Hong Leong Islamic Bank

Annual Report **2020**

Corporate

Financials

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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") 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, HLISB offers its customers a wide range of innovative solutions which amongst others include Trade Finance, business and corporate banking, 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.

HLISB has since expanded 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, is vital in growing and developing its Banking assets. In line with our ethos of "Digital-at-the-Core", we continue to innovate and leverage on technology to increase efficiency and productivity towards improving the overall customer experience.

The financial year ended 30 June 2020 marks another year of achievement and growth for HLISB on the back of commendable financial results as we build traction to realize a culture where our client is at the centre of everything we do. Consistent with our brand promise of "Built Around You", we continue to invest in new and more accessible technologies, leveraging on consumer collaborations, research and, insights to form an integrated banking platform with the aim of personalising solutions around customer needs.

The **Business**

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

HLISB has a shareholders' fund of

RM2,925 Million

as of 30 June 2020."

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

- 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

Chairman's Statement

"Malaysia continues its global prominence in the Islamic Finance industry with a growth of 8.3% year-on-year ("y-o-y"), ending with total Islamic banking assets of RM835.2 billion in 2019. Financing by Islamic financial institutions accounted for 39.2% of the total banking sector assets in Malaysia, up from 37.7% last year, signalling increasing interest and wider market acceptance of Islamic Finance. Meanwhile, aggregate customer funding inclusive of deposits and investment accounts registered an 8.5% y-o-y growth versus the previous year's growth of 11.7%."

We have seen tremendous success from stakeholders in laying a strong foundation for Islamic Finance to be a competitively viable financing option for consumers and businesses. As the industry has matured, we can now delve deeper into the new business model of greater economic value creation to cater for evolving societal needs and requirements.

2020 will be the year remembered for the rapid spread of the COVID-19 pandemic and its far-reaching effects on the domestic and global economy. The Malaysian Islamic banking sector outlook remains stable and should be able to absorb the negative economic impact of the outbreak on account of the industry's solid fundamentals in addition to the monetary and fiscal measures taken by both Bank Negara Malaysia ("BNM") and the Government. Nevertheless, industry players must remain vigilant during this period of heightened uncertainties.

Total Islamic banking assets
RM835.2 Billion

Gross Islamic financing assets saw an increase of 15% y-o-y to
RM30.0 Billion

Despite the sombre background, HLISB managed to achieve a good set of financial results for FY2020 with Profit before Zakat and Taxation recording a growth of 8% y-o-y to RM475 million. Gross Islamic financing assets saw an increase of 15% y-o-y to RM30.0 billion. Contribution of HLISB's financing towards HLB Group's total financing expanded from 19% last financial year to 22%.

Asset quality remained stable throughout the year, with a gross impaired financing ratio of 0.73%; better than the industry average ratio. HLISB also saw improved operating efficiencies with its Cost-to-Income ratio improving from 30.0% in the previous financial year to 27.9%.

Our strong financials give us the confidence to extend our firm support to assist customers to overcome the challenges ahead. We are proud of the active part we played in extending financial support through the various relief programs and the 6-months moratorium. These support actions are centred on our commitment to deliver Islamic banking's value proposition not only to our customers but also to the wider society as we play our role in the financial intermediation function.

DIGITALISATION

The pandemic has propelled the world to hasten its leap into the digital transformative age and change the way financial services are consumed and delivered. Competition in the Islamic Banking sector has intensified with financial service providers increasingly looking to reinvent business models and capture the potential of virtual banking. As the market adopts the 'New Normal', HLISB has had a head start because being "Digital at the Core" has been at the centre of its strategic roadmap. This year we continued to deliver more innovative technology to our customers where good progress has been made to digitise our services and operations in the areas of Islamic wealth management, business banking and cash management.

During the implementation of the Movement Control Order ("MCO") nationwide, HLISB delivered convenience to our customers by ensuring round-the-clock connectivity for multiple essential services to our community. Consequently, our online engagements soared reflecting a boost in digital adoption and the willingness of customers to join the digital 'bandwagon'. Our Hong Leong Connect and Internet banking channels enjoyed a sizeable increase of usage during the period. Of all our online banking activities facilitated, more than 50% of recorded transaction volume were attributed to customers engaging in e-commerce. With electronic Know-Your-Customer ("e-KYC") technology entering the market in the near future, we will offer more innovative digital financial solutions and increase customer convenience.

These support actions are centred on our commitment to deliver Islamic banking's value proposition not only to our customers but also to the wider society as we play our role in the financial intermediation function.

PREMIER ISLAMIC FINANCIAL SERVICES PROVIDER

Over the years, we have strengthened our wealth management solutions to position ourselves as a Premier Islamic Financial Services Provider. We seek to not only cater for the traditional Muslim market but also expand our appeal to all demographics by providing unique value propositions.

HLISB strives to provide the best financial services experience by focusing on simplifying our customers' journey at each stage of their lives. We take a customer-centric approach to offer personalised financial services that are relevant and timely as we aspire to be their trusted companion in each aspect of their banking and wealth management cycle; from wealth accumulation, wealth protection, wealth distribution to wealth purification.

This year we continued to digitalise more of our products making them available in both mobile and online banking while we further enhance the customers' on-boarding experience. We also

Chairman's Statement

Chairman's Statement

Halal assets have reached
RM**810**
Million
growing 51.4% from last year

launched a rejuvenated version of the HLISB website to improve the customers' understanding and appreciation of Islamic Banking.

We now target to go deeper into the wealth purification cycle. We utilise Hong Leong Connect and HLISB online banking website as our cornerstone to serve as a one-stop centre for wealth purification products. During the financial year, we have successfully added a direct link in our HLISB website for customers to perform full suite of Zakat contributions through our Hong Leong Connect.

As the full impact of the pandemic remains unknown and the global populace is plagued by uncertainty, lives and livelihoods will need to be balanced to ensure that the community emerges from this pandemic on a stronger footing. As an Islamic Bank, HLISB aims to lend a helping hand to the necessary segments of society in their time of need.

Earlier in 2020, we proactively initiated a financial support scheme via our HLISB Customer Financial Relief Plan, giving temporary financial relief to individuals affected by the COVID-19. In April 2020, we extended the financing moratorium to all individuals and SMEs, whilst targeted support was provided to corporate clients that needed it. Further, we were active in extending financing via the various BNM and Government initiatives and also through our own funds to those SMEs that needed cash flow support.

We also widen our support to the business community through our participation in the Government-initiated PENJANA SME schemes to further cushion the economic impact of COVID-19

BUILDING BUSINESS RESILIENCE TOGETHER

Year 2020 has proven to be difficult for our corporate clients as the economic dislocation of COVID-19 runs its course. Managing organisations in this new era will be different and much will rest on how willing business leaders are in confronting their traditional ways of doing business and to adopt digitalisation. Recognising this development, HLISB will solidify our competitiveness in the digital space by converting our offerings into digital propositions that companies will find easy to adopt.

Given the significant economic contribution of SMEs, we will continue to serve the needs of SME clients in the areas of cash management, asset financing, working capital and trade finance to foster their success in today's difficult business environment. We have also intensified our strategic collaboration with governmental agencies to reach a wider base of SMEs. This year our SME business financing increased 11.4%.

The Halal industry saw similar headwinds with disruption to its supply chains and postponement of related trade events. Nevertheless, we anticipate the industry to be resilient even in this challenging time with the Halal Development Corporation ("HDC") forecasting a 7.4% contribution to the country's GDP this year. We maintain our strategy to develop a Digital Halal Ecosystem as we move forward to support the collective aspiration in building the country's reputation as the global reference and trade centre for the halal industry. Presently, our halal assets have reached RM810 million growing 51.4% from last year with most of our customers coming from the Halal Food and Beverages segment. We will expand our reach into the other Halal industry sub segments.

Another strategic imperative is to promote higher usage of Islamic Trade Finance services in the overall industry by providing comprehensive financial solutions to our customers wherever they are in the value chain. We aim to enhance the trade process via digitalisation to improve the overall customer experience through shorter turnaround times, increased efficiency and a more user-friendly on-boarding journey.

In light of the abrupt economic downturn this year, we have proactively launched our own Hong Leong Special Financial Relief ("Green Lane") in February 2020 to help relieve the short-term cash flow problems faced by our SME and Corporate clients that were affected by the COVID-19 outbreak. Complementing our Green Lane initiative, early in March 2020, we also set about the SME Special Relief Facility ("SRF") for COVID-19 under the BNM scheme in collaboration with the Credit Guarantee Corporation ("CGC") and Syarikat Jaminan Pembiayaan Perniagaan ("SJPP"). On top of Green Lane and SRF programmes, HLISB has also sought to alleviate the financial predicament of our eligible SME clients by providing them with a financing moratorium effective April 2020 to mitigate some of their burdens. We also widen our support to the business community through our participation in the Government-initiated PENJANA SME schemes to further cushion the economic impact of COVID-19. Beyond the BNM moratorium period, we have set up the HLISB Payment Relief Assistance Plans for troubled SMEs and corporate clients in order to aid them in their recovery journey post the end of the auto moratorium period.

The Bumiputera segment has always been a crucial component of the country's economy. With the current Bumiputera population making up 68.8% of total Malaysian citizens, it is vital that we meet and anticipate their financial needs. HLISB advocates the Bumiputera agenda and aims to perpetuate our strategic ventures with governmental agencies to offer financial schemes for the Bumiputera business community. Currently, HLISB provides financing to eligible Bumiputera SME companies under the 'Program Syarikat Bumiputera Berprestasi Tinggi' ("TeraS") programme.

VALUE BASED INTERMEDIATION

Value-based Intermediation ("VBI") is set to be a key differentiator for Islamic Financial Institutions. We see opportunities for HLISB to build a brand name in this sphere as we build the necessary internal framework and infrastructure to operationalise the VBI philosophy in our organisation.

We strive to create economic resiliency through our products and services such as our sustainable wealth management solutions, the support given to the Halal industry and the active participation to spur the SME community. Furthermore, we engage in various activities to actively promote social empowerment such as the development of Chatbot, Shariah Thought Leadership programme, knowledge sharing sessions with the community and Graduate Trainee programmes.

Moving forward, we aspire for HLISB to achieve the 'Emerging VBI Institution' status, where HLISB will have in place a set of clear and succinct VBI practices in its day-to-day activities. When we contextualise this value-based culture across each key function, we would be better aligned to the Objectives of Shariah ("Maqasid Shariah") and provide positive sustainability impact to the economy, community and the environment.

As VBI propagates the ideation of community well-being and good governance, we seek to promote an ethical culture in our organisation. We promote ethical leadership that is aligned with a value system that is based on Shariah principles. It eventually integrates into the way we conduct our business and should result in decision-making that takes into consideration the effect of our business to the economy and the community.

With this in mind, HLISB has zero tolerance to all unethical practices including bribery and corruption. Our Anti-Bribery and Corruption ("ABC") policy ensures adequate and effective procedures are in place to prevent occurrence of corrupt practices and is in tandem with the newly enforced section 17A of Malaysian Anti-Corruption Commission Act ("MACCA"). We have also enhanced our internal policies such as the Code of Conduct & Ethics. Training sessions and continued communications also form part of our adequate procedures, as outlined in our ABC Policy. There is also the appointment of an Ethics and Integrity Officer ("EIO"), who is responsible to set out a holistic approach in the implementation of a framework and procedures to safeguard the Bank from corrupt and unethical practices.

INSTITUTIONALISATION OF SHARIAH GOVERNANCE

Since the inception of Islamic banks, Shariah has been the anchoring element, striking as the key differentiator from conventional counterparts. HLISB is of the view that the Shariah components will be the catalyst to drive the Islamic Banking sector forward.

During the financial year, BNM has issued the Policy Document on Shariah Governance ("SGPD"), coming into effect on 1 April 2020, superseding the previously applied Shariah Governance Framework. The new Policy Document aims to strengthen the effectiveness of Shariah governance implementation in Islamic Financial Institutions ("IFI") which promotes a more active role for senior management and a closer integration of Shariah considerations in the business and risk strategies of IFIs.

HLISB has been swift to adapt to this new development as we have always had a strong Shariah Compliance Culture within our organisation. We integrate Shariah consideration within our business strategies, operations, risk management practices and internal policies. We are now solidifying our people development agenda in terms of technical proficiency in Shariah and industry matters via enrolling all levels of management in various engagements with industry experts on Shariah-related subjects. We also conduct activities for all staff, disseminating Shariah insights from our top management and Shariah Committee to instil Shariah awareness such as holding Shariah Compliance Month and sharing information via our e-Knowledge portal. We have also facilitated a series of structured learning encompassing Certified Shariah Advisor, Certified Shariah Practitioner and Islamic Finance Qualification certification.

Chairman's Statement

HLISB is also looking into how we can capitalise on digitalisation in the Shariah ecosystem, particularly in the Shariah compliance process. Among our efforts are to improve the Shariah Compliance Review Certificate ("SCRC") procedure and to adopt data analytics in our Shariah Committee resolutions and decisions.

The effective management of Shariah non-compliance risk is paramount as we aspire to not only be Shariah-compliant in our offerings but also Shariah-driven in our role.

ENHANCING INDUSTRY-READY TALENTS

We believe our people are our most valuable assets in materialising our mission and vision. Thus, training and development of our staff have been a key focal point in building our competitive advantage. Through a variety of structured trainings and content development, we have facilitated opportunities for our people to upskill and reskill themselves with the right knowledge in the face of an ever-developing Islamic Finance environment. With the ongoing risks from the COVID-19 pandemic, these talent development exercises are more critical than ever to ensure our people are agile and prepared to transform along with industry.

We have also engaged in numerous capacity building activities during the year, cementing our promise to ensure quality human capital and our continued success to nurture and produce highly competent Islamic Finance professionals. These activities also take into consideration the preparations of our people to be well-versed with the new expectations of the Shariah Governance Policy and the ethical responsibility of their respective roles.

Beside staff and senior managements of the Bank, the Directors have also attended various training programmes and forums facilitated by external professionals in accordance with their respective needs in discharging their duties. The programmes, among others, include topics on Islamic Jurisprudence and its application in Islamic finance, Islamic finance for Board of Directors, Shariah Governance Policy Document and Corporate Liability Provision under MACC.

HLISB launched its inaugural Islamic Graduate Trainee ("IGT") Programme in which six (6) talents have been on-boarded for on-the-job training under a structured programme to develop young graduates with technical skills and expertise in Islamic Finance. Upon the completion of this programme, the IGTs will be placed at various departments of HLISB to leverage on their key competencies. To complement the IGT Programme, HLISB has also taken the initiative to be a platform to develop employability of promising graduates via the Professional Training And Education For Growing Entrepreneurs ("PROTÉGÉ") programme. This year we enrolled a total of eight (8) talents under this scheme to be exposed to valuable hands-on training to integrate their academic knowledge into professional application within the work environment. This has allowed HLISB to play a role in enhancing their marketability and concurrently deepen the industry pool of aspiring talents.

APPRECIATION

On behalf of the Board, I would like to express my deepest appreciation to our customers and stakeholders for your trust and continuous support. My gratitude also goes to our employees at HLISB for all their hard work and tireless commitment that have been instrumental in making HLISB what it is today.

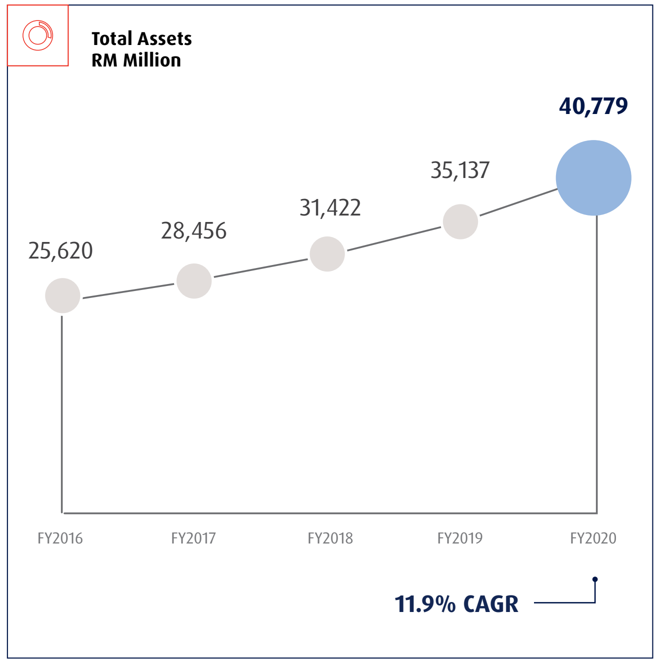
Special thanks to my fellow directors for their invaluable service and dedication throughout the year in steering the Bank towards its high-performance journey and my appreciation to the Shariah Committee for their devotion and counsel over Shariah matters.

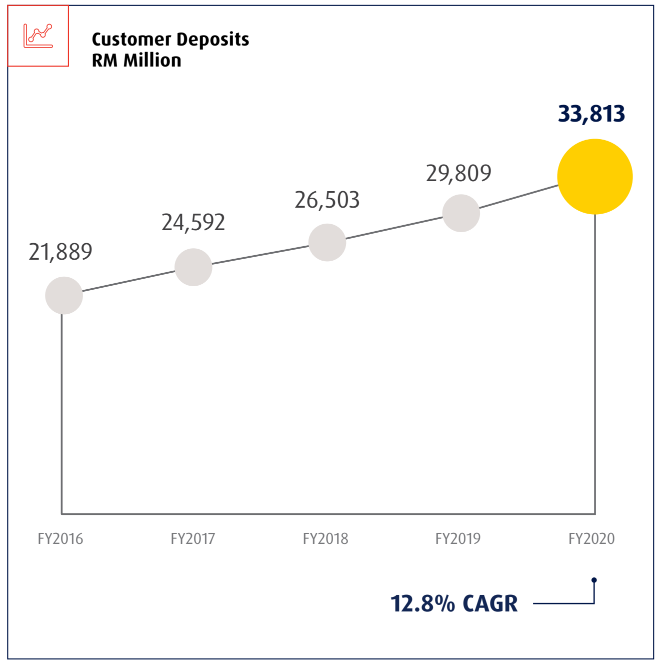
Last but not least, a sincere thank you to the regulators and authorities for their guidance throughout the years.

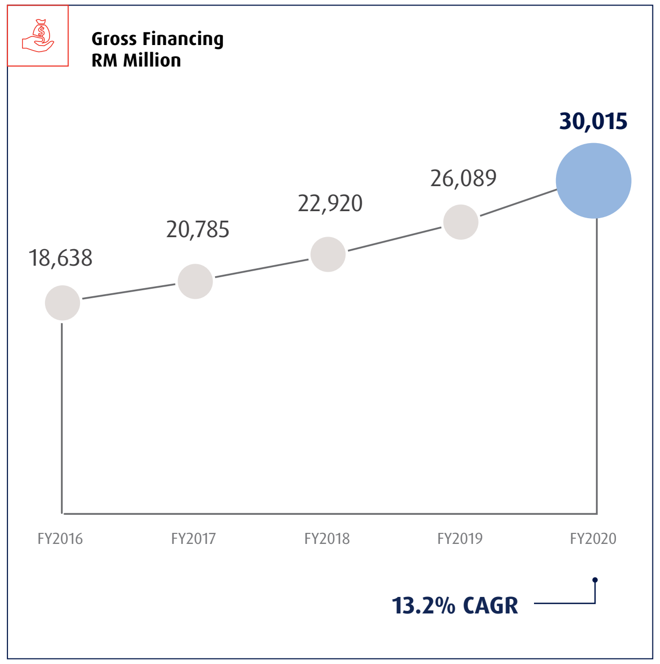
DATUK DR MD HAMZAH BIN MD KASSIM
Chairman

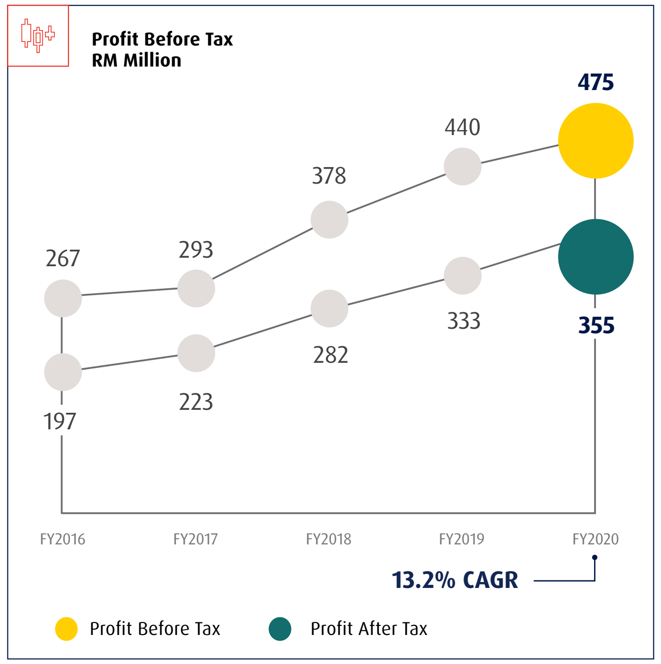
Financial Highlights

	FY2016 RM Million	FY2017 RM Million	FY2018 RM Million	FY2019 RM Million	FY2020 RM Million
Total Assets	25,620	28,456	31,422	35,137	**40,779**
Gross Financing	18,638	20,785	22,920	26,089	**30,015**
Customer Deposits	21,889	24,592	26,503	29,809	**33,813**
Profit Before Tax	267	293	378	440	**475**
Profit After Tax	197	223	282	333	**355**









Chief Executive **Officer's Statement**

Chief Executive Officer's Statement

> "The year in review saw us operating in a challenging environment. Worldwide GDP growth slowed to 2.9% in calendar year 2019 with sluggish global trade and investments coupled with the unprecedented COVID-19 virus outbreak. On Malaysian shores, we experienced a contraction in GDP of -17.1% in the second quarter ended 30 June 2020 as compared to a 0.7% expansion in the preceding first quarter 2020."

Notwithstanding that, Malaysian financial institutions remain resilient with strong buffers in place to withstand adverse macroeconomic impact.

The performance of Islamic Finance industry is stable, albeit growing at a slower rate, achieving 8% year-on-year growth as at June 2020.

PERFORMANCE REVIEW

Over the past three years, the Bank has achieved a significant milestone in its strategic roadmap in building the infrastructure for future business growth. This achievement is translated into our financial performance where we consistently deliver strong results.

For the current financial year under review, The Bank continued showing a growth trend with Profit before Zakat and Taxation improving by 8.0% to RM475 million over the previous year of RM440 million. Total assets reached RM40.8 billion increasing by 16.1% while gross Islamic financing assets rose by 15% to RM30.0 billion, contributing 22% of Hong Leong Bank Group's total financing.

The total income for the Bank saw a growth of 19.8% to RM847 million, as compared to RM707 million recorded in FY2019, on the back of steady stream of incomes from assets growth and Non-Financing Incomes activities. The Bank's operating cost management remains prudent with cost-to-income ratio improving to 27.9% as compared to 30.0% in FY2019. HLISB's

Profit before Tax improving by 8.0% to

RM475

Million

Total assets increasing by 16.1%

RM40.8

Billion

Islamic financing assets rose by 15% to

RM30

Billion

asset quality also managed to stay stable, attaining a gross impaired financing ratio of 0.73% compared to 0.68% in FY2019.

Credit is due to our core strategic business units for their successful implementation of strategic business initiatives throughout the year where growth was fairly contributed by all our business units namely Personal Financial Services-i ("PFS-i"), Business and Corporate Banking-i ("BCB-i") and Global Islamic Markets ("GIM").

During the year, we have also recognised a day 1 net modification loss of RM51.7 million attributable to the support provided to customers through the auto-moratorium industry initiative for individual and SME customers.

Looking ahead, we will further leverage the foundation we have successfully built especially in Islamic Wealth Management, business banking and trade finance propositions to continue to propel the business forward.

PROPAGATING VALUES IN BANKING

Our Value-based Intermediation ("VBI") approach ensures our offerings and practices are premised on achieving the intended outcomes of Shariah ("Maqasid Shariah") of preserving wealth, faith, lives, posterity and intellect. We have made progress to adopt VBI in our organisation since its introduction in the second quarter of 2017. We have chosen three areas to track our VBI initiatives in the aspects of promoting economic resiliency, social empowerment, good self-governance and best conduct in line with Bank Negara Malaysia's ("BNM") VBI Strategy Paper and VBI Scorecard published in March and October 2018 respectively.

HLISB Value-based Intermediation

Economic Resiliency	Social Empowerment	Good Governance and Best Conduct
1. Islamic Wealth Management 2. SME Agenda 3. Halal Industry 4. Bumiputera Agenda 5. Green Financing	1. Thought Leadership 2. Islamic Financing Literacy 3. Knowledge Sharing Initiatives	1. Compliance Policy 2. Embedding Strong Compliance Culture

One of the ways to promote economic resiliency is through our products and services. We have expanded our wealth management solutions to cater for various segments of the community such as young professionals, emerging families and senior citizens, covering wealth accumulation, protection, distribution and purification cycles. We allow accumulation of wealth through Investment Account, Unit Trust and our role as an agent of ASNB to distribute both fixed and variable price funds. Next, wealth protection is catered through our Takaful services. We also provide wealth distribution via our will writing services. Finally, for wealth purification, we have provided services for our customers to pay Zakat online.

As another initiative to promote economic resiliency, we continued to support the Halal industry and SMEs through providing access to our clients to financing schemes via our collaboration with Government agencies. Through Unit Peneraju Agenda Bumiputera ("TERAJU"), we assist high potential young Bumiputera companies to get necessary financing. Our collaboration with Halal Development Corporation ("HDC") has helped to increase the market participation of Halal entities in Malaysia in line with HDC's aspiration towards building Malaysia as a global Halal hub. Our ongoing partnerships with Credit Guarantee Corporation ("CGC") and SME Corporation Malaysia ("SME Corp") has allowed us to support promising but less secured small businesses to expand their business and penetrate new markets.

Chief Executive Officer's Statement

Chief Executive Officer's Statement

With climate change increasingly having impact on economies, we also increase our support towards the renewable energy sector. As at the financial year end, we have approved a total of RM114.6 million of green financing in support of local companies and entrepreneurs involved in green technology-based projects namely production of green energy derived from Solar Photovoltaic and Biogas.

We promote social empowerment through our knowledge sharing initiatives with the industry. We have representatives in Association of Islamic Banking and Financial Institutions Malaysia ("AIBIM") and Association of Shariah Advisors in Islamic Finance ("ASAS") acting as Chairman of Shariah Governance Committee and Assistant Secretary respectively. Through these roles, we share our experience and expertise to help these associations in addressing the latest industry-wide matters such as the Policy Document on Shariah Governance ("SGPD"), financing moratorium relating to COVID-19 and share strategic ideas on the future direction of these association. Our Shariah personnel has also been involved as a member of the Certified Professional Shariah Auditor Development Committee where our expert has aided in the development of the industry-standard professional qualification.

Besides the above initiative on social empowerment, we have conducted knowledge sharing sessions with the public as well as our staff. We have organised public awareness talks with two (2) local universities via our Islamic financial literacy programme ("Celik Muamalat"), aimed to increase awareness on Islamic Finance and financial management among university students. Our Shariah Department team has also taken part in "Muzakarah Cendekiawan Syariah Nusantara ke-13" held in Brunei as a discussion panellist on topics of how Zakat and Waqaf funds could be better managed to assist targeted Asnaf (eligible receipients). To add further we continued to provide a knowledge sharing platform to the public on fundamental concepts in Islamic Banking in an interactive manner via our internally-developed HLISB Chatbot which is available on our online banking platform Hong Leong Connect and HLISB website.

For our staff, we also conducted Shariah and Islamic finance knowledge sharing sessions with HLB and HLISB staff by engaging an external Shariah consultant to conduct Brown Bag Lunch and Learning sessions to share fundamental knowledge on Islamic finance, Shariah compliance plus sessions with senior management including Board of Directors on new BNM's Policy Document on Shariah Governance. Apart from Islamic finance and Shariah compliance topics, the Bank had also engaged Islamic trade finance experts to conduct workshop on Islamic Trade Finance for selected HLB and HLISB business and trade finance department personnel.

To drive initiatives on good self-governance and best conduct, HLISB has put great emphasis on building a strong compliance culture. Our Compliance Board Policy serves to unify the roles and responsibilities relating to compliance and cultivate self-regulation within our organisation. Our Whistleblowing Policy is also in place to provide an avenue and protection for our staff, business partners and customers to disclose any improper conduct that is committed involving the Bank. The disclosure can be done to the relevant Designated Person through our Whistleblowing communication channel via our website and email.

To further promote good self-governance and best conduct, we have organised awareness sessions on compliance through our in-house training on topics covering Anti-Money Laundering and Counter-Financing Terrorism, Customer Data Protection and Know Your Customer ("KYC") among others to all our staff. We have sent our staff to external programmes organised by Federation of Investment Managers Malaysia ("FIMM"), Malaysian Anti-Corruption Commission ("MACC") and Association of Islamic Banking and Financial Institutions Malaysia ("AIBIM") covering topics on commercial crime, Anti-Bribery and Corruption and Foreign Exchange Administration respectively. We continue to organise our yearly Shariah Compliance Month to give a better understanding to HLISB and HLB staff on the principles of Islamic banking practices and inculcate Shariah compliance culture among them.

Going forward, our VBI journey milestone is to achieve status as an "Emerging VBI Institution" by year 2023. To achieve this vision, we are currently progressing to develop a clear and formal policy and governance framework on VBI implementation in our organisation. In developing these initiatives, we are guided by the Value-based Intermediation Financing and Investment Assessment Framework ("VBIAF") Guidance Document issued in November 2019.

For our staff, we also conducted Shariah and Islamic finance knowledge sharing sessions with HLB and HLISB staff by engaging an external Shariah consultant to conduct Brown Bag Lunch and Learning sessions to share fundamental knowledge on Islamic finance

DIGITALISATION

Our digitalisation strategy during the year focused on digitalising our Islamic Wealth Management customers' journey, enhancing digitalisation of User Experience and User Interface ("UX/UI") and various process automation initiatives driven by our "Digital at the Core" ethos. These initiatives have achieved several milestones during the year.

On projects to digitalise wealth management, we have added new services in our online banking platform, Hong Leong Connect such as enabling customer to do ASNB transactions online, online Multi-Currency Features ("MCF") for Pay&Save deposits and linking of Zakat payments straight from our HLISB website. We are working to simplify our customer journey to further provide direct linkage from our website to Hong Leong Connect for other existing wealth management and PFS-i services such as Takaful, Tabung Haji, Sadaqah and Waqaf.

On enhancing the digitalisation of User Experience and User Interface ("UX/UI"), we continue to work closely with the Group Digital and Innovation Office on Design Thinking. We have engaged our customers on UX/UI testing and creation of prototypes at our multi-purpose CX Lab to deliver services that simplify our customer journey that meets their needs. Through the collaboration with the Group, we saw the launch of the new HLB Connect App that improves our customers' banking experiences on mobile banking platform. In addition, through the collaboration, we have launched a refreshed website during the year. The refreshed website presented Islamic banking information in a clean and simple design, introduced simplified terminologies and provided intuitive linkages to our product and services pages.

With regards to process automation, we have automated the Commodity Murabahah trading process for our Trade Finance services. With the automation, we are able to improve cost-saving, minimise human error and improve efficiency through shorter turnaround time and faster disbursement of trade financing.

Moving ahead, our digitalisation roadmap will be concentrated to facilitate business growth with customers at the forefront of everything that we do especially in Digital Wealth Management journey, Digital Islamic trade finance facilitation and Digital Halal ecosystem support which aligned with the Bank's ethos of being "Digital-at-the-Core".

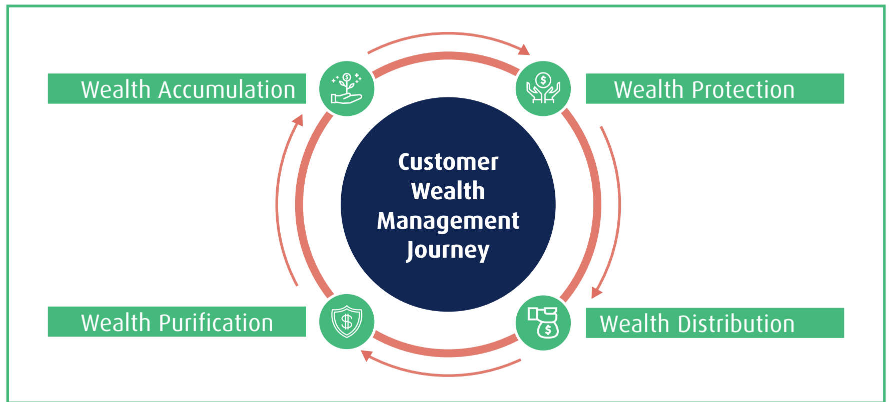
Chief Executive Officer's Statement

Chief Executive Officer's Statement

PFS-i - POSITIONING HLISB IN THE WEALTH MANAGEMENT CYCLE

Personal Financial Services-i ("PFS-i") achieved good business achievement, with growth of 9% in financing assets year-on-year on the back of a very challenging business environment especially in the property market sector.

Our strategy for wealth management in the financial year focuses on development of a comprehensive suite of Digital Islamic Wealth Management solutions which focuses on the four (4) areas of wealth accumulation, wealth protection, wealth distribution and wealth purification. Our wealth management solutions are targeted towards various customer segments ranging from working adults, young parents, pre-retirement to retirement to help the customers select the right product suitable with their life stage. Our achievements in establishing these solutions are progressing well as we have introduced new services into our banking platform and continued to improve our customer journey.



On the achievement of wealth accumulation area, the Term Investment Account-i ("TIA-i"), where we were the first Islamic bank to offer this product in digital form, entered its first full year cycle this financial year and saw encouraging acceptance from various customer segments. Entering our next phase in the wealth accumulation area, we are developing Restricted Investment Account ("RA") to complement the existing TIA-i. RA is targeted for more sophisticated investors with higher risk tolerance in their pursuit of better returns and financial security. In the area of wealth purification, we have successfully added a direct link in our HLISB website for customers to perform full suite of Zakat contributions through our Hong Leong Connect. This was realised via our partnership with Pusat Pungutan Zakat Majlis Agama Islam Wilayah Persekutuan ("PPZ MAIWP"). Looking ahead, we are working with more social institutions to avail more services such as Sadaqah and Waqaf contributions via our website to provide a more comprehensive wealth purification service.

In June 2020 this year, HLISB has revamped its website which was built around a new UX/UI. The enhancement brought a clean and simple design, use of simplified Islamic banking terminologies and intuitive linkages to various product pages. On top of that, we also incorporated fundamental knowledge on Islamic Banking for our customers to digest knowledge on Islamic Banking easily under the new user-friendly interface. The website also comes with new features, such as a Zakat calculator that is integrated with our online banking system and allows customers to calculate and pay their Zakat online. We also added a Financial Personality quiz that helps to match our customers with suitable products based on their financial behavior. This design is part of our "Built Around You" brand promise where we put the experience of our customers at the centre of our approach.

We started our relationship with ASNB back in 2018, becoming their eighth agent in the industry and this year we are proud to be the third bank to offer ASNB services via online platform through our Hong Leong Connect. The ASNB online enables customers to conduct real-time transactions for their ASNB investment portfolio either for Fixed Price or Variable Price funds. Some of the key features include balance enquiry and online subscriptions. We target to extend this service into our mobile banking platform in the near future. This financial year, we have also introduced a Multi-Currency Features ("MCF") for Hong Leong Pay&Save Account-i deposit product on our online Hong Leong Connect platform. The MCF enables our customers to hold up to eleven (11) foreign currencies on top of Malaysian Ringgit and perform direct cross-currency conversion through Hong Leong Connect.

Currently we are working to implement the upcoming Electronic Know-Your-Customer ("e-KYC") technology to provide end-to-end digital on-boarding process for customers. The e-KYC technology will make customer journey more simple and speedier where this will allow them to avoid the need to go through the hassle of visiting branches or having to meet face-to-face with our staff.

SPURRING THE SME ECOSYSTEM, HALAL ECONOMY AND TRADE FINANCE

Our Business and Corporate Banking-i ("BCB-i") has shown good progress in gaining traction in its SME, Halal and Trade Finance intermediation business. In this challenging business environment, we have achieved a commendable financing asset growth of 36.4% during the financial year. During the period in review, our outstanding Halal assets recorded an increase of 51.4% and the number of Halal customers saw an increase as compared to the last financial year. In respect of Islamic Trade Finance, our trade asset size grew by 45.0% resulted from higher facilitation of trade transactions. In the SME business, we have recorded a double-digit growth of 11.4%, albeit lower than the previous financial year of 25.8%.

On our SME efforts, HLISB has actively provided banking services for the SME industry including the Bumiputera business community. During the year, we continued our collaboration with SME Corp to offer Shariah Compliant SME Financing Scheme 3.0 ("SSFS") where we have seen very encouraging take-up rate from our clients since it was launched. Besides the SSFS, through our collaboration with TERAJU, we have continued to provide financing to Bumiputera companies under the High Performing Bumiputera Companies programme ("TeraS").

In the Halal space, we foresee good business prospects in the coming years. Halal Development Corporation ("HDC") has issued the Halal Industry Master Plan 2030 ("HIMP 2030") where they aspire to make Malaysia as the global leader in the Halal industry. Islamic Finance has been identified as one of the key enablers to realise the HIMP 2030, and therefore we are in the right position to play our role in supporting the government aspiration to support the growth in the sector. The Halal industry has great growth potential in view of the increasing demand of Halal products and services both locally and globally. Islamic Finance has plenty of headroom to expand their participation to support the Halal ecosystem particularly in Halal Trade Finance, Halal supply chain, Halal e-commerce as well as other underserved Halal segments. The Bank has supported and participated in various Halal industry programmes such as Halal Producers and Hypermarkets Business Matching Session held by HDC, Selangor International Business Summit by Invest Selangor and Program Transformasi Usahawan Selangor organised by AIBIM. Going forward, we will explore deeper collaboration with Halal bodies and expand our business in more underserved Halal segments on top of our strong participation in the Halal Food and Beverage.

On trade finance, we continue our quest to market and educate our clients on the availability of various Islamic trade finance products to cater for their trade requirements as this is one of a current national issue of low Islamic trade finance facilitation in Malaysia. We have simplified and digitalised some key Islamic contract such as the Commodity Murabahah trading to support Islamic trade finance processes plus we continue to enhance trade documentation processes to make the process simpler when customer utilises their Islamic trade finance facilities with us.

SHARIAH EXCELLENCY

The new Policy Document on Shariah Governance ("SGPD") has come into effect on 1 April 2020. The SGPD emphasises the integration of the Shariah governance function and promote sound Shariah compliance culture in Islamic financial institutions.

In line with the expectations under SGPD, we have adopted an appropriate 'Tone from the Top' to integrate Shariah consideration in every layer of our decision-making where at the apex, the Board of Directors and Shariah Committee play their oversight role on the Shariah governance in the Bank. The Bank has established an enhanced Board Policy on Shariah Governance ("SGBP") where it outlines Shariah Governance structure for HLISB and Hong Leong Bank Berhad ("HLB") as parent bank and provider of shared services to HLISB. Besides that, the role of the Board on Shariah Governance was further refined in the Bank's Board Charter. The Bank also holds Joint Board and Shariah Committee ("JBSC") meetings which serve as a platform for effective communication between Board, SC and Senior management on matters relating to Shariah governance, such as oversight on accountability over Shariah governance, ensuring the SC provides objective and sound advice to the Bank, aligning the SC's advisory roles and keeping the SC abreast with the business developments, risk strategies, legal and regulatory requirements of the Bank. During the year, the Bank has enhanced the role of the existing Shariah Governance Working Group ("SGWG") to a higher level Shariah Governance Working Committee ("SGWC"). This was done to improve coordination between control functions with regards to Shariah compliance, risk management and cover a wider scope to address ongoing and emerging Shariah governance matters including the strengthening of the Shariah compliance culture.

Chief Executive Officer's Statement

Chief Executive Officer's Statement

We have embarked on a strategy to promote Shariah compliance culture which includes on-going activities with our aim to achieve greater Shariah awareness and competencies among our people. We commenced our efforts by conducting Directors and Senior management training on SGPD. We continued to dedicate the month of September every year to organise Shariah Compliance Month ("SCM") involving HLISB and HLB staff.

We also emphasized Shariah compliance culture in our training series such as inserting them in our Fundamentals of Islamic Banking 2.0 ("FIB2.0") for new staff on-boarding training, mandatory learning via our cloud-based learning platform Workday and our internal certification programme, Islamic Finance Qualification ("IFiQ"). All information on Shariah compliance are accessible to all staff nationwide digitally via our online platform Workday, HLB Smartup app and internal e-Knowledge portal to facilitate them in addressing any Shariah compliance requirements.

Our journey for Shariah excellency going forward will be focused on evolving the role of Shariah from Shariah-compliance focused to a broader scope of increasing their involvement in business development and Shariah digital innovation. On top of that, to ensure Shariah excellency, we would continue to emphasise Shariah compliance culture, heightening Board oversight on Shariah governance, increasing interaction between the Board and Shariah Committee and widening our Shariah talent pool.

DEVELOPING WORKFORCE COMPETENCIES

Our people are critical success enablers in our organisation and their progress are as equally important as our business considerations. It is imperative to nurture a community of lifelong learners among our staff who are driven by results and armed with the foresight to incite positive change within HLISB. This financial year, our human resource development focused on two key areas namely on staff capacity building and talent development.

On staff capacity building, we continued with the professional development of our team by enrolling them in certification and accreditation programmes. A number of our staff are currently pursuing qualification under the Asian Institute of Chartered Bankers ("AICB") and Chartered Institute of Islamic Finance ("CIIF") to become banking professionals. To enhance the professional skills of HLISB Shariah personnel, we have enrolled our Shariah staff and Shariah Committee members into Certified Shariah Advisor ("CSA"), Certified Shariah Practitioner ("CSP") and Certified Professional Shariah Auditor ("CPSA") programmes.

Besides encouraging our staff to pursue professional certifications, we also provide trainings on topics and emerging issues relevant to the Islamic banking industry. We have introduced enhanced structured training modules for HLB and HLISB staff under the Fundamentals of Islamic Banking 2.0 ("FIB2.0") and our internal certification programme on Islamic Finance Islamic Finance Qualifications ("IFiQ"), which incorporated new syllabus on Shariah compliance culture. On compliance training, we have covered a variety of topics which includes Anti-Money Laundering, Anti-Bribery and Corruption, Foreign Account Tax Compliance Act ("FATCA"), Common Reporting Standard ("CRS"), Fair Treatment to Financial Customers ("FTFC") and Know Your Customer ("KYC"). We also partnered

with the Asian Banking School to conduct training on ethics which covers fundamental principles of ethical behaviour in the context of banking. This is also supplemented by our Code of Conduct and Ethics training that all staff must attend.

In respect of our talent development initiatives this year, we have identified staff to attend various leadership training courses in preparing them to take on future leadership positions. We have also launched our first Islamic Graduate Trainee ("IGT") programme where six (6) talents have been recruited to develop their technical skills and expertise in Islamic Finance. We also participated in the Professional Training And Education For Growing Entrepreneurs ("PROTÉGÉ") where we enrolled a total of eight (8) people under the programme to create more competitive and ready job marketers. We have also selected a total of five (5) undergraduate students under our internship programme and provided hands-on experience that makes them a better fit for future job requirements.

THE COVID-19 FACTOR

During the Movement Control Order ("MCO"), HLISB has facilitated our customers to perform their banking transactions through our Hong Leong Connect and Internet banking platform. Our Hong Leong Connect and Internet banking channel recorded an increase of usage seeing a sizable traffic using online banking services compared to pre-MCO levels. Of all our online banking activities facilitated during the period, more than 50% of recorded transaction volume were attributed to customers engaging in e-commerce.

Taking a proactive stance, HLISB has lent a helping hand to our retail customers in their time of crisis. In the early stage of the pandemic, we launched a financial relief programme for retail customers via HLISB Customer Financial Relief Plan. Subsequently, effective 1 April 2020, HLISB offered the financing moratorium to help lift the financial burdens of our eligible individuals during the MCO period. Come October 2020, HLISB has offered the Payment Relief Assistance Plan ("PRAP") for our retail customers to give them flexibility on their financing instalment arrangement in the post-moratorium period.

To cater for our SME and corporate clients, we have launched Hong Leong Special Financial Relief ("Green Lane") pre-MCO period. Supplementing the relief programme, in March 2020, we have provided the SME Special Relief Facility for COVID-19 ("SRF") under the auspice of Bank Negara Malaysia ("BNM"),

Chief Executive Officer's Statement

Credit Guarantee Corporation ("CGC") and Syarikat Jaminan Pembiayaan Perniagaan ("SJPP"). HLISB also facilitated our eligible SME clients with financing moratorium effective 1 April 2020 to help lift their financial burdens. The Bank has also extended additional support through HLISB Payment Relief Assistance Plans for SME and Corporate Customers ("PRAP") post September 30th and the PENJANA SME schemes to boost the business survivability of our SME clients.

MARKET OUTLOOK

The global economy is expected to contract in 2020, weighed by unprecedented containment measures taken by numerous countries to contain COVID-19 that triggered a concurrent supply and demand shock worldwide. Economic indicators suggest a sharp contraction in global economic activities. Similarly, Malaysia's GDP growth is expected to be slower at between -3.5% and -5.5%, according to the latest estimate by BNM, affected by weak global demand and uncertainties.

Economic activity has resumed since the economy began to reopen in early May 2020. Consequently, growth is expected to have troughed in the second quarter of 2020, with a gradual recovery in the second half. This outlook is underpinned by the rebound of key indicators such as wholesale and retail trade, industrial production, gross exports, and electricity generation. Daily lives have also been running almost as usual through the practice of new norms throughout the implementation of the Recovery Movement Control Order ("RMCO").

This improvement in growth will also be supported by the recovery in global growth and continued domestic policy support. In particular, consumption and investment activities are projected to benefit from the wide-range of measures in the fiscal stimulus packages, continued financial measures and low profit rate environment. Overall, the Malaysian economy is therefore forecasted to rebound within a growth range of 5.5% to 8.0% in 2021 on the back of economic activities reopening in May this year.

Islamic Banks in Malaysia are expected to face a challenging operating environment following the COVID-19 pandemic and are expected to register slower financing growth moving forward. However, Malaysian financial system remains resilient, backed by strong buffers in capital, liquidity and financing provisioning built over the years.

Looking ahead, the market would need to adapt to the "New Normal" following shifting consumer behaviour. It is anticipated that the accelerated digital adoption in the nation would provide new opportunities to do business and opens up new target segments that can be addressed through innovation and forward-thinking digital means. HLISB will look into ramping up its digitalisation agenda to capitalise on this sudden market shift and to better serve our customers in the future.

ACKNOWLEDGEMENT

I wish to express my gratitude for the continued trust and confidence given by our customers which has been imperative in making HLISB a success. I would also like to express my deepest appreciation to all my colleagues and peers at Hong Leong Islamic Bank as well as Hong Leong Bank for working hand in hand in keeping our momentum going.

My heartfelt thanks for the contributions and dedication of our Board of Directors and Hong Leong Bank's Senior Management team. I would also like to express my sincere gratitude to our Shariah Committee for the knowledge and insights imparted to us as well as for their wisdom and Shariah know-how. Lastly, I am thankful to Bank Negara Malaysia and other regulatory authorities for supporting HLISB throughout the year.

JASANI BIN ABDULLAH
Chief Executive Officer

Management Discussion & Analysis
Financial Review

1. FINANCIAL HIGHLIGHTS

SUMMARY OF PERFORMANCE

	FY2019	FY2020	Growth %
Profitability & Efficiency (RM'million)			
Total Income	707	**847**	19.8%
Operating Profit	495	**611**	23.4%
Profit before zakat and taxation	440	**475**	8.0%
Profit after taxation	333	**355**	6.6%
Earnings per share (sen)	47.6	**50.8**	6.7%
Cost-to-income ratio	30.0%	**27.9%**	-2.1%
Return on Assets	1.00%	**0.94%**	-0.06%
Return on Equity	13.8%	**12.9%**	-0.9%
Balance Sheet (RM'million)			
Total Assets	35,137	**40,779**	16.1%
Gross financing and advances	26,089	**30,015**	15.0%
Customer deposits and investment account	29,811	**34,169**	14.6%
Asset Quality			
Gross impaired financing ratio	0.7%	**0.7%**	0.0%
Financing impairment coverage ratio	140.2%	**143.4%**	3.2%
Financing impairment coverage ratio (including regulatory reserve)	213.5%	**193.9%**	-19.6%
Liquidity and Capital			
Financing to deposit and investment account ratio	87.5%	**87.8%**	0.3%
Total capital ratio	15.2%	**15.2%**	0.0%

The Bank delivered a good set of financial result for the financial year under review, showing Profit before Zakat and taxation ("PBT") of RM475 million expanding by 8% as compared to the previous financial year.

The positive achievement was supported by strong growth in assets while maintaining a stable operating cost indicators and prudent assets quality ratio.

Return on assets and return on equity closed at 0.94% and 12.9% respectively, remained stable as compared to the average peer ratios of 0.70% and 10.20% respectively. All other key performance indicators for the year under review were strong and resilient as compared to the preceding year.

As at the end of the financial year, Total Assets reached RM40.8 billion, recording Year-on-Year annual growth rate of 16.1%, driven by continuous growth momentum of financing business and treasury assets. Financing and advances remained as the key driver for the asset growth, expanded by 15% to RM30,015 million year-on-year ("YoY").

Total securities and short-term funds registered a positive growth of 34% from RM7,820 million to RM10,443 million on a YoY basis, supportive of balance sheet revenue and liquidity requirements for High Quality Liquid Assets ("HQLA")

Deposits from Customers stayed ample and showed a growth of 13.4% to RM33.8 billion in comparison to previous year's performance, correlating with business expansion this year.

Meanwhile, Term Investment Account-i ("TIA-i) balances increased by more than 100% to RM356 million, reflecting its first full year performance since the Bank's launch of Term Investment Account-i.

Management Discussion & Analysis Financial Review

Management Discussion & Analysis Financial Review

2. INCOME STATEMENT ANALYSIS

INCOME STATEMENT SUMMARY

RM'million	FY2019	FY2020	Growth %
Total Income	707	847	19.8%
Operating expenses	212	236	11.3%
Operating Profit before allowances	495	611	23.4%
Net allowance for financing and other Impairments	55	135	145.5%
Profit before zakat and taxation	**440**	**475**	**8.0%**
Profit after taxation	**333**	**355**	**6.6%**

The Bank grew Profit before Zakat and Taxation ("PBT") by 8.0% to RM475 million during the financial year ended 30 June 2020, as compared to RM440 million the previous financial year. The improvement in PBT was supported by higher income streams from fund-based activities and non-financing Income, backed by stable contribution from all business segments comprising of retail banking, corporate banking as well as global markets.

In respect of performance of revenue items, Profit Income grew by 3% facilitated by the Bank's asset growth of 16.1%, while Profit expenses expanded to RM953 million on a 3% increase, driven by a YoY 13% growth of customer deposits. Non-financing income ("NFI") improved by 159% or RM126 million to RM205 million compared to RM79 million posted in last financial year. The increase in NFI is led by higher income from treasury activities and also underpinned by higher non-financing income contribution from business banking attributed to its trade and non-trade activities. These translated into higher total income by 19.8% or RM140 million.

During the year, the Bank has incurred a day 1 net modification loss of RM51.7 million attributable to the support provided to customers through the auto-moratorium for financing products for the 6 months from 1st April to 30th Sept 2020.

The Bank's total operating expenses increased by 11.3% to RM236 million for FY2020 in line with expansion of business and operating activities. The Bank continued to demonstrate discipline and efficiency in cost management which were reflected in the improvement in cost-to-income ratio from 30.0% in FY2019 to 27.9% in FY2020, translating into positive JAWs. The Bank maintains a competitive cost-to-income ratio as compared to the average peers.

Higher credit cost of RM135 million was reported for the year in review as compared to RM55 million in the preceding financial year due to higher impairment allowances as we made prudent provisioning to mitigate potential credit costs arising from the COVID-19 pandemic and the post moratorium period ahead.

3. GROSS FINANCING AND ADVANCES

	FY2019		FY2020		
	RM'million	% Contribution	RM'million	% Contribution	Growth %
Total Gross Financing and Advances	26,089		**30,015**		15%
Residential properties	13,497	52%	**15,000**	**50%**	11%
Transport vehicle	3,617	14%	**3,706**	**12%**	2%
SME	3,531	14%	**3,935**	**13%**	11%

Gross Financing and advances continued to grow at steady pace of 15% to RM30.0 billion as at the end of FY2020, from RM26.1 billion as at the end of FY2019. The growth outpaced the average industry growth rate for total domestic financing of 8%.

In terms of segmental contribution, the Bank's growth in financing was contributed by both retail and business and corporate banking segments.

Our retail segment showed a steady growth momentum, growing by 9% from RM19.6 billion in the previous financial year to RM21.4 billion in the current financial year, contributing 71% to the Bank's total gross financing as at the end of FY2020. The Bank's retail financing portfolio is largely comprised of financing for residential properties and vehicles, which showed an increase of 11% and 2% respectively against the last financial year.

Business and corporate segment achieved a creditable growth rate of 36.4% YoY from RM6.4 billion in the previous financial year to RM8.8 billion this financial year. Financing to Small and Medium Enterprises increased at a healthy pace of 11% to RM3.9 billion as at the end of FY2020, in line with the Bank's strategic initiatives to strengthen our presence and efforts in serving this segment.

4. ASSETS QUALITY

	FY2019	FY2020	(Increase)/ Decrease
Gross impaired financing ratio	0.7%	**0.7%**	0.0%

The Bank continued to maintain a stable asset quality as a key priority and metrics, to ensure that asset quality remained robust. Gross impaired financing ratio ("GIF") was well-managed and consistent with the last financial year of 0.7%. The Bank's GIF ratio continued to be well below the industry average of 1.33% as of June 2020.

5. CUSTOMER DEPOSITS

	FY2019		FY2020		
	RM'million	% Contribution	RM'million	% Contribution	Growth %
Customer Deposits					
By Key product type of deposits					
Current and saving accounts (CASA)	5,859	20%	**6,717**	**20%**	15%
Fixed deposits/Term deposits	18,893	63%	**22,300**	**66%**	18%
By key type of customers					
Individual	11,033	37%	**13,335**	**39%**	21%
Business enterprises	14,813	50%	**15,489**	**46%**	5%
Total core deposits	24,753	83%	**29,016**	**86%**	17%
Total customer deposits	29,809	100%	**33,813**	**100%**	13%

Deposits from customers remain supportive of business expansion and liquidity requirements. Total customer deposits increased by 13% to RM33.8 billion this financial year, backed by the growth of core deposits and Term Deposits. The Bank's liquidity indicators were maintained well within internal and regulatory requirements.

Core deposits, encompassing demand deposits, savings deposits and fixed deposits, grew by 17% to RM29.0 billion derived from the inflow of term deposits and CASA which increased by 18% and 15% respectively. Individual deposits expanded by 21% which translated into individual deposit mix of 39%, marking an improvement from the previous financial year of 37% and remained ahead of the average peers' ratio.

Current and saving accounts contributed 20% to our total customer deposits while term deposits contributed 66% to the total deposit base.

Management Discussion & Analysis
Financial Review

6. LIQUIDITY

RM'million	FY2019	FY2020	Minimum requirement in Year 2019	Minimum requirement in Year 2020
Liquidity Coverage Ratio (LCR)	123%	**150%**	100%	100%

The Bank's maintains a high quality and well diversified liquid assets to meet its liquidity needs. The Bank was well funded with a healthy Financing to Fund and Equity ("FTFE") ratio of 82% as at end of FY2020 whilst the Liquidity Coverage Ratio ("LCR") stood at 150% surpassing the minimum requirement of 100%.

7. 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.

8. CAPITAL ADEQUACY RATIO

	HLISB		Regulatory minimum with CCB*	
	FY2019	FY2020	FY2019	FY2020
CET 1 Ratio	10.53%	10.87%	**7.00%**	**7.00%**
Tier 1 Ratio	12.26%	12.43%	**8.50%**	**8.50%**
Total Capital Ratio	15.15%	15.17%	**10.50%**	**10.50%**

* *Inclusive of minimum capital adequacy requirement and Capital Conservation Buffer of 2.5%.*

Total Capital Ratio ended the financial year at 15.17%, above the minimum regulatory requirement for year 2020 of 10.50%, stable from last financial year of 15.15%.

The Bank is proactively reviewing its capital position to ensure effective capital management and healthy capital positions that aligns with the regulatory requirements and strategic business objectives 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 access to the market in a timely manner should the need arise.

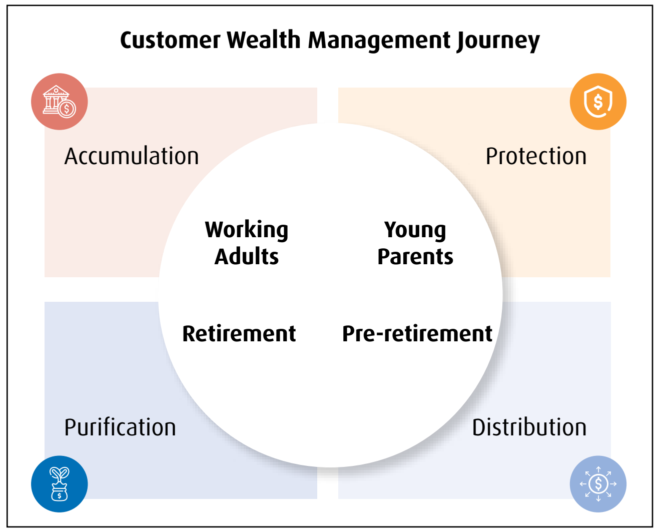
Management Discussion & Analysis
Business Operation Review

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

Personal Financial Services-i ("PFS-i") is one of our key business segments and remained as the largest contributor to our business, representing 53% of the total assets of the Bank. The performance of PFS-i core business has been stable, where financing assets contributes 71% to the Bank's entire financing business. Retail financing showed a growth of 9% to RM21.4 billion driven mainly by residential properties. Retail deposits continued to provide the Bank with stable liquidity where PFS-i registered a growth in its retail deposit including retail Term Investment Account of 19% as compared to FY2019. Retail deposits provide a solid base with the individual deposit mix at 39%, been among the highest in the industry.

For PFS-i, we are developing our wealth management solutions to accommodate our customers' needs while growing our business in this area to ensure we remain relevant to our customers and live up to our brand promise of building services that are "Built Around You". Our Islamic Wealth Management proposition focuses on the identified four (4) areas of the Islamic Wealth Management which are wealth accumulation, wealth protection, wealth distribution and wealth purification:

Our wealth management solutions also take into consideration our customer life journey ranging from working adults, young parents, pre-retirement to retirement and help customers select the right product suitable with their life stage.



- **Wealth Accumulation**

  Under the wealth accumulation area, the Bank has offered Term Investment Account-i ("TIA-i") and investment in Islamic Unit Trusts. Through our role as an agent of ASNB, we distribute fixed and variable price funds and provide ASB Financing.

  This financial year saw the first full year cycle of our first Investment Intermediation instrument through our Term Investment Account-i. TIA-i is the first iteration of a fully online Investment Account offering in the market and we received encouraging response from our customers. Building on our existing TIA-i platform, we are currently developing Restricted Investment Account ("RA") to further promote an investment mind-set among the mass consumers. RA is developed to cater for investors with higher risk appetite while delivering the same transparent and simplified investment journey.

This financial year marks our third year as an appointed ASNB agent. Through HLISB, customers now can subscribe to fourteen (14) ASNB Funds and perform multiple services such as redemption, updating personal information and printing account statements. We have also provided ASB Financing since the year 2018 to finance subscription of ASB Funds by the Bumiputera segment. ASB financing saw encouraging growth with an increase of 19.2% during the financial year.

During the year, we have launched ASNB services on our online banking platform Hong Leong Connect, becoming the third Islamic bank to offer ASNB via online platform. This provides customers with the convenience to invest in ASNB funds online and enjoy lower sales charge compared to over-the-counter transactions.

Management Discussion & Analysis
Business Operation Review

We also gained recognition for our work in ASNB. Following up from clinching the 'Inspirational Starz Award' during the ASNB Starz Award Nite in 2019, the Bank got recognised for being the top 2 agent performers from ASNB and was badged with a platinum rating for two (2) consecutive quarters. HLISB was also given a gold ranking for Overall Performance as an ASNB Agent in the calendar year 2019.

- **Wealth Purification**

For our wealth purification area, this financial year, we have implemented a direct link in our HLISB website for customers to perform full suite of Zakat contributions through our Hong Leong Connect. Through our digital platform, HLISB now offers customers a simplified process for all types of zakat payments in partnership with Pusat Pungutan Zakat Majlis Agama Islam Wilayah Persekutuan ("PPZ MAIWP"). To further improve the customer digital journey, we are in the process to enable our customers to make contributions directly from our website for our existing Sadaqah, Waqaf and Tabung Haji wealth purification services.

- **Wealth Protection and Wealth Distribution**

We continued to provide services related to our Wealth Protection area during the financial year via collaboration with Hong Leong MSIG Takaful ("HLMT") for our regular contribution Takaful plans i-Saver20 Plus and Amanah Saver. Recently, we launched Hong Leong MSIG Takaful Legacy Plus ("Legacy"), a new regular Takaful contribution plan that covers customers' protection and savings needs up to 80 years of age to add more choices for their Takaful protection.

For Wealth Distribution area, we continue providing Will Writing services to assist our customers in distribution of their assets in the event of their demise, via our partnership with Amanah Raya Berhad.

ENHANCING WEALTH MANAGEMENT CUSTOMER JOURNEY

We have made good progress on our projects to enhance our customer journey in using our existing wealth management solutions. We have launched a refreshed website that provides more simple and clean design. The new website was developed using our Design Thinking Lab taking into consideration elements of User Interface and User Experience ("UI/UX") to simplify customer journeys. We have made the website more user-friendly and added features such as a Zakat calculator that is integrated with our online banking system and a Financial Personality quiz that helps to match our customers with suitable services based on their financial characteristics. In addition, we have also added information on knowledge on Islamic banking services and contracts in a format that is easy to understand so as to build overall industry knowledge of Islamic Banking. In another initiative to simplify customer journeys, we are embarking into the implementation of Electronic Know-Your-Customer ("e-KYC") technology. With this technology, HLISB would be able to deliver a fully digital on-boarding experience, providing customers more convenience as they no longer need to visit branches for account opening processes.

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

BCB-i delivered a commendable performance this financial year where their financing asset grew by 36% YoY to a total of RM8.8 billion. The growth exceeded industry growth rate for domestic corporate financing of 7%. The favourable performance was fairly contributed by Trade and Non-Trade portfolios. BCB-i maintained a healthy industry concentration and client mix which helped mitigate the adverse impact of market environment. Currently, BCB-i contributes 29% to total HLISB financing base, improving from 25% the last financial year. Going forward, we seek to grow the total contribution of BCB-i assets to the Bank's overall business to ensure a more diversified mix of our commercial and retail banking portfolio.

FOSTERING SMES THROUGH ISLAMIC BANKING

BCB-i continues to play a role to support the SME sector by providing financial services to SME clients particularly in the area of cash management, asset financing, working capital and trade finance.

We continued the collaboration with SME Corporation Malaysia ("SME Corp") to offer the Shariah Compliant SME Financing Scheme ("SSFS") under SSFS 3.0. To support the Bumiputera business community, we partnered with Unit Peneraju Agenda Bumiputera ("TERAJU") to act as a panel bank for its Program Syarikat Bumiputera Berprestasi Tinggi ("TeraS") programme. The TeraS programme is organised to identify high-potential Bumiputera companies and provide them with merit-based financing opportunities. On the back of these initiatives we managed to grow our SME segment for this financial year by 11.4%.

During the year, we continued to play our role in trade facilitation among SMEs. Our strategy on Islamic Trade Finance has delivered positive results as we managed to record a 45% growth on current outstanding trade asset over the last financial year, standing at RM 1.2 billion as of June 2020. Initiatives are ongoing to improve the operational process for Trade Finance services. During the period under review, we have automated the Commodity Murabahah trading process for Islamic Trade Finance. For the next enhancement to our Trade Finance services, we are currently working on a project to digitalise the existing manual process of trade application documents where with this enhancement customer are able to upload trade documents for processing via Hong Leong Connect First, our online banking platform dedicated for businesses. These digital and automation initiatives would result in the improvement of the overall delivery of services due to faster turnaround time and disbursement of financings to clients.

GROWTH OF THE HALAL SEGMENT

Malaysia is a significant player in the global Halal industry with the Malaysian Halal market projected to increase its contribution to the Malaysian GDP. To drive the growth, the Halal Development Corporation ("HDC") has issued the Halal Industry Master Plan 2030 ("HIMP 2030") outlining our country's vision to make Malaysia as the global leader in the Halal industry. HDC has identified Islamic Finance as one of the key enablers in its HIMP 2030, putting Islamic banks on the limelight to provide ample support for this initiative. Therefore, HLISB is well-positioned to provide Islamic financial intermediation to players in the Halal sector.

Our Halal assets recorded an increase of 51.4% as compared to last year, mainly contributed by our growth in the Halal Food and Beverage sector. With this encouraging achievement, we are motivated to expand our support to other emerging halal segments such as Halal Logistics, Halal Pharmaceuticals and Halal Health.

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HLISB is building strong connections to the Halal Industry. We embarked in various industry engagement sessions during the financial year where we participated in the following events:

- Muslim Friendly Tourism Forum, organised by Tourism Malaysia
- Selangor International Business Summit, organised by Invest Selangor
- Halal Producers and Hypermarkets Business Matching Session, organised by HDC
- Program Transformasi Usahawan Selangor, organised by AIBIM

Our presence in these events provide us with opportunities to identify potential clients in the Halal supply chain, engage other industry partners for further collaboration and keep our team abreast on current developments in the industry.

Our initiatives on Halal continued with specific financing campaigns targeting Halal businesses namely SME Islamic Financing Campaign via Stamp Duty Rebate Campaign. On top of that, we also launched a six-month Halal financing campaign to encourage front-liners to market our solutions for Halal clients.

GREEN FINANCING INITIATIVES

We are committed to support the renewable energy sector aligning with our sustainability and Value-based Intermediation ("VBI") values.

We have participated in roadshows, expos and conferences related to financing of green projects and on energy efficiency. We also supported Malaysian Green Technology Corporation's ("MGTC") first inaugural Greentech Run held in December 2019, a lifestyle event that was held to promote eco-friendly living by informing the public on the government's green initiatives.

Through our support via the country's Green Technology Financing scheme ("GTFS"), we help facilitate projects under the Malaysian Government's initiative namely the Net Energy Metering ("NEM"), Large Scale Solar ("LSS") and Feed-in-Tariff ("FiT") Mechanism.

As at the financial year end, we have approved a total of RM114.6 million of green financing in support of local companies' and entrepreneurs' green technology-based projects namely production of green energy derived from Solar Photovoltaic and Biogas.

3. GLOBAL ISLAMIC MARKET

Global Islamic Markets ("GIM") is a key product partner for the Bank's wholesale clients. The core products that allow us to offer comprehensive solutions to our clients include Shariah-compliant Money Market, Foreign Exchange, Fixed Income, Derivatives and Structured Products.

GIM is also the key unit in managing the Bank's liquidity through various investments in Fixed Income and Money Market instruments. GIM closed the year with a 177% growth in Net Profit to close at RM218 million (FY2019: RM79 million) led by strong performance from the trading income and capital gain. Overnight Policy Rate ("OPR") cuts totalling 100 basis points by BNM since January 2020 has provided the base for us to re-strategize our portfolio management.

We took advantage of the current low market rate environment to realise capital gain from our existing Fair Value through Other Comprehensive Income ("FVOCI") portfolio. Total securities stand at RM7.5 billion this year compared to RM7.7 billion the previous financial year, contributing 18% (FY2019: 22%) to the Bank's Total Assets. While the closing is slightly lower than the previous year, we see this as an opportunity to rebuild our FVOCI portfolio in tandem with gradual economic recovery forecasted in 2021.

A growth opportunity of GIM client base is expected to continue as BCB-i embarks on new opportunities to further grow its Commercial and SME financing portfolio, focusing on Trade Finance revenue stream in the coming year. We shall 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.

DIGITALISATION

Digitalisation enables us to rethink on how we could improve the functionality and accessibility of our banking services for our customers. Our "Digital at the Core" ethos propels us to the forefront of the Islamic banking digital ecosystem. As we embrace this new way of thinking, it is essential to put the needs of our customers first in the pursuit of embracing digital services. We put efforts to offer a customer-centric financial experience that provide seamless access towards our range of financial solutions and service offerings.

DIGITAL INITIATIVES

Islamic Wealth Management

- ASNB services via our online banking platform Hong Leong Connect
- Online Multi-Currency Features via Pay&Save Deposit Account
- Dedicated link in HLISB website for full suite Zakat contributions via Hong Leong Connect

UX/UI

- New mobile banking platform – HLB Connect App
- Revamped HLISB website utilising our Design Thinking approach

In FY2020, we have allocated significant amount of capital expenditure to invest in digital capability enhancements and initiatives which iterates our focus on fostering a digital banking ecosystem for consumers and businesses.

During the year, we have focused on digitalising our Islamic Wealth Management journey and enhancing our User Experience and User Interface ("UX/UI").

With regards to our efforts in expanding our digital wealth management solution, we have introduced several new services this year in our digital channel. These services include ASNB online via Hong Leong Connect, Multi-Currency Feature for our Pay&Save Deposit and a dedicated link for Zakat contributions in our website for customers to pay via Hong Leong Connect.

On enhancing UX/UI, we have hosted various activities like design thinking, customer experience-design, customer co-creation, UX/UI design, rapid prototyping and usability testing sessions at our Customer Experience ("CX") Lab through our collaboration with the Group Digital and Innovation Office ("DIO"). We use these facilities to get more insights from our customers by understanding their ever-evolving behaviour, wants and needs. We capture the way customers interact with prototypes of our products and these findings are then used to refine the experience to ensure the final outcome is aligned with the customers' expectation. Once live, we continue to measure customer interactions to enhance and evolve the experience. During the year, the result of the collaboration was seen through the launch of our new mobile banking platform HLB Connect App and our refreshed HLISB website.

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Business Operation Review

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WORKFORCE EMPOWERMENT

Keeping up with the pace of advancement in Islamic Finance is a challenge for the industry. While technology creates business opportunities, it also creates skill gaps that need to be addressed in order for us to remain competitive. Compounded by the fact of the ongoing COVID-19 crisis, HLISB has increased our efforts to upskill and reskill our employees to create a more agile workforce to address future business challenges. HLISB has been investing into development of our employees' skills and technical competencies via adequate capacity building and talent development. Our efforts are as follows:

HUMAN RESOURCE DEVELOPMENT INITIATIVES

CAPACITY BUILDING

- Islamic Banking and Finance
  - HLISB's Fundamentals of Islamic Banking ("FIB")
  - HLISB's Islamic Financial Banking Qualifications ("IFiQ")
  - Professional Certifications
  - External Training on Islamic Banking
- Compliance Training
- Industry Development

TALENT DEVELOPMENT

- Islamic Graduate Training Programme
- Management Associate Programme
- PROTÉGÉ
- Internship Programme

1. CAPACITY BUILDING

Our capacity building programmes equips our staff with a variety of industry-relevant knowledge with core areas include Islamic Banking and Finance, compliance and the latest emerging issues and developments in the industry.

A) ISLAMIC BANKING AND FINANCE

HLISB's Fundamentals of Islamic Banking ("FIB") - This year we have enhanced our internally-developed FIB programme to FIB2.0 where the programme is now more compact and concise, duly reviewed by certified external trainers. We have widened the coverage of the FIB to include more staff in sales and operations who heavily deal with Islamic transactions. Since we launched the initiative in 2017 up to June 2020, a total of 4,424 employees have completed these modules.

HLISB's Islamic Finance Qualifications ("IFiQ") - The Bank has also introduced a two-level IFiQ Intermediate and IFiQ Advance programmes. The IFiQ covers more advanced topics on Islamic finance compared to FIB2.0. As at financial year end, HLISB has seen 567 employees successfully passing these internal certification programmes.

Professional Certifications - Our team also pursue external professional certifications offered by reputable professional bodies such as Asian Institute of Chartered Banker ("AICB") and Chartered Institute of Islamic Finance ("CIIF"). These training programmes have provided our staff with soft and technical skills relevant to their personal and professional development that can lead to amplified job enrichment opportunities.

To elevate Shariah professionalism, we have enrolled our staff in external Shariah professional certification programmes:

- Certified Shariah Advisor ("CSA") – A programme under Association of Shariah Advisors in Islamic Finance ("ASAS") enrolled for individuals with Shariah backgrounds such as our Shariah Committee and Shariah division personnel.
- Certified Shariah Practitioner ("CSP") – A programme under ASAS targeted towards our personnel without Shariah background who wish to pursue professional qualifications in Shariah.
- Certified Professional Shariah Auditor ("CPSA") – A programme offered by IBFIM. This programme provides technical understanding and professional skills on Shariah compliance audit and review processes for the Islamic banking and finance industry to enhance our control function capabilities.

A total of six (6) employees had completed Level I of the CSA/CSP programmes and are working to complete their Level II modules.

External Training on Islamic Banking - We organised a series of training programme conducted by Islamic Banking and Finance Institute Malaysia ("IBFIM") for selected HLISB staff namely; Islamic Jurisprudence (Fiqh & Usul Fiqh) and its application in Islamic Finance and Digital & Future Insight of Islamic Finance programme via Webinar.

B) COMPLIANCE TRAINING

We conduct in-house training on compliance topics such as Anti-Money Laundering and Counter-Financing Terrorism, Foreign Account Tax Compliance Act ("FATCA"), Common Reporting Standard ("CRS"), Fair Treatment to Financial Customers ("FTFC"), Customer Data Protection and Know Your Customer ("KYC") applicable to all staff.

We also enrolled our staff to programmes on compliance held by subject experts such as Federation of Investment Managers Malaysia ("FIMM"), Malaysian Anti-Corruption Commission ("MACC") and Association of Islamic Banking and Financial Institutions Malaysia ("AIBIM") which cover topics on commercial crime, Anti-Bribery and Corruption and Foreign Exchange Administration.

C) INDUSTRY DEVELOPMENT

We also provide trainings on topics and emerging issues relevant to the Islamic banking industry to keep our staff abreast on the latest industry development. These programmes cover numerous topics such as the new expectations of the Policy Document on Shariah Governance ("SGPD"), ethical leadership and Value-based Intermediation. We also encourage our staff to proactively participate in industry workshops and seminars on topics concerning sustainability, digitalisation, design thinking and data science analytics in order to explore new technologies that can be commercialised into enhanced customer journey experiences.

2. TALENT DEVELOPMENT

- **Islamic Graduate Trainee Programme ("IGTP")**

  In nurturing talent and provide opportunities for career path, HLISB has embarked on an IGT programme in which six (6) talents have been identified and recruited under this programme. The IGT Programme provides an on-job rotations and also structured framework to equip them with fundamental knowledge and unlock their key skills, expertise and competencies. Upon the completion of this Programme, the IGT will be placed at various departments of HLISB to leverage on their key competencies.

- **Management Associate Programme ("MA")**

  Our Management Associate 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 2018 batch has been successfully placed within HLISB as an Investment Account Business Support Assistant Manager, as HLISB continues to strengthen its proposition as a preferred employer of choice with the MA Programme.

- **Professional Training And Education For Growing Entrepreneurs ("PROTÉGÉ")**

  We are also involved in the PROTÉGÉ programme where we enrolled a total of eight (8) people under the programme to create more competitive and ready job marketers that meet current industry needs.

- **Internship Programme**

  HLISB also strives to be a platform for developing undergraduate students via our internship programme. To date, we have selected a total of five (5) undergraduate students for this programme who mainly have Shariah and Islamic Banking & Finance background. During the internship programme, these students were tasked with valuable on-job learning, hands-on-training and exposure to integrate between academia and practical applicability in the workplace.

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SHARIAH

INSTILLING SHARIAH COMPLIANCE CULTURE

To instil Shariah compliance culture within the Bank we are promoting the behaviour of compliance with Shariah in our business strategy, operations and activities. This includes adopting an appropriate "Tone from the Top' to regularly communicate the importance of adherence to Shariah requirements and integrating Shariah governance consideration in our business and risk strategies, internal policies and conduct.

- **"Tone from the Top"**

  The Board of Directors and Shariah Committee ("SC") provide oversight on the overall Shariah governance in the Bank to ensure that effective communication policies are in place. During the financial year, the Bank has enhanced the Board Policy on Shariah Governance ("SGBP") and refined the SC Term of Reference to promote effective implementation of Shariah governance within the Bank in line with the Policy Document on Shariah Governance issued by BNM.

  The Bank also holds Joint Board and Shariah Committee ("JBSC") meetings with Board, SC and Senior management to communicate matters relating to Shariah governance. The meeting also provide avenue for SC to keep abreast with the business developments, risk strategies, legal and regulatory requirements of the Bank.

- **Elevating Shariah Compliance**

  The Bank has dedicated the month of September as Shariah Compliance Month ("SCM") to increase awareness, understanding and appreciation of the underlying principles of Shariah among HLISB and HLB staff. Activities during the month include compulsory weekly huddles on Shariah compliance topics, sharing sessions with our Chairman of SC, digital knowledge sharing accessible via QR code, One Point Lessons and edutainment games conducted online.

  The Bank has enhanced the role of Shariah Governance Working Group ("SGWG") to a higher level Shariah Governance Working Committee ("SGWC"). This enhancement improves coordination between control functions with regards to Shariah compliance risk management.

- **Shariah Compliance Culture through Learning and Development Programmes**

  In addition to the Islamic Finance Capacity Building programmes for our staff, the Bank has put in place structured learning programmes for Board and SC members to aid them in discharging their duties. The programmes are detailed out in the Corporate Governance Overview, Risk Management and Internal Control Statement in this Annual Report.

- **Shariah Knowledge Sharing**

  We are contributing to the Islamic finance industry via our roles as the Chairman of Shariah Governance Committee of AIBIM and Assistant Secretary of ASAS. We also participated as a member of Certified Professional Shariah Auditor Development Committee of IBFIM in the development of training modules on Shariah compliance audit and review processes.

  We conducted knowledge sharing sessions with the general public through our Islamic Financial Literacy ("Celik Muamalat") programmes with local universities and our involvement in "Muzakarah Cendekiawan Syariah Nusantara ke-13" as a panellist to discuss on topics of how Zakat and Waqaf funds could help Asnaf (eligible recipients) during financial distress.

VALUE-BASED INTERMEDIATION ("VBI")

Under VBI, there are four core principles that are encouraged to be adopted which are attainment of benefit and prevention of harm, integration of Shariah, fairness and transparency and constructive and inclusive collaboration with stakeholders. VBI is intended to further align Islamic financial institutions' activities to deliver the intended outcomes of Shariah ("Maqasid Shariah") of preserving wealth, faith, lives, posterity and intellect.

Our journey towards embracing VBI is still progressing and we track our VBI activities in three key aspects which concern economic resiliency, social empowerment and good governance and best conduct.

VBI CORE PRINCIPLES (CORPORATE VALUES)

Attainment of Benefit and Prevention of Harm | Integration of Shariah | Fairness and Transparency | Constructive and Inclusive Collaboration with Stakeholders

HLISB Key Aspects for VBI Tracking

Economic Resiliency | Social Empowerment | Good Governance and Best Conduct

- **Economic Resiliency through Our Products and Services**

  We have pursued initiatives to ensure our products and services give real values to our customers, among which: -

  - Islamic Wealth Management – New services launched during the year include ASNB online banking, a new Takaful plan and direct link of online Zakat payment services.
  - Halal and SME Industry – Collaboration with HDC, CGC and SME Corp.
  - Bumiputera business entities – Collaboration with TERAJU.
  - Green Financing – through financing facilities provided for renewable energy sector.

- **Social Empowerment through Our Knowledge Sharing Initiatives**

  We share our knowledge and experience on our pursuit to socially empower the wider community, through the following initiatives:

  - Sharing knowledge with the industry through our roles in AIBIM, ASAS and IBFIM.
  - Islamic Financial Literacy ("Celik Muamalat").
  - Islamic banking knowledge section in the revamped HLISB website.

  We also make available our Chatbot in HLISB website and Hong Leong Connect to help the public gain knowledge on fundamental concepts in Islamic banking.

- **Good Self-Governance and Best Conduct**

  We have in place the following process and activities to promote self-governance and compliance culture within our organisation:

  - Compliance Policy – It serves to unify the roles and responsibilities relating to compliance and cultivate self-regulation among our team.
  - Whistleblowing Policy – It provides an avenue and protection for our staff, business partners and customers to disclose any improper conduct involving the Bank.
  - Training and awareness sessions on compliance.
  - External programmes on compliance with subject experts.

Sustainability **Statement**

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 2020, 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 2020 covers the operations of HLB and HLISB in Malaysia in the financial year from 1 July 2019 – 30 June 2020 ("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 senior management and 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 Themes

HLISB Corporate Vision

To be a 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 stakeholders value

	Digital at the Core	Workforce Readiness	Socially Responsible Business	Environmental Management	Community Investment
HLISB Sustainability Themes	We have embraced digital transformation as a key future value driver, and are always innovating to enhance customer and employee experiences, accessibility and efficiency.	We nurture a high performing and inclusive workforce, empowering our people to constantly be at the forefront of change through acquiring strategic skills and capabilities.	We aim to be a value-based financial institution, committed in operating our business, as well as, supporting our stakeholders through fair and responsible social and environmental practices. We provide fair banking to ensure that consumers understand their financial commitments, opportunities and risks associated when entering into financial contracts with us.	We keep our environmental footprint low and promote responsible consumption to limit negative environmental and social externalities.	We empower the communities where we operate by providing relevant tools, knowledge and banking products and services, supporting the growth of SMEs and Social Enterprises and promoting greater financial literacy amongst the public.
Our Material Topics	• Digital Banking • Cyber Security and Data Privacy • Simplifying Customer Experiences	• Nurturing Talent Growth • Ethics, Integrity and Compliance • Employee Health and Well-being	• Climate-positive Financing • Responsible Financing • Fair Banking • Sustainable Supply Chain • Community Banking • Prevention of Financial Crime	• Managing Our Environmental Footprint • Responsible Consumption	• Building Communities • Islamic Financial Literacy

Sustainability Risk Management

In FY2020 we updated our Sustainability Themes to fit with current needs and growth opportunities of the Bank. Further emphasis has been placed on our commitment to embedding social and environmental considerations into the Bank's operations and the continued support for our SME customers under the Socially Responsible Business pillar. The Community Investment pillar drives our initiatives targeted at building communities and supporting Islamic financial literacy. We have also restructured our previous Fit-For-Future pillar to Workforce Readiness to match our human resource initiatives in nurturing competence and inclusivity today and as we move forward as the "future" is now. The fundamental of HLISB Sustainability is aligned with the underlying principles of Maqasid al-Shariah (the objectives of Shariah) which among others are the achievement of benefits and prevention of harms.

Sustainability Statement

Sustainability Statement

OUR SUSTAINABILITY GOVERNANCE

Our approach to sustainability is overseen by our Board of Directors, who are responsible for providing oversight of the Bank's strategic measures to manage ESG risks and opportunities including Value-based Intermediation, climate change-related actions and policies. The Board of Directors, together with the Board Risk Audit Management Committee and Shariah Committee, ensure that all sustainability initiatives and policies are aligned with business objectives and consistent with the Bank's values.

Governing Body	Roles/Responsibilities
BOARD OF DIRECTORS	Oversees the strategic direction for the company's approach to Value-based Intermediation and sustainability including the initiatives' progress update and reporting.
BOARD AUDIT RISK MANAGEMENT COMMITTEE	Responsible for overseeing the management of sustainability/VBI strategy agenda and ESG risks as well as progress updates.
SHARIAH COMMITTEE	Responsible for overseeing the management of VBI strategy agenda to be in line with Shariah rules and principles as well as progress updates.
SUSTAINABILITY STEERING COMMITTEE	Custodians and main enablers of the organisation's sustainability/VBI strategy and initiatives.
SUSTAINABILITY WORKING COMMITTEE	Responsible for overseeing implementation of sustainability/VBI strategies at the working level.

OUR SUSTAINABILITY APPROACH

The Bank's approach to integrating economic, environmental and social considerations into our business activities is best demonstrated by our core value "here for the long term". In line with this value, we are committed to delivering long-lasting ESG and VBI solutions that contribute to a better future for all. This commitment forms a guiding principle for our business segments and was vividly brought to life as a guiding value as we actioned various initiatives during the global COVID-19 pandemic.

To ensure that we are delivering results that matter to those who are impacted by our business, our strategy is guided by deep and meaningful engagements with stakeholders. This in turn provides guidance for the prioritisation of ESG issues and VBI core principles including the identification of our most material sustainability topics.

MATERIALITY

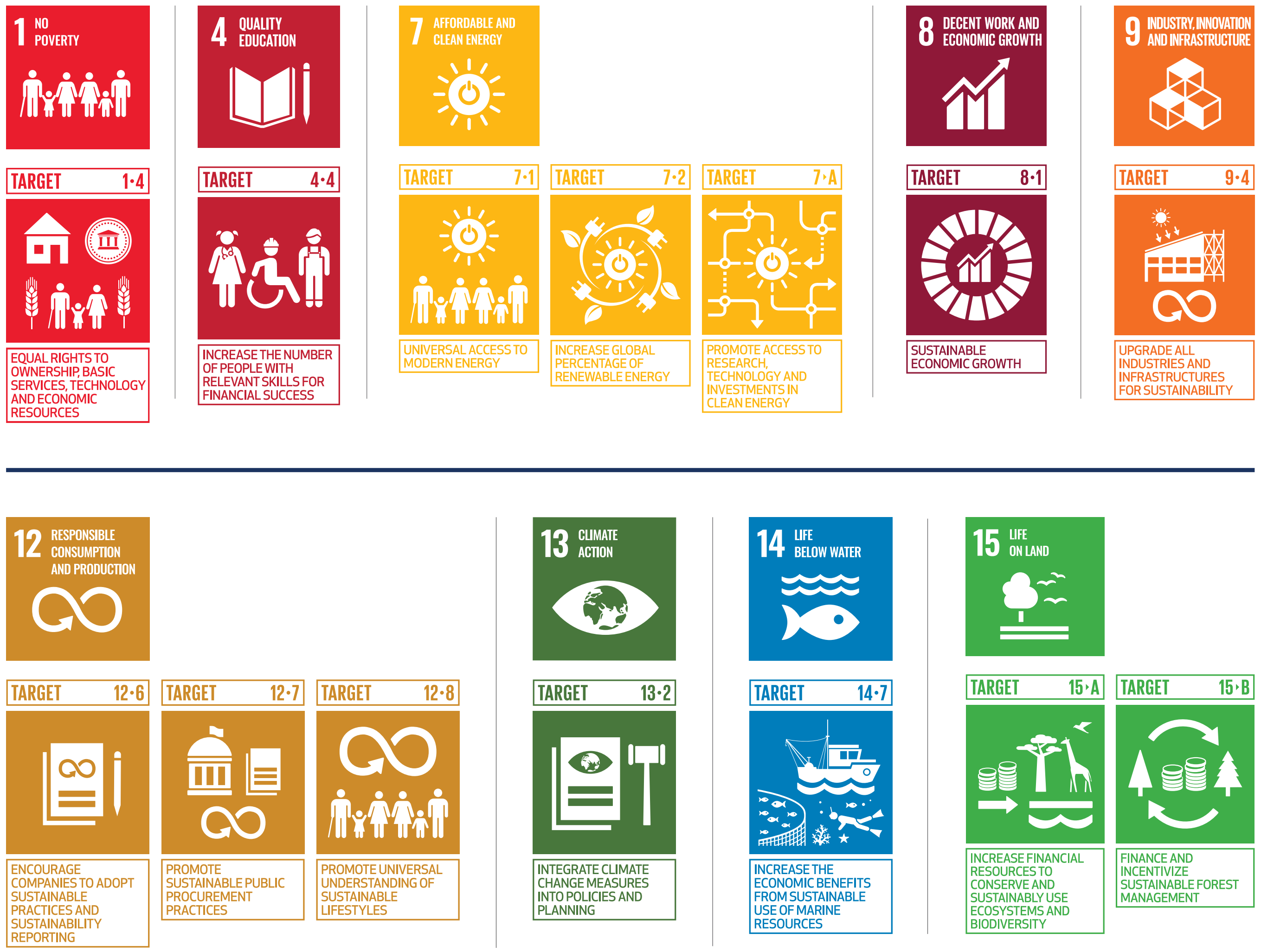
In FY2020, we performed a comprehensive review and restructuring of our material topics to better reflect the Bank's areas of impact and opportunity. As part of this process, we evaluated the topics identified by our FY2019 assessments against current industry and business focus areas and updated the topics so as to better capture current themes. The result was a revised list of 16 material topics organised into 5 sustainability themes, which will guide our strategic efforts towards managing ESG and VBI risks and opportunities.

The Bank's Sustainability Themes	Material Topics	Description
Digital at the Core	**Digital Banking**	Digitising Islamic products and services for greater accessibility therefore creating positive customer experiences through adaptation of relevant latest digital technologies, always taking into account the Islamic financial needs of consumers/clients.
	Cyber Security and Data Privacy	Protecting our organisation and customer data from unauthorised access, attacks or threats aimed at exploiting personal and confidential customer and proprietary data.
	Simplifying Customer Experiences	Enabling customer-focused experiences in all of our banking operations, including meeting customers' dynamic demands for seamless and efficient Islamic banking services.
Workforce Readiness	**Nurturing Talent Growth**	Encouraging a growth mindset in our employees by providing 'anytime, anywhere' learning and empowering our people to continuously develop skills that equip them for the fast-evolving employment landscape. Embracing the fundamental need to drive change so that we remain competitive and the business thrives.
	Ethics, Integrity and Compliance	Ensure that employees and related stakeholders commit to a high standard of professionalism and ethics in the conduct of our business and professional activities as set out in our Code of Conduct and Ethics ("CoCE") policy, encapsulating 6 principles, namely, Competence, Integrity, Fairness, Confidentiality, Objectivity and Environment.
	Employee Health and Well-being	Creating an optimum and positive work environment which supports employee well-being to ensure a healthy and engaged workforce.

Sustainability Statement

The Bank's Sustainability Themes	Material Topics	Description
Socially Responsible Business	Climate-positive Financing	Offering Islamic financial solutions to projects that have a climate-positive impact.
	Responsible Financing	Developing innovative Islamic products and services that sustain the advancement and growth of the communities we do business in, whilst ensuring compliance with relevant regulations, policies and principles. We will assess and screen for environmental and social risks as an integral part of our banking practices.
	Fair Banking	Offering Islamic products and services that meet customers' expectations, are fair and responsible and take into consideration the interests of both parties in terms of fairness in all aspects.
	Sustainable Supply Chain	Conducting due diligence reviews on suppliers to assess financial strength, performance, disaster recovery, business continuity plans, cyber security capabilities, and screen for unfair practices. Requiring suppliers to meet social and environmental assessment requirements before being on-boarded as business partners, and during annual reviews.
	Community Banking	Engaging and helping local communities to develop an inclusive Islamic economic ecosystem via products, services and programmes that have been designed to meet their specific needs.
	Prevention of Financial Crime	Taking measures to prevent being the channel for financial crimes and money laundering.
Environmental Management	Managing Our Environmental Footprint	Using the planet's resources and energy efficiently to reduce Greenhouse Gas ("GHG") emissions and carbon footprint at all levels of our operations.
	Responsible Consumption	Reducing reliance on material resources through the inculcation of responsible consumption throughout the organisation.
Community Investment	Building Communities	Conducting social outreach programmes for the community, whilst empowering them with knowledge, skills and tools needed to secure economic development and advance their quality of life.
	Islamic Financial Literacy	Improving understanding of Islamic financial services through knowledge sharing and Islamic financial literacy programmes aimed at driving inclusiveness by assisting and empowering the community to achieve financial goals.

Sustainability Statement



Our commitment 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 previously have identified 7 of the goals and recognised 3 more goals that we are able to positively contribute to in FY2019. The 10 SDGs are as per below:

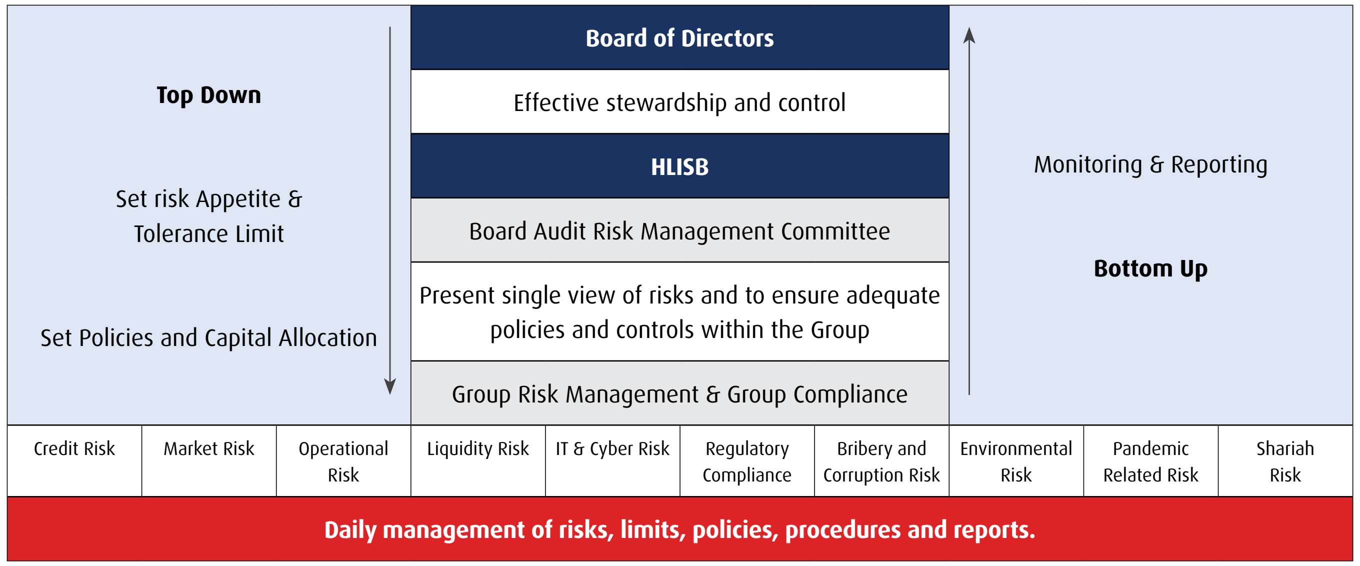
- Goal 1: No Poverty
- Goal 4: Quality Education
- Goal 7: Affordable and Clean Energy
- Goal 8: Decent Work and Economic Growth
- Goal 9: Industry, Innovation and Infrastructure
- Goal 12: Responsible Consumption and Production
- Goal 13: Climate Change
- Goal 14: Life Below Water
- Goal 15: Life On Land
- Goal 16: Peace, Justice and Strong Institutions

Sustainability Statement

RISK MANAGEMENT AND RISK CULTURE

Our risk management strategies are governed by the Risk Management Structure as depicted below:

HLISB Risk Management Structure



Environmental Risk, Sustainability and Climate Change

Environmental risks, including climate change, have been incorporated into our Risk Management Structure since FY2019. Environmental risks are defined as the actual or potential threat of adverse effects on living organisms and the environment by effluents, emissions, wastes, resource depletion and other impacts. Environmental risks are also associated with broader sustainability risks, including the effect of business actions and environmental impacts, such as climate change, on society and the well-being of the community.

Given the Bank's role in the economy, we are cognisant that individuals and companies we do business with, will directly or indirectly affect the environment. Therefore, the Bank has taken measures to ensure these risks are incorporated into our business activities and policies to reflect our commitment to build an environmentally friendly eco-system where we operate. Our policies are in line with the guidance document and discussion paper issued by BNM on Value-based Intermediation Financing and Investment Impact Assessment Framework and Climate Change and Principle-based Taxonomy.

However, if the Bank is unable to achieve its sustainability goals, the impact can be classified into the categories stated below:

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 the Bank's 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.

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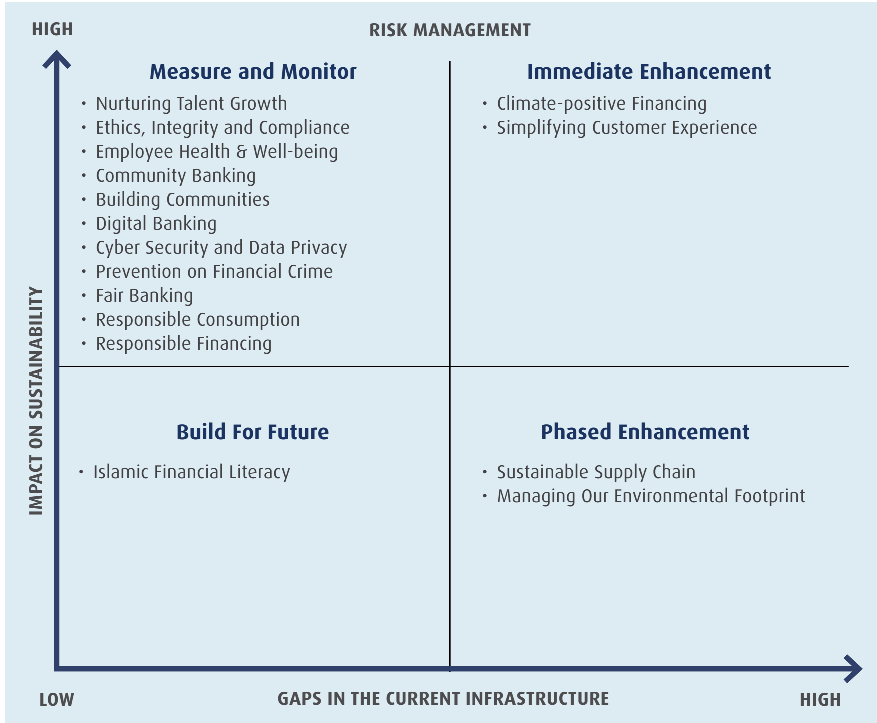
HLISB, under HLB, has mapped out our material topics onto a risk matrix that helps us assess the severity of these risks and the corresponding level of action needed as part of our risk management exercise. From our restructured sustainability themes and the revised list of 16 new material topics, we have updated our previous risk matrix to identify our high-priority action areas.



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.

Build for Future
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. It is important for the Bank to "build for the future".

Phased Enhancement
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.

Within the Immediate Enhancement quadrant, the Bank has established the following focus areas and improvement strategies.

Material Topic	Programmes/Initiatives
Climate-positive Financing	Supporting the development and adoption of green technologies through targeted financing and developing green investment products to help consumers align their financial choices with their sustainable values.
Simplifying Customer Experiences	Providing support for social enterprises and SMEs and expanding our network of digital branches to offer an enhanced and more efficient customer experience. Assisting all customers to migrate to digital banking while helping those that might need more time to make the transition.

In line with our own initiatives including the guidance document and discussion paper issued by BNM on Value-based Intermediation Financing and Investment Impact Assessment Framework and Climate Change and Principle-based Taxonomy which were issued at the end of 2019, HLISB has been in active discussion with HLB and also various authorities and non-profit organisations to refine our VBI Framework and Scorecard as part of our client selection and credit decisioning process following HLB's ESG Framework. The VBI Framework will guide us in better managing our portfolio and transitioning clients to climate change resilient business operations.

In addition, HLISB, under HLB, is committed to the guiding principles of fair, equitable and responsible financing, and seeks to ensure that customers are treated fairly, equally and do not encounter discriminatory processes when accessing Islamic financial services. In this regard, both HLB and HLISB have implemented, amongst other measures, two policies, namely the Board Policy on Products and Value Propositions and the Policy on Product Transparency and Disclosure, to ensure that we operationalise these strategic priorities. The oversight role discharged by both HLB and HLISB's Products and Value Proposition Committee further enhances internal governance on product and services offered.

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An Independent Review was performed on both HLB and HLISB's Sustainability Initiatives to facilitate the identification and rectification of sustainability weaknesses and to ensure the Bank's initiatives conform to our sustainability objectives. Furthermore, this review included an independent assessment conducted on our corporate customers' credit evaluation process with the intention to validate whether our customers conform to the sustainability standards and certifications relating to ESG. HLISB, under HLB, will conduct periodic reviews to assess the implementation and progress of the sustainability initiatives and to ensure our objectives towards building a sustainable business community are met.

Stakeholder Engagement

Engagement with our stakeholders provides essential feedback to ensure that we are identifying and addressing our most significant ESG impacts and opportunities. As our stakeholders' priorities are constantly shifting, we maintain regular channels of communication in order to capture input which is relevant and reflective of current trends.

Sustainability Topics

Digital Banking	Cyber Security and Data Privacy	Simplifying Customer Experiences	Nurturing Talent Growth	Ethics, Integrity and Compliance	Employee Health and Well-being	Climate-positive Financing	Responsible Financing
Fair Banking	Sustainable Supply Chain	Community Banking	Prevention of Financial Crime	Managing Our Environmental Footprint	Responsible Consumption	Building Communities	Islamic Financial Literacy

Communications & Interactive Norms

Employee Engagement	Customer Advocacy	Investor Relations	Incident Management	Contingencies Measures	Whistleblowing	Community Engagement	News/ Social Media Management

Key Stakeholders

Employees	Customers	Shareholders/ Investors	Regulators	Suppliers/ Vendors	Local communities	General public & media

GOOD BUSINESS CONDUCT

Robust business ethics and governance set a clear structure and form the guiding principles that chart the Bank's growth pathway. The systems, processes, procedures and policies we have in place are designed to instill a culture that affirms good business conduct. These are also in support of the Value-based Intermediation (VBI) implementation in our practices, conduct and offerings of being an Islamic bank. Aside embedding Shariah Compliance Culture, HLISB therefore also adheres to the corporate governance culture of HLB. This culture is reinforced from the very top, with our Board of Directors setting the tone for responsible conduct right across the Bank.

CORPORATE GOVERNANCE

Achieving alignment of sustainability and corporate governance requires sound leadership. Our Board of Directors of HLISB and HLB take seriously our responsibility to operate according to governance best practices and, together with senior management, oversee systemic compliance with responsible business conduct policies and practices. Established policies and procedures related to ethical conduct, anti-bribery and corruption, anti-money laundering and whistleblowing, among others, are in place. Policies and Standard Operating Procedures are reviewed annually to ensure that they remain relevant, promote and uphold standards of best practice.

ETHICS AND INTEGRITY

Our Code of Conduct and Ethics ("the Code") sets out the values, principles and standards of professional conduct that are expected to be upheld at HLISB and the Group's employees, subsidiaries and affiliates of our business partners and vendors. The Code ensures that the highest standards of behaviour are enacted across our business activities.

Compliance with the Code is driven by a strong culture of ethical conduct fostered through multi-channel engagement with our employees. Efforts include both onboarding training for new employees and regular reinforcement training for existing employees. We work to ensure that the standards set out by the Code are embedded throughout the organisation. Our commitment to upholding these standards is reaffirmed each year by the Board of Directors' and Employees' mandatory annual attestations to the Code.

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.

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.

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.

INTEGRITY

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

CONFIDENTIALITY

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

ENVIRONMENT

The Banking Group is committed to reducing 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.

To demonstrate the Bank's zero tolerance position on corruption and bribery, an Anti-Bribery and Corruption Framework was established. HLB has also appointed an Ethics and Integrity Officer who sets out a holistic approach in the implementation of adequate policies and procedures to safeguard both HLB and HLISB from corrupt practices.

Sustainability Statement

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COMPLIANCE FRAMEWORK

To drive compliance with all relevant laws, regulations and standards, a Compliance Framework is in place to guide compliance standards and requirements as well as roles, responsibilities, processes and practices governing the day-to-day operations of HLISB and HLB.

Under HLB's Compliance Framework, Group Compliance partners with the business and support units to develop and update systems, policies, processes and procedures to manage compliance risk inherent in business activities. To further support the framework, Business Unit Compliance Officers ("BUCOs") and Business Unit Compliance Representatives ("BUCRs") are based in business and support units to help unit heads drive compliance initiatives. Group Compliance maintains oversight of these processes to additionally carry out a compliance assurance programme to independently assess the compliance status of the various business and support units across HLISB and HLB.

Group Compliance also disseminates any changes as well as new regulatory requirements to the Horizon Scanning Working Group ("HSWG") which was set up to identify timely applicable requirements and assess the impacts of these requirements on the affected divisions. Relevant staffs are also kept up to date with any regulatory updates issued or published by the regulators via a weekly circular.

PREVENTION OF FINANCIAL CRIME

In FY2020, we took several measures to further strengthen our lines of defense against financial crime. The Anti-Money Laundering and Counter Financing of Terrorism and Targeted Financial Sanctions ("AML, CFT and TFS") Policy ("Policy") was updated in line with regulatory updates from Bank Negara Malaysia. The Policy sets out the HLISB and HLB's AML, CFT and TFS Programme ("Programme") in managing money laundering, terrorist financing and targeted financial sanctions ("ML/TF/TFS") risks. Concurrently, the AML, CFT and TFS SOP is also updated to ensure effective implementation of the Programme.

To further manage financial crime risks, HLB has established a dedicated Financial Crime Governance Committee (FCGC) in January 2020 in addition to the existing Risk & Compliance Governance Committee, as we strive to safeguard both HLISB and HLB from being a conduit for financial crime proceeds. The committee focuses on Financial Crime Compliance (FCC) matters and further enhances senior management oversight of the ever-increasing FCC risk landscape. To bolster these efforts against Financial Crime Risk, we have embarked on a project to replace its AML system which leverages on artificial intelligence and machine learning to improve the effectiveness of AML detection, monitoring and reporting.

PROMOTING A CULTURE OF COMPLIANCE

The Bank recognises that fostering and promoting a compliance culture requires regular and focused employee engagement and training. To achieve this, regular compliance training is delivered across HLISB and HLB together with role-based training targeted at specific risks associated with divisions and individual positions. Together these practices raise and reinforce awareness of compliance and keep employees updated on compliance related matters.

Employees are required to complete mandatory e-learning modules that consists of videos, reading materials and assessment delivered through Workday, the Hong Leong Bank Group's people and performance management platform. Topics covered include, Anti-Bribery and Corruption ("ABC"), AML/CFT/TFS, and Banking Secrecy & Data Protection. These modules are accompanied with assessment questions to ensure retention of knowledge. Employees are also updated and reminded of necessary compliance practices through bank-wide communications. Since the start of 2019, themed compliance months have also been held where managers conduct weekly and monthly huddles to learn and discuss compliance topics as part of their team meetings.

BUILDING A SHARIAH COMPLIANCE CULTURE

HLISB has defined a Shariah Compliance Culture as the creation of a value system based on Shariah principles and its eventual integration into the way we conduct our business and operations. We believe it should not only be about 'ticking Shariah-compliance boxes'. More importantly, it is about having a deeper understanding of the underlying reasons and principles that dictate our outward conduct and behaviour.

In line with our aspiration to build a Shariah Compliance Culture, various training sessions have been held during the year for both HLISB and HLB staff.

To further strengthen our ethical and transparent business practices, HLB and HLISB have an ongoing programme that targets to deliver role-based Anti-Bribery and Corruption and Malaysian Anti-Corruption Corporate Liability training to over 4,000 employees, AML/CFT training to over 5,000 employees by FY2021 year-end, and the Islamic Finance Qualification ("IFIQ") to 500 employees by FY2022 to ensure greater understanding and compliance with Shariah principles.

WHISTLEBLOWING POLICY

The Bank has in place a Whistleblowing Policy to safeguard the integrity of our operations. All employees, customers, business associates and the general public are encouraged to report any concerns pertaining to improper conduct. The Whistleblowing Policy can be found on our Corporate website, and has clear instructions on how to raise such concerns. Reports of non-compliance including Shariah non-compliance or improper conduct behaviours can be made anonymously and are addressed through independent investigation. Whistleblowers who disclose or raise issues in good faith will be protected from retaliation, adverse employment action and from disclosure of their identity.

DIGITAL AT THE CORE

MATERIAL TOPICS

Digital Banking

Cyber Security and Data Privacy

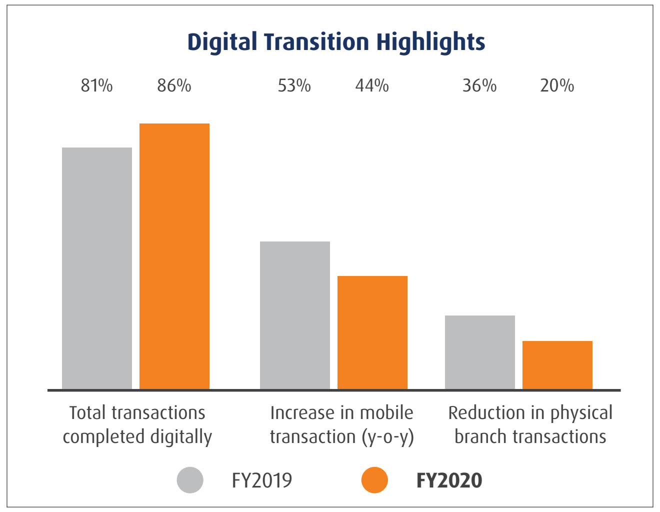
Simplifying Customer Experience

OUR DIGITAL JOURNEY

As digital technologies and financial services have converged, new opportunities for enhanced functionality, accessibility and affordability are emerging. At the Bank, our goal is to help customers realise these opportunities through ongoing digital enhancements to our Islamic products and services that will make them seamless for customers to consume. At its core, our digitisation strategy is about inclusiveness, simplicity and intuitiveness, so that our Islamic financial services are delivered in a timely manner, without the traditional waiting times and cumbersome processes, driving more efficient business practices in the process.

Therefore, enhancing our range of digital Islamic products and services and improving our digital security is a key area of investment for the Bank. This includes efforts to make transactions easier and safer by investing in customer journey capabilities, inhouse Information Technology skills, data science capabilities and automation, plus investments into cyber security capabilities, as well as initiatives to digitise internal processes so that we can have employees lead the transformation through immersion in the digital ecosystem. These digitisation efforts extend beyond Hong Leong Bank's Malaysian operations to include the its operations in overseas markets.

FY2020 saw the continuation of the strategic priority to insource digital capabilities by expanding our Digital Centre of Excellence.



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DIGITAL AT THE CORE (CONTINUED)

HLB CONNECT RETAIL

We provide mobile and web-based banking services to retail customers through our digital banking platform HLB Connect. In line with our ambition to improve the customer experience through digitisation, HLB Connect offers a convenient and multi-functional platform for customers to complete different banking functions with ease.

Enhancing Customer Experience Through HLB Connect

e-Fixed Deposit

Set higher transaction limits to transfer funds from other banks all in one go

Instant Disbursement

Applicants' funds are instantaneously transferred to their HLISB/HLB account following application approval for select financing products

Fixed Deposit Management

Manage, view and make withdrawals online for Fixed Deposits made in-branch

HLISB Investment Account

The first digital investment account offered by an Islamic bank in Malaysia launched in FY2019

As at 30th June 2020, our Term Investment Account-I base recorded RM352.4 million of investments

ASNB ONLINE

Following the successful commencement of the Bank and Amanah Saham Nasional Berhad ("ASNB") Fund distribution partnership in 2018 and our subsequent receipt of the 'Inspirational Starz Award' at the ASNB Starz Award Nite 2018, HLISB was selected by ASNB to launch the online platform for ASNB's products. This solidified further our commitment and effort, in line with the Bank's "Digital at the Core" vision, digitising several processes under HLISB's ASNB Unit Trust Funds to enable more processes and transactions to be performed online. The content of the ASNB e-Channel Services will be designed and constructed, to not only educate and increase awareness on the necessity of long-term investments, but also to help customers manage their wealth. With these enhancements, the ASNB eChannel Services will allow customers to perform online functions in real time.

The ASNB eChannel Services is targeted to be made available to the public in early FY2021, as we aim to launch the first online channel to market Unit Trust Funds for the Bank, a new distribution channel to promote ASNB Unit Trust Funds.

As at June 2020, ASNB Variable Price Funds recorded RM98.1 million.

Customers uptake of digital services and the number of digital transactions we record are important metrics to assess whether our digital offerings are in line with customer needs. We saw an increase of about 9.3% in the total number of customers using our HLB Connect Retail platform. This increase places our current digital retail customer base at 54% as we continue to move towards our target of reaching over 60% by FY2021.

	FY2017	FY2018	FY2019	FY2020
Connect Retail Customers (total)	1,225,466	1,489,036	1,715,001	**1,874,333**
Connect Retail Customers (%)	35	42	49	**54**

One of our key focus areas for FY2020 was to provide even more digital offerings for our customers while simultaneously promoting their migration from traditional branch transactions to our HLB Connect platform. FY2020 witnessed the launch of our all-new HLB Connect app which offers an improved user interface and user exchange design to provide a more seamless user experience.

HLB CONNECTFIRST FOR BUSINESS

Our digital platform for corporate, commercial and SME customers, HLB ConnectFirst, offers a comprehensive suite of banking solutions to help businesses achieve enhanced efficiency. The platform, which includes a range of transaction banking services tailored to business needs, can be customised to meet each customer's specific requirements. HLB and HLISB Corporate Internet Banking users, inclusive of ConnectFirst and ConnectBiz users, have increased by 8.6% compared to FY2019.

	FY2018	FY2019	FY2020
Corporate Internet Banking Users	63,638	72,021	**78,230**
Percentage increase in Corporate Banking Users from previous FY	-	13%	**8.6%**
Number of transactions	7,087,993	8,803,884	**9,072,043**
Transaction Value (RM)	72,451,435,979	87,646,594,697	**81,778,965,258**

To provide added security for our corporate, commercial and SME customers, HLB introduced a revamped eToken platform. First introduced in mid-2018, this digital token authentication solution that allows easy and secure access into the platform, has been equipped with a first-in-market biometric facial-recognition technology for mobile devices. HLB was also one of the five banks in Malaysia to partner with SWIFT to onboard their Global Payment Initiative ("gpi") solutions onto our platform. This partnership will allow our customers to complete cross-border payments in a faster and more transparent manner. To further improve the digital banking experience for our SME customers, we integrated the FastCollect feature to our HLB ConnectFirst platform which allows customers to be onboarded as JomPAY billers 88% more efficiently than traditional channels. JomPAY, being one of Malaysia's biggest online bill payment services, will enable our SME customers to collect payments more efficiently providing them with the ease of mind to focus on other areas of their business.

FY2021 will mark an important milestone for our HLB ConnectFirst platform. Before the end of 2020, we are planning to launch the second iteration of this platform which aims to simplify the current ConnectFirst platform by revamping the user interface according to the latest digital trends and personalised actions based on customers' preferences. To ensure the success of HLB ConnectFirst 2.0, HLB and HLISB have undergone extensive engagement via awareness and training programmes with our staff and our customers throughout FY2020.

CYBER SECURITY AND DATA PRIVACY

As new opportunities to meet customers' needs are created through the digitisation of financial services, new digital risks are also emerging. To ensure that we can provide innovative and efficient Islamic products and services while protecting our customers from harm, we continue to invest in our cybersecurity infrastructure and our ability to counter evolving digital threats. In doing so, we attend closely to emerging Bank Negara Malaysia regulations in order to ensure compliance in this rapidly developing risk area.

The receipt, storage and protection of customers' private details is governed by our Group Data Protection and Customer Secrecy Policy, which has been developed in line with the Personal Data Protection Act (2010) ("PDPA"). The Group Data Protection and Customer Secrecy Policy outlines the necessary compliance-related roles, responsibilities, processes and practices to be observed within the Bank and helps to cultivate a culture of Shariah compliance among our employees. Customers are notified of the manner in which the Bank handles their personal information and what rights and protection they are entitled to as a data owner through the Bank's Privacy Notice, which also applies to the personal information of employees and business partners. Changes to the notice are communicated to stakeholders via the Bank's website or other appropriate communication means such as via email.

Via our crisis management strategy, we are involved in national and international early warning systems to detect cyber security risks. In order to stay abreast of potential cyber-attacks, we subscribe to the Financial Services – Information Sharing and Analysis Centre ("FS-ISAC"). We have also enlisted threat intelligence solutions to provide real-time intel that allows us to prevent or mitigate cyber-attacks.

To further strengthens our defenses against cyber-attacks, including scams, improving customer and employee awareness

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DIGITAL AT THE CORE (CONTINUED)

of cyber security measures and practices is integral to our digital risk management strategy. Through various initiatives, including employee training and awareness programmes and information provided to customers via our website and other means of customer communication, we strive to build a culture where data security amongst our workforce is top-of-mind and simultaneously ensure that customers have the knowledge needed to protect themselves and the banking relationship from risk.

DIGITISATION OF CUSTOMER EXPERIENCES

For our digitisation efforts to be meaningful, it is essential that they are designed in a way that enhances the banking experience and creates value for our customers. Improving and evaluating digital customer experience is therefore a key priority under our digitisation agenda. Since FY2019, progress in this area has been driven by our Customer Experience ("CX") Lab, which brings together teams from across the Bank and external partners to accelerate the delivery of new products and services. The CX Lab serves as a platform to explore the applications for new technologies, such as Artificial Intelligence and machine learning, among others, and to work with customers to understand their banking needs.

DIGITAL BRANCHES

The launch of HLB's flagship Digital Branch in 2017 marked a key milestone in the Bank's efforts to re-imagine the banking experience in a digital era. Since then, our two Digital Branches, located in Kuala Lumpur and Penang, have stood as a model for the future of brick-and-mortar banking, leveraging new technology to improve efficiency and enhance the customer experience.

Our digital branches utilise a suite of solutions that guides our customers through a seamless journey. During consultation with branch Personal Financial Consultants, our paper free approach of using app-enabled digital tablets with biometric capabilities help customers complete their banking transactions immediately. Data-entry and processing tasks have been automated, which allows our employees to be more engaging with customers. Our general digital branch space deployed with technologies such as wireless terminals and applications, allow customers to quickly perform banking transactions.

Selected digital solutions piloted at our Digital Branches, such as our InBranch tablet-based teller services, have also been rolled out across the Bank's Malaysian branch network. These ongoing efforts target to equip 150 of our branches with this feature by February 2021. Currently, we have equipped 100 branches throughout Malaysia

TOWARDS A CASHLESS SOCIETY

Within the Malaysian Islamic banking industry, we aim to champion seamless digital transactions in our drive to create a cashless society. Beyond the Islamic products and services through which we promote cashless transactions, including bank cards, mobile payment methods and online banking, we continue to focus on expanding our merchant network for cashless payments. In addition to offering an integrated Point-of-Sale terminal which accepts all card and mobile payments, we provide incentives such as low transaction rates, waived desktop terminal rental fees and complimentary set-up services to promote widespread adoption of digital payment methods.

> In line with our commitment to help small business go cashless, in FY2020 HLB introduced HLB Tap On Phone, a new contactless mobile payment acceptance service for Android mobile devises that allows vendors to receive card payments using their mobile device. Made possible through a partnership with Payment Networks Malaysia, "Tap On Phone" is helping to bring down the costs of going cashless for businesses. In June 2020, HLB also launched the "Cashless Lagi Senang" campaign to onboard more vendors and traders in order to enable them to add cashless and contactless payment methods for the ease of their customers.

Our Cashfree Society programme, targeted at university students, was activated in FY2020 with the broader goal of building and equipping a society that conducts daily financial transactions digitally. To achieve this, we have already implemented Point-of-Sales terminals across university campuses with plans to enable the other retail merchants on campus with similar cashless terminals in the year 2021.

SUPPORTING CASHLESS ZAKAT

In FY2020, HLISB undertook several initiatives to promote cashless transactions in the Zakat payment space. In December 2019, HLISB collaborated with Lembaga Zakat Selangor ("LZS") for their "Zakat Di Hati" campaign, which ran throughout the month of December 2019 to encourage Zakat contributors to perform their Zakat contributions via HLB's digital platform. In further partnership with LZS, we continued to operate six Cashless ATM at LZS which allow customers to use their debit cards to perform zakat payments. Additionally, in FY2020, HLISB ran our first Zakat contribution program using the Global Sadaqah online platform.

We updated the Zakat payment facility in HLB Connect to a one-click straight through process. In addition to simplifying the process for customers, the content was also built to help educate and increase awareness, not only on the mandatory Zakat payment, but also on the subject of Zakat calculations and the practices as a whole. Additionally, a set of Zakat calculators were also introduced and simplified according to the customer's respective type of the needful payable Zakat for the year.

SHARIAH KNOWLEDGE SHARING THROUGH DIGITISATION

An important function of digital technology is the opportunities it presents for enhancing widespread access to information. In recognition of the social knowledge gaps that exist in society with respect to Islamic banking and financial services, HLISB strives to leverage our digital platform to help customers and the public better understand Islamic finance.

> **HLISB: SOLUTION DESIGN LAB**
>
> To drive customer innovation for our Islamic customer segment, in FY2020 we established the Solution Design Lab to introduce and incorporate design thinking into the development and management of Islamic finance products. A joint initiative between HLISB departments, the Lab's progress in FY2020 resulted in the development of a more customer-focused and interactive HLISB website.

In FY2020, to increase public understanding of Islamic finance and drive adoption of Islamic banking products and services, we refreshed the HLISB Website to reflect customer needs and knowledge gaps. The website was re-designed according to customers' needs segmented by the five pillars of Islamic Wealth Management. These pillars are part of HLISB's "Cradle to Grave" proposition which are Creation, Accumulation, Preservation, Distribution and Purification.

Compared to the previous version of 'product pushing', our co-creation sessions with external users have resulted in several educational elements, in our effort to increase the awareness and understanding of Islamic banking. These include easy-to-understand explanations on Arabic terms, applicability of Shariah Contract for each product and a simplified version on how products work. We also added new calculators for Zakat, ASB Financing-i, Auto Financing-i, Property Financing-i and, Personal Financing-i to help consumers understand their options. For our Muslim customers, we have also included the Zakat calculator to assist in determining their payable Zakat which is based on Pusat Pungutan Zakat Majlis Agama Islam Wilayah Persekutuan ("MAIWP") Zakat calculation. The overall refreshed HLISB website project was executed in collaboration with personnel from both HLB and HLISB. This diversity ensured the platform was designed to be informative for individuals from all backgrounds.

HLISB's latest website also features dedicated Sadaqah and Waqaf pages with info for customers to contribute to selected charitable organizations and Waqaf bodies via JomPAY platform. All these pages were designed to not only give information on how to pay Zakat and contribute to Sadaqah and Waqaf, but also to educate and provide knowledge to customers on Zakat, Sadaqah and Waqaf respectively. In the future, we will further enhance our customers' journey by availing these Sadaqah and Waqaf features on our mobile apps as well.

In addition to the HLISB website, our AI-enabled Islamic banking knowledge platform, Shariah Universal Digital Assistant for You ("SUNDAY") continues to help users compare Islamic banking products and services and receive real-time advice. The platform, which was developed in partnership with the University of Malaya, functions as a chatbot equipped with general Shariah knowledge regarding the authorities, articles and scholarly discussions in relation to Shariah contracts. Through SUNDAY, HLISB continues to provide easily digestible and user-friendly information to empower consumers across Malaysia. To date, SUNDAY chatbot is accessible at **http://103.18.2.74/HongLeongIslamicChatBotApp/HLISBChat**.

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WORKFORCE READINESS

MATERIAL TOPICS

Nurturing Talent Growth

Ethics, Integrity and Compliance

Employee Health & Well-being

NURTURING A SUSTAINABLE EMPLOYEE EXPERIENCE

Workplace Readiness

Launch of HLB@Workday

A singular, real-time and mobile-first platform for all entities to manage the employee lifecycle end-to-end – from onboarding and performance management to compensation and learning & career development

Workforce Readiness

Data and insights-driven decision-making and learning on the go

With HLB@ Workday, our employees are now empowered to harness data to drive decision-making on managing their teams. Learning is no longer restricted to the classroom; it can and should happen anytime, anywhere

Talent Management

Building and retaining talent

We continue to refine our end-to-end talent management processes encompassing recruitment, performance management, learning and development and talent succession planning

Driving A Shariah Compliance Culture

Structured training

For bankwide effectiveness, HLISB and HLB utilise all available platforms to shape desired workforce behaviour – from huddles and tone from the top communications, to onboarding, mandatory eLearning and role-based training to inculcate Shariah Compliance Culture within the employees

Employee Wellbeing, Health & Safety, Environment

Nurturing positive employee experiences

Providing relevant, meaningful and positive employee experiences at every stage of their professional lives, taking into account diversity and inclusivity without compromising Islamic and Shariah's guidelines

At the Bank, we believe our employees are our greatest asset. Our aim is to create a workforce that is primed to embrace the challenges of the digital age with resilience and agility. From this foundation, we strive to deliver the highest levels of customer service and work to achieve optimal outcomes for the Bank. To ensure our employees can meet these ambitious standards, we seek to continuously grow our own talent and offer opportunities that allow individuals to develop to their full potential. By creating an inclusive work environment where we demonstrate investment into our employees, we are supporting the success of our business and positioning ourselves to give back to the communities where we operate.

Through our union policies, we make known our commitment to the right to freedom of association and collective bargaining. We adhere to all regulations of labour standards, including those related to minimum wage, non-discrimination and merit-based rewards structures.

As the external operating environment shifts and evolves at pace, it is key that HLB has the right people in place to respond with agility to technological advances, customer expectation and even business challenges that present unexpectedly, such as COVID-19.

WORKPLACE READINESS

Mobile-first technology continues to drive the employee experience, both from a workplace and workforce perspective. Three years back, our workforce embraced interactions with our HALI chatbot for employee benefits queries, while our candidates for employment enjoyed interaction with HALI when engaging with us for employment opportunities. Our employees have also been primed to consume bite-sized learning content through our mobile and web-based micro learning app, SmartUp. We have since then made significant progress in enhancing the employee experience through digital means.

HLB@WORKDAY

The launch of HLB@Workday marks our next chapter in terms of workplace readiness. All employees are now able to have mobile-first access to a secure network for all Human Resources ("HR") related functions, such as leave application, salary statements and personal information updates to crucial professional development processes including performance management, learning and career development and compensation decisions.

In April 2020, our Learning and Development ("L&D") team launched a new series of curated external digital courses on Workday covering topics such as productivity, personal growth, leadership and wellbeing. Since its launch, 89% of our employees have adopted this platform on a regular basis and 1,660 employees have completed these non-mandatory external courses.

For the next phase of our eLearning strategy, we plan on integrating curated learning from cloud vendors with our HLB@ Workday platform with the purpose of utilising the platform to drive specific skillsets for selected employees such as customer etiquette and communication skills for our customer service staff.

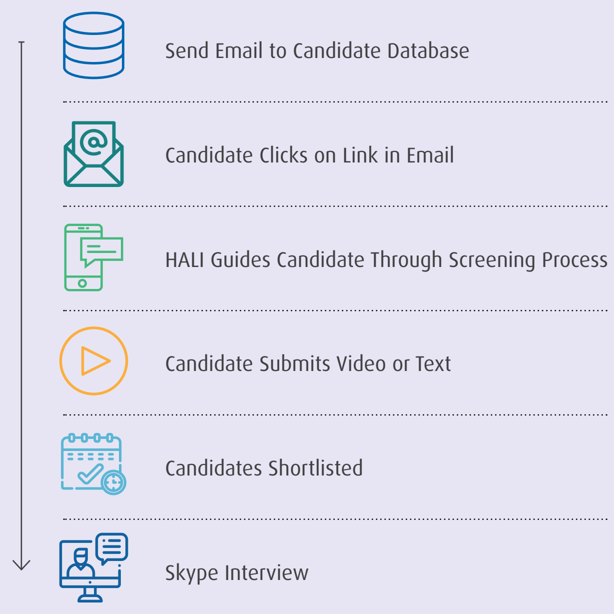
RECRUITMENT

Recruitment actions are guided by our recruitment policy framework, which aims to promote equal opportunities through consistency, transparency, hiring the right people to fill the immediate needs of the role, as well as candidates that have potential for growth and have a working history of strong ethics and behaviour confirmed by the pre-employment checks that we carry out. Our recruitment positions are open to both internal and external candidates, with hiring decisions based on merits.

In the search to continually innovate and harness opportunities, we want to deploy advanced technologies to refine what we do and what we offer for the benefit of our customers, employees and the Bank.

HALI, HLB's AI chatbot, has gone from strength to strength since its introduction in FY2018. Initially conceived as a virtual assistant for the Bank's HR team to support operations by responding to employee queries on policies and procedures, HALI has since been deployed to perform enhanced duties along the HR value chain, including at the initial stages of the recruitment process by screening candidates upon application for roles within the Bank. Recognising the greater potential within our AI chatbot, in FY2019 HALI was tasked to conduct digital recruitment for HLB's Management Associate Programme, with HALI deployed to screen and evaluate applicants in the initial stages of the recruitment process

Digital recruitment process:



The seamless digital environment has also reduced our reliance on non-sustainable resources. For example, we now use less paper in the recruitment or hiring process. Job applications are submitted through our HLB Careers website and offer letters are accepted with digital signatures via our HLB@Workday platform.

To date, there are two graduates of Management Associate Programme have been absorbed as part of HLISB's Investment Account team.

Sustainability Statement

Sustainability Statement

WORKFORCE READINESS (CONTINUED)

DIGITAL TRAINING

Through technology, we have sought to deliver a mobile first learning experience for employees. This began with our mission to enable employees to learn on a platform that would enable them to consume bite-sized learning content, anytime and anywhere. This was made available bankwide to all employees, accessible via mobile. The content comprised of a blend of digital focused modules and modules from subject matter experts, segmented by division.

On HLB@Workday, competencies or skills that we seek in employees can be linked to training modules, enabling us to assign courses to specific segments of our employee population, mirroring the intent of role-based training that is available to our frontline or customer-facing employees, specialist roles etc.

While we already had in place a plan to transition classroom learning to virtual classrooms as part of our workplace readiness strategy, the emergence of the COVID-19 pandemic and the resulting MCO enacted in Malaysia in March 2020 gave us renewed focus. We reviewed and reworked with our training partners on the most viable options to deliver training, shifting from face-to-face classroom courses to virtual platforms such as WebEx, MS teams, Google Meet and our internal employee engagement platform, Workplace.

At the same time, we began testing the response of curated learning during the MCO by sending out links to learning around the pillars of personal growth, productivity and well-being, selected by the Learning & Development team. The response to date has been encouraging enough for us to continue on a permanent basis, as employees understand that learning is no longer restricted to the classroom. Employees are able to participate in all the e-Learning or a selection based on their preferences, enhancing engagement and knowledge retention. Our employees today are primed to learn from this blended training approach, utilising different media and channels for effectiveness and engagement.

The pilot is also a precursor to the next phase of e-Learning – to integrate curated learning from cloud vendors within Workday so that we use the platform to drive not only basic learnings but also specific skillsets for selected employees. For example, customer service staff who may require refresher courses in customer etiquette and communication. Prior to the pandemic, structured training comprised of 80% training within the classroom; this has now shifted to 65% learning in a virtual environment.

LEARNING AND DEVELOPMENT

Our Learning and Development team specialists remain at the forefront of technological innovation, adopting digital platforms and content to enhance employees' training experience. In parallel, emphasise is placed on the value of on-the-job learning, through experience and interaction with peers and senior managers. The 70:20:10 Learning Framework guides the way we learn and develop skills: 70% on-the-job, 20% learning from others and 10% via structured training such as digital and classroom learning. Whilst we believe that employees are able to learn and retain knowledge better by learning on the job, we have also sought to support this by fine-tuning our approach to structured or classroom-based training.

Bank-Wide Training

FY2020 Overall Employee Training (1 July 2019 - 30 June 2020)

Total number of employees

8,090

Total number of training hours provided

255,502 hours

Average training hours per employee

31.5 hours / employee

AUTOMATION AND DATA DRIVEN WORKFORCE

We are embracing the fundamental need for automation and data driven insights, and recognise the key to empowering our people to make accurate, real-time decisions. This has cut across all HR processes including recruitment, on-boarding, performance management, learning and development, talent management and rewards and recognition.

Managers are empowered with real-time data and insights into the management and development of their team. Apart from being able to deepen their engagement with their teams using valuable information and insights, the Workday platform provides the agility for managers to respond to changes or requests from team members anytime, anywhere. As an indication that 'Digital at the Core' is not just an ethos anymore but also our immediate reality.

Recruiting the right talent with the right skill sets, perspectives and abilities is central for business growth. And as we seek an increasingly multi-dimensional workforce, sourcing individuals from diverse industries and backgrounds, our hiring practices must evolve at speed to position ourselves as an employer of choice.

Growing our own talent within HLISB is a key strategy for continued competitiveness within the industry. Our Learning Framework details our approach towards enhancing our employees' knowledge, experience and skill-sets, through bank-wide training, role-specific learning and tailored programmes on an individual basis.

BUILDING A TALENT PIPELINE THROUGH GRADUATE PROGRAMMES

Over the last 4 years, HLB and HLISB have hired 237 candidates through graduate programmes, and welcomed more than 300 interns into our business on a short-term basis. Many of these individuals are now in permanent roles across HLB and HLISB after graduation, and the programmes' outcomes are now very much ingrained as a key part of our workforce strength-building initiatives.

In FY2020 as the pandemic deepened, we began testing new ways to source for these candidates with no loss in terms of focus and quality. For example, instead of flying the senior management to the UK to interview potential programme candidates face-to-face, we began interviewing them through virtual means. Additionally, we hosted a live online Q&A on graduate opportunities at HLB with media partner Graduan, garnering an audience of 5,717 viewers and more than 386 applications in seven days, all the way from Europe. This response has given us cause to examine more sustainable methods of recruiting candidates for the Management Associate programme. Doing away with the need for physical visits to UK and Australian universities. Also has the added effect of reducing our carbon footprint.

	2016 – 2020 Hires	Permanently Placed	Retention Rate	2021 Target
Management Associates	54	27	81%	25
Graduate Trainees	183	97	63%	20
Internships	321	57	-	100

ROLE-BASED TRAINING

ISLAMIC FINANCE TRAINING

With a view to facilitating the future growth of Islamic Finance-related business for HLB and HLISB, a comprehensive capacity-building training initiative has been established, with in-house programmes on Shariah and Islamic Finance, delivered by external expert trainers. All employees who work directly or indirectly handling Islamic transactions are mandated to complete our one-day Islamic Finance 2.0 programme. In FY2020, HLB's and HLISB's commitments to this programme were renewed for a further 3 years and as of May 2020, a total of 4,403 employees have completed the training since programme launch in 2017.

Sustainability Statement

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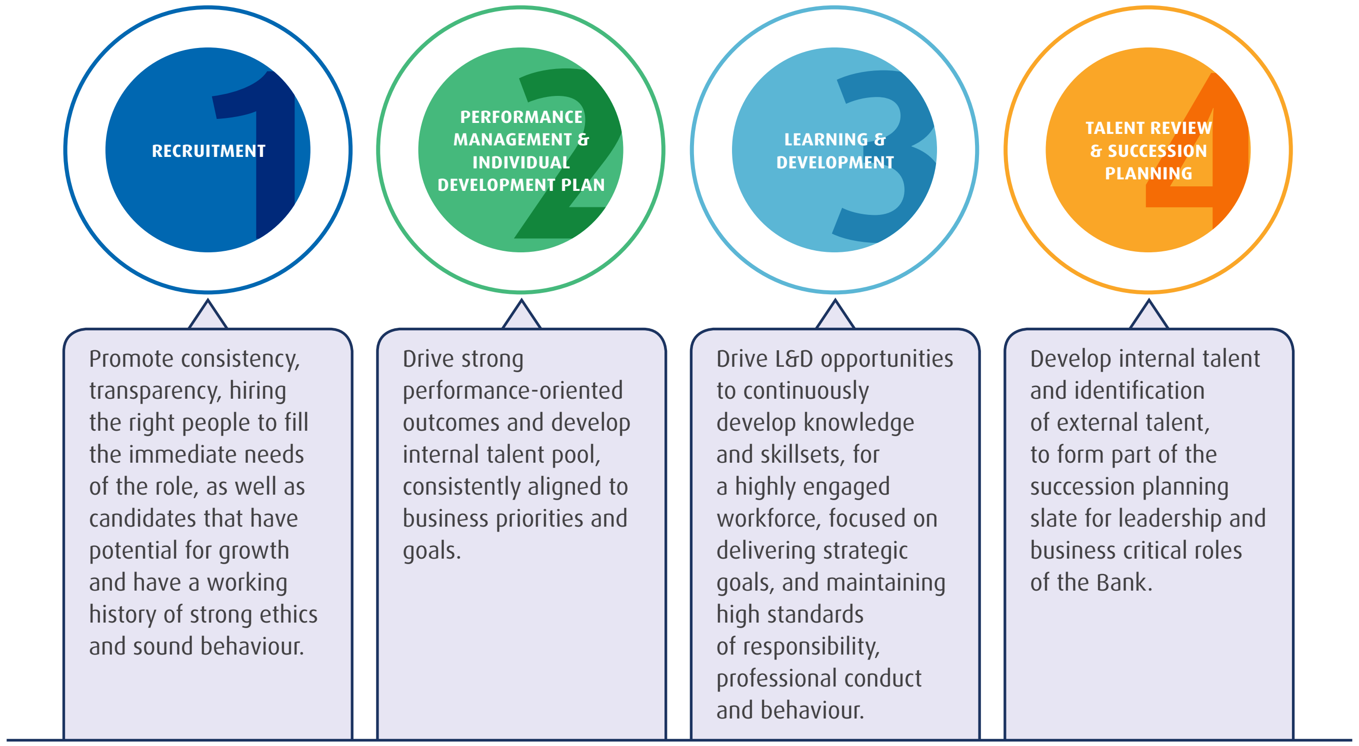
WORKFORCE READINESS (CONTINUED)

TALENT MANAGEMENT

Our overarching talent management policy aims to strategically pair the right individuals with the right roles to drive employee growth and business performance, and also to assist us in identifying the key gaps between the talent in place and the talent required within the Bank.

The policy is supported by the following processes:



TALENT REVIEW AND SUCCESSION PLANNING

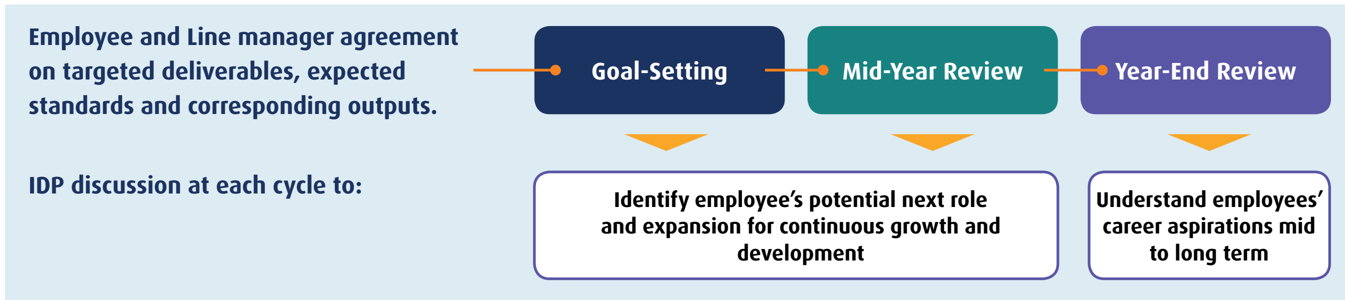
Our talent and succession planning framework is designed to develop internal talent and identify external talent as part of the succession planning process so that we have a slate of potential candidates for leadership and business critical roles. Key stakeholders within our framework are assigned specific roles throughout the talent and succession process.

HLB Talent Council	Senior Managers	Line Manager	Identified Talent
Comprising the Group Managing Director and senior executives who analyse past performance, employee aspirations, demonstrated drive and critical thinking in the process of identifying a pool of people that can progress to future senior leadership roles.	Develop internal talent and identification of external talent, to form part of the succession planning slate for leadership and business critical roles of the Bank.	Focus on retaining talent in a structured manner, place talent in roles identified as areas targeted for growth. Complete performance evaluation checklists so that high-potential individuals can be identified and a career path established.	Opportunity to learn and grow at an accelerated pace, greater access and exposure to senior management and opportunity to learn from other talent cohorts.

PERFORMANCE MANAGEMENT AND INDIVIDUAL DEVELOPMENT

Our performance management policy framework aims to drive strong performance-oriented outcomes and develop internal talent pool in order to align with and support the delivery of business priorities and goals consistently.

The performance management framework consists of three cycles – Goal Setting, Mid-Year Review, and Year-End review – all of which require a discussion between employee and line manager to agree on the target deliverables, expected standards and corresponding outputs. Each cycle includes an Individual Development Plan ("IDP") discussion which aims to identify an employee's potential next role or opportunity for continues growth and development and to understand employees' mid- to long-term career aspirations so that HLB and HLISB can support their career progression.



At the heart of workforce engagement and productivity lies meaningful conversations. Over the past year we have coached our people managers to not only have meaningful retention conversations but to actively discover their team members' career aspirations. We have seen success with the attrition rate reduced by 26% compared to prior year and close to 40% of internal vacancies taken up by internal candidates, as a result of our people managers and employees responding positively to the processes and taking ownership of retaining and nurturing employees while employees take ownership of their own development and career aspirations.

REMUNERATION POLICY AND FRAMEWORK

Our Remuneration Policy Framework is designed to promote a high-performance culture that drives specific behaviours, with employees operating according to strong values, integrity, a clear sense of responsibility and high ethical standards. Underpinned by a rigorous performance management process, remuneration is determined by key performance indicators such as behaviours in accordance with our Code of Conduct and Ethics, risk and compliance, meritocracy in performance, prudent risk-taking, selected ESG and VBI performance and HLB values. Every senior management officer has a responsibility to embed sustainability in all initiatives in their division. This is linked to performance considerations and in turn, total remuneration received.

ISLAMIC ACCREDITATION PROGRAMMES

Our drive towards accreditation for employees in Islamic financial banking roles is replicated for employees in the Islamic Finance segment. IFIQ is a set of comprehensive, internal certifications developed for Shariah professionals working in the Islamic financial industry. We require that all staffs directly involved in Islamic transactions must complete either intermediate or advanced levels qualifications. Since 2017, 568 employees have successfully obtained accreditation and received their IFIQ certifications.

In addition to the IFIQ, our Shariah team has worked towards the Certified Shariah Advisor ("CSA") and Certified Shariah Practitioner ("CSP") qualifications, with the CSA intended for practitioners with Shariah degrees and the CSP designed for those without formal Shariah qualifications. The CSA & CSP Programmes consist of three certification levels, which can be fully completed within a period of three years. To meet the professional development needs of the Shariah fraternity supported by BNM, and in line with our Capacity Building on Islamic finance initiative, HLISB had sponsored Shariah Committee members and Shariah officers to enroll for this Programme. A total of six employees and two Shariah Committee members have completed Level 1 of the CSA/CSP programmes, with six of these participants targeted to complete the programme by end of 2020.

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WORKFORCE READINESS (CONTINUED)

To equip Shariah Auditors with the requisite technical understanding and professional skills on Shariah compliance audit and review processes for the Islamic banking and finance industry, we also participate in the Islamic Banking and Finance Institute Malaysia's Certified Professional Shariah Auditor Programme. At the moment, five employees from various departments are enrolled into the programme.

Total Number of Employees Holding IFIQ (Cumulative to Date)	FY2019	FY2020
Qualified Employees	391	**568**
Target number of employees	500	**500**

EMPLOYEE WELL-BEING, HEALTH & SAFETY

Employees who feel valued, appreciated and cared for are more likely to experience job satisfaction and, in turn, remain committed to a long-term career with the Bank. We take a broad approach to caring for our workforce, offering support for individual well-being related to mental health, personal safety and financial security.

EMPLOYEE ENGAGEMENT

We believe that open and regular two-way communication with employees is a key driver towards workplace satisfaction. Various forums are used to communicate and listen to the voice of employees. Our HLB Workplace and HLB Workchat platforms also connect our employees and provide a space for communication and collaboration right across the Bank. Modelled on social media platforms, these channels facilitate group chat, voice and video calls as well as screen sharing while maintaining a high level of security of information.

Our employee engagement survey, "My Thoughts, Our Future" was launched in FY2017 and designed to seek feedback from employees on the HLBG's position and progress made on workforce related perspective. For FY2020, our three key survey theme areas were: Strategy, Goals & Objectives, Customer Focus and Organisational Culture. For our third iteration of the survey in FY2020, the response rate was 92%. Data analysis of survey results have enabled us to refine our approach to employee engagement as well as initiate new engagement activities to drive greater employees' engagement.

DIVERSE AND INCLUSIVE WORKFORCE

An inclusive workplace is central to the well-being of our employees. Our Code of Conduct sets out a framework to establish a safe and inclusive work environment that prohibits discrimination. Our focus is to create an environment where all our employees, regardless of demographic, age, background or other indicator of diversity, are encouraged to succeed. Equal opportunity is normalised with leaders, managers and supervisors trained to contribute to a culture where people are respected and valued. As of FY2020, we have six full-time employees identified as differently abled as one of our previous differently abled staff have found another opportunity within Hong Leong Financial Group.

SAFETY AND WELL-BEING

The health, safety and well-being of our employees remains a priority. Our Occupational Health and Safety Procedures ensure that we have in place processes and controls that adhere to all standards and regulations. Upon joining the Bank, new employees are introduced to our health and safety systems and processes and are trained to identify and mitigate health and safety risks. HLB's and HLISB's health and safety programme operates within a framework that recognises incidents directly related to factors under the Bank's control and aims to eliminate those. In FY2020 we had 5 accidents within the workplace and 799 workdays lost due to these accidents.

To ensure our workforce is operating at an optimum level, HLB and HLISB proactively work to support the health and well-being of all our employees. For FY2020 we held a series of wellness initiatives and events guided by three pillars of Engagement, Appreciation and with Well-being activities supported by an overarching communications plan deploying the hashtag #HLBCares. Focus topics included Cardiovascular Disease, Maintaining a Balanced Diet, Ergonomics & Posture, and Diabetes & Obesity. Employees were engaged with each topic via circulation of an infographic containing key information and advice, Brown Bag 'Lunch & Learn' sessions, curated Learning and Development content available on Workday and a series of events designed to bring colleagues together to enjoy activities supporting healthy lifestyles. In FY2020, over 1,189 employees took part in our health and wellness programmes.

SOCIALLY RESPONSIBLE BUSINESS

MATERIAL TOPICS

- Climate Positive Financing
- Responsible Financing
- Fair Banking
- Sustainable Supply Chain
- Community Banking
- Prevention of Financial Crime

RESPONSIBLE BUSINESS PRACTICES

The Islamic products and services that we design and deliver are part of the broader responsibilities that we have as an Islamic financial service provider. Financial intermediation has widespread implications for the economy, the environment and society at large. At the Bank, we are committed to ensuring that the role we play within the system is one of responsibility and accountability, hence, we continue to strengthen the integration of fairness, and social and environmental considerations based on the objectives of Shariah (Maqasid al-Shariah) into our business practices and conduct.

RESPONSIBLE FINANCING

While the financing that we provide is critical to economic development, it is essential that funds be disbursed in a manner that takes into consideration the potential social and environmental risks of the activities we finance.

Our corporate and commercial financing activities are governed by our Business and Corporate Banking Credit Policy ("BCB Credit Policy"), which includes a set of policies designed to help us and our clients to manage environmental and social risks. Under the BCB Credit Policy, credit applications by businesses that present sustainability risks are assessed based on the business' ability to demonstrate full compliance to rules and regulatory requirements of that business sector. The policy is updated at least annually and serves to guide decisions about enhancing existing or future development of products and services as well as improve engagement with stakeholders. Due diligence activities that we practice include site visits, environmental assessments and third-party specialist reviews of proposals that might pose additional risks, such as exploitation of native land.

Our strategic objective is to conduct our financing activities in strict compliance with our internal and local regulations, ensuring high ethical standards in decision making. We endeavor to evaluate and ensure that activities and businesses we finance do not harm the environment, human rights and labour rights, these include the Child Act 2001 and Malaysian Anti-Corruption Commission Act 2009, among others.

ESG Framework and Policy

To further strengthen the Bank's oversight of ESG financing risks, in FY2020, the Sustainability Steering Committee endorsed the development of an ESG Policy for corporate, commercial and SME clients. The policy will be used to guide our relationship managers and credit risk team to assess the environmental and social risks associated with our financing activities. In developing the Bank's ESG Policy, we have adopted an inclusionary approach which will focus on supporting the sustainability progress of our customers, regardless of what point they may be at in their sustainability journey.

The key priority in the developing the ESG Policy was to actively engage with stakeholders across a range of industries, including Bank Negara Malaysia, Malaysian Timber Certification Council, Forest Stewardship Council and Malaysia Palm Oil Board, among others, to better understand the unique environmental and social risks and relevant regulations in each sector before concluding our own policy document. As part of the policy development process, we also worked with World Wildlife Fund for Nature's Sustainable Finance Unit to review our corporate ESG Framework which will serve as the foundation for our ESG Policy. This includes a strategic engagement and discussion session with HLB's and HLISB's Board members and Senior Management on aspirations that the Bank could target as part of our sustainability roadmap and journey.

External frameworks that guided the development of our ESG Policy include:

- IFC Performance Standard
- First for Sustainability: E&S Risk
- Global Reporting Initiative (GRI)
- CDC Investment Works ESG toolkits
- Bursa Malaysia Sustainability Reporting Guide, 2nd Edition
- Task Force on Climate-related Financial Disclosures (TCFD)
- RSPO Principle
- Enviromental Quality (Industrial Effluent) Regulations 2009
- Environment Quality Act (Clean Air) Regulations 2014
- MSPO Standards

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SOCIALLY RESPONSIBLE BUSINESS (CONTINUED)

The policy will also take into account BNM's VBI Financing and Investment Impact Assessment Framework, ensuring that financing granted to the Bank' customers is not only assessed and screened for environmental and social risks but also in compliance with Shariah requirements or criteria. The policy will govern screening during annual client credit reviews for existing customers and at the outset for New To Bank customers.

HLB and HLISB ESG Framework Exclusion List[1]

- Involvement in money laundering, crime, terrorism or illegal activities (e.g. illegal waste management, illegal deforestation).
- Involvement in pornography and prostitution.
- Production or trade of military weapons or firearms.
- Involvement in forced labour, exploitation of children and human trafficking.
- Activities resulting in significant conversion or degradation of any high biodiversity value areas[2]
- Operations which use fire for land clearance or preparation of land.
- Fishing activities using drift nets or explosives.

1. *Hong Leong Islamic Bank (HLISB) will also adhere to the exclusions in Shariah Compliance Policy, under which HLISB will be guided by such exclusions under the ESG Policy/HLB BCB Credit Board Policy, endorsed by HLISB SC on 17th August 2020.*
2. *Primary forest; areas designated by law or relevant competent authority to serve the purpose of nature protection; areas for the protection of rare, threatened or endangered ecosystems/species.*

Criterion of Non-halal Activities and Goods

- Conventional banking and insurance
- Gambling and gambling related activities
- Liquor and liquor-related activities/products
- Pork and pork-related activities/products
- Non-halal/non certified halal food and beverages
- Interest income from conventional accounts and instruments
- Tobacco and tobacco-related activities
- Stock broking business and share trading in Shariah non-compliant securities
- Rental received from Shariah non-compliant activities (as above)
- Other activities deemed non-compliant according to Shariah

Please note that this list serves as a general reference and it is not exhaustive.

In addition to the general exclusions outlined above, as part of our sectoral risk rating module under the ESG Policy, we will conduct an assessment of the client's sector's specific environmental and social impacts to determine if it would be classified as a sensitive sector. This would include assessment of environmental considerations such as, air emissions, waste and effluents, biodiversity, water and energy efficiency, as well as social considerations such as, land acquisition and involuntary resettlement, labour and working conditions and risk to cultural heritage, or indigenous or local communities.

Corporate customers who are assessed as falling under sensitive sectors will be required to undergo an enhanced due diligence to ascertain their plans and efforts in addressing key environmental and social risks. The enhanced due diligence checklist will form part of the overall credit assessment and approval process. Any corrective action plans discussed will be monitored as part of the customer credit annual review.

The successful implementation of the policy will be driven by the ESG training programme provided to all Account Relationship Managers ("ARMs") and Credit Risk Managers that has been rolled out following the Policy's formal endorsement by the Board. We have engaged the Jeffrey Sachs Centre on Sustainable Development of Sunway University to design and rollout a robust sustainability training module that aligns with the ESG framework. These training modules aim to provide our staff with the relevant sustainability, climate change and environmental and social related risk knowledge to understand and execute the rating process that is included as part of our customer on-boarding and credit evaluation process. Training of our ARMs and Credit Risk Managers began in June 2020 and HLB targets to cover all 427 of HLB's and HLISB's ARMs from corporate, commercial and SME business units, as well as, extending the training to key Sustainability Working Committee members, Group Risk, Marketing & Communications and departments across HLISB including VBI unit by December 2020.

Our focus for FY2020 has been on raising awareness and knowledge levels of HLISB's and HLB's staffs on value-based intermediation strategy agenda, climate change, and sustainability related issues, risk and opportunities. For FY2021, we have plans in place for similar value-based intermediation, climate change and sustainability awareness and engagement programmes targeted at our stakeholders such as customers, vendors, service providers, and business communities.

With the implementation of the ESG Policy and environmental and social risk assessment process, we have set our focus for FY2021 to be on data collection for us to assess the environmental and social risk profile of our corporate financing portfolio. In the long term, the ESG Policy will also include sector-specific frameworks for financing activities.

CLIMATE-POSITIVE FINANCING

Renewable Energy Financing

The global climate crisis is driving an urgent need for an economic system grounded in climate-friendly solutions. At both HLB and HLISB, we recognise the role we have to play in mobilising capital to drive this transition and have committed to providing RM500 million worth of financing for renewable energy products from FY2018 to FY2022. As of FY2020 year-end, HLB has approved a total of RM402 million to support the development of about 40 renewable energy projects namely solar, bioenergy and hydro. Beyond financing, we have worked closely with clients to help new industry players navigate industry requirements and evaluate project feasibility.

In addition to large-scale project financing, we also committed to help smaller players enter the renewable energy space through a targeted SME Solar PV programme. The programme, which will be launched in FY2021, will provide financing for SMEs looking to install rooftop solar panels.

HLB and HLISB are among the most active banks in supporting the government's Green Technology Financing Scheme ("GTFS"). At the end of FY2020, we have supported close to 20 projects from the inception of GTFS with government guarantees worth approximately RM140 million.

Green Car Financing

Vehicular emissions associated with the consumption of fossil fuels have a significant impact on the global climate crisis and on local air quality. In recognition of the need to decarbonise transportation in Malaysia, HLB commenced the development of a Green Car Financing Framework this year. The Framework, targeted at our employees and customers, aims to increase HLB's and HLISB's hybrid and electric car financing by a factor of five and will include efforts to build partnerships with hybrid car manufacturers and community engagements to promote changing consumer preferences towards green vehicles.

As of FY2020 year end, the framework was undergoing the drafting and approval stages, with further manufacturer engagements and marketing and communication initiatives to occur in FY2021. We have initiatives in the pipeline to provide potential retail customers with attractive profit rates and added value packages. As for our corporate customers, we have plans to support energy efficient dealerships.

Green Developer Framework

In FY2020, we initiated discussions on the creation of a Green Developer Framework to guide our financing activities for property development companies. Under the Framework, developers will be categorised based on their adherence to environmental practices, such as the design and construction of green buildings, the use of water and energy-efficient fixtures and sustainable construction practices. Developers deemed to be adopting the best practices will be eligible for better

Sustainability Statement

SOCIALLY RESPONSIBLE BUSINESS (CONTINUED)

financing packages and be fast tracked for approval, while companies demonstrating poor performance will be provided support to improve their practices and be subject to monitoring.

Fair Banking

The Bank is committed to the guiding principles of fair, equitable and responsible financing, and seeks to ensure that our customers are treated fairly, equally and have non-discriminatory access to Islamic financial services. In this regard, the Bank has implemented oversight accountabilities as well as policies and procedures to promote fair and responsible banking.

Fair Banking: Responding to Regulators

In August 2019, BNM issued a directive to all Islamic banks requiring that they ensure that late payment charges ("LPCs") that the Bank was issuing were commensurate with the actual costs or losses incurred. To address BNM's concerns, in FY2020, HLISB outlined the methodology used for calculating LPCs for delinquent and defaulted financing. The calculations revealed that HLISB is indeed fair and is in accordance with BNM's Guidelines on Late Payment Charges for Islamic Financial Institutions.

Fair Treatment for Financial Consumers

In FY2020, to further strengthen our fair banking practices and promote high standards of responsible and professional conduct when dealing with customers, we expanded our internal policies to integrate the newly issued Bank Negara Malaysia's Fair Treatment of Financial Consumers ("FTFC") Policy into our operations and Customer Service Charter.

Consisting of six principles, namely Corporate Culture, Fair Terms, Disclosure, Fair Dealing, Advice & Recommendation and Redress, the FTFC Policy sets expectations for financial service providers ("FSPs") to effectively manage conduct risk and provide consumers with confidence in its dealings. Five out of the six principles were implemented in FY2020 with the second principle, Fair terms in contracts with financial consumers, to be activated in FY2021.

To help familiarise employees with the new FTFC Policy, a FTFC Compliance month was held prior to the Policy's enactment and employees were re-introduced to the updated Customer Service Charter. Moving forward, HLB and HLISB intend to roll out mandatory e-learning on the policy and establish onboarding training for new employees.

ACCESS TO FINANCIAL SERVICES

Supporting the Visually Impaired

In FY2020, HLB became the first financial institution in Malaysia to offer Self-Service Terminals with speech functions for visually impaired customers. Including both a braille keypad and headphone jack, the HLB Talking ATMs enable visually impaired customers to be guided through transactions using personal headphones to receive instruction in one of three different languages used in Malaysia. HLB Talking ATMs have been strategically located in the Brickfields, Kuala Lumpur and Pulau Tikus, Penang communities where the Society of the Blind, Malaysia operate. The ATMs were developed with the assistance of visually impaired employees, reflecting both HLB's and HLISB's commitment to a customer-centric approach to designing and delivering products or services.

VALUE-BASED INTERMEDIATION INITIATIVE FOR ISLAMIC BANKING

"Embarking on our three-year journey to attain the status of Emerging Value Based Institution will be rewarding. We continuously seek to embody the true spirit of VBI by understanding and internalising its principles. The VBI implementation necessitates a comprehensive review of our existing business environment to ensure we deliver the value proposition of Islamic Finance. Staying true to the "Here for the Long Term" HLB Value, we strive to continuously build our distinct brand and position through impactful contributions to the community within the networked economy built upon shared values."

JASANI ABDULLAH,
CHIEF EXECUTIVE OFFICER OF HLISB

In line with the VBI principles championed by Bank Negara Malaysia, HLISB is committed to contributing to the generation of positive and sustainable impacts through Islamic finance. The fundamental of VBI for HLISB is rooted from the underlying principles of *Maqasid al-Shariah* (the objectives of Shariah) which makes it unique and distinguishable from other value-driven efforts. Our aim is to position HLISB as an Emerging VBI Institution in three years.

As part of our efforts, we have set up a dedicated team to oversee and coordinate the implementation of VBI principles. These include the drafting of VBI framework, monthly updates on VBI initiatives, consistent creation of VBI-specific content for Workplace and enhancing access to knowledge and promoting Islamic banking and financial literacy. In FY2020, we also expanded our public education efforts through the "Program Celik Muamalat", an Islamic Financial Literacy programme speaking series, which aimed to create public awareness on Islamic finance and financial management. The programme, which was held in collaboration with two local universities, reached an audience of more than 200 undergraduates through two speaking programmes. Subsequently, we plan to raise public awareness on Shariah through research collaboration with local universities.

Moving forward, HLISB will also incorporate VBI principles at the product development and design stage, to ensure that we deliver solutions with greater awareness of sustainability considered from Shariah perspective. In support of this goal and to promote stronger understanding of VBI principles across our workforce, in FY2020, we arranged two training sessions with a Shariah expert on VBI financing and investment as part of our staff capacity building in Islamic finance knowledge. A total of 35 employees from both HLB and HLISB attended the training.

SUSTAINABLE PROCUREMENT PRACTICES

Our commitment to responsible business practices extends to the suppliers and vendors that we work with across our value chain. Suppliers and vendors are required to self-declare their environmental and social responsibility strategy during the supplier screening process. Suppliers and vendors are also advised of the terms of our whistleblowing policy at several stages throughout the procurement and purchase process, so as to ensure their ability to report inappropriate behaviour. Policies related to our procurement activities, including our supplier Code of Conduct and Statement on Sustainable Practices for business partners, are available on our corporate website.

To further enhance the sustainability of our value chain, in FY2020, we initiated the development of a Sustainable Procurement Framework to guide the development of business relationships with suppliers who uphold the Bank's expectations for sustainable practices. The Sustainable Procurement Framework will include guidelines for the screening and assessment of suppliers as well as tools to assist suppliers enhance their mitigation and disclosure of ESG risks.

EMPOWERING SMES

SMEs are widely recognised for the role they play in economic growth and job creation. At HLB and HLISB, we are committed to support the development of the SME economy through the provision of targeted services, including financing, specially tailored products, payment collection solutions and mentorship programmes. In FY2020, we focused on developing and upgrading two of our key sustainability initiatives for the SMEs and social enterprises, namely HLB LaunchPad and iStart@HLB.

HLB LAUNCHPAD

Our support for SMEs goes beyond the provision of financial services to include guidance and exposure provided through our SME mentorship programme, HLB LaunchPad. Under this initiative, high-potential technology start-ups from ASEAN are selected to collaborate with HLB and HLISB to develop and present solutions to real banking challenges. By participating in the programme, the start-ups, which are selected under the three pillars of Simplifying Banking Today, Digitising Customer Journey and Experience, and Reimagining Banking for Tomorrow, gain insights into business development, exposure from programme marketing and opportunities for market testing. At the end of the programme, start-ups are invited to pitch their solutions to our management team, after which winning companies and selected participants are invited to partner with the Bank for the implementation of their project.

Moving forward, HLB and HLISB intend to expand the Launchpad programme to develop a more inclusive ecosystem that not only focuses on startups in the fintech space but also other partners, such as social enterprises and green technology companies.

Sustainability Statement

Sustainability Statement

SOCIALLY RESPONSIBLE BUSINESS (CONTINUED)

iSTART@HLB

As part of our continuous effort to support and engage with the SMEs in Malaysia, SME Banking is taking the initiative to reach out to all SMEs – including the underserved young SMEs such as entrepreneurs and start-ups – through strategic collaborations with ecosystem partners such as Cradle and MaGIC, via our special programme called iStart@HLB.

iStart@HLB is a platform that offers SMEs easy access to banking facilities, digital business tools and co-working spaces at low, if not zero, costs– starting with just our Business Current Account. From banking facilities to digital business tools that simplify SME business' needs on administration, market place and even logistics, iStart@HLB also accommodates unlimited access to creative and innovative spaces for ideation, product pitching and experimentation sessions at our community space, Jumpstart@65. With this personalised range of offers, we are able to provide solutions and most importantly bridge the scarcity gap of financial convenience for young businesses.

Through the strategic collaboration with our ecosystem partners such as Cradle Fund Sdn Bhd (Cradle) and Malaysian Global Innovation & Creativity Centre (MaGIC), which have a large SME base under them, we are able to acquire these potential SME customers to on-board them for our Business Current Account and HLB ConnectFirst digital platform. By offering them holistic SMEbusiness solutions via our iStart@HLB platform, we stand to be their preferred partners.

JumpStart@65

JumpStart@65 is a new community space managed by HLB's Digital Innovation Office in Jalan Tun H.S. Lee, Kuala Lumpur. The space is currently refurbished as a platform to build networks of people, including both HLB employees and social enterprises, who can co-create innovative solutions to issues faced by communities. By doing so, we hope that Jumpstart@65 will inspire communities by showing purposeful life skills in action.

The space has been rolled out to secure the support of staff, reaching 600 HLB employees, and key partnerships have been inked with MaGIC, MDEC, Cradle and Fonterra. The first co-creative project in the pipeline is with PopTani, a social enterprise with a vision to create a self-sufficient farm in every house.

Workshops with organisations such as UNICEF and Chumbaka are in the pipeline, bringing together communities, HLB employees and key project partners to find ways to inspire households to become successful self-sufficient urban gardeners. The initiative is looking to engage with one social enterprise per month, with a total of 12 events hosted in the first year.

Expanding Islamic Banking opportunities in the SME Market

To support Bumiputera SMEs, HLISB has collaborated with SME Corporation Malaysia to offer the Shariah Compliant SME Financing Scheme, which provides financing assistance to eligible Malaysian-owned SMEs. HLISB has also partnered with Unit Peneraju Agenda Bumiputera as a panel bank for its Programme Syarikat Bumiputera Berprestasi Tinggi programme, which identifies and provides business opportunities for high-potential Bumiputera companies.

To ensure the quality of service we provide to customers in the halal sector, we maintain an industry handbook to educate both HLB and HLISB employees on the halal industry, its certification processes and due diligence as well as general financing requirements. Growing uptake of our Islamic banking products is reflective of our successes in reaching out to the halal business community, and we intend to continue to strengthen our relationships in this domain through targeted outreach and workforce capacity building.

To support Islamic SMEs with their capital investment needs, in FY2020, we launched the Shariah-compliant Industrial Hire Purchase-i ("IHP-i") financing product. By providing Shariah-compliant short-term business financing, IHP-i creates Islamic financing options which benefit the SME sectors and the halal industry.

ENVIRONMENTAL MANAGEMENT

MATERIAL TOPICS

Managing our Environmental Footprint

Responsible Consumption

OUR ENVIRONMENTAL FOOTPRINT

Our direct environmental impact encompasses the resources used and emissions generated across our business network. Aided by our digitisation strategy, we aim to reduce the influence of our business activities on the environment through more efficient patterns of consumption and disposal.

In FY2020, we launched our Responsible Consumption Activation Plan to guide our efforts in this area, with the aim of creating a cultural shift among our employees towards greater environmental responsibility. The plan includes measuring the baseline of our consumption to a number of education and engagement programmes, including the publication of online content promoting environmentally friendly behaviours as well as workshops and events to support a sustainable lifestyle. The development of these initiatives began in FY2020 with the establishment of the plan, with full rollout targeted for FY2021, including water, energy and waste reduction efforts.

GREEN BUILDING

In addition to encouraging behavioural changes to drive sustainable consumption, we are committed to investing in physical infrastructure that minimises the environmental impacts of our business operations. In FY2019, Menara Hong Leong was awarded a Green Building Index ("GBI") Silver rating and the internationally recognised LEED Gold rating. This has paved the way for HLB and HLISB to pursue further green certifications for its Bank-owned properties.

In FY2020, we set out the target to achieve Green Building Index certification for HLB's upcoming South Key Digital Branch in Johor, PJ City Tower A and our Penang branch located on Light Street by FY2025. Preparation for the GBI applications for South Key began in FY2020, with further design planning, assessment and registration to occur in FY2021. PJ City Tower A is one of our existing buildings and is currently fully occupied by HLB. We are currently assessing upgrades needed to obtain its green certification. In November 2019, we launched the use of automatic license-plate recognition and the use of camera technology to recognise and verify vehicles for parking access in order to reduce the dependency on plastic-based access cards. We have also retrofitted the fluorescent & PLCE light fittings to energy efficient LED fittings in July 2020.

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ENVIRONMENTAL MANAGEMENT (CONTINUED)

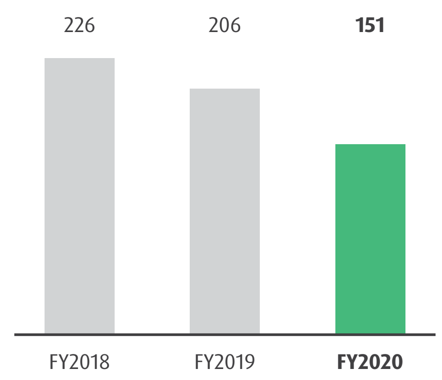
ENERGY AND EMISSIONS

We calculate our Scope 1 and Scope 2 greenhouse gas emissions based on the fuel and energy consumed by our operations in Malaysia. In FY2020 we recorded a decrease in our carbon emissions of approximately 800tCO_2e.

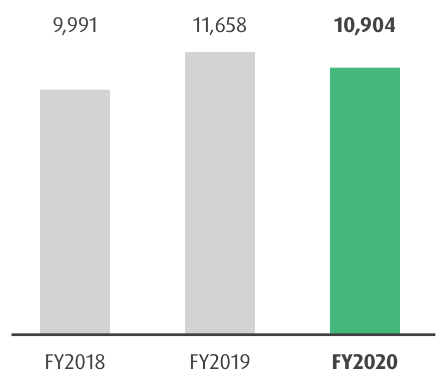
This year we recorded a decrease in the electricity consumed by both our towers compared to FY2019 levels. In addition, our electricity consumption for PJ City Tower A showed an 8.8% decrease compared to 2017 baseline levels, marking the achievement of our goal to reduce electricity consumption in that facility by 5% by 2020 through the retrofitting and upgrading of aging equipment. Initiatives implemented in FY2020 to support this goal included increasing the efficiency of our heating, ventilation and air-conditioning system as well as replacing existing lighting with LED bulbs.

To further drive the efficient use of energy across our operations, in FY2020 we initiated the development of a Sustainable Energy Policy, as a guideline for buildings energy consumption and targets. The Policy is due for review and approval in FY2021.

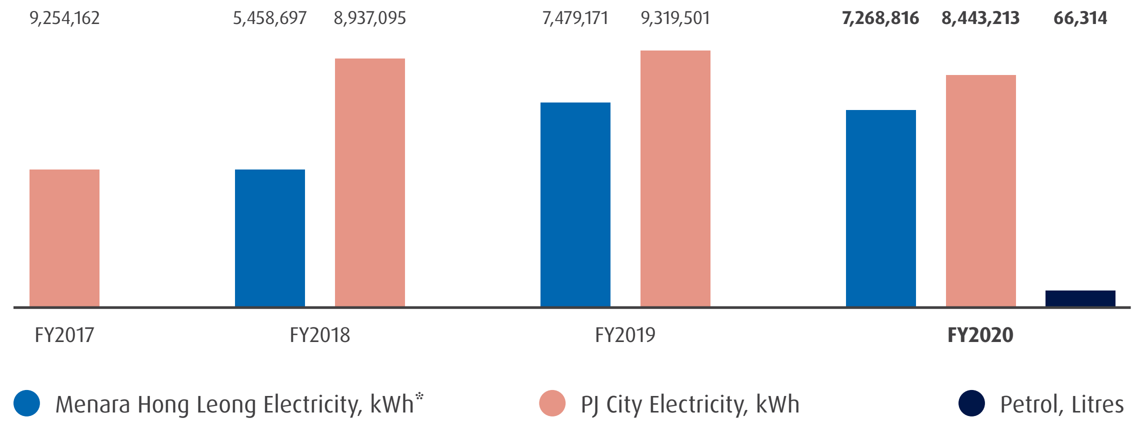
Scope 1 (tCO_2e) - Company-owned vehicles



Scope 2 (tCO_2e) - Menara Hong Leong* & PJ City



Energy Consumption



* *Note: The building became fully operational in 2018*

WATER CONSUMPTION

This year we recorded a decrease in the water consumed in both PJ City Tower and Menara Hong Leong, amounting to a collective reduction of 12% compared to FY2019 levels.

Metric	Boundary	FY2018	FY2019	FY2020
Water consumption (cubic metres)	Menara Hong Leong*	57,357	61,823	**55,269**
	PJ City	39,550	39,223	**33,632**

* *Note: The building became fully operational in 2018*

WASTE MANAGEMENT

We monitor the amount of recyclable materials diverted from the waste disposal stream in both Menara Hong Leong and PJ City Tower. In FY2020 we recycled a total of 31,031.34kg of plastic, paper and aluminium.

Total plastic recycled (kg)

FY2020:
1,431
FY2019: 1,382

Total plastic recycled (kg)

FY2020:
29,401
FY2019: 24,625

Total cans recycled (kg)

FY2020:
199
FY2019: 1.55

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COMMUNITY INVESTMENT

MATERIAL TOPICS

Building Communities

Islamic Financial Literacy

BUILDING COMMUNITIES

As a socially responsible financial institution, we are cognisant of the responsibility we bear to bring about positive change for the communities that we serve. Our targeted approach focuses on forming partnerships with promising social enterprises to drive community development. We aim to provide our expertise to further develop their platforms to spur greater socioeconomic developments in the groups of societies that they focus on empowering.

HLB JUMPSTART

HLB Jumpstart operates as HLB's flagship CSR programme, working to empower social enterprises with specialist support to grow sustainably and to succeed with impact. Social enterprises exist at a key intersection of society, not only driving economic development and social well-being, but also working towards development of the nation. Recognising the potential for HLB and HLISB to convene the right experts and knowledge specialists to give social enterprises a fighting chance, HLB Jumpstart was launched in September 2018 to bring together a stable of specialists and partners in fields such as finance, branding and advertising and design and volunteerism. Far from helping just once and then walking away, Jumpstart works to become part of the journey.

SURI, selected as our very first collaboration partner in September 2018, is an organisation that seeks to offer financial opportunities and skills development for single mothers in the Klang Valley via upcycling of used denim into new items for resale. Green Hero, partnered in May 2019, is a social enterprise dedicated to reducing food waste across the nation.

Key Highlights from our Previous HLB Jumpstart Partners

SURI	Green Hero
6,271 upcycled denim bags sold, an increase of **215%** compared to sales prior to partnership	Increased average monthly sales by **113%** compared to pre-collaboration levels
Empowered **15** mothers, an increase of **50%**	**9,366** meals saved from landfill through Food Surplus Donation Drive
Collected **5,175** pieces of denim through Denim Donation Drive, saving this material from landfills	Collaborations with **85** merchants from the food and beverage industry in Penang and the Klang Valley
Collaborated with big brands, including **Tarik Jeans** and **VOIR Group**	**Green Hero Food App** in progress

Coffee For Good

Joining HLB Jumpstart in December 2019, as its third partnership, Coffee For Good was founded by Faridah Halani and Dalia A Aziz to give low-income youth a chance to upskill themselves for the workplace through an on-the-job training programme. Students are equipped with specialist coffee knowledge and skills whilst simultaneously given job placements as skilled baristas.

As a local cafe operator, Faridah recognised that the coffee culture was booming in Malaysia, yet the industry was facing a shortage of trained staff. Her solution was to bridge her business, coffee-making skills and empowering low-income youths to solve the on-going labour shortage faced by cafe-owners nationwide.

To support Coffee For Good in their efforts to offer employment opportunities to unskilled youth, HLB Jumpstart worked with Faridah and Dalia to energise their approach to recruitment through a branding and marketing campaign designed to recruit more trainees. To reduce costs and enable the business to thrive, valuable floor space was offered at no cost for pop-up cafes to be established in some Hong Leong Bank locations and affiliated companies' offices for events and functions. Further, Jumpstart worked with the duo to increase efficiency by introducing cashless payment facilities, as well as offering financial knowledge sessions with HLB's SME specialists.

With HLB's support, in FY2020 Coffee for Good generated a total of RM17,800 in sales from HLB's events, provided 5 youths experience running coffee pop-up business and initiated a new collaboration a corporate company for catering business.

The Asli Co.

HLB Jumpstart's fourth, and most recent collaboration which was chosen from a batch of 9 shortlisted applicants, is with The Asli Co. who were selected to come on board in June 2020. Founded by Jason Wee and Lim Xin Yu, The Asli Co. is a social enterprise focusing on providing sustainable incomes for Orang Asli mothers from two villages via the commissioning of artisanal handicrafts and products that the women make from home.

The women are paid upfront for their creations and earn between 14% to 20% of sales. To ensure the mothers earn a fair and viable income, The Asli Co. pays up to four times the minimum hourly wage. Within the next two years, The Asli Co. aims to have a range of at least 20 handmade products to capture a wider audience and to provide income opportunities for more Orang Asli mothers.

In partnership with HLB Jumpstart, The Asli Co. will receive media and marketing assistance as well as mentorship to help strengthen their business, making it more profitable and scalable. In addition, HLB Jumpstart will help to build a more seamless payment gateway so that customers can make payments more simply. Financial literacy sessions for 10 women employed by The Asli Co. are also in the pipeline, to give the necessary financial skills required in planning for their futures.

As we continue to grow HLB Jumpstart's portfolio, FY2021 will see a fifth and sixth social enterprise come on board, with announcements due in late 2020.

ENHANCING ISLAMIC FINANCIAL LITERACY

Financial literacy is a fundamental building block needed to secure financial well-being. Typically, those living in underserved or economically disadvantaged communities have extremely low levels of financial literacy and this lack of knowledge and insight risks creating long-term cycles of poverty that are difficult to break.

As a leading responsible financial institution in Malaysia, we sponsor and support Bank Negara Malaysia's Karnival Kewangan roadshow events, designed as a platform to enhance financial literacy throughout the country. Held across Malaysia, these events work to bring together financial institutions and rural communities to connect, inform and educate.

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COMMUNITY INVESTMENT (CONTINUED)

To complement our work to disseminate knowledge on conventional financial matters, HLB and HLISB are supportive of the Malaysian government initiative to promote Islamic banking principles under the National Strategy for Financial Literacy (2019-2023). Members of the HLISB team regularly share knowledge and expertise to a range of audiences, from industry seminars and conferences, through to educational programmes for students at high school as well as those studying for undergraduate and postgraduate qualifications.

DUITSMART

In September 2019, HLB launched DuitSmart, a digital platform designed as a repository for content that would enhance financial literacy amongst Malaysians, helping them to achieve their financial goals. Established in response to a survey conducted in partnership with iMoney, DuitSmart was also intended to help HLB and HLISB better understand the financial health of the Malaysian population.

Containing topics such as the importance of a good credit score, adoption of good money habits, financial mistakes to avoid and other useful tips, HLB and HLISB take the view that by investing in useful and educational content, we are working to strengthen financial education nationwide and working to improve the overall financial health of the nation. The platform was created in partnership with Credit Counselling and Debt Management Agency and University of Malaya.

To ensure that as many people as possible from every walk of life are able to access the DuitSmart platform, work in FY2020 has focused on taking a strategic approach to reaching out to audiences through online and on-the-ground activities. These audiences include HLB and HLISB employees, media houses, corporate companies, universities, customers at HLB and HLISB branches and wider communities at Bank Negara Malaysia events. Engagement interactions with individuals both on and offline have focused on two main areas - 'Check Your Credit Score' and 'Understanding Basic Financial Jargon'.

To date on-the-ground activities have taken place at nine HLB branches, PR content has been developed in partnership with five media houses, two staff engagement sessions and through two Bank Negara events — Karnival Kewangan Perlis 2019 and LIFT Festival 2019. A total of 865 participants benefited from our on-the-ground engagement activities. To supplement these in-person engagements, we have also launched an online portal providing financial tips and scam awareness content, as well as information on the Malaysian government's COVID-19-related financing moratorium. As of September 2020, we had recorded a consumer reach of over 4.6 million for this digital content since its launch.

FINANCIAL LITERACY IN ISLAMIC BANKING

The Program Celik Muamalat is a series of public awareness talks and forums striving to provide financial literacy training regarding Islamic banking topics. Two events were conducted in FY2020, the first of which was held at Universiti Sains Islam Malaysia. Topics discussed revolved around product development in Islamic banking. The second event which focused on broader Islamic banking and finance subject matters was held in Universiti Tunku Abdul Rahman and was attended by almost 100 undergraduates.

To further improve our channels of engagement regarding Islamic finance, we focus on digitising our knowledge sharing initiatives. Our revamped HLISB website has an additional education page which provides information on Islamic banking and takaful topics such as *Tawarruq* (Arrangement of Multiple Sale and Purchase Transaction), *Mudarabah* (Profit Sharing Contract), *Ijarah* (Leasing), *Tabarru'* (Voluntary Donation/Contribution) and *Wakalah* (Agency Contract). In line with our digital efforts, we also have plans to conduct future Program Celik Muamalat sessions via a webinar format in future higher learning institutions that we collaborate with.

HONG LEONG FOUNDATION

Hong Leong Group's charitable entity, the Hong Leong Foundation ("HLF" or "the Foundation") operates to deliver philanthropic and social outreach programmes targeting underserved communities. Established in 1992 and funded through Hong Leong Group's companies, the Foundation works to create long-term sustainable impacts in communities with focus on projects related to Education and Community Development.

Working in partnership with established charitable organisations or with recognised community change agents, the Foundation seeks to implement projects by leveraging existing infrastructure, knowledge or connections in order to secure optimal outcomes. Furthermore, the programmes implemented by the Foundation offer Hong Leong Bank employees' valuable opportunities to volunteer time and resources to make important contributions.

Hong Leong Foundation's Total expenditure in FY2020

RM3,446,963

RM1,417,171 for education programmes

RM2,029,763 for community development programmes

COMMUNITY INITIATIVES AT HONG LEONG ISLAMIC BANK

In addition to the programmes funded by the Hong Leong Foundation, HLISB also supports various community causes of their own. HLISB has also undertook several campaigns to give back to the community funded by the Wakalah Zakat and Income Purification under the umbrella of "HLISB Turun Padang" initiatives.

For year 2019, HLISB contributed RM350,000 worth of Zakat payment to PPZ MAIWP and in return RM37,500 were received as *Wakalah Zakat.

*Wakalah Zakat is policy of returning Zakat money by State Islamic Religious Council to entity that pay Zakat. The amount of refund will be distributed to eligible Asnaf.

HLISB Turun Padang Community Outreach Initiatives

Income Purification	• As part of continuation effort and remaining balance of Income purification from 2018, 70 students from low income families receive daily meals in school for 2 months to help them concentrate better in class and support their access to education. • HLISB contributed RM10,000 for the purpose of helping the members of Persatuan Jaya Diri OKU dan ASNAF Machang Kelantan to purchase assets or utensils to start small business as means to support their family income. • RM10,000 were presented to Pusat Jagaan Nur Hasanah to assist with taking care and provide shelter for abandoned senior citizens from various government hospitals. • HLISB in support of Association of Islamic Banking and Financial Institutions Malaysia (AIBIM) pledged RM10,000 to upgrade medical facilities at Hospital Kuala Lumpur and Hospital Sg. Buloh during the COVID-19 outbreak.
Zakat Distribution	• In concurrence with the effort by many to ease the burden of several communities during the COVID-19 pandemic, HLISB had switch the focus of Zakat distribution to reach out to those in need. • HLISB first Zakat distribution via Global Sadaqah, an online platform in the form of providing food pack worth RM10,000 to Asnaf recipients during the COVID-19 outbreak. • HLISB distributed 'New Normal Starter Packs' worth RM12,500 as well as educational resources on COVID-19 prevention which will positively impact over 1,000 indigenous people at Kampung Orang Asli Bah Sawa in Perak, Bukit Serok in Pahang and, Sungai Sempo in Negeri Sembilan. For this, HLISB partnered with The Asli Co., a social enterprise focusing on providing sustainable income for Orang Asli mothers and, SURI, a denim upcycling social enterprise that works with single and underprivileged mothers with employment opportunities as a means to also uplift Orang Asli and vulnerable communities through economic empowerment. • RM5,000 were distributed to PERTIWI to assist them in providing food to the most vulnerable individuals taking shelter at the local community halls. • RM5,000 were given out to Yayasan Pendidikan ITQAN as part of their effort to run the scheduled event via online and promote the students to remain at home with online educational activities. • Lastly, HLISB distributed RM5,000 to Badan Kabajikan Persaudaraan Islam Negeri Melaka (BAKPIS) to assist members that are of Asnaf category during this stormy weathers.
HLISB Raya Campaign	• Provide RM150,000 worth of cash to 10 homes (6 orphanages & 4 old folks during Ramadhan) during COVID-19 outbreak and fasting month for food expenses

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

GROUP COMPANY SECRETARY

Mr Jack Lee Tiong Jie
MAICSA 7060133
SSM PC No. 202008001704

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WEBSITE

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Board of **Directors' Profile**

YBHG DATUK DR MD HAMZAH BIN MD KASSIM

Position

Chairman/Non-Executive Director/Independent

Nationality / Age / Gender

Malaysian / 71 / 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 ("MACC") 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 MACC Advisory Board since 1 June 2020.

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 Board Chairman and a Member of the Board Audit and Risk Management Committee ("BARMC"), Remuneration Committee ("RC") and Nomination Committee ("NC") of HLISB. He is also a member of the Board Information Technology Committee of Hong Leong Bank Berhad ("HLB") and HLISB.

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

Board of Directors' Profile

Board of Directors' Profile

MR KWEK LENG HAI

Position

Non-Executive Director/Non-Independent

Nationality / Age / Gender

Singaporean / 67 / Male

Mr Kwek Leng Hai is qualified as a Chartered Accountant of the Institute of Chartered Accountants in England and Wales and has extensive experience in various business sectors, including but not limited to finance, investment, manufacturing and real estate.

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 the Hong Kong Stock Exchange. Mr Kwek is also a Director of GGL's key subsidiaries, including holding the 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.

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.

ENCIK ALAN HAMZAH SENDUT

Position

Non-Executive Director/Independent

Nationality / Age / Gender

Malaysian / 60 / 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 of the Institute of Chartered Accountants in England and Wales by profession and a member of the Malaysian Institute of Accountants, a Chartered Audit Committee Director (Institute of Internal Auditors Malaysia) and a Fellow of the Institute of Corporate Directors Malaysia.

Encik Alan Hamzah 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 Carnauld MetalBox Malaysia.

Encik Alan Hamzah 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 joined BHP Billiton as the Global Head of Shared Services. He then 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 was appointed to the Board of HLISB on 26 September 2016 and is the Chairman of the BARMC, RC and NC of HLISB.

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

MR DOMENIC FUDA

Position

Executive Director/Non-Independent

Nationality / Age / Gender

Australian / 53 / 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 Fuda is a Chartered Banker of the Asian Institute of Chartered Bankers ("AICB").

Before joining HLB, Mr Fuda served as Deputy Group Head of Consumer Banking & Wealth Management at DBS Bank and was a member of the DBS Group Management Committee, where he was responsible for driving business growth and digitisation of the business across its six regional markets. Prior to his position in DBS Bank, he spent 16 years at Citigroup covering various senior roles in Australia and Asia.

Mr 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, a wholly-owned subsidiaries of HLB. He is also a Council Member of AICB.

Mr Fuda was appointed to the Board of HLISB on 27 October 2016 and is a Member of the Nomination Committee of HLISB.

PUAN ROWINA GHAZALI SETH

Position

Non-Executive Director/Independent

Nationality / Age / Gender

Malaysian / 58 / Female

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

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

Puan Rowina is currently a Director of Velesto Energy Berhad, where she is Chairman of its Nomination-Remuneration Committee. She is also Director of UEM Edgenta Berhad and Chairman of its Risk Management Committee. Both companies are listed on the Main Market of Bursa Securities.

Shariah Committee's Profile

Shariah Committee's Profile

PROFESSOR DR. RUSNI BINTI HASSAN

Position

Chairman

Professor Dr. Rusni Binti Hassan is a Deputy Dean (Academic and Industrial Linkages) 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. Her area of specialization includes Governance in Islamic Banking and Finance (IBF), Legal and Regulatory Aspects of IBF, Islamic Social Finance and Shariah Aspects of IBF. She is an active researcher and expert trainer in IBF. She has spoken extensively in seminars, workshops, conferences and training 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; Remedies for Default of Payment in Islamic Banking, Termination of Contractual Obligations and many chapters in books. She has more than 100 articles published in local and international journals and frequently listed as Top 5 contributors in Scopus publication in Islamic Finance. She has supervised more than 50 post graduate students in comprehensive topics on IBF and frequently been invited as examiner and assessor for students' theses, academic promotions and also academic programs offered by universities locally and internationally.

Professor Dr. Rusni is also actively involved in the IBF industry. She was a member of Shariah Advisory Council Bank Negara Malaysia from 2010 to 2016 and also the Shariah Committee 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 for Housing Development Corporation, Maldives. She is a registered Shariah Advisor with the Securities Commission Malaysia. She was instrumental for the establishment of the Association of Shariah Advisors in Islamic Finance Malaysia (ASAS) and the International Council of Islamic Finance Educators (ICIFE) whereby she was pro-tem committee, Secretary and the Executive Committee for both associations respectively.

Her works and contribution to Islamic Finance has also been recognized internationally when she was listed among the Top Women in Islamic Finance since 2013. The most recent was The Top 50 Most Influential Women in Islamic Finance 2018 and The Top 10 Most Influential Women in Islamic Business and Finance 2019 by Cambridge IFA. Her contribution to Islamic Finance in Maldives was recognized 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 in 2018.

ENCIK IMRAN BIN MOHAMMAD KHAYAT

Encik Imran Bin Mohammad Khayat is currently the General Manager of Shariah Division and Secretary to the Shariah Advisory Committee of Lembaga Tabung Haji *(TH)*. As the pioneering Shariah General Manager at *TH*, he was responsible for spearheading the establishment of Shariah Division and putting the structure and operationalization of Shariah Governance Framework at the institution. He is responsible for overseeing the Shariah compliance aspects of the businesses and investments of the group.

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 was a Senior Manager and has years of experience working with a 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.

ASSOCIATE PROFESSOR DR. AMIR BIN SHAHARUDDIN

Dr. Amir Bin Shaharuddin is an Associate Professor at the Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia (USIM). He obtained a Bachelor Degree (Honors) in Shariah from University of Al-Azhar, Cairo, Egypt (2001) and a Master in Business Administration from International Islamic University Malaysia, Malaysia (2005). He was awarded with PhD (Arab & Islamic Studies) from University of Exeter, United Kingdom (2010).

He was the first Visiting Fellow under the Scholar in Residence Program ("Program") with his research titled "Harmonising Shariah Rulings in Islamic Finance: Issues, Ways and Challenges". This Program is a joint initiative between the Securities Commission Malaysia and the Oxford Centre for Islamic Studies.

He is currently the Chief Executive Officer of Yayasan Waqaf Malaysia (Wakaf Foundation of Malaysia) and also serving as a Shariah Advisor of Malaysia Airport Consultancy Berhad and Panel Pakar Syariah in Jabatan Kemajuan Islam Malaysia ("JAKIM"). Previously, he was a Dean of Faculty of Economics and Mualamat and a Deputy Dean (Academic and Research) of the same Faculty at USIM. His expertise is on Fiqh Muamalat, Islamic Banking and Islamic Social Finance.

He is also the Chairman, Shariah Committee member of Hong Leong MSIG Takaful Berhad since April of this year.

Board Audit and Risk Management **Committee Report**

Board Audit and 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 activities 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.

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 this 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 2020 ("FY 2020"), six (6) BARMC meetings were held and the attendance of the BARMC members is recorded as follows:

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

HOW THE BARMC DISCHARGES ITS RESPONSIBILITIES

RISK MANAGEMENT

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

In addition, the BARMC regularly reviews risk management reports, which covers global and regional economic developments, risk headwinds, capital adequacy, stress tests, credit risk, market risk, liquidity risk, operational risk, Shariah compliance risk and IT risk.

The BARMC also reviews regulatory compliance and financial crime compliance reports, which include new regulations updates. The BARMC continuously provides oversight of the Bank's compliance activities to ensure that the Bank is in compliance to all established policies and external regulations.

Specifically, with regards to the COVID-19 pandemic, the BARMC reviewed reports of management's analysis and risk mitigation actions in relation to the Bank's credit exposures, market risk, operational risk, capital adequacy and liquidity. The BARMC reviewed revisions to policies for prudential operations of the Bank that addresses issues arising from the pandemic, the movement control orders instituted by the government and the financing payment moratorium measures introduced for customers that may be adversely impacted by the economic interruptions caused by the pandemic. The BARMC also reviewed the Bank's implementation of business continuity management plans and processes. Information on employees who were infected with COVID-19 or quarantined due to close contact with a positive or suspected COVID-19 case was promptly reported to the BARMC.

The BARMC also deliberated on stress test results formulated against the backdrop of a highly stressed economic environment, which provided insightful and timely updates particularly on financial, capital and liquidity impacts to the Bank as well as management's actions taken to mitigate any impact.

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.

Board Audit and Risk Management Committee Report

Board Audit and Risk Management Committee Report

EXTERNAL AUDIT

The external auditors of the Bank for the FY 2020 were 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 FY 2020 amounted to RM477,180 and RM102,500 was payable in respect of non-audit services. Non-audit services accounted for 47% of the audit fees payable. 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 2020 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;

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 2020 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 FY 2020 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 FY 2020, 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

Board Information and Technology **Committee Report**

Board Information and Technology Committee Report

CONSTITUTION

The Board Information and Technology Committee ("BITC") was established on 1 January 2020 to jointly support the Boards of Hong Leong Bank Berhad ("HLB") and Hong Leong Islamic Bank Berhad (the "Bank") in discharging the following responsibilities:

1. Oversee technology and cyber security related matters.
2. Ensure that risks assessments undertaken in relation to material technology applications are robust and comprehensive.
3. Ensure that management meets the expectations on technology and cyber security risk management as set out in BNM's policy document on Risk Management in Technology ("BNM RMiT Policy").

COMPOSITION

MS CHONG CHYE NEO
(Chairman of BITC, Independent Non-Executive Director of HLB)

YBHG DATUK DR MD HAMZAH BIN MD KASSIM
(Independent Non-Executive Director)

MS LAU SOUK HUAN
(Independent Non-Executive Director of HLB)

SECRETARY

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

TERMS OF REFERENCE

The terms of reference of the BITC are published on the Bank's website, 'www.hlisb.com.my'.

AUTHORITY

The BITC is authorised by the Board to review any technology related activities of the Group within its terms of reference. It is authorised to seek any technology related information it requires from any Director or member of management and all employees are directed to co-operate with any request made by the BITC.

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

MEETINGS

The BITC meets at least four (4) times a year and additional meetings may be called at any time as and when necessary.

The Group Managing Director/Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Internal Auditor, Chief Compliance Officer, Chief Information Security Officer, Head of Group Operations and Technology, Chief IT Officer, other senior management and external auditors may be invited to attend the BITC meetings, whenever required.

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

Two (2) members of the BITC shall constitute a quorum.

After each BITC meeting, the BITC shall report and update the Board on significant technology related issues and concerns discussed during the BITC meetings and where appropriate, make the necessary recommendations to the Board for its deliberation and approval.

ACTIVITIES

During the financial year ended 30 June 2020 ("FY 2020"), two (2) BITC meetings were held and the attendance of the BITC members was as follows:

Member	Attendance
Ms Chong Chye Neo	2/2
YBhg Datuk Dr Md Hamzah bin Md Kassim	2/2
Ms Lau Souk Huan	2/2

The BITC carried out the following activities in discharge of its duties in accordance with its terms of reference during the FY 2020:

- Reviewed the IT Strategy and monitored the progress against management plan.
- Reviewed the cyber security strategy/framework.
- Reviewed the production incidents and trending.
- Reviewed the state of compliance and progress updates on action items in relation to BNM RMiT Policy.
- Reviewed and assessed IT-related policies/guidelines.
- Reviewed the risk assessment on IT outsourcing and insourcing arrangements of the Group.
- Reviewed the assessment results on the adequacy and robustness of the existing risk management measures, preventive and detective control mechanisms adopted to prevent frauds in e-banking, direct debit and card-not-present transactions.
- Reviewed the System Stability Risk Appetite Statement for the financial year 2019/2020, in line with the BNM RMiT Policy.
- Reviewed the audit findings identified from the Group Internal Audit Division and the External Auditors on IT-related matters and monitored the resolutions and action items in relation thereto.
- Reviewed the Business Continuity Management of the Group, including critical system downtime and disaster recovery plans.
- Reviewed the Data Centre Resiliency Assessment Report to evaluate the facilities and infrastructure of existing live/production data centre site based on concurrent maintainable requirement by BNM RMiT Policy.
- Reviewed the Group's adoption of emerging technologies, including the adoption status and corresponding capabilities.

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

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

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 CG Report 2020 of the Bank in relation to this statement is published on the Bank's website, www.hlisb.com.my ("the Bank's Website").

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 is reviewed periodically by the Board. The Board Charter is published on the Bank's Website. The key roles and responsibilities of the Board broadly cover reviewing and approving 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.

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 this 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 ("HLB Group" or "HLBG") Code of Conduct & Ethics, which have been adopted by the Board and published on the Bank's Website. Details of the HLB Group Code of Conduct & Ethics (the "Code") 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 this 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 2020, 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) BITC

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

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

(C) 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.

Corporate Governance Overview, Risk Management & Internal Control Statement

C. BOARD COMMITTEES (CONTINUED)

(C) 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
- Independent Background Checks
- 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 will also conduct independent background checks to verify the information disclosed in the F&P Declarations. 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:

- Assessment against Assessment Criteria and BNM Guidelines
- F&P Declaration
- Relevant Credit Bureau Checks
- CTOS (Bankruptcy) search
- Independent Background 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 and time commitment. The NC will also consider the results of the Annual Board Assessment (as defined below), their 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. Independent background checks will also be conducted to verify the information disclosed in their F&P Declarations.

Corporate Governance Overview, Risk Management & Internal Control Statement

C. BOARD COMMITTEES (CONTINUED)

(C) 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.

(iv) Annual F&P Assessment

The annual F&P assessment process is as follows: -

- Directors/CEO to complete:
  - The Board Annual Assessment Form
  - The F&P Declaration
- The Bank to conduct Independent Background Checks

▶
- Assessment against Assessment Criteria and BNM Guidelines
- Recommendation by the NC

▶ Deliberation by the Board and decision thereof

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. Directors are required to complete the F&P Declaration in respect of their probity, competence, personal integrity, reputation, qualification, skills, experience and financial integrity in line with the standards required under the relevant BNM Guidelines. Independent background checks will also be conducted to verify the information disclosed in their F&P Declarations.

The NC will deliberate 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.

Corporate Governance Overview, Risk Management & Internal Control Statement

Corporate Governance Overview, Risk Management & Internal Control Statement

C. BOARD COMMITTEES (CONTINUED)

(C) NC (CONTINUED)

(iv) Annual F&P Assessment (continued)

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 2020 ("FY 2020"), four (4) NC meetings were held and the attendance of the NC members were as follows:

Member	Attendance
Encik Alan Hamzah Sendut	4/4
YBhg Datuk Dr Md Hamzah bin Md Kassim	4/4
Mr Domenic Fuda	4/4

The NC carried out the following activities in the discharge of its duties in accordance with its TOR during the FY 2020:

- 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 BNM policy document on Shariah Governance ("BNM SGPD");
- 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 Company Secretary in line with the BNM policy document on F&P Criteria and was satisfied that the Directors, CEO and Company Secretary met the requirements as set out in BNM policy document on F&P Criteria;
- Reviewed the re-appointments of Chairman, Directors and SC members in accordance with the F&P Policy, BNM CG Policy and BNM SGPD and recommended to the Board for consideration and approval;
- Reviewed the revision to the TOR of the NC and recommended to the Board for consideration and approval; and
- Reviewed the new Board Policy on Talent Management and recommended to the Board for consideration and approval.

C. BOARD COMMITTEES (CONTINUED)

(D) 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 FY 2020, two (2) RC meetings were held and the attendance 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

The Bank's remuneration scheme for the Executive Director 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 Remuneration Board Policy, 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 FY 2020 is as set out in Note 34 of the Audited Financial Statements in this Annual Report.

REMUNERATION PHILOSOPHY & FRAMEWORK

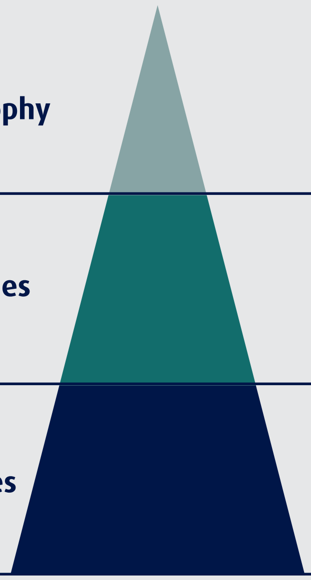
HLB Group's remuneration strategy supports and promotes a high performance culture to deliver the Bank's Vision to be a highly digital & innovative ASEAN financial services company. It also forms a key part of the Bank's Employer Value Proposition with the aim to drive the right behaviors, create a workforce 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, HLISB values, prudent risk-taking and key behaviours in accordance to Bank's Code of Conduct and risk and compliance management as part of the key performance indicators for remuneration decisions.

Corporate Governance Overview, Risk Management & Internal Control Statement

C. BOARD COMMITTEES (CONTINUED)

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

GUIDING PRINCIPLES

Principle 1 - Oversight by Remuneration Committee & Board of Directors

The RC's responsibilities are to recommend to the Board the framework and policies that govern the remuneration of the Directors, Shariah Committee, CEO, 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 individual performance and is periodically benchmarked to market/industry. The Board must ensure that the corporate governance disclosures on remuneration are accurate, clear, and presented in a manner that is easily understood by its shareholders, customers and other relevant stakeholders.

Principle 2 - Prudent Risk Taking

Remuneration for employees within the Bank must be 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 judgment.

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

The Bank has established an end-to-end BIP process to ensure proper governance and sufficient control is 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. 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. No increment and bonus is accorded to an employee with performance rating 1 or 2 or if the employee has tendered his/her resignation.

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 positions.

Corporate Governance Overview, Risk Management & Internal Control Statement

C. BOARD COMMITTEES (CONTINUED)

REMUNERATION PRACTICES (CONTINUED)

Measurement of Performance (continued)

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 the Bank's shareholders and multiple stakeholders. 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% of HLISB Values.

The Bank shall ensure the performance measure of the employee promotes the Bank's core values and desired conduct and behaviour to achieve Fair Treatment of Financial Consumers ("FTFC") and all relevant regulatory policies outcomes. Apart from quantitative targets, performance measures shall include qualitative criteria that closely reflect the delivery of FTFC and all relevant regulatory policies outcomes.

Every senior management officer has a responsibility to embed sustainability in all initiatives in their division. This is linked to performance considerations and in turn, total remuneration received.

Pay Mix Delivery and its Purpose

The overall Total Compensation for the CEO and members of the Senior Management team 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.

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 the Bank's shareholders and our multiple stakeholders. A robust key performance indicator ("KPIs") setting process that incorporates risk management as part of the scorecards is also in place to ensure excessive risk taking behaviours of staff are minimised and sufficient control mechanism are in place. Variable bonus awards for individuals in senior management position and in excess of a certain thresholds will be deferred over a period of time.

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) 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.

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C. BOARD COMMITTEES (CONTINUED)

REMUNERATION PRACTICES (CONTINUED)

Pay Mix Delivery and its Purpose (continued)

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.

Remuneration Disclosure

The following depicts the total value of remuneration awarded to the CEO, Senior Management team and Material Risk Takers of the Bank for the FY 2020:

CEO, Senior Management and Other Material Risk Takers	No. of officers received	Unrestricted (RM)	Deferred (RM)	Total amount of outstanding deferred remuneration as at 30.6.2020 (RM)	Total amount of outstanding deferred remuneration paid out (vested) in FY2020 (RM)
Fixed Remuneration					
Cash-based	10	4,386,822	-	-	-
Shares and share-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Variable Remuneration					
Cash-based	10	1,790,221	169,527	-	-
Shares and share-linked instruments	-	-	-	-	-
Other	-	-	-	-	-

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, the tenure of an Independent Director shall not exceed a cumulative of the 9 years from the date of his or her first appointment in the Bank. Upon completion of the 9 years, an Independent Director shall retire on the expiry date of his or her term of office approved by BNM.

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. Any 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 FY 2020 with timely notices of issues to be discussed. Details of attendance of each Directors are as follows:

Member	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 FY 2020, 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. In-house programmes were also organised for the Directors and senior management of the Bank.

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 FY 2020, the Directors of the Bank, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- BNM – Regional Conference on Climate Change
- Beyond4Fest – Driving Digital Transformation
- Entrepreneurs' Organization Malaysia – Staying Ahead in Difficult Times
- FIDE Forum – Artificial Intelligence and Its Roles in Financial Institutions
- FIDE Forum – Digital to the Core
- FIDE Forum – Outthink The Competition: Excelling in a Post COVID-19 World
- HCLI – Leading Through Complexity Chaos
- HCLI – Leading the Future of Work
- IBFIM – Islamic Jurisprudence and Its Application in Islamic Finance
- ICDM – International Directors Summit 2019
- IDEAS – Post COVID-19 Economic Recovery Plan
- IERP – Qualified Risk Director Program: Series 11 – Directors Guide to Risk Maturity Frameworks
- IERP – Qualified Risk Director Program: Series 12 – Cybersecurity Oversight in the Boardroom
- IERP – Qualified Risk Director Program: Series 15 – Director Guide to Governance, Risk and Compliance
- IERP – Qualified Risk Director Program: Series 16 – Governance and ERM, including MCCG 2017 Consideration
- IERP – Qualified Risk Auditor Program: Series 1 – Risk Oversight Practices
- IERP – Qualified Risk Director Program: Series 2 – Corporate Culture and ERM
- IERP – Qualified Risk Director Program: Series 5 – Evolving Expectations for Boards
- IERP – Qualified Risk Director Program: Series 6 – The Role of Board in Fraud Risk Management
- ISRA Consultancy – Islamic Finance for Board of Directors Programme
- Khazanah Megatrends Forum
- Leading Digital and Digitally
- Permodalan Nasional Berhad (PNB) Corporate Summit
- PwC – Our Plant Our Business: Climate Change and Impact to Business
- Raising Defences: Section 17A, MACC Act
- Update on Singapore Code of Corporate Governance 2018
- Update on Singapore Exchange Listing Rules
- 14th International Shari'ah Scholars Forum

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 Board Policy on Shariah Governance ("SGBP") of HLISB.

The SGBP of HLISB comprises the following:

i. The Board of Directors ("BOD") is accountable and responsible on the establishment of sound Shariah governance structure and its effective implementation to ensure Shariah compliance at all time;

ii. BARMC is established to support the BOD in discharging the responsibilities and oversees the implementation of the internal control framework to prevent Shariah non-compliance and any rectification measures to resolve incidences or circumstances that may result or have resulted in Shariah non-compliance;

iii. SC has the responsibility to provide objective and sound advice to the Bank to ensure that its business operations, and activities are in compliance with Shariah;

iv. The CEO, in leading senior management, has primary responsibility over the day-to-day management to ensure Shariah compliance;

v. The Chief Shariah Officer ("CSO") in leading the Shariah Division has the responsibility to provide operational support for effective functioning of SC;

vi. Senior officers undertaking control functions (risk management, compliance & internal audit) is accountable and responsible for controls functions (Shariah risk, Shariah review, Shariah audit) under Shariah governance is responsible to ensure proper oversight and management of the Shariah non-compliance risk; and

vii. Business Unit ("BU") (including Support Unit) and Business Unit Compliance Representative ("BUCR") will execute policies, procedures and practices in relation to Shariah requirements at operational level.

II. SHARIAH COMMITTEE MEMBERS

The members of SC appointed by HLISB comprises of three (3) qualified Shariah scholars as follows:

a. Professor Dr. Rusni Binti Hassan (Chairman)
b. Encik Imran Bin Mohammad Khayat
c. Associate Professor Dr. Amir Bin Shaharuddin

III. MEETINGS

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

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F. SHARIAH (CONTINUED)

III. MEETINGS (CONTINUED)

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

Member	Attendance
Professor Dr. Rusni Binti Hassan	12/12
Encik Imran Bin Mohammad Khayat	12/12
Associate Professor Dr. Amir Bin Shaharuddin*	2/2
Dr. Ab. Mumin Bin Ab. Ghani**	10/10
Associate Professor Dr. Nurul Aini Binti Muhamed**	10/10

* *Effective 1st April 2020, Associate Professor Dr. Amir Bin Shaharuddin has been appointed as new SC member.*

** *Effective 1st April 2020, both Dr. Ab. Mumin Bin Ab. Ghani and Associate Professor Dr. Nurul Aini Binti Muhamed have ceased to be SC members.*

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. Advise the Board and provide input to the Bank on the application of any rulings of the BNM's Shariah Advisory Council ("SAC") or standards on Shariah matters in order for the Bank to comply with Shariah principles at all times;
b. Endorse Shariah policies and procedures prepared by the Bank and to ensure that the contents do not contain any elements which are not in line with Shariah;
c. Assess work carried out by Shariah Review, Shariah Risk, and Shariah Audit in order to ensure compliance with Shariah requirement which forms part of their duties in providing their assessment on Shariah compliance and assurance in the annual report;
d. Advise related parties of the Bank on Shariah matters such as its legal counsel, auditor or any other parties as and when necessary;
e. Provide a decision or advice on matters which require a reference to be made to the BNM's SAC as guided by BNM's manual reference (Manual Rujukan Institusi Kewangan Islam kepada Majlis Penasihat Syariah);
f. Provide written Shariah opinion in circumstances where the Bank make reference to the BNM's SAC or SAC of Securities Commission Malaysia for further deliberation, or where the Bank submits application to BNM or Securities Commission Malaysia for approval of new product, sukuk, or Islamic capital market instruments;
g. Endorse and validate relevant documentations of the Bank's products to ensure compliance with Shariah principles;
h. Provide a decision or advice on the operations, business, affairs and activities of the Bank which may trigger a Shariah non-compliance event;
i. Deliberate and affirm a Shariah non-compliance finding by any relevant functions;
j. Endorse a rectification measure to address a Shariah non-compliance event; and
k. Update the board immediately on Shariah issues or matter that may affect the safety and soundness of the Bank.

F. SHARIAH (CONTINUED)

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;
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 three (3) joint meetings held between the SC and Board during the FY2020 and a training session on the Islamic Jurisprudence *(Fiqh & Usul Fiqh)* & Islamic Law of Transactions *(Fiqh Al-Muamalat)* attended by the SC and Board. 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. LEARNING AND DEVELOPMENT OF SHARIAH COMMITTEE

As part of the requirement for continuous learning and development of skills and expertise of the SC as required by BNM SGPD, the following are the conferences and courses attended by the SC members:

1. 13th Muzakarah Cendekiawan Syariah Nusantara 2019;
2. 14th International Shari'ah Scholars Forum (ISSF 2019);
3. Muzakarah Ahli Majlis Penasihat Syariah Institusi Kewangan Islam di Malaysia kali ke 15; and
4. Certified Shariah Advisor Programme.

VII. SHARIAH COMMITTEE ASSESSMENT

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

HLISB has conducted internal evaluation process and this evaluation is to assess the competency, knowledge and contribution of each Shariah committee member 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 72 to 73 of this Annual Report.

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G. STRENGTHENING CORPORATE GOVERNANCE CULTURE

OUR APPROACH TO CORPORATE GOVERNANCE

Nurturing a strong corporate governance culture encompasses not only the policies or processes that we already have in place but also training that is practical and based on every day scenarios that can be applied in an employee's work.

Our approach to corporate governance includes the following:

1 Code of Conduct & Ethics	2 Policies & Processes	3 Continuous Development
The HLBG Code of Conduct & Ethics ("CoCE") ensures that our employees commit to a high standard of professionalism and ethics in the conduct of our business and professional activities. The HLBG CoCE is fundamental to align employee behaviour, drive a high performance culture bankwide and achieve business results.	In addition to the HLBG CoCE, the Talent Management Board Policy, Remuneration Board Policy and the Learning & Development Management Policy aim to promote a culture of compliance underpinned by the Bank's values, whilst striking a balance between prudent risk-taking and reward.	Continuously strengthening corporate governance through cumulative learning across all touchpoints: key learnings from Risk and Compliance Governance Meetings, feedback from customer complaint management channels, BUCO and BUCR meetings and bankwide/ divisional learning for employees.

Code of Conduct & Ethics

Employees are guided by the Bank's values, which seek to ensure that everything we do is sustainable and adds value to the communities we operate in (Here For The Long Term); we treat people with respect and seek win-win solutions for all parties (Collaborate To Win); we take ownership and make things happen (Decisiveness). At the same time, employees are encouraged to embrace change and not be afraid to do things differently (Innovation) and celebrate new learning opportunities (Have Fun).

The Bank's values, together with the six (6) principles stated in the HLBG CoCE, is fundamental to align employee behaviour, drive a high performance culture bankwide and achieve business results.

Specifically, in upholding the value of "Here for the Long Term", the HLB Group commits to a high standard of progessionalism and ethics in the conduct of our business and professional activities as set out in the HLBG CoCE.

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.

G. STRENGTHENING CORPORATE GOVERNANCE CULTURE (CONTINUED)

OUR APPROACH TO CORPORATE GOVERNANCE (CONTINUED)

Code of Conduct & Ethics (continued)

Principles

There are six (6) key pillars to the HLB Group CoCE:

Principle 1 Competence	Principle 2 Integrity	Principle 3 Fairness
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.	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.	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	Principle 5 Objectivity	Principle 6 Environment
The HLB Group is committed to providing a safe, reliable and secured banking environment and experience for our customers.	Employees must not allow any conflict of interest, bias or undue influence of others to override their business and professional judgment. Employees must not be influenced by friendships or association in performing their role. Decisions must be made on a strictly arms-length business basis.	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.

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G. STRENGTHENING CORPORATE GOVERNANCE CULTURE (CONTINUED)

OUR APPROACH TO CORPORATE GOVERNANCE (CONTINUED)

Policies & Processes

In addition to the HLBG CoCE, the Talent Management Board Policy, Remuneration Board Policy and the Learning & Development Management Policy aim to promote a culture of compliance underpinned by the Bank's values, whilst striking a balance between prudent-risk taking and reward. The policies are designed to create and cultivate a high standards of responsibility, professional conduct and behaviour, and are able to be role models to other employees and industry peers.

Policy Name	Purpose
HLBG Code of Conduct & Ethics	The HLBG CoCE ensures that our employees commit to a high standard of professionalism and ethics in the conduct of our business and professional activities. All employees are required to attest to the CoCE on an annual basis.
Talent Management Board Policy	The Talent Management Policy aims to set out our talent management strategy in recruiting, developing, retaining talent and succession planning to support and drive the execution of the business strategy with the ambition to build an organisation that build talent to cater for our needs from within.
Learning & Development Management Policy	The Learning & Development ("L&D") Policy sets out principles that will govern the Bank's L&D strategy and execution plans. The aim is to cultivate a highly engaged workforce, focused on delivering strategic goals, maintain high standards of responsibility, professional conduct and behaviour, and are role models to other employees and industry peers.
Remuneration Board Policy	The Remuneration Policy aims to maintain a competitive remuneration strategy, enabling us to attract and retain talent and at the same time balance risk and performance outcomes, with an eye on prudent risk-taking.
Whistleblowing Policy	The Bank's Whistleblowing Policy 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.

Continuous Development

The Bank's efforts to continuously strengthen corporate governance is the result of cumulative efforts across every touchpoint. Key learnings from each Risk and Compliance Governance Committee ("RCGC") meeting is summarized and circulated to all attendees, BUCRs (business Unit Compliance Representative), BUCOs (Business Unit Compliance Officer) and respective business units to act upon. BUCOs meet with the L&D team in Human Resources on a monthly basis to review and request for any ad hoc compliance training requirements. Our online and offline customer touchpoints (on social media and via the feedback form on our website and via our branches and contact centre respectively) also serve to provide feedback directly. On learning, each division is responsible for their own content creation of key topics for their divisions, in addition to the compliance topics and videos available on Workday for huddles and the quarterly Mandatory eLearning.

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

I. DIALOGUE BETWEEN COMPANIES AND INVESTORS

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 : IR@hlbb.hongleong.com.my

Corporate Governance Overview, Risk Management & Internal Control Statement

Corporate Governance Overview, Risk Management & Internal Control Statement

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'.

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 compliance and operational risk units are set up in the various lines of businesses and support departments. They oversee the day-to-day compliance to policies, regulatory requirements, business and process controls. At the second level, GRM is responsible for setting the risk management framework, reviewing portfolio risks, 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 the effectiveness of internal control systems. It also provides an independent perspective and assessment on the adequacy and effectiveness of the risk management and compliance policies, process governance and systems.

The above is depicted in the following diagrams:

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:

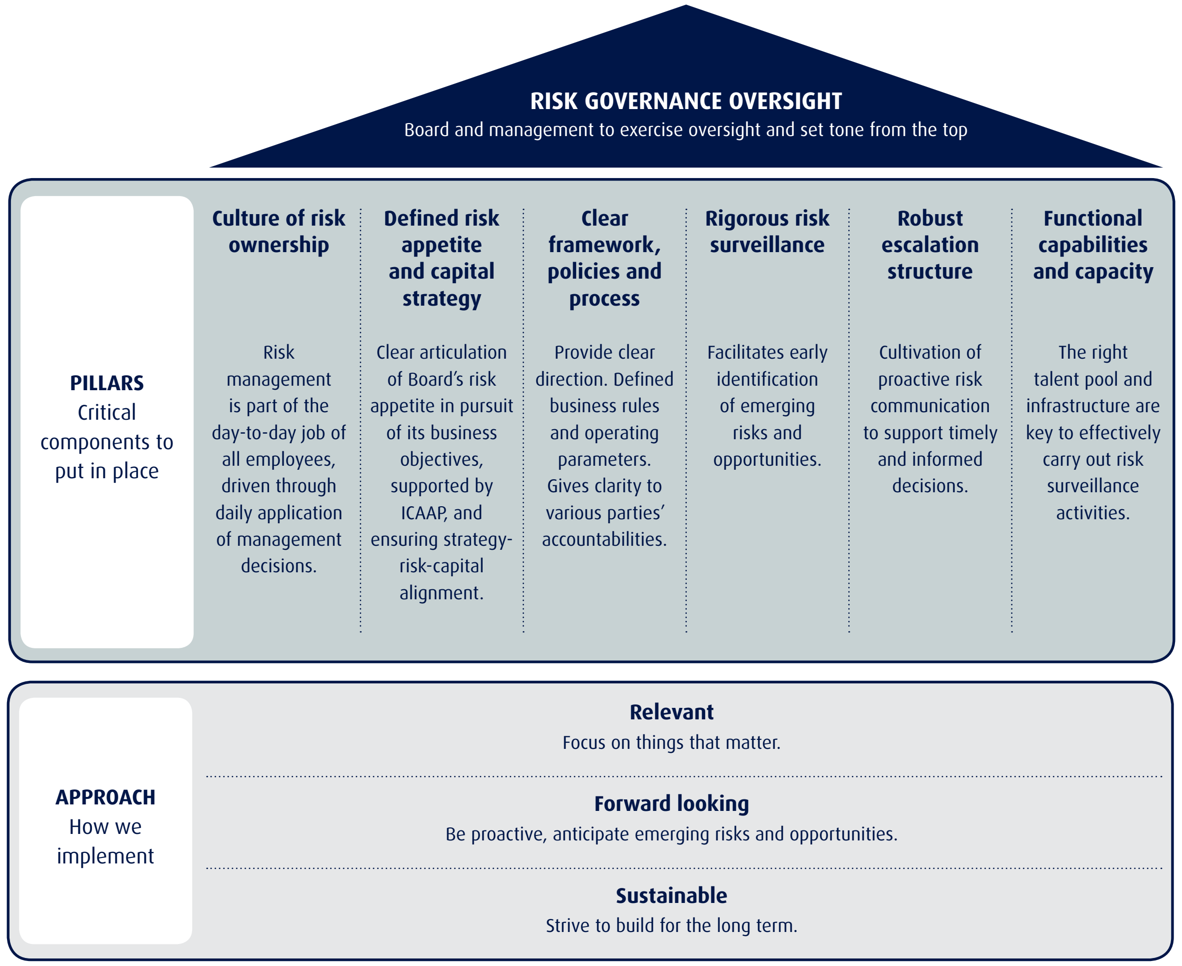

Figure 1: Risk Management Framework

Corporate Governance Overview, Risk Management & Internal Control Statement

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:

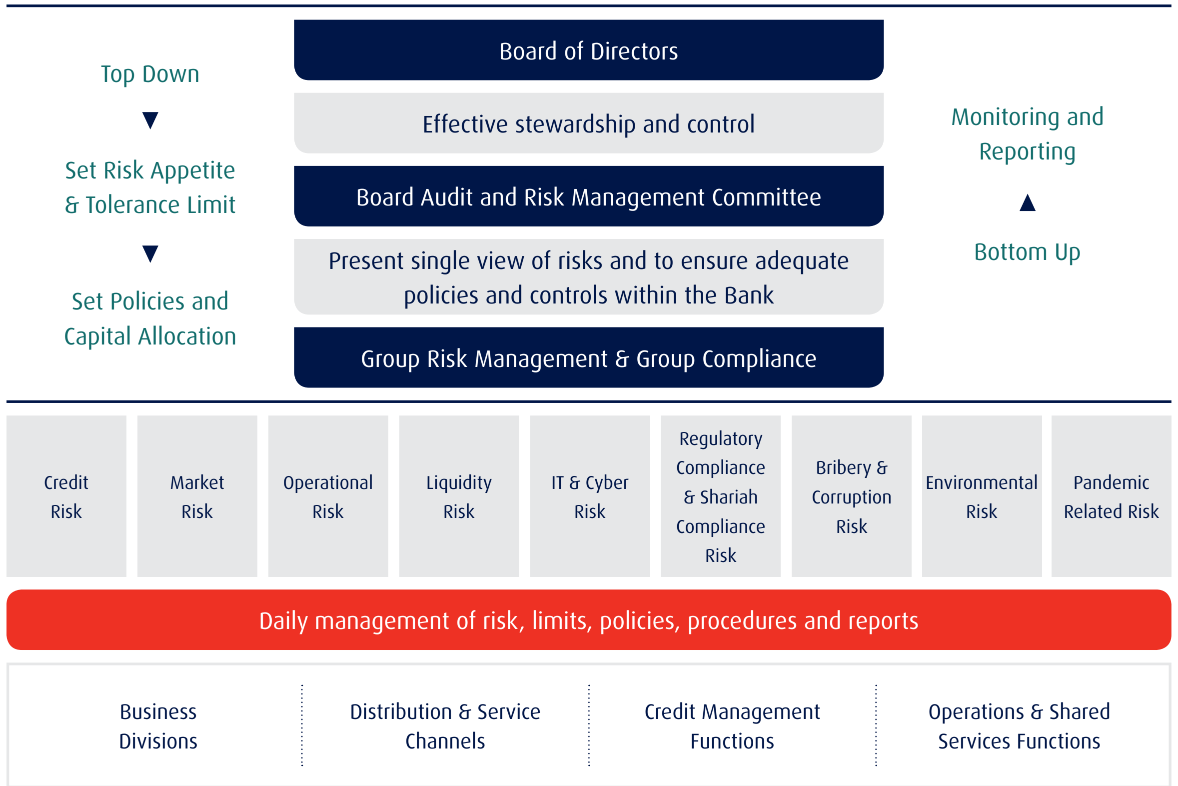

Figure 2: Risk Management Structure

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.

Corporate Governance Overview, Risk Management & Internal Control Statement

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. • GRM conducts independent credit reviews on a portfolio basis, which cover the Personal Financial Services, Business and Corporate Banking and Global Markets portfolios, providing an independent and where appropriate, countervailing perspective on credit risk management issues including business performance, credit decisions, overall assets quality and credit operations robustness. • 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.

Corporate Governance Overview, Risk Management & Internal Control Statement

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.

Corporate Governance Overview, Risk Management & Internal Control Statement

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 Bank seeks to manage the liquidity to ensure that our liquidity obligations will continue to be honored under normal as well as adverse circumstances. The key elements of liquidity risk management include 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 strives to develop a diversified funding base with access to funding sources across retail and wholesale channels. The funding strategy is anchored on the strength of our core deposit franchise 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 Board Information Technology Committee (BITC).

Corporate Governance Overview, Risk Management & Internal Control Statement

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.
FINANCIAL CRIME RISK Financial Crime Risk is the risk of legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating to Anti-Money Laundering, Counter Financing of Terrorism and Targeted Financial Sanctions requirements.	• In mitigating the risk of financial crime, the Bank undertakes monitoring of developments of laws and regulations and assesses its impact to internal policies, processes and procedures. In addition, the Bank is building our digital transformation by leveraging on technological solutions to enhance our capabilities in detection, monitoring and reporting of potential suspicious activities. The Bank continuously maintains robust controls as a gatekeeper to the financial system against Money Laundering, Terrorist Financing and Proliferation Financing risks. Management oversight on financial crime matters are effected through the Management level Financial Crime Governance Committee ("FCGC"), whilst Board oversight is effected through the BARMC.
BRIBERY AND CORRUPTION RISK Bribery and Corruption Risk is the risk of offering, paying or receiving a bribe through an officer, employee, subsidiary, intermediary or any third party (individual or corporate) acting on the Bank's behalf.	• The Bank ensures that the management team conducts bribery and corruption risk assessment of the overall Bank's operations periodically to identify, analyse, assess and prioritise actions needed to mitigate internal and external bribery and corruption risks. Management also reviews risk assessment reports, consider improvements to the Bank's policies and procedures, and provides training to internal and external stakeholders in combating corruption and bribery. The Anti-Bribery and Corruption (ABC) policies and procedures are communicated to all our employees, who are required to undergo mandatory training and assessment on completion of training in the subject matter. Clauses relating to ABC have also been incorporated in written agreements to ensure that suppliers to the Bank understand their obligations and abide by the relevant laws and regulations. Continuous reinforcement of communications to our suppliers on our expectations in relation to ABC are in progress. Board oversight of bribery and corruption risk is effected through the BARMC. The Bank has a whistleblowing policy and accompanying procedures in place, where whistleblowing reports can be addressed directly to the Chairman of the BARMC.

Corporate Governance Overview, Risk Management & Internal Control Statement

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**
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 particular 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.
PANDEMIC RELATED RISK Pandemic related risk is the risk of loss arising from infectious diseases spreading locally, regionally or globally at an epidemic level, usually at an undetermined scale and duration. Financial risks may be caused by such disruptions on the Bank customers, on financial markets and on the Bank's operations.	• The Bank has put in place a strategic plan to ensure that its operations and services are maintained fully functional in the event of a pandemic. In the continuing COVID-19 pandemic, businesses of the Bank which are classified under the essential services sector, operates under specific operating conditions with heightened public health safety and business continuity requirements, as mandated in countries that the Bank operates in. In demonstrating preparedness under crisis conditions, the Bank has implemented enhanced Business Continuity Management plans and processes to ensure the continuity of its businesses and operations. • In managing credit risk exposures, the Bank has implemented changes arising from central banks and governments' supportive action, to introduce financing payment moratorium or other forms of financial assistance for its customers that may be adversely impacted by the pandemic. • As an additional measure to safeguard the health and safety of its employees, the Bank established enhanced standard operating procedures that provides detail guidance to its employees on disease containment measures, work safety arrangements as well as reporting and incident escalation requirements.

Corporate Governance Overview, Risk Management & Internal Control Statement

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 is in compliance with the regulatory requirements and will continuously strengthen its capital and liquidity profile in all the countries that the Bank operates in, to ensure sufficient capital and liquidity is maintained to allow for business growth and sound capital/liquidity buffer management

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 Risk Management in Technology Policy Document) 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

Corporate Governance Overview, Risk Management & Internal Control Statement

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 in all material aspects, based on the risk management and internal control system of the Bank.

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 FY 2020, 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's 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 Policy Document on Shariah Governance 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 2020.

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 2020. 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 rules and principles and with the Shariah rulings issued by the Shariah Advisory Council ("SAC") of Bank Negara Malaysia ("BNM"), Standards on Shariah matters issued by BNM, rulings and decision of SAC of Securities Commission (for Islamic capital market regulation) as well as Shariah decisions and advice issued by us.

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 2020, 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) total profits associated with the Shariah non-compliance events during the financial year ended 30 June 2020 is RM 17,900.45 in which RM17,191.16 was already distributed to the charitable organisations as endorsed by the Shariah Committee. Remaining RM709.29 will be distributed in the next financial year.

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 overall business operations and activities of the Bank for the financial year ended 30 June 2020 are in compliance with Shariah and nothing has come to the SC's attention that the Bank involve in any Shariah non-compliance event(s).

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

Chairman of the Shariah Committee:
Professor Dr. Rusni Binti Hassan

Shariah Committee Members:
Encik Imran Bin Mohammad Khayat
Associate Professor Dr. Amir Bin Shaharuddin

Directors' Report

for the financial year ended 30 June 2020

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 2020.

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, Menara Hong Leong, 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	474,899
Taxation	(119,457)
Net profit for the financial year	355,442

OUTLOOK FOR NEW FINANCIAL YEAR

The financial outlook on the Islamic banking sector is expected to be challenging in view of the uncertainty in the market environment coupled with the impacts of the Covid-19 pandemic. The Islamic banking system should be well-positioned to absorb the potential impact from Covid-19 backed by prudent capital and liquidity buffers. The Islamic banking industry shall remain focus on supporting the economy during this unprecedented circumstances and continue to serve as financial intermediary to ensure the Islamic banking services remains intact and accessible.

DIVIDENDS

The Directors do not recommend the payment of any final dividend in respect of the financial year ended 30 June 2020.

There was no dividend paid during the financial year ended 30 June 2020.

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 2020

Directors' Report
for the financial year ended 30 June 2020

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 2020 and of the financial results and cash flows of the Bank for the financial year ended 30 June 2020.

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 34 to the financial statements.

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 2020 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*/ share options lapsed**			
	As at 01.07.2019	Acquired	Sold	As at 30.06.2020
Interest of Domenic Fuda in:				
Hong Leong Bank Berhad	845	434,370	-	435,215
	8,000,000*	-	(2,400,000)**	5,600,000

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 34 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 2020

Directors' Report
for the financial year ended 30 June 2020

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 2020 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.

DISCLOSURE OF SHARIAH COMMITTEE

The Bank's business activities are subject to the Shariah compliance and confirmation by the Shariah Committee, appointed by the Board of Directors of the Bank.

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 33 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 2020. Signed on behalf of Board of Director:

DATUK DR MD HAMZAH BIN MD KASSIM

DOMENIC FUDA

Kuala Lumpur

Statement of Financial Position

as at 30 June 2020

	Note	2020 RM'000	2019 RM'000
Assets			
Cash and short term funds	3	**2,990,040**	109,314
Financial assets at fair value through profit or loss	4	**21,669**	515,295
Financial investments at fair value through other comprehensive income	5	**2,428,284**	2,956,180
Financial investments at amortised cost	6	**5,003,153**	4,239,826
Financing and advances	7	**29,703,807**	25,840,011
Islamic derivative financial instruments	17	**83,080**	29,644
Other assets	8	**497,930**	604,829
Statutory deposits with Bank Negara Malaysia	9	**86**	814,736
Property and equipment	10	**13,657**	16,332
Right-of-use assets	11	**11,168**	-
Intangible assets	12	**2,169**	828
Deferred tax assets	13	**24,270**	10,224
Total assets		**40,779,313**	35,137,219
Liabilities			
Deposits from customers	14	**33,812,920**	29,808,605
Investment account of customers	15	**356,475**	2,235
Deposits and placements of banks and other financial institutions	16	**921,429**	659,313
Bills and acceptances payable		**12,994**	29,939
Islamic derivative financial instruments	17	**76,650**	28,012
Recourse obligation on financing sold to Cagamas Berhad	18	**748,438**	50,637
Other liabilities	19	**1,084,695**	1,124,087
Lease liabilities	20	**10,928**	-
Provision for taxation		**27,892**	41,556
Tier II subordinated Sukuk Murabahah	21	**400,742**	400,758
Multi-currency Additional Tier I subordinated Sukuk Wakalah	22	**401,455**	401,233
Total liabilities		**37,854,618**	32,546,375
Equity			
Share capital	23	**700,000**	700,000
Reserves	24	**2,224,695**	1,890,844
Total equity		**2,924,695**	2,590,844
Total Equity and Liabilities		**40,779,313**	35,137,219
Commitments and contingencies	40	**16,832,289**	12,553,505

The accompanying notes form an integral part of these financial statements

Statement of Income

for the financial year ended 30 June 2020

	Note	2020 RM'000	2019 RM'000
Income derived from investment of depositors' funds and others	25	**1,574,201**	1,455,046
Income derived from investment of shareholders' funds	26	**188,049**	176,972
Income derived from investment account	27	**37,536**	12
Allowance for impairment on financing and advances	28	**(135,327)**	(55,223)
Written back of/(Allowance for) impairment on financial investment and other assets	29	**44**	(20)
Total distributable income		**1,664,503**	1,576,787
Income attributable to the depositors	30	**(928,214)**	(924,754)
Income attributable to the investment account holder	31	**(25,032)**	(7)
Total net income		**711,257**	652,026
Overheads and other expenditures	33	**(236,008)**	(212,026)
Profit before zakat and taxation		**475,249**	440,000
Zakat		**(350)**	(350)
Profit after zakat before taxation		**474,899**	439,650
Taxation	35	**(119,457)**	(106,492)
Net profit for the financial year		**355,442**	333,158
Basic earnings per share - (sen)	36	**50.78**	47.59

The accompanying notes form an integral part of these financial statements

Statement of Comprehensive Income

for the financial year ended 30 June 2020

	Note	2020 RM'000	2019 RM'000
Net profit for the financial year		**355,442**	333,158
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	39	**(28,395)**	47,138
Income tax relating to the components of other comprehensive income	39	**6,804**	(11,621)
Other comprehensive (loss)/income for the financial year, net of tax		**(21,591)**	35,517
Total comprehensive income for the financial year		**333,851**	368,675

The accompanying notes form an integral part of these financial statements

Statement of Changes in Equity

for the financial year ended 30 June 2020

	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 2019	**700,000**	**30,163**	**130,228**	**1,730,453**	**2,590,844**
Comprehensive income					
Net profit for the financial year	**-**	**-**	**-**	**355,442**	**355,442**
Net fair value changes on financial investments at fair value through other comprehensive income, net of tax	**-**	**(21,591)**	**-**	**-**	**(21,591)**
Total comprehensive income	**-**	**(21,591)**	**-**	**355,442**	**333,851**
Transactions with owner					
Transfer from regulatory reserve	**-**	**-**	**(19,803)**	**19,803**	**-**
At 30 June 2020	**700,000**	**8,572**	**110,425**	**2,105,698**	**2,924,695**
At 1 July 2018	700,000	(13,350)	97,901	1,467,854	2,252,405
Effect of adopting MFRS 9	-	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	-	-	-	(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

The accompanying notes form an integral part of these financial statements

Statement of Cash Flow
for the financial year ended 30 June 2020

	2020 RM'000	2019 RM'000
Cash flows from operating activities		
Profit after zakat before taxation	474,899	439,650
Adjustment for:		
Zakat	350	350
Depreciation of property and equipment	3,235	3,286
Depreciation of right-of-use assets	2,370	-
Amortisation of intangible assets	810	803
Property and equipment written off	-	280
Intangible assets written off	-	2
Net realised gain on financial investments at fair value through other comprehensive income	(150,223)	(17,001)
Net realised gain on financial investments at fair value through profit or loss	(5,720)	(5,637)
Net realised gain on financial investments at amortised cost	-	(2,864)
Profit expense on Tier II subordinated Sukuk Ijarah	-	18,487
Profit expense on Tier II subordinated Sukuk Murabahah	16,966	788
Profit expense on Multi-currency Additional Tier I subordinated Sukuk Wakalah	20,742	20,686
Profit expense on recourse obligation on financing sold to Cagamas Berhad	20,195	637
Profit expense on lease liabilities	583	-
Amortisation of prepaid expenses	196	190
Allowance made for impairment losses on financing and advances	157,671	76,812
Impaired financing written off	5,099	2,671
Modification loss on contractual cash flows arising from financial assets	51,716	-
(Written-back)/allowance for impairment losses on financial instruments and other financial assets	(44)	20
Net unrealised gain on revaluation of financial investments at fair value through profit or loss and derivatives financial instruments	2,165	-
Net realised gain on revaluation of derivative financial instruments	(508)	(4,481)
Amortisation of fair value changes arising from terminated fair value hedges	-	(12)
Accretion of discounts less amortisation of premium	(22,840)	(27,801)
Finance income from financial investments at fair value through other comprehensive income	(125,560)	(124,021)
Finance income from financial investments at amortised cost	(167,794)	(150,820)
Operating profit before working capital changes	284,308	232,025
(Increase)/decrease in operating assets		
Financing and advances	(4,078,283)	(3,215,887)
Statutory deposits with Bank Negara Malaysia	814,650	(126,640)
Other assets	106,910	(554,580)
Islamic derivatives financial instruments	(53,436)	(36,134)
Deposits and placement with banks and other financial institutions	-	220,986
Financial investments at fair value through profit or loss	523,253	(327,878)

Statement of Cash Flow
for the financial year ended 30 June 2020

	Note	2020 RM'000	2019 RM'000
Increase/(decrease) in operating liabilities			
Deposits from customers		4,004,315	3,305,199
Investment account of customers		354,240	2,235
Deposits and placements of banks and other financial institutions		262,116	(342,150)
Bills and acceptances payable		(16,945)	(7,519)
Other liabilities		(39,182)	393,613
Islamic derivatives financial instruments		48,638	(16,170)
Cash flows generated from/(used in) operations		2,210,584	(472,900)
Zakat paid		(350)	(350)
Income taxes paid		(140,363)	(112,263)
Net cash flows generated from/(used in) operating activities		2,069,871	(585,513)
Cash flows from investing activities			
Net disposal of financial investments at fair value through other comprehensive income		772,140	90,858
Net purchases of financial investments at amortised cost		(595,078)	(515,314)
Proceeds from disposal of property and equipment		-	149
Purchase of property and equipment		(1,585)	(2,565)
Purchase of intangible assets		(2,151)	(436)
Net cash flows generated from/(used in) investing activities		173,326	(427,308)
Cash flows from financing activities			
Dividend paid		-	(20,020)
Proceeds from recourse obligation on financing sold to Cagamas Berhad		693,424	50,000
Redemption of Tier II subordinated Sukuk Ijarah		-	(400,000)
Proceeds from issuance of Tier II subordinated Sukuk Murabahah		-	400,000
Repayment of lease liabilities		(1,796)	-
Profit paid on Tier II subordinated Sukuk		(17,012)	(19,171)
Profit paid on Multi-currency Additional Tier I subordinated Sukuk Wakalah		(20,686)	(20,686)
Profit paid on Recourse obligation on financing sold to Cagamas Berhad		(15,818)	-
Profit paid on lease liabilities		(583)	-
Net cash flows generated from/(used in) financing activities		637,529	(9,877)
Net increase/(decrease) in cash and cash equivalents		2,880,726	(1,022,698)
Cash and cash equivalents at beginning of the financial year		109,314	1,132,012
Cash and cash equivalents at end of the financial year		2,990,040	109,314
Cash and cash equivalents comprise the following:			
Cash and short-term funds	3	2,990,040	109,314
Less:			
Cash and short-term funds and deposits and placements with banks and other financial institutions with original maturity of more than three months		-	-
		2,990,040	109,314

Statement of Cash Flow

for the financial year ended 30 June 2020

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

	Tier II subordinated Sukuk Ijarah RM'000	Recourse obligation on financing sold to Cagamas RM'000	Tier II subordinated Sukuk Murabahah RM'000	Multi-currency Additional Tier I subordinated Sukuk Wakalah RM'000	Lease Liabilities RM'000	Total RM'000
2020						
Balance of the beginning of the financial year	**-**	**50,637**	**400,758**	**401,233**	**-**	**852,628**
Effect of adoption MFRS 16	**-**	**-**	**-**	**-**	**13,770**	**13,770**
As restated	**-**	**50,637**	**400,758**	**401,233**	**13,770**	**866,398**
Proceeds from issuance	**-**	**693,424**	**-**	**-**	**-**	**693,424**
Repayment from redemption	**-**	**-**	**-**	**-**	**(1,796)**	**(1,796)**
Profit paid	**-**	**(15,818)**	**(17,012)**	**(20,686)**	**(583)**	**(54,099)**
Amortisation/(accretion)	**-**	**20,195**	**16,996**	**20,908**	**583**	**58,682**
Other non-cash	**-**	**-**	**-**	**-**	**(1,046)**	**(1,046)**
Balance at the end of the financial year	**-**	**748,438**	**400,742**	**401,455**	**10,928**	**1,561,563**
2019						
Balance of the beginning of the financial year	400,630	-	-	401,067	-	801,697
Proceeds from issuance	-	50,000	400,000	-	-	450,000
Repayment from redemption	(400,000)	-	-	-	-	(400,000)
Profit paid	(19,171)	-	-	(20,686)	-	(39,857)
Amortisation/(accretion)	18,541	637	758	20,852	-	40,788
Other non-cash	-	-	-	-	-	-
Balance at the end of the financial year	-	50,637	400,758	401,233	-	852,628

Notes to the Financial Statements

for the financial year ended 30 June 2020

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 49.

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

The Bank have applied the following amendments for the first time for the financial year beginning on 1 July 2019:

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

The Bank has adopted MFRS 16 for the first time in the 2020 financial statements, which resulted in changes in accounting policies. The Bank has elected to use the simplified retrospective transition method and to apply a number of practical expedients as provided in MFRS 16 as summarised in Note G.

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

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

The impact of adoption of MFRS 16 of the Bank is summarised in Note 50.

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

Notes to the Financial Statements
for the financial year ended 30 June 2020

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 2020

* Amendments to MFRS 3 "Definition of a Business" (effective 1 January 2020) revise the definition of a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs.

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

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

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

  The amendments shall be applied prospectively.

* Amendments to MFRS 101 and MFRS 108 clarify the definition of materiality and use a consistent definition throughout MFRSs and the Conceptual Framework for Financial Reporting.

  The definition of 'material' has been revised as "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments also:

* clarify that an entity assesses materiality in the context of the financial statements as a whole.

* explain the concept of obscuring information in the new definition. Information is obscured if it has the effect similar as omitting or misstating of that information. For example, material transaction is scattered throughout the financial statements, dissimilar items are inappropriately aggregated, or material information is hidden by immaterial information.

* clarify the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

The amendments shall be applied prospectively.

Notes to the Financial Statements
for the financial year ended 30 June 2020

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 2020 (continued)

* Amendments to MFRS 101 'Classification of liabilities as current or non-current' (effective 1 January 2022) clarify that a liability is classified as non-current if an entity has a substantive right at the end of the reporting period to defer settlement for at least 12 months after the reporting period.

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

The amendments shall be applied retrospectively.

* The Conceptual Framework for Financial Reporting (Revised 2018)

  The Framework was revised with the primary purpose to assist the International Accounting Standards Board ("IASB") to develop IFRS that are based on consistent concepts and enable preparers to develop consistent accounting policies where an issue is not addressed by an IFRS. The Framework is not an IFRS, and does not override any IFRSs.

Key changes to the Framework are as follows:

* Objective of general purpose financial reporting - clarification that the objective of financial reporting is to provide useful information to the users of financial statements for resource allocation decisions and assessment of management's stewardship.

* Qualitative characteristics of useful financial information - reinstatement of the concepts of prudence when making judgement of uncertain conditions and 'substance over form' concept to ensure faithful representation of economic phenomenon.

* Clarification on reporting entity for financial reporting - introduction of new definition of a reporting entity, which might be a legal entity or a portion of a legal entity.

* Elements of financial statements - the definitions of an asset and a liability have been refined. Guidance in determining unit of account for assets and liabilities have been added, by considering the nature of executory contracts and substance of contracts.

* Recognition and derecognition - the probability threshold for asset or liability recognition has been removed. New guidance on de-recognition of asset and liability have been added.

Notes to the Financial Statements

for the financial year ended 30 June 2020

Notes to the Financial Statements
for the financial year ended 30 June 2020

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 2020 (continued)

Key changes to the Framework are as follows: (continued)

* Measurement - explanation of factors to consider when selecting a measurement basis have been provided.

* Presentation and disclosure - clarification that statements of income is the primary source of information about an entity's financial performance for a reporting period. In principle, recycling of income/expense included in other comprehensive income to income statements is required if this results in more relevant information or a more faithful representation of statements of income.

<u>Amendments to References to the Conceptual Framework in MFRS</u>

The MASB also issued Amendments to References to the Conceptual Framework in MFRS Standards ('Amendments'), to update references and quotations to fourteen (14) Standards so as to clarify the version of Conceptual Framework these Standards refer to, for which the effective date above applies.

The amendments should be applied retrospectively in accordance with MFRS 108 unless retrospective application would be impracticable or involve undue cost or effort.

* Amendments to MFRS 7, MFRS 9 and MFRS 139 - Profit Rate Benchmark Reform

'Highly probable' requirement

The relief provided by the amendments requires an entity to assume that the profit rate on which the hedged cash flows are based does not change as a result of the reform. Hence, where the hedged cash flows may change as a result of IBOR reform (for example, where the future profit payments on a hedged forecast debt issuance might be Sterling Overnight Index Average ('SONIA') + X% rather than LIBOR + Y%), this will not cause the 'highly probable' test to be failed.

Prospective assessment

Under the amendments, an entity assumes that the profit rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based is not altered by IBOR reform. Accordingly, this will not cause the forward-looking prospective assessment to apply hedge accounting to fail.

MFRS 139(*) retrospective effectiveness test exception

IBOR reform might cause a hedge to fall outside the required 80-125% range. MFRS 139(*) has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this required 80-125% range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met.

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 2020 (continued)

MFRS 139(*) retrospective effectiveness test exception

For hedge accounting to be applied, both MFRS 9 and MFRS 139(*) require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship.

Disclosures

The amendment requires disclosure of the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process.

An entity shall apply the amendments retrospectively. This retrospective application applies only to the following:

* hedging relationships that existed at the beginning of the reporting period in which an entity first applies those amendments or were designated thereafter; and

* the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements.

(*) *When entity first applied MFRS 9, it may choose as its accounting policy to continue to apply the hedge accounting requirements of MFRS 139 instead of the requirements in Chapter 6 of MFRS 9. Accordingly, the hedging rules in MFRS 139 remain relevant.*

The adoption of the above amendments to published standards is not expected to give rise to any material financial impact to the Bank.

C Changes in regulatory requirements

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

On 27 September 2019, BNM issued the revised policy document on Financial Reporting and Financial Reporting for Islamic Banking Institutions with updates to clarify on the classification of a credit facility as credit impaired including where the credit facility is rescheduled and restructured, effective 1 October 2019.

The application of the revised policy document will affect disclosure, measurement and classification of a rescheduled and restructured credit facility as credit impaired.

Notes to the Financial Statements

for the financial year ended 30 June 2020

Notes to the Financial Statements
for the financial year ended 30 June 2020

1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

C Changes in regulatory requirements (continued)

(ii) Measures to Assist Individuals, Small-Medium Enterprises ("SMEs") and Corporates Affected by COVID-19.

On 25 March 2020, BNM had announced a number of regulatory and supervisory measures in support of efforts by banking institutions to assist individuals, SMEs and corporations to manage the impact of the Covid-19 outbreak.

Banking institutions will grant an automatic moratorium on all financing repayments for a period of 6 months, with effect from 1 April 2020 to all individuals and SMEs. This offer is applicable to performing financing, denominated in Malaysian Ringgit, that have not been in arrears for more than 90 days as at 1 April 2020. For credit card facilities, banking institutions will offer the option to convert the outstanding balances into term financing of not more than 3 years.

Banking institutions will also facilitate requests by corporations to defer or restructure their financing repayments in a way that will enable viable corporations to preserve jobs and resume economic activities when conditions improve.

To further support lending/financing activities, banking institutions are allowed to drawdown on the capital conservation buffer of 2.5%, to operate below the minimum liquidity coverage ratio of 100% and to reduce the regulatory reserves held against expected losses to 0%.

The implementation of the Net Stable Funding Ratio (”NSFR”) which will be effective on 1 July 2020 is lowered to 80%. Banking institutions are expected to restore their buffer to the minimum regulatory requirements and comply with a 100% NSFR ratio from 30 September 2021.

The moratorium should not automatically result in stage transfer under MFRS 9 in the absence of other factors relevant to the assessment.

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.

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).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A Recognition of profit income and profit expense (continued)

<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.

<u>Murabahah</u>

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

<u>Ijarah Muntahia Bittamlik/Al-Ijarah Thumma Al-Bai’ ("AITAB")</u>

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.

<u>Bai’ Bithaman Ajil</u>

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.

<u>Wadiah</u>

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

<u>Qard</u>

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

The Bank earns fee and commission income from a diverse range of products and services provided to its customers. Fee and commission income are recognised when the Bank has satisfied its performance obligation in providing the promised products and services to the customer, and are recognised based on contractual rates or amount agreed with customers, and net of expenses directly related to it. The Bank generally satisfy its performance obligation and recognises the fee and commission income on the following basis:

* Transaction-based fee and commission income is recognised on the completion of the transaction. Such fees include fees related to the completion of corporate advisory transactions, commissions, service charges and fees, credit card related fees and fees on financing, advances and financing. These fees constitute a single performance obligation.

Notes to the Financial Statements
for the financial year ended 30 June 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B Recognition of fees and other income (continued)

* For a service that is provided over a period of time, fee and commission income is recognised on an equal proportion basis over the period during which the related service is provided or credit risk is undertaken. This basis of recognition most appropriately reflects the nature and pattern of provision of these services to the customers over time. Fees for these services will be billed periodically over time. Such fees include guarantee fees and commitment fees.

The Bank does not provide any significant credit terms to customers for the above products and services.

Directly related expenses typically include card-related expenses and sales commissions, but do not include expenses for services delivered over a period (such as service contracts) and other expenses that are not specifically related to fee and commission income transactions.

Other income recognition are as follows:

a) Dividends income received from financial assets at fair value through profit or loss and financial investment at fair value through other comprehensive income 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. 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.

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

C Financial assets

(i) Classification

The Bank has 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.

Notes to the Financial Statements
for the financial year ended 30 June 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C Financial assets (continued)

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.

(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 28 and Note 29) in the statement of income.

Notes to the Financial Statements
for the financial year ended 30 June 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C Financial assets (continued)

(iii) Measurement (continued)

Debt instruments (continued)

(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 29) in the statement of income.

(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)

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 certain 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 the corresponding assets and liabilities on different basis.

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.

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%.

Notes to the Financial Statements

for the financial year ended 30 June 2020

Notes to the Financial Statements
for the financial year ended 30 June 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E Property and equipment and depreciation (continued)

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.

Accounting policies applied from 1 July 2019

From 1 July 2019, leased assets presented under Property and equipment and Prepaid lease payments are right-of-use assets within the scope of MFRS 16. See Note G for the accounting policies on right-of-use assets.

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.

G Leases

Accounting policies applied until 30 June 2019

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G Leases (continued)

Accounting policies applied until 30 June 2019 (continued)

(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 statements 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.

Accounting policies applied from 1 July 2019

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

* the use of single discount rate to a portfolio of leases with reasonably similar characteristics;
* the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases.

From 1 July 2019, leases are recognised as right-of-use ("ROU") asset and a corresponding liability at the date on which the leased asset is available for use by the Bank (i.e. the commencement date).

Contracts may contain both lease and non-lease components. The Bank allocate the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease term

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

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

Notes to the Financial Statements

for the financial year ended 30 June 2020

Notes to the Financial Statements
for the financial year ended 30 June 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G Leases (continued)

Accounting policies applied from 1 July 2019 (continued)

ROU assets

ROU assets are initially measured at cost comprising the following:

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

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

Lease liabilities

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

* fixed payments (including in-substance fixed payments), less any lease incentive receivable;
* amounts expected to be payable by the Bank under residual value guarantees;
* the exercise price of a purchase and extension options if the Bank are reasonably certain to exercise that option; and
* payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

Lease payments are discounted using the profit rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, an incremental funding rate is used in determining the discount rate which assumes the profit rate that the Bank would have to pay to finance over a similar term, the funds necessary to obtain the asset.

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

The Bank present the lease liabilities as a separate line item in the statements of financial position. Profit expense on the lease liability is presented within the other profit expenses in the statements of income.

Short term leases and leases of low value assets

The Bank elect to apply MFRS 16 recognition exemption such as short-term leases and leases for which the underlying asset is of low value. Short-term leases are leases with a lease term of 12 months or less with no purchase option. Low-value assets comprise IT equipment and small items of office furniture. Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in the statements of income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 tax liability is recognised on temporary differences arising on investments in subsidiaries, associates and joint ventures except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates and joint ventures. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference, a deferred tax liabilities is not recognised.

Notes to the Financial Statements
for the financial year ended 30 June 2020

Notes to the Financial Statements
for the financial year ended 30 June 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I Current and deferred income taxes (continued)

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the deductible temporary difference can be utilised.

Deferred income tax related to fair value remeasurement of financial instruments at fair value through other comprehensive income, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the statements 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 substantively 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J Derivative financial instruments and hedging (continued)

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.

(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.

Notes to the Financial Statements
for the financial year ended 30 June 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 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

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.

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.

Notes to the Financial Statements
for the financial year ended 30 June 2020

Notes to the Financial Statements
for the financial year ended 30 June 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M Impairment of financial assets (continued)

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)

(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

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M Impairment of financial assets (continued)

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)

Measurement of ECL (continued)

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.

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 2020

Notes to the Financial Statements
for the financial year ended 30 June 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M Impairment of financial assets (continued)

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 (continued)

The Bank applies simplified approach as permitted by MFRS 9, which requires an entity to recognise a loss allowance based on lifetime ECL at each reporting date. MFRS 9 allows the use of practical expedients when measuring ECL and states that a provision matrix is an example of such expedient for other receivables. An entity that applies a provision matrix may use historical loss experience on its other receivables, and adjust historical loss rates to reflect information about current conditions and reasonable and supportable forecasts of future economic conditions.

Modification of financing

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

The Bank does this by considering, among others, the following factors:

* If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
* If the customer is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the customer is expected to be able to pay.
* Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the financing.
* Significant extension of the financing term when the customer is not in financial difficulty.
* Significant change in the profit rate.
* Change in the currency the financing is denominated in.
* Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the financing.

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

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculate the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in statements of income. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective profit rate (or credit–adjusted effective profit rate for purchased or originated credit-impaired financial assets).

The impact of modifications of financial assets on the expected credit loss calculation is discussed in Note 25 and Note 26.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

Q Foreclosed properties

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

R Bills and acceptances payable

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

Notes to the Financial Statements
for the financial year ended 30 June 2020

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Notes to the Financial Statements

for the financial year ended 30 June 2020

Notes to the Financial Statements
for the financial year ended 30 June 2020

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.

AB Financial assistance scheme

Financing under a government scheme is recognised and measured in accordance with MFRS 9 Financial Instruments, with the benefit at a below market rate is measured as the difference between the initial carrying amount or fair value of the financing and the amount received.

The benefit of government schemes that addresses identified costs or expenses incurred by the Bank is recognised in the statements of income in the same financial period in accordance with MFRS 120 Accounting for Government Grants and Disclosure of Government Assistance.

3 CASH AND SHORT TERM FUNDS

	2020 RM'000	2019 RM'000
Cash and balances with banks and other financial institutions	**394,898**	59,314
Money at call and deposit placements maturing within one month	**2,595,142**	50,000
	2,990,040	109,314

4 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

	2020 RM'000	2019 RM'000
Money market instruments		
Malaysian Government investment certificates	**21,669**	515,295

5 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI")

	2020 RM'000	2019 RM'000
At fair value - Debt instruments		
Money market instruments		
Cagamas bonds	**165,023**	265,885
Khazanah bonds	**-**	9,039
Malaysian Government investment certificates	**1,630,861**	1,152,139
Negotiable Islamic debt certificates	**249,800**	298,765
	2,045,684	1,725,828
Quoted securities		
Foreign currency bonds	**-**	33,114
	2,045,684	1,758,942
Unquoted securities		
Malaysian Government sukuk	**-**	167,440
Corporate bonds and sukuk	**382,600**	1,029,798
	382,600	1,197,238
	2,428,284	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 2020

Notes to the Financial Statements

for the financial year ended 30 June 2020

5 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI") (CONTINUED)

Movement in expected credit losses of debt instruments at FVOCI are as follows:

	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
2020				
At 1 July	**56**	**-**	**-**	**56**
New financial assets originated or purchased	**14**	**-**	**-**	**14**
Financial assets derecognised	**(56)**	**-**	**-**	**(56)**
Changes due to change in credit risk	**1**	**-**	**-**	**1**
Changes in models/risk parameters	**(3)**	**-**	**-**	**(3)**
At 30 June	**12**	**-**	**-**	**12**

Movement in expected credit losses of debt instruments at FVOCI are as follows:

	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
2019				
At 1 July	-	-	-	-
Effect of adopting MFRS 9	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

6 FINANCIAL INVESTMENTS AT AMORTISED COST

	2020 RM'000	2019 RM'000
Money market instruments		
Khazanah bonds	**37,928**	36,429
Malaysian Government investment certificates	**3,569,307**	2,834,823
	3,607,235	2,871,252
Unquoted securities		
Malaysian Government sukuk	**963,940**	962,898
Corporate bonds and sukuk	**431,978**	405,676
	1,395,918	1,368,574
	5,003,153	4,239,826

7 FINANCING AND ADVANCES

(i) By type and Shariah contract

2020	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	**-**	**-**	**-**	**517,287**	**-**	**54,325**	**571,612**
Term financing							
- House financing/ Shop financing	**4,462,540**	**-**	**-**	**11,684,825**	**-**	**-**	**16,147,365**
- Hire purchase receivables	**-**	**-**	**3,705,616**	**-**	**-**	**-**	**3,705,616**
- Other term financing	**214,641**	**161,188**	**-**	**6,784,878**	**-**	**-**	**7,160,707**
Bills receivable	**-**	**-**	**-**	**471,272**	**426**	**1**	**471,699**
Islamic trust receipt	**-**	**-**	**-**	**-**	**26,166**	**-**	**26,166**
Claims on customers under acceptance credits	**-**	**-**	**-**	**20,861**	**727,419**	**-**	**748,280**
Revolving credits	**-**	**-**	**-**	**1,179,658**	**-**	**-**	**1,179,658**
Staff financing	**2,224**	**-**	**-**	**1,656**	**-**	**-**	**3,880**
Others	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Gross financing and advances	**4,679,406**	**161,188**	**3,705,616**	**20,660,437**	**754,011**	**54,326**	**30,014,984**
Fair value changes arising from fair value hedges							**2,759**
							30,017,743
Less: Allowance for impairment losses on financing and advances							
- Stage 1 - 12-months ECL							**(138,299)**
- Stage 2 - Lifetime ECL not credit impaired							**(86,772)**
- Stage 3 - Lifetime ECL credit impaired							**(88,865)**
							(313,936)
Total net financing and advances							**29,703,807**

Included in financing and advances are housing financing sold to Cagamas with recourse to the Bank amounting to RM725,909,000 (2019: RM48,258,000)

Notes to the Financial Statements
for the financial year ended 30 June 2020

7 FINANCING AND ADVANCES (CONTINUED)

(i) By type and Shariah contract (continued)

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 on financing and advances							
- 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: RM Nil)

7 FINANCING AND ADVANCES (CONTINUED)

(ii) The maturity structure of financing and advances is as follows:

	2020 RM'000	2019 RM'000
Maturing within:		
- One year	**3,196,476**	2,484,752
- One year to three years	**1,404,587**	1,099,258
- Three years to five years	**2,889,306**	2,493,831
- Over five years	**22,524,615**	20,011,077
Gross financing and advances	**30,014,984**	26,088,918

(iii) The financing and advances are disbursed to the following type of customers:

	2020 RM'000	2019 RM'000
Domestic non-bank financial institutions	**286,919**	100,250
Domestic business enterprises:		
- small medium enterprises	**3,934,691**	3,530,884
- others	**4,822,183**	3,554,806
Government and statutory bodies	**1,848**	1,996
Individuals	**20,283,610**	18,698,558
Other domestic entities	**482,229**	875
Foreign entities	**203,504**	201,549
Gross financing and advances	**30,014,984**	26,088,918

(iv) Financing and advances analysed by profit rate sensitivity are as follows:

	2020 RM'000	2019 RM'000
Fixed rate		
- Housing financing	**574,946**	559,600
- Hire purchase receivables	**3,705,616**	3,615,867
- Other fixed rate financing	**1,665,312**	1,518,243
Variable rate		
- Islamic base rate/Islamic financing rate plus	**22,115,007**	18,645,413
- Cost plus	**1,954,103**	1,749,795
Gross financing and advances	**30,014,984**	26,088,918

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for the financial year ended 30 June 2020

Notes to the Financial Statements
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7 FINANCING AND ADVANCES (CONTINUED)

(v) Financing and advances analysed by economic purposes are as follows:

	2020 RM'000	2019 RM'000
Purchase of securities	304,049	254,977
Purchase of transport vehicles	3,705,850	3,616,571
Purchase of landed property:		
- residential	14,999,812	13,497,309
- non-residential	2,999,292	2,565,303
Purchase of fixed assets (excluding landed properties)	319,329	262,538
Personal use	1,179,356	1,225,302
Construction	848,222	649,104
Mergers and acquisition	151,785	186,923
Working capital	5,197,308	3,532,355
Other purposes	309,981	298,536
Gross financing and advances	30,014,984	26,088,918

(vi) Financing and advances analysed by geographical distribution are as follows:

	2020 RM'000	2019 RM'000
In Malaysia	30,014,984	26,088,918

(vii) Impaired financing and advances analysed by economic purposes are as follows:

	2020 RM'000	2019 RM'000
Purchase of securities	-	46
Purchase of transport vehicles	17,656	31,222
Purchase of landed property:		
- residential	92,560	95,329
- non-residential	18,621	7,433
Personal use	11,787	21,149
Construction	195	608
Working capital	19,912	21,771
Other purposes	58,165	-
Gross impaired financing and advances	218,896	177,558

7 FINANCING AND ADVANCES (CONTINUED)

(viii) Impaired financing and advances analysed by geographical distribution is as follows:

	2020 RM'000	2019 RM'000
In Malaysia	218,896	177,558

(ix) Movements in expected credit losses for financing and advances are as follows:

2020	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	57,935	111,500	79,472	248,907
Changes in ECL due to transfer within stages	(15,354)	(45,350)	60,704	-
- Transfer to Stage 1	3,273	(3,256)	(17)	-
- Transfer to Stage 2	(18,613)	48,740	(30,127)	-
- Transfer to Stage 3	(14)	(90,834)	90,848	-
New financial assets originated	17,303	184	-	17,487
Financial assets derecognised	(3,258)	(16,506)	(9,963)	(29,727)
Changes due to change in credit risk	84,924	39,739	53,649	178,312
Changes in models/risk parameters	(3,255)	(2,795)	(3,073)	(9,123)
Amount written off	-	-	(90,927)	(90,927)
Exchange difference	4	-	-	4
Other movements	-	-	(997)	(997)
At 30 June	138,299	86,772	88,865	313,936

Notes to the Financial Statements

for the financial year ended 30 June 2020

7 FINANCING AND ADVANCES (CONTINUED)

(x) Movements in expected credit losses for financing and advances are as follows: (continued)

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	(17,511)	(24,311)	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	28	(68,137)	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	17,955	49,035	26,530	93,520
Modifications to contractual cash flows of financial asset	-	-	1,002	1,002
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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for the financial year ended 30 June 2020

7 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:

2020	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total RM'000
At 1 July	**24,307,506**	**1,603,854**	**177,558**	**26,088,918**
Changes due to financing and advances recognised as at 1 July:	**(447,647)**	**277,027**	**170,620**	**-**
- Transfer to Stage 1	**396,549**	**(389,100)**	**(7,449)**	**-**
- Transfer to Stage 2	**(842,257)**	**1,138,592**	**(296,335)**	**-**
- Transfer to Stage 3	**(1,939)**	**(472,465)**	**474,404**	**-**
New financial assets originated	**4,198,264**	**1,589**	**-**	**4,199,853**
Financial assets derecognised	**(490,714)**	**(71,832)**	**(13,005)**	**(575,551)**
Changes due to change in credit risk	**701,302**	**(109,646)**	**(25,165)**	**566,491**
Modifications to contractual cash flows of financial asset (Note)	**(171,848)**	**(18,379)**	**-**	**(190,227)**
Amount written off	**-**	**-**	**(91,112)**	**(91,112)**
Exchange difference	**16,612**	**-**	**-**	**16,612**
At 30 June	**28,113,475**	**1,682,613**	**218,896**	**30,014,984**

Note:
The amount of financing and advances whose cash flows were modified during the year was RM5,361,467,000.

2019	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Total 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

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8 OTHER ASSETS

	2020 RM'000	2019 RM'000
Foreclosed properties	7,462	10,990
Sundry debtors and other prepayments	53,608	7,223
Interbranch clearing with holding company	-	571,263
Amount due from holding company	429,007	-
Treasury and cheque clearing	6,754	14,156
Other receivables	1,099	1,197
	497,930	604,829

9 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

	2020 RM'000	2019 RM'000
Statutory deposits with Bank Negara Malaysia ("BNM")	86	814,736

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.

10 PROPERTY AND EQUIPMENT

2020	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	7,076	23,181	134	477	30,868
Additions	61	226	-	2,381	2,668
Reclassification/Transfer	2	(974)	-	(1,001)	(1,973)
Disposals/Write off	(436)	(722)	(4)	(84)	(1,246)
At 30 June	6,703	21,711	130	1,773	30,317
Accumulated depreciation					
At 1 July	4,263	10,216	57	-	14,536
Charge for the financial year	568	2,638	29	-	3,235
Reclassification/Transfer	-	(141)	-	-	(141)
Disposals/Write off	(363)	(603)	(4)	-	(970)
At 30 June	4,468	12,110	82	-	16,660
Net book value as at 30 June	2,235	9,601	48	1,773	13,657
2019					
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

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for the financial year ended 30 June 2020

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11 RIGHT-OF-USE ASSETS

	Property RM'000	Total RM'000
2020		
At 1 July	-	-
Effect of adopting MFRS 16	13,770	13,770
At 1 July, as restated	13,770	13,770
Depreciation charge for the financial year	(2,370)	(2,370)
Loss on lease modification	(232)	(232)
At 30 June	11,168	11,168

12 INTANGIBLE ASSETS

	2020 RM'000	2019 RM'000
Computer Software		
Cost		
At 1 July	8,024	7,608
Additions	326	13
Reclassification/Transfer	1,973	423
Disposals/Write off	(55)	(20)
At 30 June	10,268	8,024
Accumulated amortisation		
At 1 July	7,196	6,411
Amortisation during the financial year	810	803
Reclassification/Transfer	141	-
Disposals/Write off	(48)	(18)
At 30 June	8,099	7,196
Net book value as at 30 June	2,169	828

13 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:

	2020 RM'000	2019 RM'000
Deferred tax assets	29,287	21,879
Deferred tax liabilities	(5,017)	(11,655)
	24,270	10,224

The analysis of deferred tax assets and deferred tax liabilities after the appropriate set off is as follows:

	2020 RM'000	2019 RM'000
Deferred tax assets/(liabilities)		
- To be recovered within 12 months	29,019	21,615
- To be recovered after more than 12 months	(4,749)	(11,391)
	24,270	10,224

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 RM'000	Expected credit losses RM'000	Provision RM'000	Total RM'000
Deferred tax assets/(liabilities)						
2020						
At 1 July		(2,146)	(9,509)	19,826	2,053	10,224
Charged to statement of income	35	(166)	-	6,808	600	7,242
Charged to equity	39	-	6,804	-	-	6,804
At 30 June		(2,312)	(2,705)	26,634	2,653	24,270
2019						
At 1 July		(2,479)	3,448	-	2,305	3,274
Effect of adopting MFRS 9		-	(1,336)	-	-	(1,336)
At 1 July, as restated		(2,479)	2,112	-	2,305	1,938
Charged to statement of income	35	333	-	19,826	(252)	19,907
Charged to equity	39	-	(11,621)	-	-	(11,621)
At 30 June		(2,146)	(9,509)	19,826	2,053	10,224

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for the financial year ended 30 June 2020

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14 DEPOSITS FROM CUSTOMERS

(i) By type of deposit and Shariah contract

	2020 RM'000	2019 RM'000
Amortised cost		
Savings Deposit		
Commodity Murabahah (via Tawarruq arrangement)	**3,515,232**	2,997,547
Demand Deposit		
Commodity Murabahah (via Tawarruq arrangement)	**3,201,671**	2,861,566
Term Deposit		
Commodity Murabahah (via Tawarruq arrangement)	**22,246,919**	18,833,227
General investment deposits		
Mudarabah	**52,672**	60,198
Negotiable islamic debt certificate		
Bai' Bithaman Ajil	**2,046,644**	1,524,757
Short-term corporate deposits		
Commodity Murabahah (via Tawarruq arrangement)	**2,504,033**	3,029,896
Others		
Commodity Murabahah (via Tawarruq arrangement)	**195,352**	154,621
	27,045,620	23,602,699
	33,762,523	29,461,812
At fair value through profit and loss		
Callable range accrual notes, at cost	**50,192**	347,127
Fair value changes arising from designation at fair value through profit or loss*	**205**	(334)
Commodity Murabahah (via Tawarruq arrangement)	**50,397**	346,793
	33,812,920	29,808,605

* 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 RM397,000 (2019: RM1,793,000 lower), higher than the contractual amount of maturity.

14 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:

	2020 RM'000	2019 RM'000
Due within:		
- six months	**23,391,126**	20,637,375
- six months to one year	**3,439,760**	2,627,386
- one year to five years	**19,382**	183,317
	26,850,268	23,448,078

(iii) The deposits are sourced from the following customers:

	2020 RM'000	2019 RM'000
Government and statutory bodies	**4,261,490**	3,168,742
Business enterprises	**15,489,277**	14,813,353
Individuals	**13,334,719**	11,033,260
Others	**727,434**	793,250
	33,812,920	29,808,605

15 INVESTMENT ACCOUNT OF CUSTOMERS

	2020 RM'000	2019 RM'000
Unrestricted investment account		
Mudarabah with maturity	**356,475**	2,235

The underlying assets for the investments are house financing, personal financing, other term financing and high quality liquid assets ("HQLA")

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for the financial year ended 30 June 2020

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16 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2020 RM'000	2019 RM'000
Qard		
Licensed banks	**391,641**	99,159
Licensed Islamic banks	**-**	301,538
	391,641	400,697
Commodity Murabahah (via Tawarruq arrangement)		
Licensed banks	**401,372**	58,032
Licensed Islamic banks	**128,416**	-
Other financial Institutions	**-**	200,584
	529,788	258,616
	921,429	659,313

17 ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS

	2020 RM'000	2019 RM'000
Islamic derivatives assets at fair value through profit or loss		
- Islamic profit rate swaps	**27,959**	23,521
- Foreign exchange related contracts	**55,121**	6,123
Islamic derivative financial instruments assets	**83,080**	29,644
Islamic derivatives liabilities at fair value through profit or loss		
- Islamic profit rate swaps	**(24,826)**	(9,946)
- Foreign exchange related contracts	**(46,972)**	(5,503)
- Swaption	**(1,807)**	(12,563)
Islamic derivatives designated as fair value hedge (a)		
- Islamic profit rate swap	**(3,045)**	-
Islamic derivative financial instruments liabilities	**(76,650)**	(28,012)

(a) Fair Value Hedge

The Bank's fair value hedges consist of profit rate swap that is used to protect against changes in the fair value of financial assets due to movement in profit rates. The Bank has undertaken fair value hedges on profit rate risk of RM88,095,000 (2019: Nil) on certain receivables using profit rate swap. The total fair value loss of the said profit rate swap related to these hedges amounted to RM3,046,000 (2019: Nil).

17 ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(a) Fair Value Hedge (continued)

Included in the net income derived from investment of shareholders' funds is the net gains and losses arising from fair value hedges that were effective during the financial year as follows:

	2020 RM'000	2019 RM'000
Gain on hedging instruments	**2,759**	-
Loss on the hedge items attributable to the hedged risks	**(3,049)**	-
	(290)	-

18 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.

19 OTHER LIABILITIES

	2020 RM'000	2019 RM'000
Amount due to holding company	**105,843**	12,600
Expected credit loss of financial guarantee contracts (a)	**1,536**	811
Treasury and Cheque clearing	**172,417**	386,221
Financing advance payment	**754,463**	659,925
Provision for zakat	**350**	350
Provision for bonus and staff related expenses	**4,613**	4,832
Provision for reinstatement cost	**674**	-
Sundry creditors and accruals	**32,832**	29,671
Other accruals and payables	**11,967**	29,677
	1,084,695	1,124,087

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19 OTHER LIABILITIES (CONTINUED)

(a) Movement in expected credit losses of financial guarantee contracts is as follows:

	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total ECL RM'000
2020				
At 1 July	**805**	**6**	**-**	**811**
New financial assets originated	**5**	**-**	**-**	**5**
Changes due to change in credit risk	**900**	**1**	**-**	**901**
Changes in models/risk parameters	**(182)**	**(2)**	**-**	**(184)**
Exchange difference	**2**	**1**	**-**	**3**
At 30 June	**1,530**	**6**	**-**	**1,536**
2019				
At 1 July				
Effect of adopting MFRS 9				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

20 LEASE LIABILITIES

	2020 RM'000
Scheduled repayment of lease liabilities	
- Not later than one year	**1,952**
- Later than one year and not later than five years	**4,875**
- Later than five years	**4,101**
	10,928

21 TIER II SUBORDINATED SUKUK MURABAHAH

	2020 RM'000	2019 RM'000
RM400.0 million Tier II subordinated sukuk Murabahah at par	**400,000**	400,000
Add: Profit payable	**742**	788
	400,742	400,788
Less: Unamortised prepaid expenses	**-**	(30)
	400,742	400,758

On 14 June 2019, the Bank issued a nominal value RM400.0 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.

22 MULTI-CURRENCY ADDITIONAL TIER I SUBORDINATED SUKUK WAKALAH

	2020 RM'000	2019 RM'000
RM400.0 million Multi-currency Additional Tier I subordinated Sukuk Wakalah at par	**400,000**	400,000
Add: Profit payable	**1,855**	1,799
	401,855	401,799
Less: Unamortised prepaid expenses	**(400)**	(566)
	401,455	401,233

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.

23 SHARE CAPITAL

	2020 RM'000	2019 RM'000
Ordinary shares issued and fully paid:		
As at beginning/end of the financial year	**700,000**	700,000

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24 RESERVES

	Note	2020 RM'000	2019 RM'000
Retained profits	(a)	**2,105,698**	1,730,453
Regulatory reserve	(b)	**110,425**	130,228
Fair value reserve	(c)	**8,572**	30,163
		118,997	160,391
		2,224,695	1,890,844

(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.

(c) Movement of the fair value reserve is as follows:

	2020 RM'000	2019 RM'000
At 1 July	**30,163**	(13,350)
Effect of adopting MFRS 9	**-**	7,996
At 1 July, as restated	**30,163**	(5,354)
Net gain from change in fair value	**(28,395)**	47,138
Deferred taxation	**6,804**	(11,621)
Net change in fair value reserve	**(21,591)**	35,517
At 30 June	**8,572**	30,163

25 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	2020 RM'000	2019 RM'000
Income derived from investment of:		
(i) Term deposits/general investment deposits	**1,146,428**	996,390
(ii) Other deposits	**427,773**	458,656
	1,574,201	1,455,046

(i) Income derived from investment of term deposits/general investment deposits

	2020 RM'000	2019 RM'000
Finance income and hibah		
Financing and advances	**816,543**	776,487
Financial assets at fair value through profit or loss	**3,345**	5,742
Financial investments at fair value through other comprehensive income	**84,125**	78,133
Financial investments at amortised cost	**112,422**	95,017
Money at call and deposits with financial institutions	**11,512**	5,330
	1,027,947	960,709
Accretion of discounts less amortisation of premium	**15,302**	17,515
Total finance income and hibah	**1,043,249**	978,224
Other operating income		
Net gain on financial assets at fair value through profit or loss		
- Realised	**3,832**	3,551
- Unrealised	**(1,302)**	2,100
Net realised gain on financial investments at fair value through other comprehensive income	**100,649**	10,711
Net realised gain on financial investments at amortised cost	**-**	1,804
	103,179	18,166
	1,146,428	996,390
Of which:		
Financing income earned on impaired financing and advances	**667**	978

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25 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS (CONTINUED)

(ii) Income derived from investment of other deposits

	2020 RM'000	2019 RM'000
Finance income and hibah		
Financing and advances	**304,680**	357,431
Financial assets at fair value through profit or loss	**1,248**	2,643
Financial investments at fair value through other comprehensive income	**31,390**	35,966
Financial investments at amortised cost	**41,949**	43,738
Money at call and deposits with financial institutions	**4,296**	2,453
	383,563	442,231
Accretion of discounts less amortisation of premium	**5,710**	8,062
Total finance income and hibah	**389,273**	450,293
Other operating income		
Net gain on financial assets at fair value through profit or loss		
- Realised	**1,430**	1,635
- Unrealised	**(486)**	967
Net realised gain on financial investment at fair value through other comprehensive income	**37,556**	4,930
Net realised gain on financial investments at amortised cost	**-**	831
	38,500	8,363
	427,773	458,656
Of which:		
Financing income earned on impaired financing and advances	**249**	450

Included the net loss effects of RM51,716,000 attributable to the various government support measures to provide assistance to customers to sustain their business operations in response to COVID-19.

26 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	2020 RM'000	2019 RM'000
Finance income and hibah		
Financing and advances	**97,498**	98,602
Financial assets at fair value through profit or loss	**399**	729
Financial investments at fair value through other comprehensive income	**10,045**	9,922
Financial investments at amortised cost	**13,423**	12,065
Money at call and deposits with financial institutions	**1,375**	677
	122,740	121,995
Accretion of discounts less amortisation of premium	**1,827**	2,224
Total finance income and hibah	**124,567**	124,219
Other operating income		
Fee and commission:		
- Commission	**17,338**	22,034
- Service charges and fees	**9,261**	8,608
- Guarantee fees	**2,488**	2,741
- Other fees income	**7,273**	6,354
Net gain/(loss) on financial assets at fair value through profit or loss		
- Realised	**458**	451
- Unrealised	**(156)**	267
Net realised gain on financial investment at fair value through other comprehensive income	**12,018**	1,360
Net realised gain on financial investments at amortised cost	**-**	229
Net gain from foreign exchange transactions	**13,952**	7,997
Net loss arising from Hedging activities		
- Realised	**(218)**	-
- Unrealised	**(290)**	-
Amortisation of fair value changes arising from terminated fair value hedges	**-**	12
Net gain/(loss) arising from Islamic derivative financial instruments		
- Realised	**508**	414
- Unrealised	**(221)**	1,147
Other income	**1,071**	1,139
	63,482	52,753
	188,049	176,972
Of which:		
Financing income earned on impaired financing and advances	**80**	124

Included the net loss effects of RM51,716,000 attributable to the various government support measures to provide assistance to customers to sustain their business operations in response to COVID-19.

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27 INCOME DERIVED FROM INVESTMENT ACCOUNT

	2020 RM'000	2019 RM'000
Financing and advances income	**37,536**	12

28 Allowance for impairment on financing and advances

	2020 RM'000	2019 RM'000
Allowance made for impairment losses on financing and advances		
- Expected credit losses*	**157,671**	76,812
Impaired financing and advances:		
- Recovered from bad debt written off	**(27,443)**	(24,260)
- Written off	**5,099**	2,671
	135,327	55,223

* This comprises the expected credit losses on financing and advances and financial guarantee contracts.

29 (WRITTEN BACK OF)/ALLOWANCE FOR IMPAIRMENT ON FINANCIAL INVESTMENT AND OTHER ASSETS

	2020 RM'000	2019 RM'000
Expected credit losses on:		
- Debt instruments at fair value through other comprehensive income	**(44)**	21
- Cash and short term funds	**-**	(1)
	(44)	20

30 INCOME ATTRIBUTABLE TO THE DEPOSITORS

	2020 RM'000	2019 RM'000
Deposits from customers:		
- Mudarabah	**1,590**	1,919
- Wadiah	**63,639**	64,616
- Commodity Murabahah (via Tawarruq arrangement)	**793,909**	797,947
Deposits and placements of banks and other financial institutions:		
- Qard	**6,071**	5,116
- Commodity Murabahah (via Tawarruq arrangement)	**4,507**	11,714
- Wadiah	**12**	2,844
Recourse obligation on financing sold to Cagamas Berhad	**20,195**	637
Tier II subordinated Sukuk Ijarah	**-**	18,487
Tier II subordinated Sukuk Murabahah	**16,966**	788
Multi-currency Additional Tier I subordinated Sukuk Wakalah	**20,742**	20,686
Others	**583**	-
	928,214	924,754

31 INCOME ATTRIBUTABLE TO THE INVESTMENT ACCOUNT HOLDER

	2020 RM'000	2019 RM'000
Unrestricted investment account of customer		
Mudarabah with maturity	**25,032**	7

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31 INCOME ATTRIBUTABLE TO THE INVESTMENT ACCOUNT HOLDER (CONTINUED)

(i) Movement in the investment account holder

	2020 RM'000	2019 RM'000
Mudarabah		
Unrestricted Investment Account		
At 1 July	**2,235**	-
Funding inflows/(outflows)		
New placement during the year	**2,145,505**	2,345
Redemption during the year	**(1,795,311)**	(116)
	352,429	2,229
Profit payable to Investment Account Holder	**4,046**	6
At 30 June	**356,475**	2,235
Investment Asset		
House financing	**91,632**	843
Term financing	**176,213**	834
Personal financing	**42,291**	273
High quality liquid assets ("HQLA")	**42,293**	279
Total investment	**352,429**	2,229

(ii) Profit Sharing Ratio ("PSR") and Rate of Return ("ROR"):

	2020		2019	
	Average PSR %	Average ROR %	Average PSR %	Average ROR %
Unrestricted investment accounts:				
- 3 Months	**82**	**3.42**	82	3.38
- 6 Months	**86**	**3.69**	86	3.40

32 FINANCIAL EFFECTS OF LOSS FROM THE MODIFICATION OF CASH FLOWS AND BENEFITS RECOGNISED UNDER THE VARIOUS GOVERNMENT SCHEMES

	2020 RM'000	2019 RM'000
(i) Loss on modification of cash flow included in finance income	**(190,227)**	-
(ii) Benefits recognised under the various government schemes included in finance income	**138,511**	-
Net effects (i) and (ii) Included in finance income (notes 25 and 26)	**(51,716)**	-

33 OVERHEADS AND OTHER EXPENDITURES

	Note	2020 RM'000	2019 RM'000
Personnel costs	(i)	**28,349**	30,850
Establishment costs	(ii)	**12,890**	13,229
Marketing expenses	(iii)	**3,106**	4,849
Administration and general expenses	(iv)	**191,663**	163,098
		236,008	212,026

(i) Personnel costs comprise the followings:

	2020 RM'000	2019 RM'000
Salaries, bonus and allowances	**26,291**	28,532
Medical expenses	**764**	769
Training and convention expenses	**406**	855
Staff welfare	**96**	16
Other employees benefits	**792**	678
	28,349	30,850

(ii) Establishment costs comprise the followings:

	2020 RM'000	2019 RM'000
Depreciation of property and equipment	**3,235**	3,286
Depreciation of right-of-use assets	**2,370**	-
Amortisation of intangible assets	**810**	803
Electricity, water and sewerage	**262**	462
Rental of premises	**14**	2,282
Hire of plant and machinery	**699**	618
Information technology expenses	**4,323**	4,097
Security services	**723**	834
Others	**454**	847
	12,890	13,229

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33 OVERHEADS AND OTHER EXPENDITURES (CONTINUED)

(iii) Marketing expenses comprise the followings:

	2020 RM'000	2019 RM'000
Advertisement and publicity	**1,779**	2,250
Sales commission and credit card related fees	**3**	-
Others	**1,324**	2,599
	3,106	4,849

(iv) Administration and general expenses comprise the followings:

	2020 RM'000	2019 RM'000
Teletransmission expenses	**97**	127
Stationery and printing expenses	**308**	506
Professional fees	**1,897**	2,133
Insurance fees	**5,229**	5,022
Stamp, postage and courier	**224**	277
Travelling and transport expenses	**88**	145
Registration and license fees	**303**	292
Brokerage and commission	**2,121**	1,801
Shared service cost	**177,874**	150,008
Others	**3,522**	2,787
	191,663	163,098

The above expenditure includes the following statutory disclosures:

	2020 RM'000	2019 RM'000
Directors' remuneration (Note 34)	**521**	515
Auditors' remuneration*		
- statutory audit	**216**	286
- regulatory related fees	**235**	235
- tax compliance	**26**	30
- other services	**103**	-

* There was no indemnity given to or insurance effected for the auditors of the Bank during the financial year.

34 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:

	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
2020				
CEO				
Encik Jasani Abdullah	**1,555**	**-**	**17**	**1,572**
Executive Director				
Mr Domenic Fuda	**-**	**-**	**-**	**-**
Non-executive Directors				
YBhg Datuk Dr Md Hamzah bin Md Kassim	**16**	**175**	**-**	**191**
Mr Kwek Leng Hai	**-**	**-**	**-**	**-**
Encik Alan Hamzah Sendut	**15**	**158**	**-**	**173**
Puan Rowina Ghazali Seth	**13**	**144**	**-**	**157**
Directors' remuneration	**44#**	**477**	**-**	**521**
Shariah Committee members' remuneration:				
- fees	**-**	**-**	**-**	**222**
Total CEO, Directors' and Shariah Committee members remuneration	**1,599**	**477**	**17**	**2,315**

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 RM8,113 respectively.

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34 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)

	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
2019				
CEO and Executive Director				
Encik Jasani Abdullah	1,493	-	21	1,514
Executive Director				
Mr Domenic Fuda	-	-	-	-
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
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

[#] 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.

35 TAXATION

	Note	2020 RM'000	2019 RM'000
Malaysian income tax:			
- current year		**127,114**	131,303
- over accrual in prior years		**(415)**	(4,904)
Deferred taxation	13	**(7,242)**	(19,907)
		119,457	106,492

The effective tax rate for the Bank differs from the statutory rate of taxation due to:

	2020 RM'000	2019 RM'000
Profit after zakat before taxation	**474,899**	439,650
Tax calculated at a rate of 24%	**113,976**	105,516
Tax effects of:		
- expenses not deductible for tax purposes	**5,896**	5,880
- over accrual in prior years	**(415)**	(4,904)
Taxation	**119,457**	106,492

36 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

	2020 RM'000	2019 RM'000
Net profit for the financial year	**355,442**	333,158
Weighted average number of ordinary shares in issue ('000)	**700,000**	700,000
Basic earnings per share (sen)	**50.78**	47.59

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37 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 and member of senior management of the Bank
Related parties of key management personnel (deemed as related to the Bank)	(i) Close family members and dependents of key management personnel (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

37 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
2020			
Income			
Commission on Group product/services sold	-	4,291	17
*** Expenditure**			
Insurance	-	782	-
Profit paid on demand deposits and term deposits	-	145	12
Profit paid on placements	5,134	-	-
Profit paid on negotiable Islamic debt certificate	8,851	-	-
Shared service costs	177,874	-	-
Profit for lease liabilities	-	424	-
Others miscellaneous expenses	16	157	-
	191,875	1,508	12
Amounts due from			
Right-of-use assets	-	8,230	-
Others	429,007	-	-
Advance rental and deposit	-	388	-
Derivative assets	4,290	-	-
	433,297	8,618	-
Amounts due to			
Demand deposits and term deposits	37	9,375	868
Interbank placement	401,372	-	-
Derivative liabilities	30,647	-	-
Intercompany	105,843	-	-
Lease liabilities	-	8,168	-
Provision for reinstatement cost	-	331	-
	537,899	17,874	868
Commitments and Contingencies			
Derivative related contracts	1,455,413	-	-

* 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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37 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
2019			
Income			
Commission on Group product/services sold	-	4,873	-
***Expenditure**			
Rental and maintenance	-	1,558	-
Insurance	-	824	-
Profit paid on demand deposits and term deposits	-	150	4
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	29	186	-
	182,150	2,718	4
Amounts due from			
Others	-	388	-
Derivative assets	13,838	-	-
	13,838	388	-
Amounts due to			
Demand deposits	-	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

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37 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(c) Key management compensation

	2020 RM'000	2019 RM'000
Salaries and other short-term employee benefits	**1,572**	1,514
Director Fees	**477**	470

Included in the above is the Directors' remuneration which is disclosed in Note 34 to the financial statements.

(d) 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:

	2020 RM'000	2019 RM'000
Aggregate value of outstanding credit exposures with connected parties	**56,582**	22,161
Percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures	**0.17%**	0.08%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	**0.00%**	0.00%

38 DIVIDENDS

	2020		2019	
	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

No final dividend paid or will be declared in respect of the financial year ended 30 June 2020 (2019: nil).

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39 INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

	Before tax RM'000	Tax benefits/ expense RM'000	Net of tax amount RM'000
2020			
Financial investments at fair value through other comprehensive income:			
- net fair value gain/(loss)	**(28,395)**	**6,804**	**(21,591)**
2019			
Financial investments at fair value through other comprehensive income:			
- net fair value gain/(loss)	47,138	(11,621)	35,517

40 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:

	2020 RM'000	2019 RM'000
Direct credit substitutes*	**50,003**	50,000
Certain transaction-related contingent items	**196,107**	167,478
Short-term self-liquidating trade-related contingencies	**13,333**	17,978
Irrevocable commitments to extend credit		
- Maturity less than one year	**3,513,934**	3,243,442
- Maturity more than one year	**4,887,856**	4,894,769
Foreign exchange related contract^		
- Less than one year	**6,832,961**	1,634,838
Profit rate related contracts^		
- Less than one year	**620,000**	1,000,000
- One year to less than five years	**200,000**	1,015,000
- Five years and above	**518,095**	530,000
	16,832,289	12,553,505

* Included in direct credit substitutes above are financial guarantee contracts of RM50,003,000 (2019: 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 17 to the financial statements as derivatives assets or derivatives liabilities.

41 CAPITAL COMMITMENTS

Capital expenditure approved by Directors but not provided for in the financial statements are as follows:

	2020 RM'000	2019 RM'000
Authorised and contracted for	**2,665**	477
Authorised but not contracted for	**380**	62
	3,044	539

The capital commitments are in respect of property and equipment and intangible assets.

42 LEASE COMMITMENTS

The Bank has lease commitments in respect of rented premises, all of which are classified as operating leases at 30 June 2019. From 1 July 2019, the Bank has recognised right-of-use assets for these leases. A summary of the future minimum lease payments, under non-cancellable operating lease commitment are as follows:

	2020 RM'000	2019 RM'000
Not later than one year	**-**	772

43 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.

44 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.

Notes to the Financial Statements
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44 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Overview and organisation (continued)

Risk Management (continued)

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.

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 governance policy 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.

44 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Credit Risk Management (continued)

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.

Independent Credit Review Team conducts independent post approval reviews on sampling basis to ensure that the quality of credit appraisals, and approval standards and operational robustness are in accordance with the credit standards, lending policies and the directives established and approved by the management.

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.

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44 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial risk management objectives and policies (continued)

Market Risk Management (continued)

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.

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.

44 FINANCIAL INSTRUMENTS (CONTINUED)

(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.

(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.

	Increase/(Decrease)	
	Impact on profit after tax RM'000	Impact on equity RM'000
2020		
Increase/(Decrease)		
+100 basis points ('bps')	**25,054**	**(81,119)**
-100 bps	**(25,054)**	**81,119**

	Increase/(Decrease)	
	Impact on profit after tax RM'000	Impact on equity RM'000
2019		
Increase/(Decrease)		
+100 basis points ('bps')	1,591	(69,102)
-100 bps	(1,591)	69,102

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for the financial year ended 30 June 2020

Notes to the Financial Statements

for the financial year ended 30 June 2020

44 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

(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:

	2020 RM'000	2019 RM'000
Asset/(Liability)		
United States Dollar ("USD")	**(94,176)**	21,350
Euro ("EUR")	**8,157**	4,964
Great Britain Pound ("GBP")	**8,431**	5,291
Singapore Dollar ("SGD")	**3,271**	(1,457)
Australian Dollar ("AUD")	**3,146**	2,204
Chinese Yuan Renminbi ("CNY")	**8,854**	3,542
Hong Kong Dollar ("HKD")	**1,632**	966
Others	**5,048**	(260)
	(55,637)	36,600

44 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:

	2020 RM'000	2019 RM'000
Increase/(Decrease)		
-1%		
United States Dollar ("USD")	**716**	(162)
Euro ("EUR")	**(62)**	(38)
Great Britain Pound ("GBP")	**(64)**	(40)
Singapore Dollar ("SGD")	**(25)**	11
Australian Dollar ("AUD")	**(24)**	(17)
Chinese Yuan Renminbi ("CNY")	**(67)**	(27)
Hong Kong Dollar ("HKD")	**(12)**	(7)
Others	**(38)**	2
	424	(278)
Increase/(Decrease)		
+1%		
United States Dollar ("USD")	**(716)**	162
Euro ("EUR")	**62**	38
Great Britain Pound ("GBP")	**64**	40
Singapore Dollar ("SGD")	**25**	(11)
Australian Dollar ("AUD")	**24**	17
Chinese Yuan Renminbi ("CNY")	**67**	27
Hong Kong Dollar ("HKD")	**12**	7
Others	**38**	(2)
	(424)	278

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44 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							
2020 Financial assets	**Up to 1 month RM'000**	**1 – 3 months RM'000**	**3 – 12 months RM'000**	**1 – 5 months 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	2,730,477	-	-	-	-	259,563	-	2,990,040
Financial assets at fair value through profit or loss	-	-	-	-	-	-	21,669	21,669
Financial investments at fair value through other comprehensive income	249,800	-	60,726	341,613	1,752,573	23,572	-	2,428,284
Financial investments at amortised cost	-	-	359,111	3,424,912	1,159,045	60,085	-	5,003,153
Financing and advances	24,851,081	76,734	65,792	2,281,143	2,429,058	-	-	29,703,807
- non impaired	24,840,994	76,621	65,216	2,257,422	2,333,524	-	-	29,573,777
- impaired ^	10,087	113	576	23,721	95,534	-	-	130,030
Islamic derivative financial instruments	-	-	-	-	-	-	83,080	83,080
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	86	-	86
Other assets	-	-	-	-	-	497,874	-	497,874
Total financial assets	**27,831,358**	**76,734**	**485,629**	**6,047,668**	**5,340,676**	**841,180**	**104,749**	**40,727,993**

^ This represents outstanding impaired financing after deducting expected credit losses

44 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

Profit rate risk (continued)

	Non – trading book							
2020 Financial liabilities	**Up to 1 month RM'000**	**1 – 3 months RM'000**	**3 – 12 months RM'000**	**1 – 5 months RM'000**	**Over 5 years RM'000**	**Non-profit rate sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
Deposits from customers	13,935,858	7,418,721	9,068,797	19,382	50,205	3,319,957	-	33,812,920
Investment account of customers	42,681	304,610	5,137	-	-	4,047	-	356,475
Deposits and placements of banks and otherfinancial institutions	315,785	-	214,003	391,641	-	-	-	921,429
Bills and acceptances payable	246	1,467	1,043	-	-	10,238	-	12,994
Islamic derivative financial instruments	-	-	-	-	-	-	76,650	76,650
Recourse obligation on financing sold to Cagamas Berhad	-	-	-	742,061	-	6,377	-	748,438
Other liabilities	72	12	1,452	-	-	1,061,526	-	1,063,061
Lease liabilities	154	310	1,329	6,956	2,179	-	-	10,928
Tier II subordinated Sukuk Murabahah	-	-	-	400,000	-	742	-	400,742
Multi-currency Additional Tier I subordinated Sukuk Wakalah	-	-	-	399,600	-	1,855	-	401,455
Total financial liabilities	**14,294,796**	**7,725,120**	**9,291,761**	**1,959,640**	**52,384**	**4,404,742**	**76,650**	**37,805,092**
Net profit sensitivity gap	**13,536,562**	**(7,648,386)**	**(8,806,132)**	**4,088,028**	**5,288,292**			
Financial guarantees	-	-	-	-	-	61,864		
Credit related commitment and contingencies	-	-	-	-	-	8,401,790		
Net profit sensitivity gap	-	-	-	-	-	8,463,654		

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44 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

Profit rate risk (continued)

2019 Financial assets	Non – trading book: Up to 1 month RM'000	1 – 3 months RM'000	3 – 12 months RM'000	1 – 5 months 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	21,538,754	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 individual assessment impairment allowance and collective assessment impairment allowance.

44 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Market risk (continued)

Profit rate risk (continued)

2019 Financial liabilities	Non – trading book: Up to 1 month RM'000	1 – 3 months RM'000	3 – 12 months RM'000	1 – 5 months 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		

44 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:

2020 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	2,990,040	-	-	-	-	-	-	2,990,040
Financial assets at fair value through profit or loss	-	-	-	-	-	21,669	-	21,669
Financial investments at fair value through other comprehensive income	-	249,800	-	10,228	51,178	2,117,078	-	2,428,284
Financial investments at amortised cost	-	-	-	-	362,199	4,640,955	-	5,003,153
Financing and advances	1,497,735	763,826	179,248	509,999	149,803	26,603,196	-	29,703,807
Islamic derivative financial instruments	6,388	9,292	12,260	24,369	3,891	26,880	-	83,080
Other assets	9,011	91	61	92	52,391	429,216	7,068	497,930
Right-of-use assets	-	-	-	-	-	-	11,168	11,168
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	86	86
Property and equipment	-	-	-	-	-	-	13,657	13,657
Intangible assets	-	-	-	-	-	-	2,169	2,169
Deferred tax assets	-	-	-	-	-	-	24,270	24,270
Total assets	4,503,174	1,023,009	191,569	544,688	619,462	33,838,994	58,418	40,779,313

44 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):

2020 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	11,225,554	5,967,018	7,452,883	5,643,444	3,454,216	69,805	-	33,812,920
Investment account of customers	6,562	36,841	307,920	5,152	-	-	-	356,475
Deposits and placements of banks and other financial institutions	-	315,785	214,003	-	-	391,641	-	921,429
Bills and acceptances payable	10	235	1,467	1,043	-	-	10,238	12,994
Other liabilities	979,283	48	12	17	10,034	-	95,301	1,084,695
Lease liabilities	-	154	310	470	859	9,135	-	10,928
Islamic derivative financial instruments	6,338	13,556	14,818	11,521	1,781	28,637	-	76,650
Recourse obligation on financing sold to Cagamas Berhad	-	-	5,919	458	-	742,061	-	748,438
Provision for taxation	-	-	-	-	-	-	27,892	27,892
Tier II subordinated Sukuk Murabahah	-	-	-	-	742	400,000	-	400,742
Multi-currency Additional Tier I subordinated Sukuk Wakalah	-	-	-	-	1,855	399,600	-	401,455
Total financial liabilities	12,217,746	6,333,637	7,997,331	5,662,105	3,469,487	2,040,879	133,431	37,854,618
Total equity	-	-	-	-	-	-	2,924,695	2,924,695
Total liabilities and equity	12,217,746	6,333,637	7,997,331	5,662,105	3,469,487	2,040,879	3,058,126	40,779,313
Net liquidity gap	(7,714,573)	(5,310,629)	(7,805,762)	(5,117,417)	(2,850,025)	31,798,115		

44 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 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

44 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	-	-	5,919	458	-	742,061	-	748,438
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	7,448,213	4,560,930	2,662,865	2,093,637	58,425	33,244,176
Total equity	-	-	-	-	-	-	2,590,844	2,590,844
Total liabilities and equity	11,649,470	4,770,636	7,448,213	4,560,930	2,662,865	2,093,637	2,649,269	35,835,020
Net liquidity gap	(9,460,225)	(4,115,253)	(7,037,832)	(4,373,363)	(2,391,101)	28,471,098		

44 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.

2020 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	11,961,614	8,074,905	9,988,418	4,261,612	53,110	34,339,659
Investment account of customers	42,287	310,389	5,200	-	-	357,876
Deposits and placements of banks and other financial institutions	315,846	214,317	-	391,641	-	921,804
Bills and acceptances payable	10,238	-	-	-	-	10,238
Other liabilities	1,061,598	12	1,452	-	-	1,063,061
Lease liabilities	198	397	1,688	8,223	2,101	12,607
Islamic derivative financial instruments						
- Gross settled derivatives						
- Inflow	(1,170,502)	(828,112)	(1,306,088)	-	-	(3,304,702)
- Outflow	1,189,447	842,161	1,319,468	-	-	3,351,076
- Net settled derivatives	588	1,297	4,717	16,081	8,586	31,269
Recourse obligation on financing sold to Cagamas Berhad	-	8,134	18,692	781,173	-	807,999
Tier II subordinated Sukuk Murabahah	-	-	16,920	450,806	-	467,726
Multi-currency Additional Tier I subordinated Sukuk Wakalah	-	-	20,520	430,864	-	451,384
Total financial liabilities	13,411,313	8,623,500	10,070,987	6,340,400	63,797	38,509,997

44 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).

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

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44 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Liquidity risk (continued)

The following table presents the contractual expiry by maturity of the Bank's commitments and contingencies:

	2020		
	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
Direct credit substitutes	**-**	**50,003**	**50,003**
Short term self liquidating trade related contingencies	**11,861**	**-**	**11,861**
Irrevocable commitments to extend credit	**3,513,934**	**4,887,856**	**8,401,790**
Total commitments and contingencies	**3,525,795**	**4,937,859**	**8,463,654**

	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

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.

44 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:

	2020 RM'000	2019 RM'000
Credit risk exposure relating to on-balance sheet assets:		
Short-term funds and placements with banks and other financial institutions	**2,990,025**	106,922
Financial assets and investments portfolios (exclude shares)		
- Financial investments at fair value through other comprehensive income	**2,428,284**	2,956,180
- Financial investments at amortised cost	**5,003,153**	4,239,826
Financing and advances	**29,703,807**	25,840,011
Other assets	**497,924**	599,985
	40,623,193	33,742,924
Credit risk exposure relating to off-balance sheet items:		
Credit related commitments and contingencies	**8,463,654**	8,204,980
Total maximum credit risk exposure that are subject to impairment	**49,086,847**	41,947,904

The table below shows the credit exposure of the Bank on financial instruments that are not subject to impairment:

	2020 RM'000	2019 RM'000
Financial assets at fair value through profit or loss	**21,669**	515,295
Islamic derivative financial instruments	**83,080**	29,644
	104,749	544,939

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44 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 2020 amounted to RM1,471,000 (2019: 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 84.74% (2019: 85.37%). 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 2020 for the Bank is 65.27% (2019: 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 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.

44 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 rating due to unavailability of rating models.
Credit impaired	Refers to the asset that is being impaired.

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44 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
2020				
Short-term funds and placements with banks and other financial institutions (exclude cash in hand)				
Sovereign	2,730,619	-	-	2,730,619
Investment grade	266,005	-	-	266,005
Gross carrying amount	2,996,624	-	-	2,996,624
Expected credit losses	-	-	-	-
Net carrying amount	2,996,624	-	-	2,996,624
Financial investments at FVOCI				
Sovereign	2,013,461	-	-	2,013,461
Investment grade	414,823	-	-	414,823
Gross carrying amount	2,428,284	-	-	2,428,284
Expected credit losses	(13)	-	-	(13)
Financial investments at amortised cost				
Sovereign	5,003,153	-	-	5,003,153
Gross carrying amount	5,003,153	-	-	5,003,153
Expected credit losses	-	-	-	-
Net carrying amount	5,003,153	-	-	5,003,153
Financing and advances				
Good	24,834,783	30,067	-	24,864,850
Adequate	3,278,692	117,442	-	3,396,134
Marginal	-	1,534,763	-	1,534,763
No rating	-	341	-	341
Credit impaired	-	-	218,896	218,896
Gross carrying amount	28,113,475	1,682,613	218,896	30,014,984
Expected credit losses	(138,299)	(86,772)	(88,865)	(313,936)
Others*	2,759	-	-	2,759
Net carrying amount	27,977,935	1,595,841	130,031	29,703,807

* Included fair value changes arising from fair value hedges.

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for the financial year ended 30 June 2020

44 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: (continued)

	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				
Good	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

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44 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(v) 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
2020										
Agriculture	-	-	-	-	1,085,606	-	-	1,085,606	463,766	-
Mining and quarrying	-	-	-	-	10,807	-	-	10,807	267,411	-
Manufacturing	-	-	-	-	2,172,594	-	-	2,172,594	1,271,839	4,367
Electricity, gas and water	-	-	26,659	268,254	491,607	-	-	786,520	64,740	-
Construction	-	-	-	-	599,348	-	-	599,348	635,172	2,497
Wholesale and retail	-	-	-	-	1,773,831	-	-	1,773,831	1,133,612	5,000
Transport, storage and communications	-	-	-	-	240,384	-	-	240,384	275,767	-
Finance, insurance, real estate and business services	259,406	-	672,641	163,724	2,226,561	497,874	83,080	3,903,286	1,688,938	50,000
Government and government agencies	2,730,619	21,669	1,728,984	4,571,175	-	50	-	9,052,497	-	-
Education, health and others	-	-	-	-	832,564	-	-	832,564	257,795	-
Household	-	-	-	-	20,270,505	-	-	20,270,505	2,342,750	-
	2,990,025	21,669	2,428,284	5,003,153	29,703,807	497,924	83,080	40,727,942	8,401,790	61,864

44 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(v) 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 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	-
	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

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44 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(v) Repossessed collaterals

	2020 RM'000	2019 RM'000
Industrial and residential properties, lands and automobiles	**68,307**	36,202

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 RM91.1 million (2019: 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.

44 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(vii) 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, banking system credit and gross domestic product 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:

(a) Retail

2020	**Changes**
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	**(698)**
Total increase in ECL on the negative changes in key variables	**540**

2019	**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

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44 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Credit risk (continued)

(vii) Sensitivity analysis (continued)

The table below outlines the effect of ECL on the changes in key variables used while other variables remain constant:

(b) Non-retail

2020	Changes
Banking system credit	+/- 100 bps
Gross domestic product	+/- 50 bps

	RM'000
Total decrease in ECL on the positive changes in key variables	**(627)**
Total increase in ECL on the negative changes in key variables	**199**

2019	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

45 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 social-economic reason. Fair value for shares held for socio-economic reasons are based on the net tangible assets of the affected companies.

45 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
2020				
Recurring fair value measurements				
Financial assets:				
Financial assets at fair value through profit or loss				
- Money market instrument	-	21,669	-	21,669
Financial investments at fair value through other comprehensive income				
- Money market instrument	-	2,045,684	-	2,045,684
- Quoted securities	-	-	-	-
- Unquoted securities	-	382,600	-	382,600
Islamic derivative financial instruments	-	83,080	-	83,080
	-	2,533,033	-	2,533,033
Financial liabilities:				
Derivative financial instruments	-	76,650	-	76,650
Financial liabilities designated at fair value				
- Callable range accrual notes	-	50,397	-	50,397
	-	127,047	-	127,047
2019				
Recurring fair value measurements				
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

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 (2019: RM Nil).

45 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(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
2020		
Financial assets		
Financial investments at amortised cost		
- Money market instruments	3,607,235	3,682,529
- Unquoted securities	1,395,918	1,418,161
Financing and advances	29,703,807	30,003,922
	34,706,960	35,104,612
Financial liabilities		
Deposits from customers		
- At amortised cost	33,762,523	33,787,911
Recourse obligation on financing sold to Cagamas Berhad	748,438	764,944
Tier II subordinated Sukuk Murabahah	400,742	415,007
Multi-currency Additional Tier I subordinated Sukuk Wakalah	401,455	411,510
	35,313,158	35,379,372
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

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45 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
2020				
Financial assets				
Financial investments at amortised cost				
- Money market instruments	**3,607,235**	**-**	**3,682,529**	**-**
- Unquoted securities	**1,395,918**	**-**	**1,418,161**	**-**
Financing and advances	**29,703,807**	**-**	**30,003,922**	**-**
	34,706,960	**-**	**35,104,612**	**-**
Financial liabilities				
Deposits from customers				
- At amortised cost	**33,762,523**	**-**	**33,787,911**	**-**
Recourse obligation on financing sold to Cagamas Berhad	**748,438**	**-**	**764,944**	**-**
Tier II subordinated Sukuk Murabahah	**400,742**	**-**	**415,007**	**-**
Multi-currency Additional Tier I subordinated Sukuk Wakalah	**401,455**	**-**	**411,510**	**-**
	35,313,158	**-**	**35,379,372**	**-**
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	-

45 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 shorts-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.

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45 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.

46 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:

	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	Related amounts not set off in the statement of financial position		
				Financial instruments RM'000	Financial collateral RM'000	Net amount RM'000
2020						
Financial assets						
Derivatives	**83,080**	**-**	**83,080**	**(27,127)**	**-**	**55,953**
Financial liabilities						
Derivatives	**76,650**	**-**	**76,650**	**(27,127)**	**-**	**49,523**
2019						
Financial assets						
Derivatives	29,644	-	29,644	(14,442)	-	15,202
Financial liabilities						
Derivatives	28,012	-	28,012	(14,442)	-	13,570

Notes to the Financial Statements

for the financial year ended 30 June 2020

Notes to the Financial Statements

for the financial year ended 30 June 2020

47 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 for Islamic Banks (Capital Components) (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 onward. 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 onward are 7.000%, 8.500% and 10.500% respectively.

BNM had issued a letter dated 24 March 2020 on additional measures to assist customers affected by COVID-19 outbreak. These measures allow banking institutions to remain focused on supporting the economy during these exceptional and unprecedented circumstances, by providing flexibilities for banking institutions to respond swiftly to the needs of their customers. To this effect, banking institutions are allowed to drawdown on the capital conservation buffer of 2.500%. However, BNM fully expects banking institutions to restore their buffers within a reasonable period after 31 December 2020 and to be in position to restore their buffers to the minimum regulatory requirement by 30 September 2021.

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:

	2020	2019
Before deducting proposed dividends		
CET I capital ratio	**10.871%**	10.529%
Tier I capital ratio	**12.432%**	12.258%
Total capital ratio	**15.173%**	15.150%
After deducting proposed dividends		
CET I capital ratio	**10.871%**	10.529%
Tier I capital ratio	**12.432%**	12.258%
Total capital ratio	**15.173%**	15.150%

47 CAPITAL ADEQUACY (CONTINUED)

(b) The components of CET I, Tier I and Tier II capital under the revised

Capital Components Framework are as follows:

	2020 RM'000	2019 RM'000
CET I capital		
Paid-up share capital	**700,000**	700,000
Retained profit	**2,105,698**	1,730,453
Other reserves	**3,857**	13,576
Less: Deferred tax assets	**(24,270)**	(10,224)
Less: Other intangible assets	**(2,169)**	(828)
Total CET I capital	**2,783,116**	2,432,977
Additional Tier I capital		
Multi-currency Additional Tier I subordinated Sukuk Wakalah	**399,600**	399,434
Total Tier I Capital	**3,182,716**	2,832,411
Tier II capital		
Stage 1 and stage 2 expected credit loss allowance and regulatory reserve #	**301,836**	268,349
Tier II subordinated Sukuk Murabahah	**400,000**	399,970
Total Tier II capital	**701,836**	668,319
Total Capital	**3,884,552**	3,500,730

(c) Breakdown of gross risk-weighted assets in the various risk weights:

	2020 RM'000	2019 RM'000
Risk-weighted assets for credit risk*	**24,146,893**	21,467,954
Risk-weighted assets for market risk	**151,725**	455,895
Risk-weighted assets for operational risk	**1,303,054**	1,182,621
Total risk-weighted assets	**25,601,672**	23,106,470

* In accordance with BNM Investment Account Policy, the RWA funded by Investment Account of RM238,775,000 (2019: RM1,294,000) is excluded from the calculation of capital adequacy ratio of the Bank.

Includes the qualifying regulatory reserve for non-impaired finacing and advances of the Bank of RM110,425,000 (2019: RM130,228,000).

Notes to the Financial Statements
for the financial year ended 30 June 2020

Notes to the Financial Statements
for the financial year ended 30 June 2020

48 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.

48 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
2020					
Revenue					
- external	670,035	(58,298)	345,261	(110,458)	846,540
- inter-segment	(256,231)	237,993	(113,064)	131,302	-
	413,804	179,695	232,197	20,844	846,540
Overhead expenses	(181,153)	(40,991)	(13,864)	-	(236,008)
Allowance for impairment on financing and advances	(11,657)	(53,270)	-	(70,400)	(135,327)
Written-back of impairment on financial investment and other assets	-	-	44	-	44
	(192,810)	(94,261)	(13,820)	(70,400)	(371,291)
Segment results	220,994	85,434	218,377	(49,556)	475,249
Zakat					(350)
Taxation					(119,457)
Net profit for the financial year					355,442
Segment assets	21,248,378	8,716,057	10,183,725	-	40,148,160
Unallocated assets					631,153
Total assets					40,779,313
Segment liabilities	15,071,432	14,496,889	5,522,503	-	35,090,824
Unallocated liabilities					2,763,794
Total liabilities					37,854,618
Capital expenditure	2,803	95	18	78	2,994

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.

Notes to the Financial Statements
for the financial year ended 30 June 2020

Notes to the Financial Statements
for the financial year ended 30 June 2020

48 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.

49 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) The measurement of the ECL for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour.

MFRS 9 introduces the use of macroeconomic factors which include, but is not limited to, unemployment, profit rates, gross domestic product, private consumption, inflation and commercial property prices, 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 reviewed regularly.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

(i) Determining criteria for significant increase in credit risk;

(ii) Choosing appropriate models and assumptions for the measurement of ECL;

(iii) Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and

(vi) Establishing groups of similar financial assets for the purposes of measuring ECL.

The sensitivity effect on the macroeconomic factor is further disclosed in Note 44(d)(vii) to the financial statements.

50 CHANGE IN ACCOUNTING POLICIES

Effects of adoption of MFRS 16 Leases

MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations. Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

The ROU asset is depreciated in accordance with the principle as set out in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with profit expense recognised in statements 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.

Notes to the Financial Statements
for the financial year ended 30 June 2020

Notes to the Financial Statements
for the financial year ended 30 June 2020

50 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

Effects of adoption of MFRS 16 Leases (continued)

The Bank has adopted this standard from its mandatory adoption date of 1 July 2019. As permitted by MFRS 16, the Bank has applied 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).

On adoption of MFRS 16, the Bank recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of MFRS 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Bank's funding rate as of 1 July 2019. The weighted average incremental funding rate applied to the lease liabilities on 1 July 2019 for the Bank was at 4.83% per annum.

(i) The following table summarises the effects upon adoption of MFRS 16 as at 1 July 2019:

	As at 30 June 2019 RM'000	Effect of adoption of MFRS 16 RM'000	As restated 1 July 2019 RM'000
Right-of-use assets	-	13,770	13,770
Lease liabilities	-	12,940	12,940
Other liabilities - provision for reinstatement cost	-	830	830

(ii) The following table analyses the impact of Capital Adequacy Ratios of the Bank:

	As at 30 June 2019 RM'000	Effect of adoption of MFRS 16 RM'000	As restated 1 July 2019 RM'000
CET I capital ratio	10.529%	-0.006%	10.523%
Tier I capital ratio	12.258%	-0.007%	12.251%
Total capital ratio	15.150%	-0.008%	15.142%

50 CHANGE IN ACCOUNTING POLICIES (CONTINUED)

Effects of adoption of MFRS 16 Leases (continued)

(iii) The reconciliation on the operating lease commitment disclosure under MFRS 117 to MRFS 16 are as follows:

	RM'000
Operating lease commitments as at 30 June 2019	772
Discounted using the incremental funding rate	(11)
	761
Finance lease liabilities recognised under MFRS 117	-
Out-of-scope Contracts	-
Low-value lease recognised on a straight-line basis as expenses	-
Add/(less): adjustments as a result of different treatment of extension and termination option:	12,179
Lease liabilities recognised as at 1 July 2019	12,940
of which:	
Current lease liabilities	1,832
Non-current lease liabilities	11,108
	12,940

The recognised right-of-use assets relate to the following type of assets:

Properties	13,770

51 DISCLOSURE OF SHARIAH COMMITTEE

The Bank has appointed a Shariah Committee whereby 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.

52 GENERAL INFORMATION

The Bank is a public limited liability company that is incorporated and domiciled in Malaysia. The registered office is at Level 30, Menara Hong Leong, 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 2020

Statement by Directors
Pursuant to Section 251(2) of the Companies Act 2016

We, Datuk Dr Md Hamzah bin Md Kassim and Domenic Fuda, 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 114 to 225 are drawn up so as to give a true and fair view of the financial position of the Bank as at 30 June 2020 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 2020

Statutory Declaration

I, Malkiat Singh @ Malkit Singh Maan A/L Delbara Singh, the officer 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 114 to 225 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 Malkiat Singh @	)	**MALKIAT SINGH @**
Malkit Singh Maan A/L Delbara Singh at	)	**MALKIT SINGH MAAN A/L DELBARA SINGH**
Kuala Lumpur in Wilayah Persekutuan on	)	MIA No: CA9305
11 September 2020	)	

Before me,

TAN KIM CHOOI
Commissioner for Oaths

Independent Auditors' Report

to the member of Hong Leong Islamic Bank Berhad
Registration No: 200501009144 (686191-W)
(Incorporated in Malaysia)

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 2020, and of their financial performance and their 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 2020 of the Bank, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 114 to 225.

Basis for opinion

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

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

Independence and other ethical responsibilities

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

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements of the Bank. In particular, we considered where the Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operate.

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 of the Bank annual report but does not include the financial statements of the Bank and our auditors' report thereon.
Our opinion on the financial statements of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

Independent Auditors' Report

to the member of Hong Leong Islamic Bank Berhad
Registration No: 200501009144 (686191-W)
(Incorporated in Malaysia)

Independent Auditors' Report
to the member of Hong Leong Islamic Bank Berhad
Registration No: 200501009144 (686191-W)
(Incorporated in Malaysia)

Report on the audit of the financial statements (continued)

Information other than the financial statements and auditors' report thereon (continued)

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.

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.

Report on the audit of the financial statements (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

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

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

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.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determined those matters that were of most significance in the audit of the financial statements of the Bank for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determined that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such circumstances.

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

ONG CHING CHUAN
02907/11/2021 J
Chartered Accountant

Kuala Lumpur
11 September 2020

Basel II Pillar 3 Disclosures
for the financial year ended 30 June 2020

Basel II Pillar 3 Disclosures
for the financial year ended 30 June 2020

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 for Islamic Bank ("CAFIB") - 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) (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 onward. 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 onward are 7.000%, 8.500% and 10.500% respectively.

BNM had issued a letter dated 24 March 2020 on additional measures to assist customers affected by COVID-19 outbreak. These measures allow banking institutions to remain focused on supporting the economy during these exceptional and unprecedented circumstances, by providing flexibilities for banking institutions to respond swiftly to the needs of their customers. To this effect, banking institutions are allowed to drawdown on the capital conservation buffer of 2.500%. However, BNM fully expects banking institutions to restore their buffers within a reasonable period after 31 December 2020 and to be in position to restore their buffers to the minimum regulatory requirement by 30 September 2021.

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 Capital Adequacy Framework for Islamic Bank ("CAFIB"). 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.

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.

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 2020. BNM's Capital Adequacy Framework for Islamic Banks (Capital components) and sets out the minimum capital adequacy ratios for the banking institutions and the methodology for calculating these ratios. As at 30 June 2020, the Bank's CET 1, Tier I capital ratio and total capital ratio were higher than BNM's minimum requirements.

BNM's Capital Adequacy Framework for Islamic Banks (Capital Components) set out the constituents of the total eligible capital for the Bank. For the main features of these capital instruments, please refer to Note 21 and Note 22 to the financial statements.

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

	30 June 2020 RM'000	30 June 2019 RM'000
Before deducting proposed dividends		
CET I capital ratio	**10.871%**	10.529%
Tier II capital ratio	**12.432%**	12.258%
Total capital ratio	**15.173%**	15.150%
After deducting proposed dividends		
CET I capital ratio	**10.871%**	10.529%
Tier II capital ratio	**12.432%**	12.258%
Total capital ratio	**15.173%**	15.150%

Basel II Pillar 3 Disclosures
for the financial year ended 30 June 2020

Basel II Pillar 3 Disclosures
for the financial year ended 30 June 2020

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 2020 RM'000	30 June 2019 RM'000
CET I capital		
Paid-up share capital	**700,000**	700,000
Retained profit	**2,105,698**	1,730,453
Other reserves	**3,857**	13,576
Less: Deferred tax assets	**(24,270)**	(10,224)
Less: Other intangible assets	**(2,169)**	(828)
Total CET I capital	**2,783,116**	2,432,977
Additional Tier 1 capital		
Multi-currency Additional Tier I subordinated Sukuk Wakalah	**399,600**	399,434
Total Tier 1 capital	**3,182,716**	2,832,411
Tier II capital		
Stage 1 and stage 2 expected credit loss allowance and regulatory reserve #	**301,836**	268,349
Tier II subordinated Sukuk Murabahah	**400,000**	399,970
Total Tier II capital	**701,836**	668,319
Total capital	**3,884,552**	3,500,730

(c) The breakdown of risk-weighted assets ("RWA") by each major risk category is as follows:

	30 JUNE 2020 RM'000	30 June 2019 RM'000
Risk-weighted assets for credit risk*	**24,146,893**	21,467,954
Risk-weighted assets for market risk	**151,725**	455,895
Risk-weighted assets for operational risk	**1,303,054**	1,182,621
Total risk-weighted assets	**25,601,672**	23,106,470

* In accordance with BNM Investment Account Policy, the RWA funded by Investment Account of RM238,775,000 (2019: RM1,294,000) 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 RM110,425,000 (2019: RM130,228,000).

3 CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(d) The breakdown of risk-weighted assets ("RWA") by exposure is as follows:

30 June 2020 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	10,176,327	10,176,327	-	-
Banks, Development Financial Institutions("DFIs") and Multilateral Development Bank ("MDBs")	792,052	792,052	223,564	17,885
Insurance Cos, Securities Firms ("SF") and Fund Managers ("FM")	997	997	997	80
Corporates	7,635,456	7,359,991	7,012,718	554,875
Regulatory retail	9,735,989	9,710,670	7,192,657	584,927
Residential mortgages	12,310,588	12,303,037	6,487,190	515,603
Higher risk assets	1,325	1,325	1,987	159
Other assets	87,162	87,162	86,462	6,917
Defaulted exposures	133,300	114,297	122,173	9,774
Total on-balance sheet exposures	40,873,196	40,545,858	21,127,748	1,690,220
Off-Balance Sheet Exposures				
Over-the-counter("OTC") derivatives	219,727	219,727	93,332	7,467
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,277,406	3,262,690	2,896,204	231,696
Defaulted exposures	19,601	19,601	29,608	2,369
Total off-balance sheet exposures	3,516,734	3,502,018	3,019,144	241,532
Total on and off-balance sheet exposures	44,389,930	44,047,876	24,146,892	1,931,752
Market Risk	**Long Position**	**Short Position**		
Profit rate risk	1,290,645	-	57,549	4,604
Foreign currency risk	38,539	-	94,177	7,534
Total	1,329,184	-	151,726	12,138
Operational risk			1,303,054	104,244
Total RWA and capital requirements			25,601,672	2,048,134

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 250.

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3 CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(d) The breakdown of risk-weighted assets ("RWA") by exposure is as follows: (continued)

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	7,894,795	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	18,628,088	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	1,922	1,890	2,842	227
Total off-balance sheet exposures	3,358,301	3,349,619	2,841,158	227,292
Total on and off- balance sheet exposures	38,138,610	38,069,373	21,469,246	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			23,107,762	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 251.

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.

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 governance policy 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.

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4 RISK MANAGEMENT (CONTINUED)

A Credit risk (continued)

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.

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.

4 RISK MANAGEMENT (CONTINUED)

A Credit risk (continued)

Gross credit exposure

(i) The table below sets out the breakdown of gross credit exposures by geographical distribution as follows:

	30 June 2020 RM'000	30 June 2019 RM'000
On-balance sheet exposures		
Financial assets at fair value through profit or loss*	**21,669**	515,295
Financial investments at fair value through other comprehensive income*	**2,428,284**	2,956,180.00
Financial investments at amortised cost	**5,003,153**	4,239,826.00
Financing and advances	**29,703,807**	25,840,011
Islamic derivative financial instruments	**83,080**	29,644
Total on-balance sheet exposures	**37,239,993**	33,580,956
Off-balance sheet exposures ^		
OTC derivatives	**219,727**	124,919
Off-balance sheet exposures other than OTC derivatives or credit derivatives	**3,297,007**	3,233,383
Total off-balance sheet exposures	**3,516,734**	3,358,302
Total on and off-balance sheet exposures	**40,756,727**	36,939,258

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 250 and page 251.

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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 2020	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 RM'000
Agriculture	-	-	-	1,085,606	-	1,085,606	-	173,670	173,670	1,259,276
Mining and quarrying	-	-	-	10,807	-	10,807	-	100,140	100,140	110,947
Manufacturing	-	-	-	2,172,594	-	2,172,594	-	486,915	486,915	2,659,509
Electricity, gas and water	-	26,659	268,254	491,607	-	786,520	-	24,244	24,244	810,764
Construction	-	-	-	599,348	-	599,348	-	243,941	243,941	843,289
Wholesale and retail	-	-	-	1,773,831	-	1,773,831	-	436,694	436,694	2,210,525
Transport, storage and communications	-	-	-	240,384	-	240,384	-	103,269	103,269	343,653
Finance, insurance, real estate and business services	-	672,641	163,724	2,226,561	83,080	3,146,006	-	754,288	754,288	3,900,294
Government and government agencies	21,669	1,728,984	4,571,175	-	-	6,321,828	-	-	-	6,321,828
Education, health and others	-	-	-	832,564	-	832,564	-	96,539	96,539	929,103
Household	-	-	-	20,270,505	-	20,270,505	219,727	877,307	1,097,034	21,367,539
Total on and off-balance sheet exposures	21,669	2,428,284	5,003,153	29,703,807	83,080	37,239,993	219,727	3,297,007	3,516,734	40,756,727

* 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: (continued)

30 June 2020	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 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 andcommunications	-	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

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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 - 5 years RM'000	Over 5 years RM'000	Total RM'000
30 June 2020				
On-balance sheet exposures				
Financial assets at fair value through profit or loss*	**-**	**-**	**21,669**	**21,669**
Financial investments at fair value through other comprehensive income*	**311,206**	**344,862**	**1,772,216**	**2,428,284**
Financial investments at amortised cost	**362,198**	**3,468,065**	**1,172,890**	**5,003,153**
Financing and advances	**3,100,619**	**4,199,401**	**22,403,787**	**29,703,807**
Islamic derivative financial instruments	**56,200**	**1,665**	**25,215**	**83,080**
Total on-balance sheet exposures	**3,830,223**	**8,013,993**	**25,395,777**	**37,239,993**
Off-balance sheet exposures ^				
OTC derivatives	**150,354**	**3,665**	**65,708**	**219,727**
Off-balance sheet exposures other than OTC derivatives or credit derivatives	**853,509**	**2,443,498**	**-**	**3,297,007**
Total off-balance sheet exposures	**1,003,863**	**2,447,163**	**65,708**	**3,516,734**
Total on and off-balance sheet exposures	**4,834,086**	**10,461,156**	**25,461,485**	**40,756,727**
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

* Exclude equity securities
^ Off-balance sheet exposures refer to the credit equivalent of off-balance sheet items on 250 and 251.

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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, charges/(write back) and write-offs during the year as follows:

30 June 2020	Past due financing and advances RM'000	Credit Impaired financing and advances RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 1 12-month ECL RM'000	Charges/ (write back) for ECL Stage 3 during the year RM'000	Stage 3 Write offs during the year RM'000
Agriculture	**2,164**	**-**	**-**	**567**	**1,465**	**(47)**	**-**
Mining and quarrying	**20**	**-**	**-**	**115**	**49**	**-**	**20,332**
Manufacturing	**2,271**	**71,131**	**46,831**	**894**	**4,912**	**(390)**	**48**
Electricity, gas and water	**-**	**1,147**	**524**	**13**	**2,641**	**531**	**-**
Construction	**14,743**	**3,834**	**1,505**	**709**	**3,025**	**1,553**	**232**
Wholesale and retail	**8,816**	**6,404**	**1,433**	**1,404**	**10,081**	**588**	**8**
Transport, storage and communications	**28**	**2**	**-**	**68**	**805**	**(3)**	**-**
Finance, insurance, real estate and business services	**47,427**	**5,738**	**937**	**805**	**16,238**	**47,367**	**-**
Education, health and others	**5,236**	**1,608**	**193**	**599**	**1,300**	**220**	**30**
Household	**1,324,117**	**129,032**	**37,442**	**81,598**	**97,783**	**51,498**	**70,227**
Others	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	1,404,822	**218,896**	**88,865**	**86,772**	**138,299**	**101,317**	**90,927**

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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, expected credit losses stage 1, 2 and 3, charges/(write back) and write-offs during the year as follows: (continued)

30 June 2019	Past due financing and advances RM'000	Credit Impaired financing and advances RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 1 12-month ECL 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	47	198	410	(31)	-
Mining and quarrying	91	20,332	20,332	180	18	(818)	-
Manufacturing	12,774	222	963	812	1,509	998	-
Electricity, gas and water	16	-	-	2	1,238	(17)	-
Construction	14,092	518	260	990	912	69	70
Wholesale and retail	16,135	2,087	994	1,416	2,581	53	78
Transport, storage and communications	3,872	6	3	72	232	38	60
Finance, insurance, real estate and business services	24,550	1,529	-	5,786	2,262	125	105
Education, health and others	13,614	41	41	597	524	46	8
Household	1,977,935	152,741	56,832	101,447	48,249	56,943	54,850
Others	-	-	-	-	-	(57)	-
	2,070,494	177,558	79,472	111,500	57,935	57,349	55,171

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 as follows:

	Past due financing and advances RM'000	Impaired financing and advances RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Stage 2 Lifetime ECL not credi impaired RM'000	Stage 1 12-month ECL RM'000
30 June 2020					
Malaysia	**1,404,822**	**218,896**	**88,865**	**86,772**	**138,299**
30 June 2019					
Malaysia	2,070,494	177,558	79,472	111,500	57,935

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:

	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
2020				
At 1 July	**57,935**	**111,500**	**79,472**	**248,907**
Changes in ECL due to transfer within stages	**(15,354)**	**(45,350)**	**60,704**	**-**
- Transfer to Stage 1	**3,273**	**(3,256)**	**(17)**	**-**
- Transfer to Stage 2	**(18,613)**	**48,740**	**(30,127)**	**-**
- Transfer to Stage 3	**(14)**	**(90,834)**	**90,848**	**-**
New financial assets originated	**17,303**	**184**	**-**	**17,487**
Financial assets derecognised	**(3,258)**	**(16,506)**	**(9,963)**	**(29,727)**
Changes due to change in credit risk	**84,924**	**39,739**	**53,649**	**178,312**
Changes in models/risk parameters	**(3,255)**	**(2,795)**	**(3,073)**	**(9,123)**
Amount written off	**-**	**-**	**(90,927)**	**(90,927)**
Exchange difference	**4**	**-**	**-**	**4**
Other movements	**-**	**-**	**(997)**	**(997)**
At 30 June	**138,299**	**86,772**	**88,865**	**313,936**

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: (continued)

	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
2019				
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	(17,511)	(24,311)	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	28	(68,137)	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	17,955	49,035	26,530	93,520
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

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:

30 June 2020 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 asseats RM'000	Total exposures after netting & credit risk mitigation RM'000	Total risk weighted assets RM'000
0%	10,176,327	-	-	-	-	-	-	-	700	10,177,027	-
20%	-	17,390	627,059	-	439,680	-	-	-	20,000	1,104,129	220,826
35%	-	-	-	-	-	-	6,236,109	-	-	6,236,109	2,182,638
50%	-	-	389,013	-	3,777	5,549	3,519,508	-	-	3,917,846	1,958,924
75%	-	-	-	-	-	10,641,462	10,909	-	-	10,652,371	7,989,278
100%	-	-	-	52,933	8,464,292	602,687	2,606,804	-	86,463	11,813,179	11,813,179
150%	-	-	-	-	121,822	24,060	-	1,333	-	147,215	220,823
Total	10,176,327	17,390	1,016,072	52,933	9,029,571	11,273,758	12,373,330	1,333	107,163	44,047,876	24,385,668
Risk weighted assets by exposure	-	3,477	319,919	52,933	8,736,850	8,622,648	6,557,378	1,999	90,464	24,385,668	
Average risk weight	0%	20%	31%	100%	97%	76%	53%	150%	84%	55%	

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:

30 June 2019 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 asseats 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%	

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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:

(i) Ratings of Public Sector Entities, Insurance Cos, Securities Firm and Funds Manager and Corporates by approved ECAIs

	Moodys	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
Exposure class		RM'000	RM'000	RM'000	RM'000	RM'000
30 June 2020						
On and off-balance sheet exposures						
Public Sector Entities		-	-	-	-	17,390
Insurance Cos, SF and FM		-	-	-	-	52,933
Corporates		285,428	-	100,585	100,580	8,543,102
		285,428	-	100,585	100,580	8,613,425
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

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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

	Moodys	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
Exposure class		RM'000	RM'000	RM'000	RM'000	RM'000
30 June 2020						
On and off-balance sheet exposures						
Sovereigns/central banks		-	-	-	-	10,176,327
Banks, MDBs and FDIs		295,696	159,653	37,259	-	523,463
		295,696	159,653	37,259	-	10,699,790
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

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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 2020	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	10,176,327	-	-
Banks, DFIs & MDBs	792,052	-	-
Insurance Cos, SF and FM	997	-	-
Corporates	7,635,456	-	275,465
Regulatory retail	9,735,989	-	25,319
Residential mortgages	12,310,588	-	7,552
Higher risk assets	1,325	-	-
Other assets	87,162	-	-
Defaulted exposures	133,300	-	19,003
Total for on-balance sheet exposures	40,873,196	-	327,339
Off-balance sheet exposures			
OTC derivatives	219,727	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,277,406	-	14,716
Defaulted exposures	19,601	-	-
Total for off-balance sheet exposures	3,516,734	-	14,716
Total on and off-balance sheet exposures	44,389,930	-	342,055

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 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 and MDBs	538,842	-	-
Insurance Cos, SF and FM	1,017	-	-
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	1,922	-	32
Total for off-balance sheet exposures	3,358,301	-	8,682
Total on and off-balance sheet exposures	38,138,610	-	69,235

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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)

Nature of commitments and contingencies (continued)

The Off-balance sheet exposures and their related counterparty credit risk of the Bank are as follows:

30 June 2020	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	50,003	-	50,003	50,003
Transaction related contingent items	196,107	-	98,053	95,614
Short-term self liquidating trade related contingencies	13,333	-	2,667	2,353
Irrecoverable commitments to extend credit				
- Maturity less than one year	3,513,934	-	702,787	625,711
- Maturity more than one year	4,887,856	-	2,443,498	2,152,131
Foreign exchange related contract				
- Less than one year	6,832,961	55,121	148,655	58,213
Profit rate related contracts				
- Less than one year	620,000	1,080	1,700	1,116
- Over one year to less than five years	200,000	26,880	3,665	1,832
- Five years and above	518,095	-	65,706	32,171
	16,832,289	83,081	3,516,734	3,019,144

* 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

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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 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)

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 isk-taking strategies, the impact on earnings and capital utilisation. These factors are used as a basis for setting market risk limits 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.

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 RM1.63 million with an average of RM0.53 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.

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4 RISK MANAGEMENT (CONTINUED)

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-i”). 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 RCGC, endorsed by the BARMC and approved by the Board.

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.

4 RISK MANAGEMENT (CONTINUED)

E Operational Risk (continued)

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.

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.

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4 RISK MANAGEMENT (CONTINUED)

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 to 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 (2019: Nil).

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	
	Increase/ (Decline) in Earnings RM'000	Increase/ (Decline) in Economic Value RM'000
30 June 2020		
100 bsp upward		
Ringgit Malaysia	**(10,135)**	**(276,692)**
100 bsp downward		
Ringgit Malaysia	**(26,037)**	**293,223**
30 June 2019		
100 bsp upward		
Ringgit Malaysia	(43,280)	(327,220)
100 bsp downward		
VRinggit Malaysia	23,906	344,594

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7 SHARIAH GOVERNANCE DISCLOSURE

In October 2010, BNM 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. On 30 June 2013, Islamic Financial Services Act ("IFSA") 2013 came into force. It is a statute that requires Islamic financial institutions to ensure that their aim, operation, business, affairs and activities are Shariah-compliant at all time. It statutorily enforces the management of Shariah non-compliance risk.

On 20 September 2019, Bank Negara Malaysia has issued the policy document on Shariah Governance ("SGPD") for Islamic financial institutions to replace the SGF. The policy document aims to further strengthen the effectiveness of Shariah governance implementation and reinforce a closer integration of Shariah considerations in the business and risk strategies of the Islamic financial institutions. The policy document takes effect from 1 April 2020.

HLISB has enhanced its own Shariah Governance Board Policy to ensure the structure and management of Shariah Governance matters in the Bank is of the highest standard and in line with SGPD and IFSA.

The Bank's Shariah Governance Board Policy governs and guides HLISB on the on-going development and enhancement of its Shariah governance functions and infrastructure which includes interaction, effective communication and reporting. It forms the basic foundation upon which Shariah governance policies are to be developed, Shariah governance structure is to be operated in, and Shariah governance initiatives are to be carried out.

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