Bank's regulatory capital is governed by BNM Capital Adequacy Framework for Islamic Banks ("CAFIB") guidelines. The capital adequacy ratios of the Bank are computed in accordance with BNM's Capital Adequacy Framework (Capital Components) for Islamic Banks issued on 28 November 2012 and its revised version on 13 October 2015 (the "Framework"). The Framework sets out the approach for computing the regulatory capital adequacy ratios, the minimum levels of the ratios at which banking institutions are required to operate as well as requirement on Capital Conservation Buffer ("CCB") and Counter Cyclical Buffer ("CCB"). The Bank are also required to maintain CCB of up to 2.500% of total risk weighted assets ("RWA"), which is phased in starting with 0.625% in year 2016, 1.250% in year 2017, 1.875% in year 2018 and 2.500% in year 2019. The CCyB which ranges from 0% up to 2.500% is determined as the weighted average of prevailing CcyB rates applied in the jurisdictions in which a financial institution has credit exposures. The minimum capital adequacy including CCB for Common Equity Tier I (CET I) capital ratio, Tier I capital ratio and Total Capital ratio for year 2019 are 7.000%, 8.500% and 10.500% respectively.

The Bank has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk computation in deriving the RWA.

The Bank has complied with all the externally imposed capital requirements to which the Bank is subject to.

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

	2019	2018
Before deducting proposed dividends		
CET I capital ratio	**10.529%**	10.461%
Tier I capital ratio	**12.258%**	12.404%
Total capital ratio	**15.150%**	15.477%
After deducting proposed dividends		
CET I capital ratio	**10.529%**	10.461%
Tier I capital ratio	**12.258%**	12.404%
Total capital ratio	**15.150%**	15.477%

49 CAPITAL ADEQUACY (CONTINUED)

(b) The components of CET I, Tier I and Tier II capital under the revised Capital Components Framework are as follows:

	2019 RM'000	2018 RM'000
CET I capital		
Paid-up share capital	**700,000**	700,000
Retained profit	**1,730,453**	1,467,854
Other reserves	**13,576**	(13,350)
Less: Deferred tax assets	**(10,224)**	(3,274)
Less: Other intangible assets	**(828)**	(1,197)
Total CET I capital	**2,432,977**	2,150,033
Additional Tier I capital		
Multi-currency Additional Tier I subordinated Sukuk Wakalah	**399,434**	399,268
Total Tier I capital	**2,832,411**	2,549,301
Tier II capital		
Stage 1 and Stage 2 expected credit loss allowance and regulatory reserve#	**268,349**	-
Collective assessment allowance^ and regulatory reserve#	**-**	231,577
Tier II subordinated Sukuk Murabahah/Ijarah	**399,970**	399,946
Total Tier II capital	**668,319**	631,523
Total capital	**3,500,730**	3,180,824

Notes to the Financial Statements

for the financial year ended 30 June 2019

49 CAPITAL ADEQUACY (CONTINUED)

(c) Breakdown of gross risk-weighted assets in the various risk weights:

	2019 RM'000	2018 RM'000
Risk-weighted assets for credit risk*	**21,467,954**	18,872,910
Risk-weighted assets for market risk	**455,895**	638,360
Risk-weighted assets for operational risk	**1,182,621**	1,041,155
Total risk-weighted assets	**23,106,470**	20,552,425

* In accordance with BNM Investment Account Policy, the RWA funded by Investment Account of RM1,294,000 (2018: Nil) is excluded from the calculation of capital adequacy ratio of the Bank.

Includes the qualifying regulatory reserve for non-impaired financing and advances of the Bank of RM130,228,000 (2018: RM97,901,000).

^ Excludes collective assessment allowance attributable to financing and advances classified as impaired but not individually assessed for impairment.

50 SEGMENT REPORTING

Business segment reporting

The business segment results are prepared based on the Bank's internal management reporting reflective of the organisation's management reporting structure.

The various business segments are described below:

- Personal Financial Services focuses mainly on servicing individual customers and small businesses. Products and services that are extended to customers include Islamic house financing, Islamic hire purchase and others.

- Business & Corporate Banking focuses mainly on corporate and small medium enterprises. Products offered include trade financing, working capital facilities, other term financing and corporate advisory services.

- Global Markets refers to the Bank's treasury and capital market operations and includes foreign exchange, money market operations as well as capital market securities trading and investments.

- Other operations refers to head office.

50 SEGMENT REPORTING (CONTINUED)

Business segment reporting (continued)

	Personal financial services RM'000	Business & corporate banking RM'000	Global markets RM'000	Other operations RM'000	Total RM'000
2019					
Revenue					
- external	655,227	(58,709)	159,510	(48,759)	707,269
- inter-segment	(244,114)	203,070	(68,055)	109,099	-
	411,113	144,361	91,455	60,340	707,269
Overhead expenses	(164,707)	(34,864)	(12,528)	73	(212,026)
Allowance for impairment on financing and advances	(47,715)	(7,508)	-	-	(55,223)
Allowance for impairment on financial investment and other assets	-	-	(20)	-	(20)
	(212,422)	(42,372)	(12,548)	73	(267,269)
Segment results	198,691	101,989	78,907	60,413	440,000
Zakat					(350)
Taxation					(106,492)
Net profit for the financial year					333,158
Segment assets	19,438,953	6,401,066	7,715,184	-	33,555,203
Unallocated assets					1,582,016
Total assets					35,137,219
Segment liabilities	12,634,433	12,272,725	5,561,094	-	30,468,252
Unallocated liabilities					2,078,123
Total liabilities					32,546,375
Capital expenditure	2,716	187	13	85	3,001

Inter-segment transfer is based on internally computed cost of funds.

Note:
1. Total segment revenue comprises of net profit income and non-financing income.
2. Unallocated assets and liabilities are not directly attributed to the business segments and cannot be allocated on a reasonable basis.

50 SEGMENT REPORTING (CONTINUED)

Business segment reporting (continued)

	Personal financial services RM'000	Business & corporate banking RM'000	Global markets RM'000	Other operations RM'000	Total RM'000
2018					
Revenue					
- external	616,814	(77,710)	142,074	(35,114)	646,064
- inter-segment	(217,569)	201,036	(76,107)	92,640	-
	399,245	123,326	65,967	57,526	646,064
Overhead expenses	(158,222)	(36,444)	(12,239)	(190)	(207,095)
Allowance for impairment on financing and advances	(48,025)	(13,160)	-	-	(61,185)
	(206,247)	(49,604)	(12,239)	(190)	(268,280)
Segment results	192,998	73,722	53,728	57,336	377,784
Zakat					(350)
Taxation					(95,372)
Net profit for the financial year					282,062
Segment assets	17,401,707	5,319,404	7,820,046	-	30,541,157
Unallocated assets					880,383
Total assets					31,421,540
Segment liabilities	11,740,838	9,853,371	5,910,660	-	27,504,869
Unallocated liabilities					1,664,266
Total liabilities					29,169,135
Capital expenditure	1,302	886	18	419	2,625

Inter-segment transfer is based on internally computed cost of funds.

Note:
1. Total segment revenue comprises of net profit income and non-financing income.
2. Unallocated assets and liabilities are not directly attributed to the business segments and cannot be allocated on a reasonable basis.

51 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Bank's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below:

(a) Expected credit loss (ECL) allowance on financial assets at amortised cost and fair value through other comprehensive income (FVOCI). The ECL allowance for financial assets at amortised cost and FVOCI requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. The sensitivity effect on the macroeconomic factor is further disclosed in note 46 to the financial statements. Significant judgements are required applying the accounting requirement for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumption for measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
- Establishing group of similar financial assets for the purpose of measuring ECL.

MFRS 9 introduces the use of microeconomic factor which include, but is not limited to unemployment, profit rate, gross domestic product, private consumption, inflation and commercial property price, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are review regularly.

52 CHANGE IN ACCOUNTING POLICIES

The Bank has adopted MFRS 9 with a date of transition of 1 July 2018, which resulted in changes in accounting policies and adjustments to the amount previously recognised in the financial statements. The Bank did not early adopt any of MFRS 9 in previous periods.

As permitted by the transitional provisions of MFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities were recognised in the opening retained earnings and other reserves of the current period.

The adoption of MFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. MFRS 9 also significantly amends other standards dealing with financial instruments such as MFRS 7 'Financial Instruments: Disclosures'.

52 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(i) The following table analyses the impact of transition on the Statement of Financial Position of the Bank from MFRS 139 to MFRS 9 as at 1 July 2018:

	Impact of adopting MFRS 9 as at 1 July 2018 RM'000
Cash and short-term funds	
Closing balance under MFRS 139 as at 30 June 2018	1,152,146
- recognition of expected credit losses under MFRS 9	(1)
Opening balance under MFRS 9 as at 1 July 2018	1,152,145
Deposits and placements with banks and other financial institutions	
Closing balance under MFRS 139 as at 30 June 2018	200,852
Opening balance under MFRS 9 as at 1 July 2018	200,852
Financial investments at FVTPL	
Closing balance under MFRS 139 as at 30 June 2018	-
- reclassification from financial assets held-for-trading	151,027
Opening balance under MFRS 9 as at 1 July 2018	151,027
Financial assets held-for-trading	
Closing balance under MFRS 139 as at 30 June 2018	350,837
- reclassification to financial investments at FVTPL	(151,027)
- reclassification to financial investments at FVOCI	(199,810)
Opening balance under MFRS 9 as at 1 July 2018	-
Financial investments at FVOCI	
Closing balance under MFRS 139 as at 30 June 2018	-
- reclassification from financial investments available-for-sale	2,083,086
- reclassification from financial assets held-for-trading	199,810
- reclassification from financial investments held-to-maturity	574,678
- unrealised gain on financial investments at FVOCI reclassified from financial investments held-to-maturity	1,938
- recognition of expected credit losses under MFRS 9	(35)
Opening balance under MFRS 9 as at 1 July 2018	2,859,477

52 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(i) The following table analyses the impact of transition on the Statement of Financial Position of the Bank from MFRS 139 to MFRS 9 as at 1 July 2018: (continued)

	Impact of adopting MFRS 9 as at 1 July 2018 RM'000
Financial investments available-for-sale	
Closing balance under MFRS 139 as at 30 June 2018	2,779,142
- reclassification to financial investments at FVOCI	(2,083,086)
- reclassification to financial investments at amortised cost	(696,056)
Opening balance under MFRS 9 as at 1 July 2018	-
Financial investments at amortised cost	
Closing balance under MFRS 139 as at 30 June 2018	-
- reclassification from financial investments available-for-sale	696,056
- remeasurement of debt instruments at amortised cost previously held at financial instruments available-for-sale	3,643
- reclassification from financial investments held-to-maturity	2,869,000
Opening balance under MFRS 9 as at 1 July 2018	3,568,699
Financial investments held-to-maturity	
Closing balance under MFRS 139 as at 30 June 2018	3,443,678
- reclassification to financial investments at amortised cost	(2,869,000)
- reclassification to financial investments at FVOCI	(574,678)
Opening balance under MFRS 9 as at 1 July 2018	-
Financing and advances	
Closing balance under MFRS 139 as at 30 June 2018	22,721,111
- remeasurement of financing and advances	15,573
- recognition of expected credit losses under MFRS 9	(34,392)
Opening balance under MFRS 9 as at 1 July 2018	22,702,292
Deferred tax assets	
Closing balance under MFRS 139 as at 30 June 2018	3,274
- in respect of unrealised gain/loss on FVOCI reserve	(1,336)
Opening balance under MFRS 9 as at 1 July 2018	1,938

52 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(i) The following table analyses the impact of transition on the Statement of Financial Position of the Bank from MFRS 139 to MFRS 9 as at 1 July 2018: (continued)

	Impact of adopting MFRS 9 as at 1 July 2018 RM'000
Retained profits	
Closing balance under MFRS 139 as at 30 June 2018	1,467,854
- transfer to regulatory reserves	(18,234)
- unrealised gain on financial investments at FVTPL transfer from fair value reserve	(2,415)
- remeasurement of financing and advances	15,573
- recognition of expected credit losses under MFRS 9	(34,600)
- tax effect arising from adoption of MFRS 9	3,230
Opening balance under MFRS 9 as at 1 July 2018	1,431,408
Regulatory reserves	
Closing balance under MFRS 139 as at 30 June 2018	97,901
- transfer from retained profits	18,234
Opening balance under MFRS 9 as at 1 July 2018	116,135
Fair value reserve	
Closing balance under MFRS 139 as at 30 June 2018	(13,350)
- unrealised gain on financial investments at FVTPL transfer to retained profit	2,415
- unrealised gain on financial investments at FVOCI reclassified from financial investments held-to-maturity	1,938
- remeasurement of debt instruments at amortised cost previously held at financial instruments available-for-sale	3,643
Opening balance under MFRS 9 as at 1 July 2018	(5,354)
Other liabilities	
Closing balance under MFRS 139 as at 30 June 2018	730,302
- recognition of expected credit losses under MFRS 9	172
Opening balance under MFRS 9 as at 1 July 2018	730,474
Provision for taxation	
Closing balance under MFRS 139 as at 30 June 2018	30,651
- tax effect arising from adoption of MFRS 9	(4,566)
Opening balance under MFRS 9 as at 1 July 2018	26,085

52 Change in Accounting Policies (continued)

(i) The following table analyses the impact of transition on the Statement of Financial Position of the Bank from MFRS 139 to MFRS 9 as at 1 July 2018: (continued)

Statement of Financial Position

	MFRS 139 measurement category	MFRS 9 measurement category	MFRS 139 Carrying amount 30 June 2018 RM'000	Classification and measurement RM'000	Expected credit losses RM'000	MFRS 9 Carrying amount 1 July 2018 RM'000
Assets						
Cash and short-term funds	Financing and receivable	Financing and receivable	1,152,146	-	(1)	1,152,145
Deposits and placements with banks and other financial institutions	Financing and receivable	Financing and receivable	200,852	-	-	200,852
Financial assets at fair value through profit or loss	NA	FVTPL	-	151,027	-	151,027
Financial assets held-for-trading	HFT	NA	350,837	(350,837)	-	-
Financial investments at fair value through other comprehensive income	NA	FVOCI	-	2,859,512	(35)	2,859,477
Financial investments available-for-sale	AFS	NA	2,779,142	(2,779,142)	-	-
Financial investments at amortised cost	NA	Amortised cost	-	3,568,699	-	3,568,699
Financial investments held-to-maturity	HTM	NA	3,443,678	(3,443,678)	-	-
Financing and advances	Financing and receivable	Amortised cost	22,721,111	15,573	(34,392)	22,702,292
Islamic derivative financial instruments	FVTPL	FVTPL	13,474	-	-	13,474
Other assets	Financing and receivable	Amortised cost	50,249	-	-	50,249
Statutory deposits with Central Banks		Amortised cost	688,096	-	-	688,096
Property and equipment	NA	NA	17,484	-	-	17,484
Intangible assets	NA	NA	1,197	-	-	1,197
Deferred tax assets	NA	NA	3,274	(1,336)	-	1,938
Total Assets			31,421,540	19,818	(34,428)	31,406,930

52 Change in Accounting Policies (continued)

(i) The following table analyses the impact of transition on the Statement of Financial Position of the Bank from MFRS 139 to MFRS 9 as at 1 July 2018: (continued)

Statement of Financial Position

	MFRS 139 measurement category	MFRS 9 measurement category	MFRS 139 Carrying amount 30 June 2018 RM'000	Classification and measurement RM'000	Expected credit losses RM'000	MFRS 9 Carrying amount 1 July 2018 RM'000
Liabilities						
Deposits from customers						
- At amortised cost	Amortised cost	Amortised cost	25,354,827	-	-	25,354,827
- At fair value through profit or loss	FVTPL	FVTPL	1,148,579	-	-	1,148,579
Deposits and placements of banks and other financial institutions	Amortised cost	Amortised cost	1,001,463	-	-	1,001,463
Bills and acceptances payable	Amortised cost	Amortised cost	37,458	-	-	37,458
Islamic derivative financial instruments	FVTPL	FVTPL	64,158	-	-	64,158
Other liabilities	Amortised cost	Amortised cost	730,302	-	172	730,474
Tier II subordinated Sukuk Ijarah	Amortised cost	Amortised cost	400,630	-	-	400,630
Multi-currency Additional Tier I subordinated Sukuk Wakalah	Amortised cost	Amortised cost	401,067	-	-	401,067
Provision for taxation	NA	NA	30,651	3,738	(8,304)	26,085
Total Liabilities			29,169,135	3,738	(8,132)	29,164,741
Equity						
Share capital			700,000	-	-	700,000
Retained profits			1,467,854	8,084	(44,530)	1,431,408
Regulatory reserves			97,901	-	18,234	116,135
Fair value reserve			(13,350)	7,996	-	(5,354)
Total Equity			2,252,405	16,080	(26,296)	2,242,189
Total Equity and Liabilities			31,421,540	19,818	(34,428)	31,406,930

Notes to the Financial Statements
for the financial year ended 30 June 2019

52 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

(ii) The following table is a reconciliation of the impairment allowance from the closing balance as at 30 June 2018 in accordance with the MFRS 9 to the opening balance as at 1 July 2018 in accordance with MFRS 9.

	MFRS 139 balance as at 30 June 2018 RM'000	Remeasurement RM'000	MFRS 9 balance as at 1 July 2018 RM'000
Cash and short-term funds	-	1	1
Financial investments at FVOCI	-	35	35
Financing and advances	198,701	34,392	233,093
Other liabilities	-	172	172
	198,701	34,600	233,301

53 DISCLOSURE OF SHARIAH COMMITTEE

The Bank has appointed a Shariah Committee that consists of 5 Shariah scholars.

The primary role of the Shariah Committee is mainly advising on matters relating to the operation of the Bank's existing products and providing support by attending regular meetings with the Bank to ensure that its products are in conformity with Shariah.

54 GENERAL INFORMATION

The Bank is a public limited liability company that is incorporated and domiciled in Malaysia. The registered office is at Level 30, Hong Leong Tower, No. 6, Jalan Damanlela, 50490, Kuala Lumpur, Wilayah Persekutuan, Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 11 September 2019.

Statement by Directors
Pursuant to Section 251(2) of the Companies Act 2016

We, Datuk Dr Md Hamzah bin Md Kassim and Domenic Fuda, being two of the Directors of Hong Leong Islamic Bank Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 91 to 205 are drawn up so as to give a true and fair view of the financial position of the Bank as at 30 June 2019 and of the financial performance and the cash flows of the Bank for the financial year then ended on that date in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

On behalf of the Board,

DATUK DR MD HAMZAH BIN MD KASSIM

DOMENIC FUDA

Kuala Lumpur
11 September 2019

Statutory Declaration

I, Chew Seong Aun, being the person primarily responsible for the financial management of Hong Leong Islamic Bank Berhad, do solemnly and sincerely declare that the financial statements set out on pages 91 to 205 are to the best of my knowledge and belief, 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 at	)	
Kuala Lumpur in Wilayah Persekutuan on	)	
11 September 2019	)	**Chew Seong Aun**
		MIA No. 10114

Before me,

Tan Seok Kett
Commissioner of Oaths

Independent Auditors' Report

to the members of Hong Leong Islamic Bank Berhad
(Incorporated in Malaysia)
(Company no. 686191 - W)

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements of Hong Leong Islamic Bank Berhad ("the Bank") give a true and fair view of the financial position of the Bank as at 30 June 2019, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 30 June 2019, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 91 to 205.

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.

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:

- Chairman's Statement
- Financial Highlights
- Chief Executive Officer's Review
- Management Discussion & Analysis
- Sustainability Statement
- Board Audit & Risk Management Committee Report
- Corporate Governance, Risk Management & Internal Control
- Shariah Committee's Report
- Director's Report
- Basel II Pillar 3 Disclosures

Independent Auditors’ Report

to the members of Hong Leong Islamic Bank Berhad
(Incorporated in Malaysia)
(Company no. 686191 - W)

Report on the audit of the financial statements (continued)

Other information 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 (continued)

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.

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

Independent Auditors' Report

to the members of Hong Leong Islamic Bank Berhad
(Incorporated in Malaysia)
(Company no. 686191 - W)

Report on the audit of the financial statements (continued)

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

NG YEE LING
03032/01/2021 J
Chartered Accountant

Kuala Lumpur
11 September 2019

Basel II Pillar 3 Disclosures

for the financial year ended 30 June 2019

1 INTRODUCTION

This document discloses Hong Leong Islamic Bank Berhad ("HLISB" or "the Bank") risk profile, risk management practices in accordance with the disclosure requirement as outline in the Risk -Weighted Capital Adequacy Framework ("RWCF") ("Basel II-Disclosure requirements-Pillar 3") issued by BNM.

The Bank's regulatory capital is governed by BNM Capital Adequacy Framework for Islamic Banks ("CAFIB") guidelines. The capital adequacy ratios of the Bank are computed in accordance with BNM's Capital Adequacy Framework (Capital Components) for Islamic Banks issued on 28 November 2012 and its revised version on 13 October 2015 (the "Framework"). The Framework sets out the approach for computing the regulatory capital adequacy ratios, the minimum levels of the ratios at which banking institutions are required to operate as well as requirement on Capital Conservation Buffer ("CCB") and Counter Cyclical Buffer ("CCyB"). The Bank are also required to maintain CCB of up to 2.500% of total risk weighted assets ("RWA"), which is phased in starting with 0.625% in year 2016, 1.250% in year 2017, 1.875% in year 2018 and 2.500% in year 2019. The CCyB which ranges from 0% up to 2.500% is determined as the weighted average of prevailing CcyB rates applied in the jurisdictions in which a financial institution has credit exposures. The minimum capital adequacy including CCB for Common Equity Tier I (CET I) capital ratio, Tier I capital ratio and Total Capital ratio for year 2019 are 7.000%, 8.500% and 10.500% respectively.

The risk-weighted assets ("RWA") of the Bank have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk computation in deriving the RWA.

The following information concerning the Bank's risk exposures, risk management practices and capital adequacy is disclosed as accompanying information to the annual report and does not form part of the audited financial statements.

2 SCOPE OF APPLICATION

The capital adequacy ratios of the Bank are computed in accordance with BNM's revised RWCAF-Basel II. The Bank have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk Computation.

During the course of the year, the Bank did not experience any restrictions or other major impediments on transfer of funds or regulatory capital within the Bank.

Basel II Pillar 3 Disclosures

for the financial year ended 30 June 2019

3 CAPITAL STRUCTURE AND ADEQUACY

The Bank monitors the capital adequacy position of the Bank to ensure compliance with the requirements of BNM and to take prompt actions to address projected capital deficiency. The capital position is reviewed on a monthly basis by undertaking stress tests and taking into account the levels and trend of material risks. The sufficiency of capital is assessed against the various risks in the balance sheet as well as future capital requirements based on the Bank's expansion plans.

The Bank has also formalised an overall capital management framework, which seeks to ensure that it is in line with Basel III Capital Standards.

The following table sets forth details on the capital resources, capital adequacy ratios and risk-weighted assets for the Bank as at 30 June 2019. BNM's revised CAFIB/RWCAF-Basel II sets out the minimum capital adequacy ratios for the banking institutions and the methodology for calculating these ratios. As at 30 June 2019, the Bank's CET 1, Tier I capital ratio and total capital ratio were higher than BNM's minimum requirements.

The constituents of total eligible capital for the Bank as at 30 June 2019 are set out in BNM's Capital Adequacy Framework (Capital Components)-Basel III. These include shareholders' funds after regulatory-related adjustments and eligible capital instruments issued by the Bank. Refer to Note 24 and Note 25 to the financial statements for the terms and conditions of the main features of these capital instruments.

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

	30 June 2019 RM'000	30 June 2018 RM'000
Before deducting proposed dividends		
CET I capital ratio	**10.529%**	10.461%
Tier II capital ratio	**12.258%**	12.404%
Total capital ratio	**15.150%**	15.477%
After deducting proposed dividends		
CET I capital ratio	**10.529%**	10.461%
Tier II capital ratio	**12.258%**	12.404%
Total capital ratio	**15.150%**	15.477%

3 CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(b) The components of CET 1, Tier I and Tier II capital under the revised Capital Components Framework are as follows:

	30 June 2019 RM'000	30 June 2018 RM'000
CET I capital		
Paid-up share capital	**700,000**	700,000
Retained profit	**1,730,453**	1,467,854
Other reserves	**13,576**	(13,350)
Less: Deferred tax assets	**(10,224)**	(3,274)
Less: Other intangible assets	**(828)**	(1,197)
Total CET I capital	**2,432,977**	2,150,033
Additional Tier 1 capital		
Multi-currency Additional Tier I subordinated Sukuk Wakalah	**399,434**	399,268
Total Tier 1 capital	**2,832,411**	2,549,301
Tier II capital		
Stage 1 and stage 2 expected credit loss allowance and regulatory reserve#	**268,349**	-
Collective assessment allowance^ and regulatory reserves#	**-**	231,577
Tier II subordinated Sukuk/Ijarah	**399,970**	399,946
Total Tier II capital	**668,319**	631,523
Total capital	**3,500,730**	3,180,824

(c) The breakdown of risk-weighted assets ("RWA") by each major risk category is as follows:

	30 June 2019 RM'000	30 June 2018 RM'000
Risk-weighted assets for credit risk*	**21,467,954**	18,872,910
Risk-weighted assets for market risk	**455,895**	638,360
Risk-weighted assets for operational risk	**1,182,621**	1,041,155
Total risk-weighted assets	**23,106,470**	20,552,425

* In accordance with BNM Investment Account Policy, the RWA funded by Investment Account of RM1,294,000 (2018: Nil) is excluded from the calculation of capital adequacy ratio of the Bank.

Includes the qualifying regulatory reserve for non-impaired financing and advances of the Bank of RM130,228,000 (2018: RM97,901,000).

^ Excludes collective assessment allowance attributable to financing and advances classified as impaired but not individually assessed for impairment.

Basel II Pillar 3 Disclosures

for the financial year ended 30 June 2019

3 CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(d) The breakdown of risk-weighted assets ("RWA") by exposure is as follows:

30 June 2019 Exposure class	Gross exposures before CRM RM'000	Net exposures after CRM RM'000	Risk weighted assets RM'000	Minimum capital requirements RM'000
Credit Risk				
On-balance sheet exposures				
Sovereigns/central Banks	7,193,042	7,193,042	-	-
Banks, Development Financial Institutions("DFIs") and Multilateral Development Bank ("MDBs")	538,842	538,842	108,692	8,695
Insurance Cos, Securities Firms ("SF") and Fund Managers ("FM")	1,017	1,017	1,017	81
Corporates	6,236,814	6,203,063	5,792,587	463,407
Regulatory retail	10,413,112	10,388,352	7,893,503	631,584
Residential mortgages	9,627,919	9,626,229	4,527,049	362,164
Higher risk assets	11,283	11,283	16,924	1,354
Other assets	653,198	653,198	184,559	14,765
Defaulted exposures	105,082	104,728	102,465	8,197
Total on-balance sheet exposures	34,780,309	34,719,754	18,626,796	1,490,247
Off-Balance Sheet Exposures				
Over-the-counter("OTC") derivatives	124,919	124,919	66,642	5,331
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,231,460	3,222,810	2,771,674	221,734
Defaulted exposures	1,923	1,890	2,842	227
Total off-balance sheet exposures	3,358,302	3,349,619	2,841,158	227,292
Total on and off-balance sheet exposures	38,138,611	38,069,373	21,467,954	1,717,539
Market Risk	**Long Position**	**Short Position**		
Profit rate risk	3,237,999	2,722,704	416,585	33,327
Foreign currency risk	39,310	2,711	39,310	3,145
Total	3,277,309	2,725,415	455,895	36,472
Operational risk			1,182,621	94,610
Total RWA and capital requirements			23,106,470	1,848,621

Note:
CRM – Credit risk mitigation

^ The gross exposures before CRM of off-balance sheet exposures refer to the credit equivalent of off-balance sheet items on page 232.

3 CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(d) The breakdown of risk-weighted assets ("RWA") by exposure is as follows: (continued)

30 June 2018 Exposure Class	Gross exposures before CRM RM'000	Net exposures after CRM RM'000	Risk weighted assets RM'000	Minimum capital requirements RM'000
Credit Risk				
On-balance sheet exposures				
Sovereigns/central Banks	7,028,623	7,028,623	-	-
Banks, Development Financial Institutions("DFIs") and Multilateral Development Bank ("MDBs")	1,078,626	1,078,626	215,725	17,258
Corporates	5,249,014	5,218,077	4,843,789	387,503
Regulatory retail	12,202,187	12,182,358	9,198,807	735,905
Residential mortgages	5,415,252	5,413,235	2,202,311	176,185
Higher risk assets	2,406	2,405	3,607	289
Other assets	83,569	83,569	76,334	6,107
Defaulted exposures	140,231	140,223	151,339	12,107
Total on-balance sheet exposures	31,199,908	31,147,116	16,691,912	1,335,354
Off-Balance sheet exposures				
Over-the-counter ("OTC") derivatives	199,666	199,666	110,403	8,832
Off balance sheet exposures other than OTC derivatives or credit derivatives	2,325,211	2,320,977	1,982,116	158,569
Defaulted Exposures	58,985	58,986	88,478	7,078
Total off-balance sheet exposures	2,583,862	2,579,629	2,180,997	174,479
Total on and off- balance sheet exposures	33,783,770	33,726,745	18,872,909	1,509,833
Market risk	**Long Position**	**Short Position**		
Profit rate risk	4,437,961	4,087,123	622,216	49,777
Foreign currency risk	13,623	16,144	16,145	1,292
Total	4,451,584	4,103,267	638,361	51,069
Operational risk			1,041,155	83,292
Total RWA and capital requirements			20,552,425	1,644,194

Note:
CRM – Credit risk mitigation

^ The gross exposures before CRM of off-balance sheet exposures refer to the credit equivalent of off-balance sheet items on page 233.

Basel II Pillar 3 Disclosures

for the financial year ended 30 June 2019

4 RISK MANAGEMENT

The Bank has implemented a risk management and internal control framework with the objective to ensure the overall financial soundness and stability of the Bank's business operations. The risk management and internal control framework outlines the overall governance structure, aspiration, values and risk management strategies that balances between risk profiles and returns objectives. Appropriate methodologies and measurements have been developed to manage uncertainties such that deviations from intended strategic objectives are closely monitored and kept within tolerable levels.

As part of the risk management and internal control framework, the Bank has formulated and implemented an Internal Capital Adequacy Assessment Process ("ICAAP") and a capital management framework to ensure that it maintains the appropriate level of capital, the appropriate quality and structure of capital and the appropriate risk profile to support its strategic objectives. This also includes determining the Bank's minimum capital threshold and target capital levels.

From a governance perspective, the Board has the overall responsibility to define the Bank's risk appetite and ensure that a robust risk management and compliance culture prevails. The Board is assisted by the Board Audit Risk Management Committee ("BARMC") in approving the risk management and internal control framework as well as the attendant capital management framework, risk appetite statement, risk management and compliance strategies, and risk management and compliance policies.

Dedicated management level committees are established by the Bank to oversee the development and the effectiveness of risk management policies, to review risk exposures and portfolio composition as well as to ensure appropriate infrastructures, resources and systems are put in place for effective risk management activities.

Operationally, the Bank operates multiple lines of defences to effect a robust control framework. The business units being the first line of defence are responsible for identifying, mitigating and managing risks within their lines of business. The Group Risk Management ("GRM") function being the second line of defence, is responsible for setting the risk management framework and developing tools and methodologies for the identification, measurement, monitoring, control and mitigation of risks. In addition, GRM undertakes validation to ensure that the business and operating units are in compliance to the Bank's risk appetite thresholds and to the regulatory requirements. The GRM's functions cover the oversight of the following areas:- Market Risk, Rate of Return Risk in the Banking Book, Liquidity Risk, Credit Portfolio Risk, Technology Risk, Operational Risk, ICAAP and Integrated Stress Testing and Islamic Banking Risk.

The Group Internal Audit function, being the third line of defence, is responsible to provide independent assurance on the effective functioning of the risk management and internal controls framework for the Bank.

The risk management process for each key risk area of the Bank and the various risk exposures are described in the following sections of the Pillar 3 disclosures.

4 RISK MANAGEMENT (CONTINUED)

A Credit Risk

Credit risk arises as a result of customers or counterparties not being able to or willing to fulfil their financial and contractual obligations as and when they fall due. These obligations arise from lending, trade finance and other financing activities undertaken by the Bank.

The Bank has established a credit risk management framework to ensure that exposure to credit risk is kept within the Bank's financial capacity to withstand potential future losses. Financing activities are guided by the internal credit policies and guidelines that are reviewed and concurred by the Management Credit Committee ("MCC"), endorsed by the Credit Supervisory Committee ("CSC") and the BARMC, and approved by the Board. These policies are subject to periodically review and enhancements, at least on an annual basis.

Credit portfolio strategies and significant exposures are reviewed by both BARMC and the Board. These portfolio strategies are designed to achieve a desired portfolio risk tolerance level and sector distribution within the Bank's defined policies/parameters.

The Bank's credit approving process encompasses pre-approval evaluation, approval and post-approval evaluation. While the business units are responsible for credit origination, the credit approving function rests mainly with the Credit Evaluation Departments, the MCC and the CSC, which are granted approving and discretionary authority and the various personnel based on their job function and designation.

For any new products, credit risk assessment also forms part of the new product sign-off processes to ensure that the new product complies with the appropriate risk policies and guidelines, prior to the introduction of the product.

The Bank's exposure to credit risk is mainly from its retail customers, small and medium enterprise ("SME"), commercial and corporate customers. The credit assessment for retail customers is managed on a portfolio basis and the risk scoring models and financing templates are designed to assess the credit worthiness and the likelihood of the obligors to pay their financing.

The SME, commercial and corporate customers are individually assessed and assigned with a credit rating, which is based on the assessment of relevant factors such as the customer's financial position, management expertise, industry outlook, types of facilities and collaterals offered.

Under the Basel II Standardised Approach, the Bank makes use of credit ratings assigned by credit rating agencies in its calculation of credit risk weighted assets. This is applicable for exposures to sovereigns, central banks, public sector entities, banking institutions, corporates as well as certain other specific portfolios.

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for the financial year ended 30 June 2019

4 RISK MANAGEMENT (CONTINUED)

A Credit Risk (continued)

The approved External Credit Assessment Institutions ("ECAI") ratings and the prescribed risk weights on the above stated asset classes are used in the computation of regulatory capital. An exposure would be deemed to have an external rating if the issuer or the issue has a rating provided by an ECAI. In cases where an exposure does not have an issuer or issue rating, the exposure shall be deemed unrated and shall be accorded a risk weight appropriate for unrated exposures in their respective exposure category.

The ECAI used by the Bank are Fitch Ratings, Moody's Investors Service and Standard & Poor's, Rating and Investment Inc (R&I), Malaysia Rating Corporation Berhad (MARC) and Rating Agency Malaysia (RAM). ECAI ratings are mapped to a common credit quality grade as prescribed by BNM.

In addition, the Bank also conducts periodic stress testing of its credit portfolios to ascertain credit risk impact to capital under the relevant stress scenarios.

Gross credit exposure

(i) The table below sets out the breakdown of gross credit exposures by geographical distribution as follows:

Malaysia	30 June 2019 RM'000	30 June 2018 RM'000
On-balance sheet exposures		
Financial assets at fair value through profit or loss*	**515,295**	-
Financial assets held-for-trading*	**-**	350,837
Financial investments at fair value through other comprehensive income*	**2,956,180**	-
Financial investments available-for-sale*	**-**	2,779,142
Financial investments at amortised cost	**4,239,826**	-
Financial investments held-to-maturity	**-**	3,443,678
Financing and advances	**25,840,011**	22,721,111
Islamic derivative financial instruments	**29,644**	13,474
Total on-balance sheet exposures	**33,580,956**	29,308,242
Off-balance sheet exposures^		
OTC derivatives	**124,919**	199,666
Off-balance sheet exposures other than OTC derivatives or credit derivatives	**3,233,383**	2,384,196
Total off-balance sheet exposures	**3,358,302**	2,583,862
Total on and off-balance sheet exposures	**36,939,258**	31,892,104

Note:

(1) For this table, the Bank have allocated the financings and advances to geographical areas based on the country where the financings and advances were provided.

* Excludes equity securities.

^ Off balance sheet exposures refer to the credit equivalent of off-balance sheet items on page 235 and page 236.

4 RISK MANAGEMENT (CONTINUED)

A Credit Risk (continued)

Gross credit exposure (continued)

(ii) The table below sets out the breakdown of gross credit exposures by sector as follows:

30 June 2019	Financial assets at fair value through profit or loss* RM'000	Financial investments at fair value through other comprehensive income* RM'000	Financial investments at amortised cost RM'000	Financing and advances RM'000	Islamic derivative financial instruments RM'000	Total on-balance sheet credit risk exposures RM'000	OTC derivatives RM'000	Off-balance sheet exposures other than OTC derivatives or credit derivatives RM'000	Total off-balance sheet credit risk exposures RM'000	Total on and off-balance sheet credit risk exposures RM'000
Agriculture	-	-	-	788,728	-	788,728	-	204,618	204,618	993,346
Mining and quarrying	-	-	-	12,947	-	12,947	-	4,274	4,274	17,221
Manufacturing	-	-	-	1,593,708	-	1,593,708	-	476,783	476,783	2,070,491
Electricity, gas and water	-	448,257	268,642	55,295	-	772,194	-	172,013	172,013	944,207
Construction	-	20,602	-	536,686	-	557,288	-	207,486	207,486	764,774
Wholesale and retail	-	-	-	1,314,674	-	1,314,674	-	350,139	350,139	1,664,813
Transport, storage and communications	-	5,125	-	169,834	-	174,959	-	38,378	38,378	213,337
Finance, insurance, real estate and business services	-	1,050,508	137,034	1,854,414	29,644	3,071,600	-	660,133	660,133	3,731,733
Government and government agencies	515,295	1,431,688	3,834,150	-	-	5,781,133	-	-	-	5,781,133
Education, health and others	-	-	-	820,146	-	820,146	-	68,740	68,740	888,886
Household	-	-	-	18,693,579	-	18,693,579	124,919	1,050,819	1,175,738	19,869,317
Total on and off-balance sheet exposures	515,295	2,956,180	4,239,826	25,840,011	29,644	33,580,956	124,919	3,233,383	3,358,302	36,939,258

* Exclude equity securities

4 RISK MANAGEMENT (CONTINUED)

A Credit Risk (continued)

Gross credit exposure (continued)

(ii) The table below sets out the breakdown of gross credit exposures by sector as follows:

30 June 2018	Financial assets held for trading* RM'000	Financial investments available for sale* RM'000	Financial investments held-to maturity RM'000	Financing and advances RM'000	Islamic derivative financial instruments RM'000	Total on-balance sheet credit risk exposures RM'000	OTC derivatives RM'000	Off-balance sheet exposures other than OTC derivatives or credit derivatives RM'000	Total off-balance sheet credit risk exposures RM'000	Total on and off-balance sheet credit risk exposures RM'000
Agriculture	-	-	-	881,822	-	881,822	-	163,373	163,373	1,045,195
Mining and quarrying	-	-	-	39,323	-	39,323	-	128	128	39,451
Manufacturing	-	-	-	1,010,331	-	1,010,331	-	399,706	399,706	1,410,037
Electricity, gas and water	-	434,825	-	52,726	-	487,551	-	45,356	45,356	532,907
Construction	-	65,360	-	481,864	-	547,224	-	154,902	154,902	702,126
Wholesale and retail	-	-	-	988,644	-	988,644	-	222,868	222,868	1,211,512
Transport, storage and communications	-	5,035	-	138,579	-	143,614	-	32,151	32,151	175,765
Finance, insurance, real estate and business services	199,810	663,137	-	1,656,679	13,474	2,533,100	-	423,247	423,247	2,956,347
Government and government agencies	151,027	1,610,785	3,443,678	-	-	5,205,490	-	-	-	5,205,490
Education, health and others	-	-	-	821,473	-	821,473	-	7,171	7,171	828,644
Household	-	-	-	16,646,849	-	16,646,849	199,666	935,294	1,134,960	17,781,809
Others	-	-	-	2,821	-	2,821	-	-	-	2,821
Total on and off-balance sheet exposures	350,837	2,779,142	3,443,678	22,721,111	13,474	29,308,242	199,666	2,384,196	2,583,862	31,892,104

* Exclude equity securities

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for the financial year ended 30 June 2019

4 RISK MANAGEMENT (CONTINUED)

A Credit Risk (continued)

Gross credit exposure (continued)

(iii) The table below sets out the breakdown of gross credit exposures by residual contractual maturity as follows:

	Less than 1 year RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
30 June 2019				
On-balance sheet exposures				
Financial assets at fair value through profit or loss*	-	310,189	205,106	515,295
Financial investments at fair value through other comprehensive income*	559,935	1,469,073	927,172	2,956,180
Financial investments at amortised cost	-	3,318,685	921,141	4,239,826
Financing and advances	2,449,543	3,513,740	19,876,728	25,840,011
Islamic derivative financial instruments	6,819	8,827	13,998	29,644
Total on-balance sheet exposures	3,016,297	8,620,514	21,944,145	33,580,956
Off-balance sheet exposures^				
OTC derivatives	29,531	32,183	63,205	124,919
Off-balance sheet exposures other than OTC derivatives or credit derivatives	786,023	2,447,360	-	3,233,383
Total off-balance sheet exposures	815,554	2,479,543	63,205	3,358,302
Total on and off-balance sheet exposures	3,831,851	11,100,057	22,007,350	36,939,258
30 June 2018				
On-balance sheet exposures				
Financial assets held-for-trading*	199,810	-	151,027	350,837
Financial investments available-for-sale*	55,876	1,492,254	1,231,012	2,779,142
Financial investments held-to-maturity	544,628	2,805,435	93,615	3,443,678
Financing and advances	2,418,334	3,170,183	17,132,594	22,721,111
Islamic derivative financial instruments	8,402	(3,993)	9,065	13,474
Total on-balance sheet exposures	3,227,050	7,463,879	18,617,313	29,308,242
Off-balance sheet exposures^				
OTC derivatives	17,572	55,878	126,216	199,666
Off-balance sheet exposures other than OTC derivatives or credit derivatives	449,590	1,934,606	-	2,384,196
Total off-balance sheet exposures	467,162	1,990,484	126,216	2,583,862
Total on and off-balance sheet exposures	3,694,212	9,454,363	18,743,529	31,892,104

* Exclude equity securities

^ Off-balance sheet exposures refer to the credit equivalent of off-balance sheet items on 235 and 236.

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for the financial year ended 30 June 2019

4 RISK MANAGEMENT (CONTINUED)

A Credit Risk (continued)

Financing and advances

(i) The table below sets out the breakdown by sector the amount of past due financing and advances, impaired financing and advances, expected credit losses stage 1, 2 and 3 expected credit losses charges/(write back) during the year and write-offs for stage 3 during the year as follows:

30 June 2019	Past due financing and advances RM'000	Credit Impaired financing and advances RM'000	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Charges/ (write back) for ECL Stage 3 during the year RM'000	Stage 3 Write offs during the year RM'000
Agriculture	7,415	82	410	199	47	(31)	-
Mining and quarrying	91	20,332	18	180	20,332	(818)	-
Manufacturing	12,774	222	1,509	812	963	998	-
Electricity, gas and water	16	-	1,238	2	-	(17)	-
Construction	14,092	518	912	990	260	69	70
Wholesale and retail	16,135	2,087	2,581	1,416	994	53	78
Transport, storage and communications	3,872	6	232	72	3	38	60
Finance, insurance, real estate and business services	24,550	1,529	2,262	5,786	-	125	105
Education, health and others	13,614	41	524	597	41	46	8
Household	1,977,935	152,741	48,249	101,447	56,832	56,943	54,850
Others	-	-	-	-	-	(57)	-
	2,070,494	177,558	57,935	111,501	79,472	57,349	55,171

4 RISK MANAGEMENT (CONTINUED)

A Credit Risk (continued)

Financing and advances (continued)

(i) The table below sets out the breakdown by sector the amount of past due financing and advances, impaired financing and advances, individual assessment impairment allowance, collective assessment impairment allowance, charges/(write back) for individual assessment impairment allowance during the year and write-offs during the year as follows:

30 June 2018	Past due financing and advances RM'000	Impaired financing and advances RM'000	Individual assessment impairment allowance RM'000	Collective assessment impairment allowance RM'000	Charges/ (write back) for individual assessment impairment allowance during the year RM'000	Write offs during the year RM'000
Agriculture	9	131	-	1,631	-	-
Mining and quarrying	104	50,000	21,150	62	12,309	-
Manufacturing	1,949	239	-	3,190	-	(1,209)
Electricity, gas and water	16	30	-	778	-	-
Construction	2,946	743	19	2,102	(37)	-
Wholesale and retail	12,778	7,296	657	5,353	(2,894)	-
Transport, storage and communications	1,120	42	-	406	-	-
Finance, insurance, real estate and business services	32,247	14,423	-	9,129	-	-
Education, health and others	1,212	-	-	2,119	-	-
Household	1,745,931	134,967	-	152,051	-	-
Others	-	100	-	54	-	-
	1,798,312	207,971	21,826	176,875	9,378	(1,209)

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4 RISK MANAGEMENT (CONTINUED)

A Credit Risk (continued)

Financing and advances (continued)

(ii) The table below sets out the breakdown of geographical areas the amount of past due financing and advances, impaired financing and advances, expected credit losses stage 1, 2 and 3, individual assessment impairment allowance and collective assessment impairment allowance as follows:

30 June 2019	Past due financing and advances RM'000	Impaired financing and advances RM'000	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000
Malaysia	**2,070,494**	**177,558**	**57,935**	**111,501**	**79,472**

30 June 2018	Past due financing and advances RM'000	Impaired financing and advances RM'000	Individual assessment impairment allowance RM'000	Collective assessment impairment allowance RM'000
Malaysia	1,798,312	207,971	21,826	176,875

Notes:

(1) A financial asset is defined as "past due" when the counterparty has failed to make a payment when contractually due.

(2) For description of approaches adopted by the Bank for the determination of expected credit loss (ECL) on financial assets, refer to Note 2 M to the annual financial statements.

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4 RISK MANAGEMENT (CONTINUED)

A Credit Risk (continued)

Financing and advances (continued)

(iii) The table below sets out the movements in expected credit losses model for financing and advances during the financial year as follows:

2019	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total ECL RM'000
At 1 July	-	-	-	198,701
Effect of adopting MFRS 9	-	-	-	34,392
At 1 July as restated	50,990	99,617	82,486	233,093
Changes in ECL due to transfer within stages	(17,541)	(24,281)	41,822	-
- Transfer to Stage 1	2,290	(2,280)	(10)	-
- Transfer to Stage 2	(19,829)	46,106	(26,277)	-
- Transfer to Stage 3	(2)	(68,107)	68,109	-
New financial assets originated	13,785	592	38	14,415
Financial assets derecognised	(7,285)	(13,434)	(12,045)	(32,764)
Changes due to change in credit risk	17,985	49,005	27,532	94,522
Amount written off	-	-	(55,171)	(55,171)
Exchange difference	1	1	-	2
Other movements	-	-	(5,190)	(5,190)
At 30 June	57,935	111,500	79,472	248,907

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4 RISK MANAGEMENT (CONTINUED)

A Credit Risk (continued)

Financing and advances (continued)

(v) The table below sets out the movements in individual assessment impairment allowance and collective assessment impairment allowance during the financial year as follows:

	30 June 2019 RM'000	30 June 2018 RM'000
Collective assessment allowance		
At 1 July	**176,875**	157,826
Effect of adopting MFRS 9	**(176,875)**	-
At 1 July, as restated	**-**	157,826
Net allowance made during the financial year	**-**	74,481
Amount written off	**-**	(52,446)
Unwinding income	**-**	(2,986)
As at end of the financial year	**-**	176,875

	30 June 2019 RM'000	30 June 2018 RM'000
Individual assessment allowance		
At 1 July	**21,826**	13,664
Effect of adopting MFRS 9	**(21,826)**	-
At 1 July, as restated	**-**	13,664
Net allowance made during the financial year	**-**	12,403
Allowance written back in respect of recoveries	**-**	(3,025)
Amount written off	**-**	(1,208)
Unwinding income	**-**	(8)
As at end of the financial year	**-**	21,826

4 RISK MANAGEMENT (CONTINUED)

A Credit Risk (continued)

Credit risk exposures by risk weight

The breakdown of credit risk exposures by risk weight is as follows:

	Exposures after netting and credit risk mitigation										
30 June 2019 Risk weight	Sovereigns/ central banks RM'000	PSEs RM'000	Banks, DFIs & MDBs RM'000	Insurance Cos, SF and FM RM'000	Corporates RM'000	Regulatory retail RM'000	Residential mortgages RM'000	Higher risk assets RM'000	Other assets RM'000	Total exposures after netting & credit risk mitigation RM'000	Total risk weighted assets RM'000
0%	7,193,042	-	-	-	-	-	-	-	11,628	7,204,670	-
20%	-	9,101	540,259	-	494,114	-	-	-	571,263	1,614,737	322,947
35%	-	-	-	-	-	-	5,643,312	-	-	5,643,312	1,975,159
50%	-	-	163,420	-	33,200	14,019	2,868,295	-	-	3,078,934	1,539,467
75%	-	-	-	-	-	11,642,213	15,196	-	-	11,657,409	8,743,057
100%	-	-	-	58,711	7,123,939	421,012	1,159,730	-	70,307	8,833,699	8,833,700
150%	-	-	-	-	4,337	20,984	-	11,291	-	36,612	54,918
Total	7,193,042	9,101	703,679	58,711	7,655,590	12,098,228	9,686,533	11,291	653,198	38,069,373	21,469,248
Risk weighted assets by exposure	-	1,820	189,762	58,711	7,245,867	9,191,157	4,580,434	16,936	184,561	21,469,248	
Average risk weight	0%	20%	27%	100%	95%	76%	47%	150%	28%	56%	

4 RISK MANAGEMENT (CONTINUED)

A Credit Risk (continued)

Credit risk exposures by risk weight (continued)

The breakdown of credit risk exposures by risk weight is as follows: (continued)

30 June 2018 Risk weight	Exposures after netting and credit risk mitigation Sovereigns/ central banks RM'000	PSEs RM'000	Banks, DFIs & MDBs RM'000	Insurance Cos, SF and FM RM'000	Corporates RM'000	Regulatory retail RM'000	Residential mortgages RM'000	Higher risk assets RM'000	Other assets RM'000	Total exposures after netting & credit risk mitigation RM'000	Total risk weighted assets RM'000
0%	7,028,623	-	-	-	-	-	-	-	7,235	7,035,858	-
20%	-	21,692	1,086,157	-	465,997	-	-	-	2,082	1,575,928	315,186
35%	-	-	-	-	-	-	4,216,469	-	-	4,216,469	1,475,764
50%	-	-	146,770	-	11,338	11,770	949,180	-	-	1,119,058	559,529
75%	-	-	-	-	-	13,236,389	5,288	-	-	13,241,677	9,931,258
100%	-	-	-	19,132	5,801,753	262,677	271,021	-	76,334	6,430,917	6,430,916
150%	-	-	-	-	70,294	34,139	-	2,405	-	106,838	160,257
Total	7,028,623	21,692	1,232,927	19,132	6,349,382	13,544,975	5,441,958	2,405	85,651	33,726,745	18,872,910
Risk weighted assets by exposure	-	4,338	290,617	19,132	6,006,062	10,247,062	2,225,341	3,607	76,751	18,872,910	
Average risk weight	0%	20%	24%	100%	95%	76%	41%	150%	90%	56%	

4 RISK MANAGEMENT (CONTINUED)

A Credit Risk (continued)

The following tables summarise the rated exposures according to ratings by External Credit Assessment Institutions ("ECAI's") as follows:

(i) Ratings of Public Sector Entities, Insurance Cos, Securities Firm and Funds Manager and Corporates by approved ECAIs

	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure class		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
30 June 2019						
On and off-balance sheet exposures						
Public Sector Entities		**-**	**-**	**-**	**-**	**9,101**
Insurance Cos, SF and FM		**-**	**-**	**-**	**-**	**58,711**
Corporates		**494,114**	**33,114**	**-**	**-**	**7,128,361**
		494,114	**33,114**	**-**	**-**	**7,196,173**
30 June 2018						
On and off-balance sheet exposures						
Public Sector Entities		-	-	-	-	21,692
Insurance Cos, SF and FM		-	-	-	-	19,132
Corporates		465,997	11,278	368,458	-	5,503,648
		465,997	11,278	368,458	-	5,544,472

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4 RISK MANAGEMENT (CONTINUED)

A Credit Risk (Continued)

The following tables summarise the rated exposures according to ratings by External Credit Assessment Institutions ("ECAI's") as follows: (continued)

(ii) Ratings of Sovereigns/Central Banks and Banking Institutions by approved ECAIs

	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
Exposure class		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
30 June 2019						
On and off-balance sheet exposures						
Sovereigns/central banks		**132,867**	**-**	**-**	**-**	**7,060,175**
Banks, MDBs and FDIs		**400,150**	**180,646**	**2,607**	**-**	**120,277**
		533,017	**180,646**	**2,607**	**-**	**7,180,452**
30 June 2018						
On and off-balance sheet exposures						
Sovereigns/central banks		141,948	-	-	-	5,579,829
Banks, MDBs and FDIs		65,651	438,574	-	-	232,182
		207,599	438,574	-	-	5,812,011

4 RISK MANAGEMENT (CONTINUED)

A Credit Risk (Continued)

The following tables summarise the rated exposures according to ratings by External Credit Assessment Institutions ("ECAI's") as follows: (continued)

(iii) Short-term ratings of Banking Institutions and Corporates by approved ECAIs

	Moodys	**P-1**	**P-2**	**P-3**	**Others**	**Unrated**
	S&P	**A-1**	**A-2**	**A-3**	**Others**	**Unrated**
	Fitch	**F1+, F1**	**F2**	**F3**	**B to D**	**Unrated**
	RAM	**P-1**	**P-2**	**P-3**	**NP**	**Unrated**
	MARC	**MARC-1**	**MARC-2**	**MARC-3**	**MARC-4**	**Unrated**
	Rating & Investment Inc	**a-1+, a-1**	**a-2**	**a-3**	**b, c**	**Unrated**
Exposure class		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
30 June 2019						
On and off-balance sheet exposures						
Banks, MDBs and FDIs		-	-	-	-	-
		-	-	-	-	-
30 June 2018						
On and off-balance sheet exposures						
Banks, MDBs and FDIs		172,946	3,607	-	-	-
		172,946	3,607	-	-	-

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4 RISK MANAGEMENT (CONTINUED)

A Credit Risk (continued)

Credit risk mitigation

The Bank grants financing facilities on the basis of the customer's credit standing, payment record and debts servicing ability. Where possible, collateral is taken to mitigate and reduce any credit risk for the particular financing facility extended. The value of the collateral is monitored periodically and where applicable, a revised valuation may be requested from the customer. The types of collateral accepted include cash, marketable securities, properties, machineries or equipment, inventory and receivables. In certain cases, corporate guarantees are obtained where the credit worthiness of the corporate customer is insufficient for amount sought. There are policies and processes in place to monitor collateral concentration. For credit risk mitigation ("CRM") purposes, only collateral or guarantees that are legally enforceable are taken into account. The credit exposures are computed on a net basis only when there is a legally enforceable netting arrangements for financing and deposits. The Bank uses the Comprehensive Approach for computation of the adjusted exposures.

The following table summarises the breakdown of CRM by exposure as follows:

30 June 2019	Exposures before CRM RM'000	Exposures covered by guarantees/ credit derivatives RM'000	Exposures covered by eligible collateral RM'000
Exposure class			
On-balance sheet exposures			
Sovereigns/central banks	7,193,042	-	-
Banks, DFIs & MDBs	538,842	-	-
Corporates	6,236,814	-	33,751
Regulatory retail	10,413,112	-	24,759
Residential mortgages	9,627,919	-	1,689
Higher risk assets	11,283	-	-
Other assets	653,198	-	-
Defaulted exposures	105,082	-	354
Total for on-balance sheet exposures	34,780,309	-	60,553
Off-balance sheet exposures			
OTC derivatives	124,919	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,231,460	-	8,650
Defaulted exposures	1,923	-	32
Total for off-balance sheet exposures	3,358,302	-	8,682
Total on and off-balance sheet exposures	38,138,611	-	69,235

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4 RISK MANAGEMENT (CONTINUED)

A Credit Risk (continued)

Credit risk mitigation (continued)

The following table summarises the breakdown of CRM by exposure as follows: (continued)

30 June 2018	Exposures before CRM RM'000	Exposures covered by guarantees/ credit derivatives RM'000	Exposures covered by eligible collateral RM'000
Exposure class			
On-balance sheet exposures			
Sovereigns/central banks	7,028,623	-	-
Banks, DFIs & MDBs	1,078,626	-	-
Corporates	5,249,014	-	30,936
Regulatory retail	12,202,187	-	19,829
Residential mortgages	5,415,252	-	2,017
Higher risk assets	2,406	-	2
Other assets	83,569	-	-
Defaulted exposures	140,231	-	8
Total for on-balance sheet exposures	31,199,908	-	52,792
Off-balance sheet exposures			
OTC derivatives	199,666	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	2,325,211	-	4,234
Defaulted exposures	58,985	-	-
Total for off-balance sheet exposures	2,583,862	-	4,234
Total on and off-balance sheet exposures	33,783,770	-	57,026

4 RISK MANAGEMENT (CONTINUED)

A Credit Risk (continued)

Counterparty credit risk

Counterparty credit risk is the risk of trading counterparties' failure to honour its obligations to the Bank. To control over-exposure of counterparty credit risk, credit limits are established for each trading counterparty. The credit limits are determined individually based on its credit strength and profile, which also takes into consideration the Bank's risk appetite and trading strategies.

Appropriate methodologies have been implemented to measure counterparty credit risk against credit limits of each trading counterparty. These measurement methodologies implemented are in line with BNM's Capital Adequacy Framework on the treatment of counterparty credit risk.

The Bank also engage in netting and margining agreements with major trading counterparties to mitigate counterparty credit risks. Under these agreements, the counterparty credit exposures are mitigated with collaterals whenever the exposure exceed the margin threshold.

Nature of commitments and contingencies

Direct credit substitutes comprise guarantees undertaken by the Bank to support the financial obligations of their customers to third parties.

Non credit related contingent items represent financial products such as Performance Guarantee whose crystallisations are dependent on specific events other than default payment by the customers.

Short term self liquidating trade-related contingencies relate to bills of exchange which have been endorsed by the Bank and represent liabilities in the event of default by the acceptors and the drawers of the bills.

Assets sold with recourse and commitments with certain drawdown represents assets sold by the Bank with recourse in the event of defects in the assets, and investment or purchase commitments entered into by the Bank, where drawdown is certain to occur.

Obligations under underwriting agreements arise from underwriting agreements relating to the issuance of equity and securities, where the Bank are obliged to subscribe for or purchase the securities in the event the securities are not taken up when issued.

Irrevocable commitments to extend credit include all obligations on the part of the Bank to provide funding facilities or the undrawn portion of an approved financing facilities to customers.

Forward foreign exchange contracts are agreements to buy or sell fixed amounts of currency at agreed rates of exchange on a specified future date.

Profit rate swaps involve the exchange of profit obligations with a counterparty for a specified period without the exchange of the underlying principal.

4 RISK MANAGEMENT (CONTINUED)

A Credit Risk (continued)

Counterparty credit risk (continued)

The Off-balance sheet exposures and their related counterparty credit risk of the Bank are as follows:

30 June 2019	Principal amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount* RM'000	Risk weighted amount* RM'000
Direct credit substitutes	50,000	-	50,000	50,000
Transaction related contingent items	167,478	-	83,739	83,739
Short-term self liquidating trade related contingencies	17,978	-	3,596	3,596
Irrecoverable commitments to extend credit				
- Maturity less than one year	3,243,442	-	648,688	582,655
- Maturity more than one year	4,894,769	-	2,447,360	2,054,525
Foreign exchange related contract				
- Less than one year	1,634,838	6,123	27,836	13,970
Profit rate related contracts				
- Less than one year	1,000,000	696	1,696	848
- Over one year to less than five years	1,015,000	22,826	32,183	16,969
- Five years and above	530,000	-	63,204	34,856
	12,553,505	29,645	3,358,302	2,841,158

* The credit equivalent amount and risk-weighted assets are arrived at using the credit conversion factors and risk-weights as defined in BNM's revised RWCAF and CAFIB.

4 RISK MANAGEMENT (CONTINUED)

A Credit Risk (continued)

Counterparty credit risk (continued)

The Off-balance sheet exposures and their related counterparty credit risk of the Bank are as follows: (continued)

30 June 2018	Principal amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount* RM'000	Risk weighted amount* RM'000
Direct credit substitutes	50,000	-	50,000	50,000
Transaction related contingent items	77,681	-	38,840	38,840
Short-term self liquidating trade related contingencies	15,463	-	3,093	3,093
Irrecoverable commitments to extend credit				
- Maturity less than one year	1,788,286	-	357,657	325,432
- Maturity more than one year	3,869,212	-	1,934,606	1,653,229
Foreign exchange related contract				
- Less than one year	857,616	7,942	15,863	11,942
Profit rate related contracts				
- Less than one year	500,000	460	1,710	342
- Over one year to less than five years	2,165,000	5,072	55,878	28,244
- Five years and above	1,230,000	-	126,215	69,877
	10,553,258	13,474	2,583,862	2,180,999

* The credit equivalent amount and risk-weighted assets are arrived at using the credit conversion factors and risk-weights as defined in BNM's revised RWCAF and CAFIB.

B Market Risk

Market risk is the risk of loss in financial instruments or the balance sheet due to adverse movements in market factors such as profit rates, foreign exchange rates, equities, spreads, volatilities and/or correlations.

The Bank adopts a systematic approach in managing such risks by types of instruments and nature of exposure. Market risk is primarily controlled via a series of cut-loss limits and potential loss limits, i.e. "Value at Risk" ("VaR"). The amount of market risk that the Bank is prepared to take for each financial year is based on the budget, business direction, its risk-taking strategies, the impact on earnings and capital utilisation. These factors are used as a basis for setting market risk limits for the Bank.

4 RISK MANAGEMENT (CONTINUED)

B Market Risk (continued)

Market risk limits, the monitoring and escalation processes, delegation of authority, model validation and valuation methodologies are built into the Bank's market risk policies, which are reviewed and concurred by the Asset and Liability Management Committee ("ALCO"), endorsed by the BARMC and approved by the Board.

The main market risk limits are stop loss limits, VaR limits, counterparty limits, issuer limits, sensitivity limits, position/instrument limits and holding period limits.

VaR is defined as the maximum loss at a specific confidence level over a specified period of time under normal market conditions. The Bank computes the Historical Simulation VaR on a daily basis based on the recent 250-days of market observations at a 99.0% confidence level.

Over the course of the financial year, the VaR of the Bank's trading book ranged between RM0.09 million to RM1.96 million with an average of RM0.79 million.

The Bank performs backtesting on VaR on a hypothetical and actual basis and the results are tabled to the ALCO.

In addition, stress tests are conducted regularly on the trading book. In performing stress-testing, the Bank uses the following:

(i) Scenario analysis, which is a combination of expected movements on risk factors.

(ii) Historical crisis event, which is based on actual movements that occurred in the relevant risk factors. The main risk factors that are stressed are the KL Financial Bursa Composite Index, movements in profit rates for MYR, USD and other major currencies, ratings migration and Foreign Exchange spot and volatilities.

In managing the profit rate risk exposure in the banking book, the Bank measures earnings at risk and economic value or capital at risk.

C Market Conduct Risk

Market Conduct risk is the risk that arise from either an individual or group of individual dealers of the Bank, who through non-compliant behaviour and/or behaviour that lack integrity or honesty, subjects the Bank to adverse consequences in terms of monetary losses, reputational damage and regulatory fines.

Independent market conduct risk monitoring and surveillance is carried out to detect attempts on market misconduct by Global Islamic Markets. Management oversight on market conduct is effected through the Risk and Compliance Governance Committee ("RCGC"). A robust and comprehensive market conduct surveillance policy has been established by the Bank to ensure all activities in Global Islamic Markets are in conformity with market best practices and compliance requirements, which is reviewed and concurred by the Assets and Liabilities Management Committee ("ALCO"), endorsed by the BARMC and approved by the Board.

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4 RISK MANAGEMENT (CONTINUED)

D Liquidity Risk

Liquidity risk is the risk of financial loss arising from the inability to fund increases in assets and/or meet financial obligations as they fall due. Financial obligations arise from withdrawal of deposits, funding of financings committed and payment of funds. It is the Bank's policy to ensure there is adequate liquidity across all business units to sustain on-going operations, as well as sufficient liquidity to fund asset growth and strategic opportunities.

Besides adhering to the Regulatory Liquidity Requirement, the Bank has put in place a robust and comprehensive liquidity risk management framework consisting of risk appetite, policies, triggers and controls which are reviewed and concurred by the ALCO, endorsed by the BARMC and approved by the Board. The key elements of the framework cover proactive monitoring and management of cash flow, maintenance of high quality liquid assets, diversification of funding sources and maintenance of a liquidity compliance buffer to meet any unexpected cash outflows.

The Bank has in place liquidity contingency funding plans and stress test programs to minimise the liquidity risk that may arise due to unforeseen adverse changes in the marketplace. Contingency funding plans set out the crisis escalation process and the various strategies to be employed to preserve liquidity including an orderly communication channel during liquidity crisis scenarios. Liquidity stress tests are conducted regularly to ensure there is adequate liquidity contingency fund to meet any shortfalls during liquidity crisis scenarios.

E Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which also include outsourcing and business continuity risks.

Management oversight on Operational Risk Management ("ORM") and compliance matters are effected through the Risk and Compliance Governance Committee ("RCGC") whilst Board oversight is effected through the Board Audit Risk and Management Committee (BARMC).

The Bank's ORM strategy is based on a framework of continuous improvements, good governance structure, policies and procedures as well as the employment of risk mitigation strategies. The objective is to create a strong risk and internal control culture by ensuring awareness of the significance of operational risk, its methodology of identification, analysis, assessment, control and monitoring.

The Bank adopts ORM tools such as loss event reporting, risk and control self assessment and key risk indicators to manage operational risks and are used to assess risk by taking into consideration key business conditions, strategies and internal controls. The ultimate aim is to enhance economic performance, achievement of corporate goals and the aspirations of stakeholders.

4 RISK MANAGEMENT (CONTINUED)

E Operational Risk (Continued)

These tools are based on international best practices for the management of operational risks and are explained in more detail below:

(i) Risk and Control Self Assessment ("RCSA") is an assessment process on severity of potential risk and control effectiveness.

(ii) Key Risk Indicators ("KRI") is a set of measures to allow the Bank to monitor and facilitate early detection of operational risks.

(iii) Loss Event Reporting ("LER") is a process for collecting and reporting operational risk events. These are further used for analysis of operational risks for the purpose of developing mitigating controls.

The operational risk mitigation strategies that are implemented at the Bank are:

(i) Policies, Guidelines and Standard Operating Procedures that define the roles and responsibilities of personnel and their respective operating limits.

(ii) Insurance against operational losses as a form of risk mitigation especially for risks which are deemed as high severity.

(iii) System of controls, established to provide reasonable assurance of effective and efficient operation.

(iv) Business Continuity Management to facilitate the continuance of business activities in the event of disaster or crisis situations by means of ensuring systems availability.

(v) Outsourcing Management to ensure proper due diligence review is performed prior to engaging outsourcing service providers and continuous tracking of existing outsourcing service providers' performance, code of conduct, compliance, and business viability.

F Financial hedges to mitigate profit rate risks

The following actions describe the accounting treatment for financial hedges that may be entered into to mitigate the profit rate risk exposures of the Bank.

(i) Financial instruments designated as fair value through profit and loss

The Bank uses derivative instruments such as profit rate swaps to undertake economic hedges on part of their existing fixed rate financings to reduce the exposure on profit rate risk as part of its risk management strategy.

(ii) Fair value hedges

The Bank uses profit rate swap as the hedge instrument to hedge the profit rate risk of fixed rate financings exposure. The profit rate swap contracts used for the hedging are contracted with other financial institutions.

(iii) The accounting policies on derivative financial instruments and hedge accounting are disclosed in Note 2J to the financial statements.

5 EQUITY EXPOSURES IN BANKING BOOK

The Bank's banking book's equity investments consist of equity holdings in organisations which are set up for specific socio-economic reasons and equity holdings and any equity instruments received as a result of financing restructuring or financing conversion.

The Bank's banking book's equity investments are classified and measured in accordance with MFRS 9 and are categorised as financial investment at fair value through other comprehensive income. Refer Note 2C to the financial statements for the accounting policies of the Bank.

Details of the Bank's financial investments at fair value through other comprehensive income (FVOCI) set out in Note 7 to the financial statements.

The Bank's equity exposures in the banking book during the year is nil (2018: Nil).

	Exposures subject to risk-weighting RM'000	Risk weights %
30 June 2019		
Financial investments at fair value through other comprehensive income		
Unquoted equity securities	**-**	**0%**
30 June 2018		
Financial investment available-for-sale		
Unquoted equity securities	-	0%

6 PROFIT RATE RISK/RATE OF RETURN RISK IN THE BANKING BOOK ("PRRBB"/"RORRBB")

The Bank evaluates the impact of PRRBB/RORRBB via the earnings and the underlying economic value perspectives.

The earnings perspective provides the impact via the reduction in earning arising from the changes in profits rate/rate of returns. Earnings perspective focuses on the short-term effect of PRRBB/RORRBB. The components affecting the earnings perspective include the timing of the repricing basis, yield curve risk and option positions.

The economic value perspective provides a long-term perspective for the impact of PRRBB/RORRBB. This perspective evaluates the changes in the Bank's economic value via the present value of the Bank's future cash flow. The future cash flow projections used to estimate the economic exposure provides a pro forma estimate of the future income generated by its current position. In general, the measurement of present value of cash flows will be able to give an overview of the Bank's economic value of equity ("EVE") over a longer time period.

The increase or decline in earnings and economic value for upward and downward rate shocks which are consistent with shocks applied in the Bank's stress test for measuring PRRBB/RORRBB in the banking book are as follows:

	Impact on positions 100 basis points parallel shift	
30 June 2019	**Increase/ (Decline) in Earnings RM'000**	**Increase/ (Decline) in Economic Value RM'000**
100 bsp upward		
Ringgit Malaysia	**(43,280)**	**(327,220)**
100 bsp downward		
Ringgit Malaysia	**23,906**	**344,594**
30 June 2018		
100 bsp upward		
Ringgit Malaysia	(31,787)	(294,471)
100 bsp downward		
Ringgit Malaysia	10,297	315,780

Basel II Pillar 3 Disclosures

for the financial year ended 30 June 2019

7 SHARIAH RISK MANAGEMENT

In October 2010, Bank Negara Malaysia has issued Shariah Governance Framework ("SGF") to guide Islamic financial institutions to establish a comprehensive governance policy framework which sets out the strategic roles and functions of each organ of governance and mechanism in ensuring that the overall Islamic financial system operates in accordance with Shariah principles. The new Islamic Financial Services Act ("IFSA") 2013, which came into force on 30 June 2013, statutorily enforce the management of Shariah non-compliance risk and require Islamic financial institutions to ensure that their aim, operation, business, affairs and activities are Shariah-compliant at all time.

The Bank has developed a Shariah Risk Management Board policy ("Policy") to ensure that the management of Shariah non-compliance risks in the Bank is of the highest standards in line with the SGF and IFSA.

The policy is to govern and guide the Bank on the on-going development and enhancement of its Shariah risk management infrastructure. It forms the basic foundation upon which Shariah risk management policies are to be developed, Shariah risk management structure is to be operated in and Shariah compliance risk management initiatives are to be carried out.

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