



**CERTIFICATE OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
BANK KERJASAMA RAKYAT MALAYSIA BERHAD
FOR THE YEAR ENDED 31 DISEMBER 2022**

**KETUA AUDIT NEGARA
MALAYSIA**



**CERTIFICATE OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
BANK KERJASAMA RAKYAT MALAYSIA BERHAD
FOR THE YEAR ENDED 31 DECEMBER 2022**

Certificate on the Audit of the Financial Statements

Opinion

I have authorised a private audit firm pursuant to subsection 7(3) of the Audit Act 1957 [Act 62] to undertake an audit of the Financial Statements of the Bank Kerjasama Rakyat Malaysia Berhad. The financial statements comprise the Statements of Financial Position as at 31 December 2022 of the Group and of the Bank Kerjasama Rakyat Malaysia Berhad and the Statements of Profit or Loss and Other Comprehensive Income, Statements of Changes in Equity and Statement of Cash Flows of the Group and of the Bank Kerjasama Rakyat Malaysia Berhad for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 4 to 222.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank Kerjasama Rakyat Malaysia Berhad as at 31 December 2022, and of their financial performance and their cash flows for the year then ended in accordance with the Malaysian Financial Reporting Standards (MFRS) and the Financial Reporting for Development Financial Institutions policy issued by Bank Negara Malaysia, Bank Kerjasama Rakyat Malaysia Berhad (Special Provisions) Act 1978 [Act 202], the Co-operative Societies Act 1993 [Act 502] and the Development Financial Institutions Act 2002 [Act 618] requirements.

Basis for Opinion

The audit was conducted in accordance with the Audit Act 1957 and the International Standards of Supreme Audit Institutions. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my certificate. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Independence and Other Ethical Responsibilities

I am independent of the Group and of the Bank Kerjasama Rakyat Malaysia Berhad and I have fulfilled my other ethical responsibilities in accordance with the International Standards of Supreme Audit Institutions.

Information Other than the Financial Statements and Auditor's Certificate Thereon

The Board of Directors of the Bank Kerjasama Rakyat Malaysia Berhad is responsible for the other information in the Annual Report. My opinion on the Financial Statements of the Group and of the Bank Kerjasama Rakyat Malaysia Berhad does not cover the other information than the financial statements and Auditor's Certificate thereon and I do not express any form of assurance conclusion thereon.

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of Financial Statements of the Group and of the Bank Kerjasama Rakyat Malaysia Berhad that give a true and fair view in accordance with the Malaysian Financial Reporting Standards (MFRS) and the Financial Reporting for Development Financial Institutions policy issued by Bank Negara Malaysia, Bank Kerjasama Rakyat Malaysia Berhad (Special Provisions) Act 1978 [Act 202], the Co-operative Societies Act 1993 [Act 502] and the Development Financial Institutions Act 2002 [Act 618] requirements. The Board of Directors is also responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of the Financial Statements of the Group and of the Bank Kerjasama Rakyat Malaysia Berhad that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements of the Group and of the Bank Kerjasama Rakyat Malaysia Berhad, the Board of Directors is responsible for assessing the Group's and the Bank Kerjasama Rakyat Malaysia Berhad's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the Financial Statements of the Group and of the Bank Kerjasama Rakyat Malaysia Berhad as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Certificate that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards of Supreme Audit Institutions 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 the International Standards of Supreme Audit Institutions, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- a. identify and assess the risks of material misstatement of the Financial Statements of the Group and of the Bank Kerjasama Rakyat Malaysia Berhad, 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 my 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 Group's and the Bank Kerjasama Rakyat Malaysia Berhad's internal control;
- c. evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- d. conclude on the appropriateness of the Board of 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 Group's or the Bank Kerjasama Rakyat Malaysia Berhad's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my Auditor's Certificate to the related disclosures in the Financial Statements of the Group and of the Bank Kerjasama Rakyat Malaysia Berhad or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of Auditor's Certificate. However, future events or conditions may cause the Group or the Bank Kerjasama Rakyat Malaysia Berhad to cease to continue as a going concern;
- e. evaluate the overall presentation, structure and content of the Financial Statements of the Group and of the Bank Kerjasama Rakyat Malaysia Berhad, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and

- f. obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the Financial Statements of the Group. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

The Board of Directors has been informed regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I have identify during the audit.

I have also disclosed to the Board of Directors that I have complied with the ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on my independence, and if applicable, actions taken to eliminate threats or safeguards applied.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Financial Reporting for Development Financial Institutions policy issued by Bank Negara Malaysia, Bank Kerjasama Rakyat Malaysia Berhad (Special Provisions) Act 1978 [Act 202], the Co-operative Societies Act 1993 [Act 502] and the Development Financial Institutions Act 2002 [Act 618], I report that the subsidiaries, of which I have not acted as auditor, are disclosed in Note 16 to the Financial Statements.

Other Matters

a. Other Liabilities

At the end of 2022, Bank Rakyat recorded other liabilities amounted RM1.732 billion. The amount comprises of RM172 million Other Creditors. Bank Rakyat needs to increase efforts to ensure payments to Other Creditors are done in a timely manner. Any outstanding balance should be transferred to Unclaimed Money.


In addition, there is RM53.38 million Unpaid Zakat. These funds need to be disbursed to the relevant parties for the designated purposes. Bank Rakyat needs to ensure that the distribution can be carried out promptly.

b. Information Technology Management

Bank Rakyat should strengthened the internal control mechanism within the Silverlake Integrated Islamic Banking System (SIIBS) and Enterprise Risk Management System (ERMS). This is to ensure more effective monitoring and prevent the risk of misuse by unauthorised parties.

For this purpose, Bank Rakyat should update the Operational Guidelines to immediately deactivate access to the SIIBS system for unauthorised employees to prevent the risk of unauthorised changes to the profit rate maintenance schedule. The ERMS system needs to be improved by adding a user log monitoring module.

This certificate is made solely to the Board of Directors of the Bank Kerjasama Rakyat Malaysia Berhad in accordance with the Financial Reporting for Development Financial Institutions policy issued by Bank Negara Malaysia, Bank Kerjasama Rakyat Malaysia Berhad (Special Provisions) Act 1978 [Act 202], the Co-operative Societies Act 1993 [Act 502] and the Development Financial Institutions Act 2002 [Act 618] requirements, and for no other purpose. I do not assume responsibility to any other person for the content of this certificate.


(PATIMAH BINTI RAMUJI)
ON BEHALF OF AUDITOR GENERAL
MALAYSIA



PUTRAJAYA
9 MARCH 2023

STATEMENT BY DIRECTORS

We, **DATUK MOHD IRWAN MOHD MUBARAK** and **TUNKU DATO' AHMAD BURHANUDDIN TUNKU DATUK SERI ADNAN**, being two of the Directors of Bank Kerjasama Rakyat Malaysia Berhad, do hereby state that:

- (i) The financial statements of the Bank have been prepared in accordance with the provisions of Bank Kerjasama Rakyat Malaysia Berhad (Special Provisions) Act 1978 (Act 202), the Co-operative Societies Act 1993 (Act 502), Development Financial Institutions Act 2002 (Act 618) and applicable Malaysian Financial Reporting Standards ("MFRS") as modified by Guidelines issued by Bank Negara Malaysia ("BNM") and in compliance with the principles of Shariah;
- (ii) The financial statements of the subsidiaries of the Bank have been prepared in accordance with MFRS, IFRS and the provisions of the Companies Act, 2016 in Malaysia

In the opinion of the Directors, the financial statements are drawn up so as to give true and fair view of state of affairs as at 31 December 2022 and of the results of the operations and cash flows for the year ended on that date.

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



DATUK MOHD IRWAN MOHD MUBARAK
Acting Chairman



TUNKU DATO' AHMAD BURHANUDDIN TUNKU DATUK SERI ADNAN
Director

Kuala Lumpur
Date: 19 JAN 2023



ANNUAL REPORT OF SHARIAH COMMITTEE OF BANK RAKYAT FOR FINANCIAL YEAR END DECEMBER 2022



In the name of Allah, the most Beneficent, the most Merciful

In carrying out the roles and responsibilities of Shariah Committee (SC) of Bank Rakyat, we hereby submit the following report on Shariah compliance of Bank Rakyat's business activities and operations for the financial year ended 31 December 2022.

The Management of Bank Rakyat is responsible to ensure Bank Rakyat conducts its business in accordance with Shariah principles and it is our responsibility to form an independent opinion, based on our review on Bank Rakyat's operation and to report to the Board of Director of Bank Rakyat. We are responsible to assist the Board of Director in ensuring that the operations, business, affairs and activities of the bank are in compliance with Shariah at all times.

We have provided the Shariah advisory services on various aspects to the Bank in order to ensure compliance with applicable Shariah principles as well as the relevant resolutions and rulings locally and globally made by the Shariah Advisory Councils of the regulatory bodies.

During the financial year ended 31 December 2022, the Shariah Committee had convened 12 meetings including two (2) special meetings and seven (7) resolutions via circulation to cater for urgent proposals and notifications. All Shariah Committee members have satisfied the attendance requirement under BNM's Shariah Governance Policy. Shariah Committee and the Board places importance on ensuring effective implementation of Shariah governance and work harmonically with best practices of corporate governance. In view of this, two (2) engagement sessions were held between Shariah Committee and the Board of Directors in financial year 2022.

To ensure smoothness of banking operation, we empowered and delegated the approval authority to Shariah Secretariat and Advisory Department (previously known as Shariah Research and Advisory) to approve generic Shariah related matters. Nonetheless, all request for approvals to the Shariah Secretariat and Advisory Department are duly reported to us on quarterly basis for review and confirmation. Chief Shariah Officer or his representative is also sitting as a member in the following committees to advise the Bank on matters relating Shariah requirement and principles :

- a) Management Committee
- b) Assets and Liabilities Committee
- c) Digital IT Steering Committee



- d) Financing Recovery Committee
- e) Financing Committee A
- f) Financing Committee B
- g) Crisis Management Team
- h) Management Audit, Fraud & Integrity Committee
- i) Management Risk Committee
- j) Operational Risk Management Committee
- k) Product Committee
- l) Zakat Management Committee
- m) Surau Al-Barakah Committee
- n) Member's Share Approval Committee

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



APPROVAL

1. We have endorsed and approved the transactions, applications and dealings entered into by Bank Rakyat through the following processes :
 - i. Shariah advisory and review on development of Bank products including policies, operational guidelines and procedures.
 - ii. Shariah advisory and review on legal and banking documentations, Products Disclosure Sheets (PDS), notices and marketing materials.
 - iii. Shariah advisory and review on Shariah compliance status of commercial banking customers prior to approval of financing.
 - iv. Shariah advisory and review on banking operations at the branches level, related departments and Bank's subsidiaries which involve review on legal documents executed and *akad* sequences.
 - v. Shariah advisory and review on system application related to banking products.
 - vi. Shariah advisory and review on banking activities, asset rental by the bank and its subsidiaries to third party as well as sponsorship activities.
 - vii. Shariah risk assessment on new products or enhancement to the existing products, processes and procedures, business activities and operations.
 - viii. Shariah audit assessment on the quality and effectiveness of the Bank and its subsidiary's internal control, risk management systems, governance processes as well as the overall compliance of the Bank and its subsidiary's operations, business, affairs and activities with Shariah.

SHARIAH SECRETARIAT AND ADVISORY DEPARTMENT, SHARIAH RESEARCH, GOVERNANCE & TRAINING DEPARTMENT, SHARIAH REVIEW DEPARTMENT, SHARIAH AUDIT DEPARTMENT AND SHARIAH RISK UNIT

2. Shariah Secretariat and Advisory, Shariah Review, Shariah Audit and Shariah Risk functions play a vital role in achieving the objective of ensuring end to end Shariah Compliance of the bank at all times by evaluating and assessing all activities and banking operation.
3. We have assessed the function carried out by Shariah Secretariat and Advisory, Shariah Review, Shariah Audit and Shariah Risk which included examining on a sample basis of each type of transaction, the relevant documentations and procedures adopted by Bank Rakyat.



4. Shariah Secretariat and Advisory provide advisory on product development and day to day business operations which includes:
 - a. issuing of Shariah Compliance Review Certificate
 - b. setting the Shariah parameters
 - c. vetting of legal documentations
 - d. screening business banking financing applications
 - e. approving marketing materials and appointment of card merchants
 - f. preparing *Takyif Fiqhi* for validation by us on the current issues related to Islamic Banking products and services as a support to the business proposal of the bank.
5. We also supervised and endorsed any new and revised guidelines issued by Bank Negara Malaysia which was presented by Shariah Research, Governance & Training.
6. We have also endorsed the Shariah research papers under the supervision of Shariah Research, Governance and Training in collaboration with Academic Institutions namely International Islamic University Malaysia (IIUM) and Universiti Teknologi Mara (UITM) on the current issues related to Islamic Banking products and services as a support to the new development in banking businesses. Among the Shariah research papers that have been presented to us are as follows:
 - a) Exploring the potential of Using Zakat Funds to provide Microfinance to Zakat Recipients : A Shariah Analysis
 - b) Musharakah as an Islamic Financial Structure for Venture Capital : Its Potentials and Possible Applications for Small and Medium Enterprises (SMEs) in Malaysia
 - c) Contemporary Model : Development of Waqf Commercial Housing
7. Shariah Review and Shariah Audit have performed their review and audit based on review and audit plan as advised and approved by us. Shariah Review and Shariah Audit Reports were presented and deliberated in our meetings to confirm that the Bank has complied with the rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, Shariah Advisory Council of Securities Commission Malaysia and decisions made by us.
8. During the financial year of 2022, Shariah Review and Shariah Audit presented to us the following reports :

Shariah Review

- a. Shariah Review Report on 147 Bank Rakyat's branches in Malaysia.
- b. Shariah Review Report on 25 Rakyat X'cess / Combo and 27 Ar-Rahnu X'change (ARX).



- c. Shariah Review Report on 6 Auto Finance Centre (AFC).
- d. Shariah Review Report on 239 corporate financing and cooperative financing application.
- e. Shariah Review Report on 33 Trade Finance application.
- f. Shariah Review Report on 6 Small Medium Enterprise & Cooperative Business Centre (SMEC).
- g. Shariah Review Report on 25 Cooperatives (Credit and Ar-Rahnu) and 1 factoring company.
- h. Shariah Review Report on Funding & Currency Management.
- i. Shariah Review Report on Treasury Sales & Correspondent Banking.
- j. Shariah Review Report on Portfolio Investment Management.
- k. Shariah Review Report on Overall Marketing Materials issued by Bank Rakyat through social media.
- l. Shariah Review Report on Rakyat Management Services Sdn Bhd.
- m. Shariah Review Report on Mobile Banking iRakyat Apps.
- n. Shariah Review Report on Documents of Retail Financing Product.
- o. Shariah Review Report on Moratorium Program.
- p. Shariah Review Report on the activities of Bank asset's rental.
- q. Shariah Review Report on Investment Account.
- r. Shariah Review Report on Conversion Shariah Concept of Ar-Rahnu Product to Tawarruq.

Shariah Audit

- a. Shariah Audit Report: Trade Finance Department
- b. Shariah Audit Report: Rakyat Management Services Sdn Bhd



- c. Shariah Audit Report: Retail Rehabilitation
- d. Shariah Audit Report: Member Services
- e. Shariah Audit Report: Debit Card-i
- f. Shariah Audit Report: Retail Recovery
- g. Audit Report: Follow-up on Unresolved Audit Findings Highlighted by Shariah Audit for Quarter 4, 2021
- h. Audit Report: Follow-up on Unresolved Audit Findings Highlighted by Shariah Audit for Quarter 1, 2022
- i. Audit Report: Follow-up on Unresolved Audit Findings Highlighted by Shariah Audit for Quarter 2, 2022
- j. Audit Report: Follow-up on Unresolved Audit Findings Highlighted by Shariah Audit for Quarter 3, 2022

Shariah Risk

- 9. Shariah Risk is responsible to systematically identify, measure, monitor and control Shariah non-compliance risks, and therefore mitigate or minimize the occurrence of Shariah non-compliances. For the year 2022, Shariah Risk has continuously implemented appropriate measures in managing its SNC risk exposures. SNC risk are mitigated by implementing and putting in place appropriate control measures, such as policies, guidelines and procedures on Shariah requirements.
- 10. The implementation of Risk Control Self-Assessment (RCSA) profiling aims to assess the potential SNC risk and effectiveness of the internal controls to mitigate risk in Business Unit (BU). In managing SNC risk, continuous process of identifying and assessing SNC risks at various BUs have been carried out by all Risk Agents (RAs) where the RAs are responsible to implement an appropriate control to mitigate any potential SNC events without compromising the business objectives of their respective BUs and exposing the Bank to unacceptable levels of risk.
- 11. All potential and actual SNC events are to be reported to BNM within the required timeframe set by BNM.
- 12. Awareness training on the enhanced Shariah risk management process were conducted to instil Shariah risk compliance culture and to guide Business Unit in identifying Shariah risk and its control measures within their daily operations.



13. All report related to SNC risk has also been tabled in the Operational Risk Management Committee, Management Risk Committee and Board Risk Committee for monitoring and oversight purposes as follows:

- SNC Analysis
- Shariah Risk Profiling
- Risk Control Self-Assessment (RCSA) Profiling

SHARIAH DEVELOPMENT AND AWARENESS

14. In the year of 2022, sixty (60) Shariah sessions namely “Prihatin Insan” were delivered to the Bank’s internal employees covering about 994 participants nationwide. The “Prihatin Insan” session was one of the initiatives in the Shariah Leadership Blueprint to spread out awareness of Shariah and Islamic knowledge as a whole among employees.
15. Bank Rakyat has also committed to strengthening the level of understanding of Shariah knowledge among its employees with the execution of the “International Shariah Scholars Roundtable” (iSHAR) program while also extending the recognition of Bank Rakyat in the eyes of industry players. Six (6) members of the Shariah Committee together with thirty-one (31) Shariah officers have attended two (2) days of robust discussion among prominent Shariah scholars of the worldwide Islamic Finance industry.
16. The 4th iSHAR was held on 19 and 20 September 2022 in collaboration with International Centre for Education in Islamic Finance (INCEIF University) and Derasat for Research & Consulting Islamic Banking (Derasat). The iSHAR 2022 has gathered 34 Shariah scholars around the world to discuss Shariah issues related to *muamalat* and exploring new initiative to approach within the Shariah compliance framework in Muamalat, Zakat and Waqf.
17. In order to ensure all employees are expected to have a reasonable understanding of the principles of the Shariah and its broad application in Islamic finance, Shariah Sector in collaboration with Islamic Banking and Finance Institute Malaysia (IBFIM) has developed an e-Learning (Advanced) module regarding fundamentals of Muamalat Contracts in Islamic Finance as well as Shariah Governance in Islamic Financial Institutions which was enrolled to all Bank Rakyat employees in 4th Quarter of 2022.
18. In addition, Bank Rakyat has also extended the commitment for the Board of Directors and Management Committee to be equipped with a deeper knowledge and understanding of Muamalat and Islamic Finance with the execution of an In-House training program, which was conducted by a Shariah Committee Member of Bank Rakyat.



19. Apart from that, with the aim to inculcate the Shariah compliance culture within Bank Rakyat, Shariah Review Department's officers who had conducted Shariah Review at Bank Rakyat's branches were delegated to deliver a briefing session with branch employees on the Shariah compliance. A session called 'Compliance Day' Program was also co-organised with the Compliance & Governance Sector focusing on the compliance from Shariah perspective. The program was aimed to provide awareness to Business Support & Unit (BSU) in avoidance of Shariah non-compliant event and to update on the new Shariah rulings issued by Shariah Committee of Bank Rakyat, Bank Negara Malaysia (BNM), Securities Commission and other related authorities / regulators.
20. In addition, awareness about Shariah banking among students and the public had also been conducted by Shariah Review Department's officers at IPTA & IPTS, cooperatives as well as companies that have received facility from Bank Rakyat.

SHARIAH NON-COMPLIANCE ISSUE

21. For the financial year ended 31 December 2022, there were a total of eight (8) Shariah non-compliance incidents recorded and deliberated in the Shariah Committee Meeting as follows :

- a) Overcharged of Late Payment Charges (LPC) during the migration to Silverlake Integrated Islamic Banking System (SIIBS).

Overcharged of Late Payment Charges (LPC) to customers' account of Business Banking product during the migration process from previous system to current Silverlake Integrated Islamic Banking System (SIIBS). Overcharged of the LPC is non-compliance with BNM's Guideline of LPC. The excess amount of RM 5,027.65 was successfully refunded to the customers.

- b) Overcharged of Late Payment Charges (LPC) to a cooperative's customer due to inaccurate new maturity date stated in the system.

Overcharged LPC to a cooperative's customer due to wrong maturity date maintained in Silverlake Integrated Islamic Banking System (SIIBS). Overcharged of LPC is non-compliance with BNM's Guideline of LPC. The excess amount RM 72,461.58 will be refunded to the customers through the reduction of its latest outstanding balance.

- c) Overcharged of effective profit due to inaccurate maturity date stated in the system.

Overcharged profit to a customer's account of Working Capital Financing-i due to inaccurate maturity date maintained in Silverlake Integrated Islamic Banking System (SIIBS). Overcharged of LPC is non-compliance with BNM's Guideline of LPC. The excess amount RM 6,641.61 was successfully refunded to the customers.



d) Shariah Non-compliance on the redemption process and new pawn broking.

Non-compliance on internal policy and procedures which resulted SNC event due to the transaction performed was not in compliance with the Syariah requirements. No financial implication involved.

e) The sale and purchase of gold between the successful bidder and the Bank was carried out without proof of payment.

The transaction process for successful bidder was conducted without obtaining any physical cash from customer and the said Marhun still remain under the branch custodian. This process is non-compliance with Financing Operating Guideline No. 215 – Pawn Broking-i. No financial implication involved.

f) Acceptance of marhun item with non-Islamic religions related symbol.

Acceptance of marhun item depicting non-Islamic religious symbol (Om/Aum) is non-compliance with Shariah Committee Resolution and Financing Operating Guideline No. 215 – Pawn Broking-i. No financial implication involved.

g) Inconsistency in the dividend calculation for new and additional share applications.

Dividend calculation should be calculated based on minimum monthly balance and should be reflected one month after the payment / receipt date. The inconsistency occurred for new and additional applications made in the previous system (IBS). No financial implication involved.

h) Disbursement of Personal Financing-i to a deceased customer.

The completion of *Tawarruq* contract (*aqad*) was done after the customer deceased in which *Wakalah* fee was regarded as bank's income for the transaction. Hibah transaction executed in eCurrent Account-i is invalid due to the Hibah transaction was executed without fulfilment of all components of Hibah arrangement due to demise of the recipient. The fee collected by the bank amounting RM 28.30 was successfully refunded to the customer's heirs.

22. All potential Shariah Non-Compliant events are initially assessed by the Qualified Shariah Officer and all of the Shariah non-compliance events together with the rectification plans were presented to us and the Board of Directors for confirmation and was subsequently reported to Bank Negara Malaysia in accordance with the Shariah non-compliance reporting process within the required timeframe set by Bank Negara Malaysia.

23. Shariah non-compliance events experienced by the Bank were mostly due to the non-compliance to the operational guidelines based on the report presented by Shariah Review



and Shariah Audit. The Bank has taken the corrective as well as preventive measures in order to avoid the same Shariah non-compliance events from occurring in the future which includes specific Shariah training to all staff.

BANK RAKYAT'S WAQF / SEDEKAH INITIATIVE

24. Waqf / Sedekah initiatives in Bank Rakyat which has been approved by us is divided into three (3), namely:

a) Waqf

This waqf initiative involves various types of waqf and the implementation of a wider waqf. The Bank has collaborated with Majlis Agama Islam dan Adat Melayu Terengganu (MAIDAM) and as of 31 December 2022, the total accumulated waqf collection (including hibah) received amounted to RM1,489,235.52. Of these, a total of RM644,875.38 was used for the purpose of renovation and purchase of medical equipment of the MAIDAM Haemodialysis Centre. The MAIDAM Haemodialysis Centre has commenced operations on 8 November 2022 and the Opening Ceremony was held on 13 December 2022.

b) Cash Waqf

Waqf is one of the types of waqf introduced by the Bank. Through this waqf, the cash value will be maintained and invested, and the proceeds of the investment will be distributed to the beneficiaries. Bank Rakyat has collaborated with several Higher Education Institutions as well as Waqf-related Institutions. As of 31 December 2022, the total collection (including hibah) is as follows:

Institution	Collection (includes hibah) (RM)
Kolej Professional Baitulmal, Kuala Lumpur	332,391.87
Universiti Kebangsaan Malaysia	83,205.00
Yayasan Waqaf Malaysia	780,151.09

c) Sedekah (Jāriah Al-Barakah)

Jāriah Al-Barakah is a collaborative initiative between Bank Rakyat and Surau Al-Barakah which was created to support the practice of charity among the Bank's employees and the community. Through this platform, the sedekah / charity will be managed more effectively. Collection received for this platform from 1 January 2022 until 31 December 2022 is RM265,948.71 which made the total collection from the establishment of this initiative until 31 December 2022 amounting to RM 820,874.92.



From this amount, a total of RM 248,335.56 has been distributed to the qualified beneficiaries.

ZAKAT ON BUSINESS

25. We confirmed that the bank has fulfilled its obligation to pay Zakat on its business for the financial year ended 2021 to Majlis Agama Islam Negeri-Negeri amounting **RM 14,856,875.00** by adopting the computation based on capital growth method and in compliance with the *Manual Pengurusan Zakat Perbankan* issued by *Jabatan Wakaf, Zakat dan Haji* (JAWHAR).
26. For the Zakat Asnaf (own distribution), we confirmed that business Zakat of the bank was distributed accordingly amounting to **RM 25,994,125.00** to the eligible Asnaf as guided by Policy and Procedure Business Zakat Management of Bank Rakyat that was approved by us.
27. The distribution of zakat is based on Objective of Shariah and in line with the Sustainable Development Goals (SDGs) such as basic needs assistance, education, religion, medication, housing, asnaf entrepreneurs and muallaf.
28. In summary, we endorsed that Bank Rakyat has managed to pay Zakat on business for the year of 2021 in total sum of **RM 40,851,000.00**.

Based on the report, **we opined that :**

1. The Shariah principles and contracts implemented on products offered by the bank are in compliance with the Shariah principles and Shariah resolutions issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.
2. The transactions, applications and dealings entered into by the Bank that we have reviewed excluding the Shariah Non-compliance events mentioned above, are in compliance with the Shariah principles and Shariah resolutions issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.
3. Rectification plans has been executed on all confirmed Shariah Non-Compliant events.
4. The transactions, applications and dealings which are subjected to further investigation and rectification has been regulated on an on-going basis.
5. All earnings that have been realized from sources or by means in compliance with the Shariah principles were purified accordingly.



6. The distribution of Zakat on Banking Business for the year of 2021 is in compliance with Shariah principles.
7. The collection and management of Waqf fund under Bank Rakyat Waqf Initiative for the year of 2022 is in compliance with Shariah principles.

We, the members of the Shariah Committee of Bank Rakyat, to the best of our knowledge, do hereby confirm that the operations of Bank Rakyat, to the best of its effort, for the year ended 31 December 2022 have been conducted in conformity with the Shariah principles.

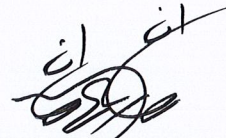
Annual Report of Shariah Committee of Bank Rakyat 2022



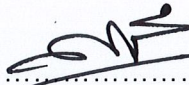
.....
PROF. DR. AZMAN MOHD NOOR
Chairman of Shariah Committee



.....
PROF. DATO' DR. MOHD AZMI OMAR
Shariah Committee Member

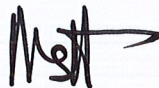


.....
USTAZ WAN RUMAIZI WAN HUSIN
Shariah Committee Member



.....
DR. MOHAMMAD ZAINI YAHAYA
Shariah Committee Member

.....
DR. TUAN BADRUL HISYAM TUAN SOH
Shariah Committee Member



.....
SS DR. MOHAMAD SABRI HARON
Shariah Committee Member

Annual Report of Shariah Committee of Bank Rakyat 2022

.....
PROF. DR. AZMAN MOHD NOOR
Chairman of Shariah Committee

.....
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Shariah Committee Member

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Shariah Committee Member

.....
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Shariah Committee Member


.....
DR. TUAN BADRUL HISYAM TUAN SOH
Shariah Committee Member

.....
SS DR. MOHAMAD SABRI HARON
Shariah Committee Member

STATUTORY DECLARATION

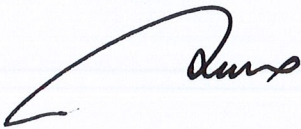
I, **AMREN FAISAL FADZIL**, being the officer primarily responsible for the financial management of Bank Kerjasama Rakyat Malaysia Berhad, do solemnly and sincerely declare that the financial statements are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur on **19 JAN 2023**



AMREN FAISAL FADZIL

Before me:



ZULPADLI & EDHAM
NO. 24, JALAN PERUMAHAN GURNEY
54000 KUALA LUMPUR

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

DIRECTORS' REPORT

The Directors of Bank Kerjasama Rakyat Malaysia Berhad ("the Bank") have pleasure in submitting their report and the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are those of a co-operative that carries out banking activities based on Shariah principles through accepting deposits and providing financial services for retail and commercial needs.

The principal activities of the subsidiaries are disclosed in Note 16 to the financial statements.

There have been no significant changes in the nature of the principal activities of the Group and the Bank.

RESULTS OF OPERATIONS

	Group RM'000	Bank RM'000
Profit before taxation and zakat	1,696,311	1,678,229
Taxation	158,167	162,271
Zakat	(40,926)	(39,851)
Profit after taxation and zakat	1,813,552	1,800,649
Statutory appropriations	(525,402)	(525,402)
Profit for the year after statutory appropriations	1,288,150	1,275,247
Other comprehensive loss	(416,604)	(416,604)
Total comprehensive income for the year	<u>871,546</u>	<u>858,643</u>
Total comprehensive income for the year attributable to:		
Equity holders of the Bank	<u>871,546</u>	<u>858,643</u>

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

RESERVES AND PROVISION

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

DIVIDENDS

During the financial year ended 31 December 2022, the Bank paid a cash dividend of 15% amounting to RM429 million in regard to the previous financial year ended 31 December 2021.

In respect of the current financial year, the Board of Directors has proposed a cash dividend of up to 15% amounting to approximately RM450 million. The proposed dividend will be recognised in the subsequent financial year upon approval by the relevant external authorities.

OTHER STATUTORY INFORMATION

In the opinion of the Directors, the financial statements set out on pages 4 to 222 have been drawn up so as to give a true and fair view of the state of affairs of the Group and of the Bank as of 31 December 2022 and of the results of their operations and cash flows for the year ended on that date.

The Directors are satisfied that before the statements of financial position and the statements of profit or loss and other comprehensive income of the Group and of the Bank were made out, reasonable steps have been taken on the following matters:

- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of impairment provisions and allowance for doubtful debts and had satisfied themselves that all known bad financing and bad debts had been written off and that adequate impairment provisions and allowance for impaired financing had been made for doubtful debts; and
- (ii) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

At the date of this report, within the knowledge of the Directors, they are not aware of any circumstances that would cause the following:

- (i) the amount written off for bad financing and bad debts or the amount of the impairment provisions and allowance for doubtful debts in the financial statements of the Group and of the Bank inadequate to any substantial extent; or
- (ii) the values attributed to the current assets in the financial statements of the Group and of the Bank misleading; or
- (iii) the amount reported in the financial statements of the Group and of the Bank misleading; and
- (iv) any adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

OTHER STATUTORY INFORMATION (CONTINUED)

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

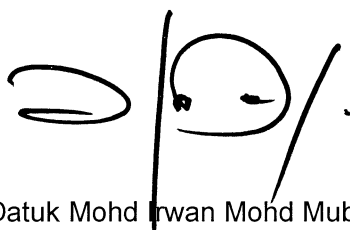
- (i) any charge on the assets of the Group and of the Bank which has arisen since the end of the financial year which secures the liability of any other person; or
- (ii) any contingent liability of the Group and of the Bank which has arisen since the end of the financial year.

No contingent or other liability which has not been discharged has been undertaken by the Group and the Bank, except as disclosed in Note 41 to the financial statements. 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, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Bank to meet their obligations as and when they fall due.

In the opinion of the Directors, no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of operations of the Group and of the Bank for the succeeding financial year.

The Directors do solemnly and sincerely declare that there were no other matters, within their knowledge, that are not disclosed in accordance with Section 59, Co-operative Societies Act 1993.

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



Datuk Mohd Irwan Mohd Mubarak



Tunku Dato' Ahmad Burhanuddin
Tunku Datuk Seri Adnan

Kuala Lumpur, Malaysia
19 JAN 2023

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

		Group		Bank	
	Note	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Assets					
Cash and short-term funds	6	1,834,420	835,189	1,831,709	834,987
Deposits and placements with financial institutions	7	368,445	672,463	368,303	672,463
Financial investments at fair value through profit or loss	8	255,027	976,032	255,027	976,032
Financial investments at fair value through other comprehensive income	9	20,466,301	20,781,718	20,466,293	20,781,710
Financial investments at amortised cost	10	12,427,045	10,826,850	12,427,045	10,826,850
Financing and advances	11	77,709,892	77,296,437	77,997,917	77,516,581
Trade receivables	12	1,228	909	-	-
Other assets	13	975,749	620,169	948,807	596,551
Right-of-use assets	14	40,262	49,075	46,954	60,948
Inventories	15	43,801	23,393	-	-
Investments in subsidiaries	16	-	-	100,744	100,744
Property and equipment	17	613,202	606,186	523,536	514,446
Intangible assets	18	544,365	579,046	531,180	565,861
Investment properties	19	1,490,411	1,388,091	958,370	948,920
Prepaid lease payments	20	55,193	59,038	55,193	59,038
Tax recoverable		218,713	142,078	215,653	138,747
Deferred tax assets	21	290,672	201,484	290,000	201,000
Total assets		117,334,726	115,058,158	117,016,731	114,794,878

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2022 (CONTINUED)

	Note	Group 2022 RM'000	2021 RM'000	Bank 2022 RM'000	2021 RM'000
Liabilities					
Deposits from customers	22	86,338,197	86,523,884	86,338,197	86,523,884
Investment accounts of customers	23	19,983	-	19,983	-
Deposits and placements from banks and financial institutions	24	1,592,461	850,000	1,592,461	850,000
Trade payables		1,735	1,839	-	-
Recourse obligations on financing sold to Cagamas	25	500,000	318,311	500,000	318,311
Debt securities issued	26	4,023,391	3,297,940	4,023,391	3,297,940
Cashline facility	27	704,122	700,417	704,122	700,417
Other liabilities	28	1,585,415	1,697,022	1,732,357	1,884,260
Deferred tax liabilities	21	15,170	13,550	-	-
Total liabilities		<u>94,780,474</u>	<u>93,402,963</u>	<u>94,910,511</u>	<u>93,574,812</u>
Shareholders' fund					
Share capital	29	2,986,030	2,986,030	2,986,030	2,986,030
Share redemption fund		2,120	5,885	2,120	5,885
Reserves	30	19,566,102	18,663,280	19,118,070	18,228,151
Total shareholders' fund		<u>22,554,252</u>	<u>21,655,195</u>	<u>22,106,220</u>	<u>21,220,066</u>
Total liabilities and shareholders' fund		<u>117,334,726</u>	<u>115,058,158</u>	<u>117,016,731</u>	<u>114,794,878</u>
Commitments and contingencies	41	<u>2,573,104</u>	<u>2,543,134</u>	<u>2,573,104</u>	<u>2,543,134</u>

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Group 2022 RM'000	2021 RM'000	Bank 2022 RM'000	2021 RM'000
Income	31	5,904,223	5,708,550	5,822,795	5,654,258
Expenditure	32	(2,427,353)	(2,184,440)	(2,351,517)	(2,134,250)
Net income		3,476,870	3,524,110	3,471,278	3,520,008
Allowances for impairment	33	(670,098)	(728,892)	(666,802)	(729,615)
Other operating income	34	440,793	355,194	423,650	347,802
Operating expenses	35	(1,551,254)	(1,524,346)	(1,549,897)	(1,523,099)
Profit before taxation and zakat		1,696,311	1,626,066	1,678,229	1,615,096
Taxation	36	158,167	274,201	162,271	278,107
Zakat	37	(40,926)	(42,382)	(39,851)	(40,465)
Profit after taxation and zakat		1,813,552	1,857,885	1,800,649	1,852,738
Statutory appropriations	38				
Transfer to statutory reserve: 25% (2021: 25%)		(460,125)	(473,301)	(460,125)	(473,301)
Contribution to the Co-operative Education Trust Fund: 2% (2021: 2%)		(33,565)	(32,302)	(33,565)	(32,302)
Contribution to the Co-operative Development Provident Fund: 1% (2021: 1%)		(16,782)	(16,151)	(16,782)	(16,151)
Contribution to Bank Rakyat Foundation		(14,930)	(14,930)	(14,930)	(14,930)
		(525,402)	(536,684)	(525,402)	(536,684)
Profit for the year		1,288,150	1,321,201	1,275,247	1,316,054

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

	Note	Group 2022 RM'000	2021 RM'000	Bank 2022 RM'000	2021 RM'000
Other comprehensive loss					
Items that will not be reclassified to profit or loss:					
Change in fair value reserve (equity instruments)		14,395	14,714	14,395	14,714
Items that may be reclassified subsequently to profit or loss:					
Fair value reserve (debt instruments)					
- Change in fair value		(429,599)	(723,327)	(429,599)	(723,327)
- Amount transferred to profit or loss		(1,349)	(2,304)	(1,349)	(2,304)
Change in expected credit loss ("ECL") reserve on debt instruments at FVOCI		(51)	(45)	(51)	(45)
Other comprehensive loss for the year		(416,604)	(710,962)	(416,604)	(710,962)
Total comprehensive income for the year		871,546	610,239	858,643	605,092
Earnings per share (RM)					
Basic	39	0.62	0.63	0.61	0.63

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

Group	Non-distributable Share			Distributable	
	Share capital RM'000	redemption fund RM'000	Other reserves RM'000	Retained profits RM'000	Total equity RM'000
At 1 January 2021	2,986,030	9,977	8,091,563	9,860,818	20,948,388
Profit after taxation and zakat	-	-	-	1,857,885	1,857,885
Transfer to statutory reserve	-	-	-	(473,301)	(473,301)
Contribution to the Co-operative Education Trust Fund	-	-	-	(32,302)	(32,302)
Contribution to the Co-operative Development Provident Fund	-	-	-	(16,151)	(16,151)
Contribution to Bank Rakyat Foundation	-	-	-	(14,930)	(14,930)
Profit for the year	-	-	-	1,321,201	1,321,201
Other comprehensive loss	-	-	(710,962)	-	(710,962)
Total comprehensive (loss)/income for the year	-	-	(710,962)	1,321,201	610,239
Transfer from retained profits	-	-	473,301	-	473,301
Issuance to new member	18,282	-	-	-	18,282
Share withdrawal	(22,374)	-	-	-	(22,374)
Transfer to share capital	4,092	(4,092)	-	-	-
Dividends (Note 40)	-	-	-	(373,230)	(373,230)
Overprovision in contribution to Bank Rakyat Foundation	-	-	-	589	589
At 31 December 2021	2,986,030	5,885	7,853,902	10,809,378	21,655,195
	Note 29		Note 30	Note 30	

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

Group	← Non-distributable Share →			Distributable	
	Share capital RM'000	redemption fund RM'000	Other reserves RM'000	Retained profits RM'000	Total equity RM'000
At 1 January 2022	2,986,030	5,885	7,853,902	10,809,378	21,655,195
Profit after taxation and zakat	-	-	-	1,813,552	1,813,552
Transfer to statutory reserve	-	-	-	(460,125)	(460,125)
Contribution to the Co-operative Education Trust Fund	-	-	-	(33,565)	(33,565)
Contribution to the Co-operative Development Provident Fund	-	-	-	(16,782)	(16,782)
Contribution to Bank Rakyat Foundation	-	-	-	(14,930)	(14,930)
Profit for the year	-	-	-	1,288,150	1,288,150
Other comprehensive loss	-	-	(416,604)	-	(416,604)
Total comprehensive (loss)/income for the year	-	-	(416,604)	1,288,150	871,546
Transfer from retained profits	-	-	460,125	-	460,125
Issuance to new member	22,939	-	-	-	22,939
Share withdrawal	(26,704)	-	-	-	(26,704)
Transfer to share capital	3,765	(3,765)	-	-	-
Dividends (Note 40)	-	-	-	(429,476)	(429,476)
Overprovision in contribution to Bank Rakyat Foundation	-	-	-	627	627
At 31 December 2022	2,986,030	2,120	7,897,423	11,668,679	22,554,252
	Note 29		Note 30	Note 30	

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

	← Non-distributable Share →			Distributable	
	Share capital RM'000	redemption fund RM'000	Other reserves RM'000	Retained profits RM'000	Total equity RM'000
Bank					
At 1 January 2021	2,986,030	9,977	8,092,304	9,430,095	20,518,406
Profit after taxation and zakat	-	-	-	1,852,738	1,852,738
Transfer to statutory reserve	-	-	-	(473,301)	(473,301)
Contribution to the Co-operative Education Trust Fund	-	-	-	(32,302)	(32,302)
Contribution to the Co-operative Development Provident Fund	-	-	-	(16,151)	(16,151)
Contribution to Bank Rakyat Foundation	-	-	-	(14,930)	(14,930)
Profit for the year	-	-	-	1,316,054	1,316,054
Other comprehensive loss	-	-	(710,962)	-	(710,962)
Total comprehensive (loss)/income for the year	-	-	(710,962)	1,316,054	605,092
Transfer from retained profits	-	-	473,301	-	473,301
Issuance to new member	18,282	-	-	-	18,282
Share withdrawal	(22,374)	-	-	-	(22,374)
Transfer to share capital	4,092	(4,092)	-	-	-
Dividends (Note 40)	-	-	-	(373,230)	(373,230)
Overprovision in contribution to Bank Rakyat Foundation	-	-	-	589	589
At 31 December 2021	2,986,030	5,885	7,854,643	10,373,508	21,220,066
	Note 29		Note 30	Note 30	

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

	← Non-distributable Share →			Distributable	
	Share capital RM'000	redemption fund RM'000	Other reserves RM'000	Retained profits RM'000	Total equity RM'000
Bank					
At 1 January 2022	2,986,030	5,885	7,854,643	10,373,508	21,220,066
Profit after taxation and zakat	-	-	-	1,800,649	1,800,649
Transfer to statutory reserve	-	-	-	(460,125)	(460,125)
Contribution to the Co-operative Education Trust Fund	-	-	-	(33,565)	(33,565)
Contribution to the Co-operative Development Provident Fund	-	-	-	(16,782)	(16,782)
Contribution to Bank Rakyat Foundation	-	-	-	(14,930)	(14,930)
Profit for the year	-	-	-	1,275,247	1,275,247
Other comprehensive loss	-	-	(416,604)	-	(416,604)
Total comprehensive (loss)/income for the year	-	-	(416,604)	1,275,247	858,643
Transfer from retained profits	-	-	460,125	-	460,125
Issuance to new member	22,939	-	-	-	22,939
Share withdrawal	(26,704)	-	-	-	(26,704)
Transfer to share capital	3,765	(3,765)	-	-	-
Dividends (Note 40)	-	-	-	(429,476)	(429,476)
Overprovision in contribution to Bank Rakyat Foundation	-	-	-	627	627
At 31 December 2022	2,986,030	2,120	7,898,164	11,219,906	22,106,220
	Note 29		Note 30	Note 30	

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities				
Profit before taxation and zakat	1,696,311	1,626,066	1,678,229	1,615,096
Adjustment for:				
Profit expense on debt securities issued (Note 32)	150,551	134,198	150,551	134,198
Allowance for impairment on financing and advances (Note 33)	677,550	729,585	674,254	730,308
Writeback for impairment on financial investments at fair value through other comprehensive income (Note 33)	(51)	(45)	(51)	(45)
Writeback for impairment on financial investments at amortised cost (Note 33)	(7,401)	(648)	(7,401)	(648)
Depreciation of property and equipment (Note 35(ii))	39,058	37,924	36,517	34,643
Depreciation of right-of-use assets (Note 35(ii))	18,959	16,190	24,447	21,976
Amortisation of prepaid lease payment (Note 35(ii))	1,550	1,590	1,550	1,590
Amortisation of intangible assets (Note 35(ii))	54,306	49,448	54,306	49,448
Finance cost on lease liabilities (Note 35(ii))	1,913	2,117	2,316	2,777
Property and equipment written off (Note 35(ii))	37	257	37	238
Intangible assets written off (Note 35(ii))	-	31	-	31
Gain on disposal of property and equipment (Note 34(ii))	-	(185)	-	-
Loss on financing written off (Note 35(ii))	6,936	6,785	6,936	6,785
Impairment of trade and other receivables (Note 35(ii))	-	438	-	135
Gain on revaluation of investment properties (Note 34(ii))	(26,281)	(8,871)	(9,450)	(2,779)

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities (continued)				
Adjustment for (continued):				
Writeback for impairment on trade receivables (Note 34(ii))	(149)	(1,054)	-	-
Writeback for impairment on other receivables, deposits and prepayments (Note 34(ii))	(1,138)	-	(1,138)	-
Net loss/(gain) on disposal of financial investments at fair value through profit or loss (Note 34(ii))	24,813	(2,608)	24,813	(2,608)
Net gain on disposal of financial investments at fair value through other comprehensive income (Note 34(ii))	(1,349)	(2,304)	(1,349)	(2,304)
Net loss on revaluation of financial investments at fair value through profit or loss (Note 34(ii))	846	46,840	846	46,840
Profit expense on financing sold with recourse to Cagamas (Note 32)	15,467	16,567	15,467	16,567
Profit expense on cashline facility (Note 32)	8,647	3,473	8,647	3,473
Dividend from financial investments at fair value through profit or loss (Note 34(ii))	(15,623)	(17,538)	(15,623)	(17,538)
Operating profit before working capital changes	2,644,952	2,638,256	2,643,904	2,638,183
Decrease/(Increase) in assets:				
Deposits and placements with financial institutions	243,905	(405,134)	244,047	(405,134)
Financing and advances	(1,099,490)	(1,951,358)	(1,164,075)	(1,970,058)
Trade receivables	(170)	(11)	-	-
Other assets	(354,442)	327,535	(351,118)	327,722
Inventories	(20,408)	(19,936)	-	-

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities (continued)				
(Decrease)/Increase in liabilities:				
Deposits from customers	(185,687)	948,453	(185,687)	948,453
Investment accounts of customers	19,983	-	19,983	-
Deposits and placements from banks and financial institutions	742,461	700,000	742,461	700,000
Trade payables	(104)	465	-	-
Recourse obligations on financing sold to Cagamas	166,222	(38,082)	166,222	(38,082)
Other liabilities	(254,735)	(150,552)	(289,812)	(168,712)
Cash generated from operations activities	1,902,487	2,049,636	1,825,925	2,032,372
Income tax paid	(6,036)	(50,483)	(3,635)	(47,587)
Zakat paid	(37,974)	(28,869)	(36,728)	(26,414)
Net cash generated from operating activities	1,858,477	1,970,284	1,785,562	1,958,371
Cash flows from investing activities				
Purchases of financial investments at fair value through profit or loss	(330,000)	(960,000)	(330,000)	(960,000)
Proceed from disposal of financial investments at fair value through profit or loss	1,025,346	387,562	1,025,346	387,562
Purchases of financial investments at fair value through other comprehensive income	(3,855,000)	(4,433,100)	(3,855,000)	(4,433,100)
Proceed from disposal of financial investments at fair value through other comprehensive income	3,755,213	3,562,839	3,755,213	3,562,839
Purchases of financial investments at amortised cost	(3,961,150)	(3,905,000)	(3,961,150)	(3,905,000)
Proceeds from disposal of financial investments at amortised cost	2,368,356	2,826,663	2,368,356	2,826,663
Purchase of investment properties	(76,039)	(25,536)	-	(6,836)

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Cash flows from investing activities (continued)				
Purchase of property and equipment	(43,816)	(42,263)	(43,349)	(42,161)
Purchase of intangible assets	(19,625)	(157,520)	(19,625)	(157,520)
Proceeds from disposal of property and equipment	-	187	-	-
Dividend from financial investments at fair value through profit or loss (Note 34(ii))	15,623	17,538	15,623	17,538
Net cash used in investing activities	(1,121,092)	(2,728,630)	(1,044,586)	(2,710,015)
Cash flows from financing activities				
Proceeds from issue of shares to members	22,939	18,282	22,939	18,282
Dividend paid	(429,476)	(373,230)	(429,476)	(373,230)
Fund received from government	59,229	157,471	59,229	157,471
Proceeds from debt securities issued	2,000,000	1,300,000	2,000,000	1,300,000
Payment of profit expenses on debt securities issued	(145,100)	(128,816)	(145,100)	(128,816)
Payment on debt securities issued	(1,280,000)	(650,000)	(1,280,000)	(650,000)
Payment of lease liabilities	(20,917)	(17,828)	(27,017)	(24,276)
Payment of cashline facility	(704,942)	(803,926)	(704,942)	(803,926)
Receipt of cashline facilities	700,000	1,100,000	700,000	1,100,000
Net cash generated from financing activities	201,733	601,953	195,633	595,505
Net increase/(decrease) in cash and cash equivalents	939,118	(156,393)	936,609	(156,139)
Cash and cash equivalents at beginning of the year	895,302	1,051,695	895,100	1,051,239
Cash and cash equivalents at end of the year	1,834,420	895,302	1,831,709	895,100

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Cash and cash equivalents comprises:				
Cash and short-term funds (Note 6)	1,834,420	835,189	1,831,709	834,987
Deposits and placements with financial institutions (Note 7)	368,445	672,463	368,303	672,463
	<u>2,202,865</u>	<u>1,507,652</u>	<u>2,200,012</u>	<u>1,507,450</u>
Less:				
Cash and short-term funds and deposits and placements with original maturity of more than three months	(368,445)	(612,350)	(368,303)	(612,350)
	<u>1,834,420</u>	<u>895,302</u>	<u>1,831,709</u>	<u>895,100</u>

An analysis of changes in liabilities arising from financing activities is as follows:

	Debt securities	Lease liabilities	Cashline facility	Total
	RM'000	RM'000	RM'000	RM'000
Group				
At 1 January 2022	3,297,940	51,236	700,417	4,049,593
Profit expense during the year	150,551	1,913	8,647	161,111
Profit paid during the year	(145,100)	-	-	(145,100)
Additions	2,000,000	10,146	700,000	2,710,146
Payment	(1,280,000)	(20,917)	(704,942)	(2,005,859)
At 31 December 2022	<u>4,023,391</u>	<u>42,378</u>	<u>704,122</u>	<u>4,769,891</u>
At 1 January 2021	2,642,558	58,027	400,870	3,101,455
Profit expense during the year	134,198	2,117	3,473	139,788
Profit paid during the year	(128,816)	-	-	(128,816)
Additions	1,300,000	8,920	1,100,000	2,408,920
Payment	(650,000)	(17,828)	(803,926)	(1,471,754)
At 31 December 2021	<u>3,297,940</u>	<u>51,236</u>	<u>700,417</u>	<u>4,049,593</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)**

An analysis of changes in liabilities arising from financing activities is as follows (continued):

	Debt securities RM'000	Lease liabilities RM'000	Cashline facility RM'000	Total RM'000
Bank				
At 1 January 2022	3,297,940	63,705	700,417	4,062,062
Profit expense during the year	150,551	2,316	8,647	161,514
Payment on profit expenses	(145,100)	-	-	(145,100)
Additions	2,000,000	10,453	700,000	2,710,453
Payment	(1,280,000)	(27,017)	(704,942)	(2,011,959)
At 31 December 2022	4,023,391	49,457	704,122	4,776,970
At 1 January 2021	2,642,558	77,210	400,870	3,120,638
Profit expense during the year	134,198	2,777	3,473	140,448
Profit paid during the year	(128,816)	-	-	(128,816)
Additions	1,300,000	7,994	1,100,000	2,407,994
Payment	(650,000)	(24,276)	(803,926)	(1,478,202)
At 31 December 2021	3,297,940	63,705	700,417	4,062,062

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. GENERAL INFORMATION

The Bank was established under the Co-operative Societies Act 1993 with the registered office address at 35th Floor, Menara 1, Menara Kembar Bank Rakyat, No. 33, Jalan Rakyat, 50470 Kuala Lumpur.

The principal activities of the Bank are those of a co-operative that carries out banking activities based on Shariah principles through accepting deposits and providing financial services for retail and commercial needs.

The principal activities of the subsidiaries are disclosed in Note 16.

There have been no significant changes in the nature of these principal activities of the Group and the Bank.

The Bank has a total of 148 branches as of 31 December 2022 (2021: 148).

These financial statements have been approved and authorised for issue by the Board of Directors on 19 January 2023.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Bank have been prepared in accordance with the provisions of Bank Kerjasama Rakyat Malaysia Berhad (Special Provisions) Act 1978 (Act 202), the Co-operative Societies Act 1993 (Act 502), Development Financial Institutions Act 2002 (Act 618) and applicable Malaysian Financial Reporting Standards ("MFRS") as modified by Guidelines issued by Bank Negara Malaysia ("BNM") and in compliance with the principles of Shariah.

The financial statements of the subsidiaries of the Bank have been prepared in accordance with MFRS, IFRS and the provisions of the Companies Act, 2016 in Malaysia.

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

The following are accounting standards, interpretations and amendments of the MFRSs that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group and the Bank.

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2023

- MFRS 17, *Insurance Contracts*
- Amendments to MFRS 17, *Insurance Contracts* – Initial application of MFRS 17 and MFRS 9 – Comparative Information
- Amendments to MFRS 101, *Presentation of Financial Statements* – Disclosures of Accounting Policies

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2023 (continued)

- Amendments to MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates*
- Amendments to MFRS 112, *Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2024

- Amendment to MFRS 16, *Leases – Lease Liability in a Sale and Leaseback*
- Amendment to MFRS 101, *Presentation of Financial Statements – Non-current Liabilities with Covenants and Classification of Liabilities as Current or Non-current*

MFRSs, interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impact to the current period and prior period financial statements of the Group and of the Bank.

The Group and the Bank plan to apply the abovementioned accounting standards, amendments or interpretations, where applicable:

- from the annual period beginning on 1 January 2023 for those amendments that are effective for annual periods beginning on or after 1 January 2023, except for MFRS 17 which are not applicable to the Group and the Bank.
- from the annual period beginning on 1 January 2024 for the accounting standards and amendments that are effective for annual periods beginning on or after 1 January 2024.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The financial statements of the Group and of the Bank have been prepared on the historical cost basis, except for certain assets and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation (continued)

Historical cost is generally based on the fair value of the consideration involved in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of MFRS 2, leasing transactions that are within the scope of MFRS 16 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in MFRS 102 or value-in-use in MFRS 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The principal accounting policies are set out below.

3.2 Subsidiaries and basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank has the power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect the investee's return.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Subsidiaries and basis of consolidation (continued)

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control stated above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policy.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Subsidiaries and basis of consolidation (continued)

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 9, *Financial Instruments* ("MFRS 9"), and when applicable, the cost on initial recognition of an investment in an associate or joint venture.

Investments in subsidiaries are measured in the Bank's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

3.3 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Business combinations (continued)

At acquisition date, the identifiable assets acquired and liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with MFRS 112, *Income Taxes* and MFRS 119, *Employee Benefits* respectively;
- liabilities or equity instruments related to the share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with MFRS 2, *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified and measured as held-for-sale in accordance with MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another MFRS.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Business combinations (continued)

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of MFRS 9, is measured at fair value with the changes in fair value recognised in the statements of profit or loss in accordance with MFRS 9. Other contingent consideration that is not within the scope of MFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held equity interests in the acquiree are remeasured to fair value at the acquisition date (i.e. the date when the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised at that date.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Goodwill on consolidation

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see 3.3 above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.5 Financial instruments

Financial assets and financial liabilities are recognised when, and only when the Group and the Bank become a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets

3.5.1.1 Date of recognition

All financial assets are initially recognised on the trade date, i.e. the date that the Group and the Bank become a party to the contractual provisions of the instruments. This includes regular way trades, purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

3.5.1.2 Initial recognition and subsequent measurement

All financial assets are measured initially at their fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

The Group and the Bank classify all of its financial assets based on the business model for managing the assets and the asset's contractual cash flow characteristics, measured at either:

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

Included in financial assets are the following:

(i) Financial assets at amortised cost

The Group and the Bank measure financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit ("SPPP") on the principal amount outstanding.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.2 Initial recognition and subsequent measurement (continued)

(i) Financial assets at amortised cost (continued)

The details of these conditions are outlined below:

(a) Business model assessment

The Group and the Bank determine its business model at the level that best reflects how groups of financial assets are managed to achieve its business objective.

The Group and the Bank's business model is not assessed on an instrument-by-instrument basis, but a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); or
- The expected frequency, value and timing of sales are also important aspects of the Group and the Bank's assessment.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.2 Initial recognition and subsequent measurement (continued)

(i) Financial assets at amortised cost (continued)

(a) Business model assessment (continued)

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group and the Bank's original expectations, the Group and the Bank do not change the classification of the remaining financial assets held in that business model, but incorporate such information when assessing newly originated or newly purchased financial assets going forward.

(b) The SPPP test

As a second step of its classification process, the Group and the Bank assess the contractual terms of financial assets to identify whether they meet the SPPP test.

"Principal" for the purpose of this test is defined as their fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are payments of principal or amortisation of the premium/discount).

The most significant elements of profit within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPP assessment, the Group and the Bank apply judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the profit rate is set.

In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.2 Initial recognition and subsequent measurement (continued)

(ii) Fair value through other comprehensive income (“FVOCI”)

The Group and the Bank apply the new category under MFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial assets meet the SPPP test.

Financial assets at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in Other Comprehensive Income (“OCI”). Profit income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Equity instruments are normally measured at FVTPL. However, for unquoted equity instruments, with an irrevocable option at inception, the Group and the Bank measure the changes through FVOCI (without recycling profit or loss upon derecognition).

(iii) Financial assets at fair value through profit or loss (“FVTPL”)

Financial assets at FVTPL include financial assets held-for-trading and financial asset designated at FVTPL upon initial recognition. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held-for-trading.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.2 Initial recognition and subsequent measurement (continued)

**(iii) Financial assets at fair value through profit or loss (“FVTPL”)
(continued)**

Financial assets at FVTPL are those that are not held-for-trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under MFRS 9. Management designates an instrument at FVTPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Subsequent to initial recognition, financial assets held-for-trading and financial assets designated at FVTPL are recorded in the statements of financial position at fair value. Changes in fair value are recognised in profit or loss under the heading of ‘other operating income’.

(iv) Financing and receivables

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.2 Initial recognition and subsequent measurement (continued)

(iv) Financing and receivables (continued)

Financing and receivables are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective profit method, less any impairment. Regular way recognition of financing and advances is recorded on settlement date, when all the conditions under financing contract have been fulfilled.

Profit on financing is recognised in profit or loss by applying the effective profit rate.

Effective profit method

The effective profit method is a method of calculating the amortised cost of a financial asset or liability and of allocating profit income or 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 instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

3.5.1.3 Impairment of financial assets

The MFRS 9 impairment requirements are based on an Expected Credit Loss ("ECL") model. The ECL model applies to financial assets measured at amortised cost or at FVOCI, irrevocable financing commitments and financial guarantee contracts; which include financing and advances, as well as financial instruments held by the Group and the Bank. The ECL model also applies to contract assets under MFRS 15, *Revenue from Contracts with Customers*.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.3 Impairment of financial assets (continued)

The measurement of ECL involves increased complexity and judgement that include:

- (i) Determining a significant increase in credit risk since initial recognition

The assessment of significant deterioration since initial recognition is the key to determine the point of switching between measuring an allowance based on 12-month ECL, or an allowance based on lifetime ECL. A number of both qualitative and quantitative assessments are used in determining whether there is a significant increase in credit risk as at reporting date when compared with the date of initial recognition.

The Group and the Bank apply a three-stage approach based on the change in credit quality since initial recognition:

3-Stage approach	Stage 1	Stage 2	Stage 3
	Performing	Under-performing	Non-performing
Description	No significant increase in credit risk	Credit risk increased significantly	Credit impaired assets
ECL Approach	12-month ECL	Lifetime ECL	Lifetime ECL
Recognition of profit income	On gross carrying amount	On gross carrying amount	On net carrying amount

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.3 Impairment of financial assets (continued)

(ii) ECL Measurement

There are three main components to measure ECL which are probability of default ("PD") model, a loss given default ("LGD") model, and the exposure at default model ("EAD").

a) Probability of default

PD provides an estimate of the likelihood that a customer will be unable to meet its debt obligation or default over a particular time horizon.

b) Loss Given Default

LGD is defined as the percentage of exposure the Bank might lose in case the customer defaults. These losses are usually shown as a percentage of EAD, and depend, amongst others, on the type and amount of collateral as well as the type of customer and the expected proceeds from the work-out of the assets.

c) Exposure at Default

EAD is an estimate of the Bank's exposure to its counterparty at the time of default. For defaulted accounts, EAD is simply the amount outstanding at the point of default.

MFRS 9 does not distinguish between individual assessment and collective assessment. Therefore, the Group and the Bank have continued to measure impairment on individual assessment basis for financial assets that are deemed to be individually significant. All other remaining financial assets are collectively assessed as per the Group's policy.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.3 Impairment of financial assets (continued)

(iii) Expected life

Lifetime expected credit losses must be measured over the expected life. This is defined to be the maximum contractual life, including any expected prepayment, extension, call and similar options.

(iv) Financial investments at FVOCI

The ECLs of financial investments measured at FVOCI do not reduce the carrying amount of these financial assets, which remains at fair value. Rather, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to profit or loss upon derecognition of the assets.

(v) Forward-looking information

Expected credit losses are the unbiased probability-weighted credit losses, determined by evaluating a range of possible outcomes and considering future economic conditions. The reasonable and supportable forward-looking forward is based on the Group's and the Bank's Economic Research Division.

Where applicable, the Group and the Bank incorporate forward-looking adjustments in credit risk factors of PD and LGD used in ECL calculation, taking into account the impact of multiple probability-weighted future forecast economic scenarios.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.3 Impairment of financial assets (continued)

(v) Forward-looking information (continued)

Embedded in ECL is a broad range of forward-looking information as economic inputs, such as:

- Private Final Consumption ("PFC");
- Gross Domestic Product ("GDP");
- Consumer Sentiment Index ("CSI");
- Unemployment Rate ("Unemployment");
- Overnight Pricing Rate ("OPR");
- Passenger Cars ("Passenger Cars");
- Consumer Price Indices ("CPI");
- House Price Indices ("HPI"); or
- FTSE Bursa Malaysia Small Cap Index ("FTSE").

The Group and Bank apply the following three alternative macro-economic scenarios to reflect an unbiased probability-weighted range of possible future outcomes in estimating ECL:

- *Base scenario:* This scenario reflects the current macro-economic conditions continue to prevail.
- *Best and Worst scenarios:* These scenarios are set relative to the base scenario; reflecting the best and worst-case macro-economic conditions respectively, based on subject matter expert's best judgement from current economic conditions.

(vi) Valuation for Stage 3 ECL

The Group and the Bank's accounting policy for collateral assigned to it through its lending arrangements under MFRS 9 is the same as it was under MFRS 139.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.4 Rescheduled and restructured financing

Where a financing shows evidence of credit weaknesses, the Group and the Bank may seek to renegotiate the financing rather than to take possession of collateral. This may involve an extension of the payment arrangements via rescheduling or the renegotiation of new financing terms and conditions via restructuring. Management monitors the renegotiated financing to ensure that all the revised terms are met and that the payments are made promptly for a continuous period. Where an impaired financing is renegotiated, the customer must adhere to the revised and/or restructured payment terms for a continuous period of six months before the financing is classified as non-impaired. This financing continues to be subjected to ECL individually or collectively assessed.

3.5.1.5 Modification of financing (*Policy applicable from 1 January 2020 to 31 December 2022*)

Based on the BNM's revised guideline on Financial Reporting for Development Financial Institutions, the prescribed development financial institutions ("DFIs") shall make one-time election in 2020 to apply revision to the original effective profit rate in respect of any modifications made to the contractual cash flows of financing. In the event of election, the requirements shall apply for financial years beginning between 1 January 2020 to 31 December 2022 and in respect of financing for which the contractual cash flows are modified, including payments deferred under moratoriums provided by DFIs during these financial years. The Group and the Bank elected to adopt the modified accounting treatment.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.6 Modification of financing (*Policy applicable before 1 January 2020*)

The Group and the Bank sometimes renegotiate or otherwise modify the contractual cash flows of financing to customers. When this happens, the Group and the Bank assess whether or not the new terms are substantially different to the original terms. The Group and the Bank do this by considering, among others, the following factors:

- If the customer is in financial difficulty, whether the modification merely reduces the contractual cash flows to amount the customer is expected to be able to pay;
- Whether any substantial new terms are introduced, such as 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; or
- Significant change in profit rate.

The Group and Bank sometimes renegotiate or otherwise modify the contractual cash flows of customer financing. When this happens, the Group and the Bank assess whether or not the new terms are substantially different to the original terms. The Group and Bank do this by considering, among others, the 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 Group and the Bank derecognise the original financial asset and recognise a 'new' asset at fair value and recalculate a new effective profit rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for both impairment calculation purposes and in determining whether a significant increase in credit risk has occurred.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.6 Modification of financing (*Policy applicable before 1 January 2020*) (continued)

If the terms are not substantially different, the renegotiation or modification does not result in derecognition. The Group 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 the income statements. The new gross carrying amount is recalculated by discounting the modified cashflows at the original effective profit rate.

3.5.1.7 Reclassification of financial assets

Reclassification of financial assets is permissible when and only when there is change in business model for managing financial assets.

Subsequent to initial recognition, the Group and the Bank do not reclassify its financial assets.

3.5.2 Derecognition of financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the assets expire, or when the Group and the Bank transfer the financial assets and substantially all the risks and rewards of ownership of the assets to another entity. If the Group and the Bank neither transfer nor retain substantially all the risks and rewards of ownership and continue to control the financial asset, the Group and the Bank recognise their retained interest in the asset and an associated liability for amounts it may have to pay. If the Group and the Bank retain substantially all the risks and rewards of ownership of a transferred financial asset, the Group and the Bank continue to recognise the financial asset and also recognise a collateralised financing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated under the heading of other reserves is recognised in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.3 Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

3.5.4 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's and of the Bank's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's and of the Bank's own equity instruments.

3.5.5 Financial liabilities

Financial liabilities are initially recognised at the fair value of consideration received less directly attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective profit method. The Group and the Bank do not have any non-derivative financial liabilities designated at fair value through profit or loss. Financial liabilities at amortised cost include deposits from customers, deposits and placements from banks and financial institutions, trade and other payables, recourse obligations on financing sold to Cagamas, debt securities issued and other fund placements.

The effective profit method is a method of calculating the amortised cost of a financial liability and of allocating profit expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period to the net carrying amount on initial recognition.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.5 Financial liabilities (continued)

3.5.5.1 Investment accounts

Investment accounts are based on the concept of profit sharing. Under this concept, the customer provides capital for the Group and the Bank to invest. The profit earned from the investment will be shared as dividend between the customer and the Group and the Bank according to the predetermined mutually agreed Profit Sharing Ratio ("PSR").

An unrestricted investment account ("UA") refers to a type of investment account where the investor provides the Group and the Bank with the mandate to make the ultimate decision without specifying any particular restrictions or conditions. The UA is structured under Mudarabah contracts.

The financial losses associated with the investment are to be borne by the customer whilst the Group and the Bank may suffer losses in term of costs and time.

3.5.6 Derecognition of financial liabilities

The Group and the Bank derecognise financial liabilities when, and only when, the Group's and the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liabilities derecognised and the consideration paid or payable is recognised in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.7 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on Bursa Malaysia and broker quotes from Bond Pricing Agency.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. Under these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, and using inputs existing at the end of the reporting period.

The fair value for financing and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

3.6 Cash and cash equivalents

Cash and short term funds in the statements of financial position comprise of cash and bank balances with bank and other financial institutions and short-term deposits maturing within one month. For purpose of the statements of cash flows, cash and cash equivalents consist of cash and short term funds with original maturity of less than three months.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Leases

At inception of a contract, the Group and the Bank assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group and the Bank use the definition of a lease in MFRS 16.

(a) Group as lessor

The Group and the Bank enter into lease agreements as a lessor with respect to some of its investment properties.

Leases for which the Group and the Bank is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group or the Bank is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group or the Bank applies the exemption described above, then it classifies the sub-lease as an operating lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease as part of 'Other operating income' (Note 34). Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's and the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's and the Bank's net investment outstanding in respect of the leases.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Leases (continued)

(b) Group as lessee

The Group and the Bank apply a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group and the Bank recognise lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liabilities, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liabilities.

Whenever the Group and the Bank incur an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets*. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group and the Bank expect to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease:

Buildings	1 - 10 years
Other equipment	1 - 2 years

The right-of-use assets are presented as a separate line in the statements of financial position.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Leases (continued)

(b) Group as lessee (continued)

(i) Right-of-use assets (continued)

The Group and the Bank apply MFRS 136, *Impairment of Assets* to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in Note 3.20 Impairment of non-financial assets.

If ownership of the leased asset transfers to the Group and the Bank at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

As a practical expedient, MFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group and the Bank has not used this practical expedient. For a contract that contains a lease component and one or more additional lease or non-lease components, the Group and the Bank allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(ii) Lease liabilities

At the commencement date of the lease, the Group and the Bank recognise lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and the Bank and payments of compensation for terminating the lease, if the lease term reflects the Group and the Bank exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs and are included in 'Operating expenses' in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Leases (continued)

(b) Group as lessee (continued)

(ii) Lease liabilities (continued)

The Group and the Bank present lease liabilities in 'Other liabilities' (Note 28) in the statements of financial position.

In calculating the present value of lease payments, the Group and the Bank use finance rate implicit in the lease. If this rate cannot be readily determined, the lessees uses its incremental financing rate. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of finance cost and reduced for the lease payments made. In addition, the carrying amount of lease liabilities are remeasured (and makes a corresponding adjustment to the related right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero) if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. The Group and the Bank do not make any such adjustments during the periods presented.

(iii) Short-term leases and leases of low-value assets

The Group and the Bank apply the short-term lease recognition exemption to its short-term leases of parking space (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financing costs

Financing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other financing costs are expensed in the period in which they occur. Financing costs consist of profit expense and other costs that an entity incurs in connection with the financing of funds.

3.9 Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the entities in the Group and the Bank, are classified as investment properties. Investment properties are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment properties are measured at fair value, which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss in the year in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between net disposal proceeds and the carrying amount of the assets), is included in profit or loss in the period which the property is derecognised.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Investment properties (continued)

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. In determining the amount of consideration from the derecognition of investment property the Group and the Bank consider the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer (if any).

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group and the Bank account for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. Rental income from investment property is recognised as other income on a straight-line basis over the term of the lease.

3.10 Property and equipment

Land and buildings comprise mainly branches and offices. All property and equipment used by the Group and the Bank are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Subsequent expenditures 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 Group and the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Freehold land has an unlimited useful life and therefore is not depreciated. Construction work-in-progress are not depreciated until the assets are ready for their intended use.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Property and equipment (continued)

Depreciation of other property and equipment are calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Buildings	50 years
Leasehold land and buildings	50 years
Renovation	5 - 50 years
Furniture, fittings and office equipment	5 years
Motor vehicles	5 years

The assets' residual values, useful lives and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimates accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gains and losses arising on disposals are determined as the difference between sales proceeds and the carrying amount of the asset and are recognised in profit or loss.

3.11 Intangible assets

In addition to goodwill, intangible assets also include computer software and software-in-development.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group and the Bank.

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Subsequent to initial recognition, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses, except software-in-development which is not subject to amortisation until the development is completed and the asset is available for use.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with indefinite lives are not amortised but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Intangible assets (continued)

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives recognised in the income statements in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in income statements when the asset are derecognised.

Amortisation of intangible assets are calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Computer software	5 - 15 years
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3.12 Prepaid lease payments

Leasehold land that has an indefinite economic life which title is not expected to pass to the Group by end of the lease period is classified as operating lease.

The upfront payments for right to use the leasehold land over a predetermined period are accounted for as prepaid lease payments and are stated at cost less amount amortised. The prepaid lease payments are amortised on a straight-line basis over the remaining lease terms, ranging from 3 to 859 years (2021: 4 to 860 years).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Provisions

Provisions are recognised when the Group and the Bank have a present obligation (legal or constructive) as a result of past events, when it is probable that the Group and the Bank will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of time value of money is material).

3.14 Inventories

Inventories are valued at the lower of cost (determined using the first-in, first out method) and net realisable value. The cost of inventories comprises the original cost of purchase plus the incidental cost incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less selling and distribution costs and all other estimated costs to completion. In arriving at net realisable value, due allowance is made for damaged, obsolete or slow-moving inventories.

Completed property units for sale are valued at the lower of cost and net realisable value. Cost is determined using the 'specific identification' method.

3.15 Profit income and expense

For all financial instruments measured at amortised cost and profit-bearing financial assets classified as fair value through profit or loss and fair value through other comprehensive income, income and expense are recognised under "Income" and "Expenditure" respectively using the effective profit method.

The effective profit method is a method of calculating the amortised cost of a financial asset or liability and of allocating the profit income or expense over the relevant period. The effective profit rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Profit income and expense (continued)

The calculation takes into account all contractual terms of the financial instruments (for example, prepayment options) but does not consider future credit losses. Significant fees and transaction costs integral to the effective profit rate, as well as premiums or discounts are also considered.

For impaired assets where the value of the financial assets has been written down as a result of an impairment loss, profit income continues to be recognised using the profit rate used to discount the future cash flows for the purpose of measuring the impairment loss.

3.16 Fee and commission income

Financing arrangement fees are recognised as income based on contractual arrangements. Guarantee fee is recognised as income upon issuance of the guarantee. Fees from advisory and corporate finance activities are recognised net of sales and service tax and discounts on completion of each stage of the assignment.

Fees and commissions are generally recognised on an accrual basis when the service has been provided.

3.17 Dividend income

Dividends are recognised in profit or loss as 'dividend income' when the Group's right to receive payment is established.

3.18 Income tax

3.18.1 Current income tax

Current income tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Income tax (continued)

3.18.2 Deferred income tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that sufficient future taxable profits will be available against which those deductible temporary differences, unused tax losses and unused tax credits can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group and the Bank expect, at the end of the reporting period, to recover or settle the carrying amount of their assets and liabilities.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle their current tax assets and liabilities on a net basis.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Employee benefits

3.19.1 Defined contribution plan

For defined contribution plan, the Group and the Bank pay contributions to Employees Provident Fund ("EPF") on a mandatory basis. The Group and the Bank have no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

3.19.2 Short-term employee benefits

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

3.20 Impairment of non-financial assets

At the end of each reporting period, the Group and the Bank review the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group and the Bank estimate the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Impairment of non-financial assets (continued)

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.21 Zakat

In computing for zakat, the Group and the Bank have been applying the growth capital method based on the rate of 2.5%. This method applies the rate on owners' equity, long term liability, net of fixed assets and non-current assets, and subjected to allowable adjustments.

It is an obligatory amount payable on the business on behalf of the shareholders and/or business entity depending on the ownership characteristics.

Zakat is distributed according to Shariah principle and being extended through Islamic Religious Council of the respective states and other rightful beneficiaries or asnaf.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's and the Bank's financial statements and financial results are influenced by accounting policies, assumptions, estimates and management judgements, which necessarily have to be made in the course of preparation of the financial statements.

The Group and the Bank make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with MFRS are best estimates undertaken in accordance with the applicable standards.

Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgements for certain items are especially critical for the Group's and the Bank's results and financial situation due to their materiality.

4.1 Impairment losses on financing and advances

The Group and the Bank review their financing and advances portfolio to determine whether impairment losses should be recognised in profit or loss.

Financing is considered as impaired when there is objective evidence of impairment as a result of loss event that has affected future estimated cash flows of the financing subsequent to its initial recognition.

Components of impairment allowance are as follows:

(i) ECL individually assessed

Where an account has exceeded certain number of arrears or when the account has fulfilled certain criteria that indicates credit weaknesses, the account is individually assessed for impairment.

Individual allowance is measured as the difference between carrying amount of the financing and present value of estimated future cash flows that are discounted at the effective profit rate.

Expectation on future cash flows is established by applying the best estimate formed on reliable and objective evidence. This process involves significant and reasonable judgement.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 Impairment losses on financing and advances (continued)

Components of impairment allowance are as follows (continued):

(ii) ECL collectively assessed

The Group and the Bank's ECL calculations under MFRS 9 are outputs of complex models with several underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- Criteria for assessing if there has been a significant increase in credit risk, which includes qualitative assessment, to determine whether financial assets should be measures on lifetime ECL basis rather than 12-month ECL basis;
- The segmentation of financial assets, when their ECL is assessed on a collective basis;
- Development of ECL models, including various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios, and economic inputs, such as unemployment levels and overnight pricing rate, and their effect on PDs, EADs, and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.2 Impairment of financial assets portfolio

The Group and the Bank review their financial investments at FVOCI and financial investments at amortised cost under MFRS 9 to recognise the ECL at each reporting date to reflect changes in credit risk of the financial investments not measured through FVTPL. MFRS 9 incorporates forward-looking and historical, current and forecasted information into ECL estimation.

In carrying out the impairment review, the following management's judgements are required:

- (i) Determination whether the investment is impaired based on certain indicators such as, among others, difficulties of the issuers or obligors, deterioration of the credit quality of the issuers or obligors; and
- (ii) Determination of ECL that reflect:
 - (a) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
 - (b) The time value of money; and
 - (c) Reasonable and supportable information, that is available without undue cost or effort, as at the reporting date about past events, current conditions, and forecasts of future economic conditions.

4.3 Fair value estimation of financial assets at FVTPL and financial investments at FVOCI

When the fair value of financial assets recorded in the statements of financial position cannot be measured based on quoted prices in active markets, their fair values are measured using valuation techniques. Valuation techniques include the discounted cashflow methods, option pricing models, and other relevant valuation models.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.4 Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profit together with future tax planning strategies.

4.5 Determine the lease term of contracts with renewal and termination options - Group as lessee

The Group and the Bank determine the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group and the Bank have several lease contracts that include extension and termination options. The Group and the Bank apply judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group and the Bank reassess the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

The Group and the Bank include the renewal period as part of the lease term for leases of buildings and other equipment with shorter non-cancellable period (i.e., one to three years). The Group and the Bank typically exercise its option to renew for these leases because there will be a significant negative effect on operation if a replacement asset is not readily available. The renewal periods for leases of buildings with longer non-cancellable periods (i.e., 10 to 15 years) are not included as part of the lease term as these are not reasonably certain to be exercised. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Refer to Note 14 for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

5. CHANGES IN REGULATORY REQUIREMENTS

Based on the BNM's revised guideline on Financial Reporting for Development Financial Institutions, the prescribed development financial institutions ("DFIs") can make a one-time election in 2020 to apply revisions to the original effective profit rate in respect of any modifications made to the contractual cash flows of financing. In the event of election, the requirements shall apply for financial years beginning between 1 January 2020 to 31 December 2022 and in respect of financing for which the contractual cash flows are modified, including payments deferred under moratoriums provided by DFIs during these financial years.

The Group and the Bank elected to adopt the modified accounting treatment. The comparison of the financial impact of applying the accounting treatment in accordance with Malaysian Financial Reporting Standard ("MFRS") and the modified accounting treatment is as follows:

	Group		Bank	
	2022	2021	2022	2021
As at 31 December	RM'000	RM'000	RM'000	RM'000
Financing and advances				
Closing balance under MFRS	79,928,613	78,933,161	80,226,948	79,166,911
Modification loss	799,759	858,835	799,759	858,835
Loss of income due to changes in effective rate	(287,942)	(176,532)	(287,942)	(176,532)
Closing balance under modified accounting treatment	80,440,430	79,615,464	80,738,765	79,849,214
	Group		Bank	
	2022	2021	2022	2021
For the year ended 31 December	RM'000	RM'000	RM'000	RM'000
Income				
Year ended balance under MFRS	4,704,690	4,010,549	4,716,106	4,020,606
(Reversal of)/Modification loss	(59,076)	509,405	(59,076)	509,405
Loss of income due to changes in effective rate	(111,410)	(114,592)	(111,410)	(114,592)
Year ended balance under modified accounting treatment	4,534,204	4,405,362	4,545,620	4,415,419

From January 2023, the Group and the Bank will discontinue the adoption of the above-modified accounting treatment and continue to comply with MFRS.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

6. CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
At amortised cost				
Cash and balances with banks and other financial institutions	1,048,826	835,189	1,046,115	834,987
Money at call and deposit placements maturing within one month	785,594	-	785,594	-
	1,834,420	835,189	1,831,709	834,987

For the purpose of the statements of cash flows, cash and cash equivalents comprise the following:

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	1,834,420	835,189	1,831,709	834,987

7. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
At amortised cost				
Licensed banks	368,445	672,463	368,303	672,463

The maturity structure of the deposits and placements with financial institutions is as follows:

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Maturity more than one month and less than three months	-	311,214	-	311,214
More than three months	368,445	361,249	368,303	361,249
	368,445	672,463	368,303	672,463

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

8. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Bank	
	2022	2021
	RM'000	RM'000
Debt instruments at fair value through profit or loss:		
Government investment issues	41,827	695,939
Islamic redeemable convertible preference shares	213,200	213,200
	<u>255,027</u>	<u>909,139</u>
Equity securities at fair value through profit or loss:		
Quoted shares	-	66,893
	<u>-</u>	<u>66,893</u>
Total financial investments at fair value through profit or loss	<u>255,027</u>	<u>976,032</u>

9. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Debt instruments at fair value through other comprehensive income:				
Islamic debt securities	4,520,183	5,036,372	4,520,183	5,036,372
Government investment issues	6,803,294	5,550,252	6,803,294	5,550,252
Government sukuk	8,403,783	8,709,494	8,403,783	8,709,494
Khazanah sukuk	-	156,319	-	156,319
Cagamas sukuk	651,866	1,256,502	651,866	1,256,502
	<u>20,379,126</u>	<u>20,708,939</u>	<u>20,379,126</u>	<u>20,708,939</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

9. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Equity securities at fair value through other comprehensive income:				
Unquoted shares	87,175	72,779	87,167	72,771
	<u>87,175</u>	<u>72,779</u>	<u>87,167</u>	<u>72,771</u>
Total financial investments at fair value through other comprehensive income	20,466,301	20,781,718	20,466,293	20,781,710

Movement of allowance for ECL by stage for debt instruments at fair value through other comprehensive income is as follows:

Group and Bank	12-month ECL Stage 1 RM'000
At 1 January 2021	174
Changes in credit risk (Note 33(ii))	(45)
At 31 December 2021/1 January 2022	<u>129</u>
Changes in credit risk (Note 33(ii))	(51)
At 31 December 2022	<u>78</u>

The decrease in ECL Stage 1 of RM51,000 was due to improvement in credit quality during the financial year.

The maturity structure of the debt instruments is as follows:

	Group and Bank	
	2022	2021
	RM'000	RM'000
Maturity within one year	2,667,668	3,124,637
More than one year to five years	9,071,779	9,814,499
More than five years	8,639,679	7,769,803
	<u>20,379,126</u>	<u>20,708,939</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

10. FINANCIAL INVESTMENTS AT AMORTISED COST

	Group and Bank	
	2022	2021
	RM'000	RM'000
At amortised cost		
Islamic debt securities	1,286,778	471,788
Government investment issues	7,803,055	6,925,903
Government sukuk	3,184,122	3,170,872
Khazanah sukuk	63,354	100,040
Cagamas sukuk	50,451	76,349
Negotiable Islamic debt certificates	49,926	99,940
	<u>12,437,686</u>	<u>10,844,892</u>
Less: Allowance for ECL		
Negotiable Islamic debt certificates	(1)	(12)
Islamic debt securities	(10,640)	(18,030)
	<u>12,427,045</u>	<u>10,826,850</u>

Movement of allowance for ECL by stage is as follows:

	12-month ECL Stage 1 RM'000	Lifetime ECL Credit Impaired Stage 3 RM'000	Total RM'000
Group and Bank			
At 1 January 2021	39	18,651	18,690
Changes in credit risk (Note 33(ii))	(7)	(641)	(648)
At 31 December 2021/1 January 2022	<u>32</u>	<u>18,010</u>	<u>18,042</u>
Changes in credit risk (Note 33(ii))	4	(7,405)	(7,401)
At 31 December 2022	<u>36</u>	<u>10,605</u>	<u>10,641</u>

The increase in ECL Stage 1 of RM4,000 is due to increase in gross carrying amount during the financial year. The decrease in ECL Stage 3 is due to partial redemption of impaired sukuk.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

10. FINANCIAL INVESTMENTS AT AMORTISED COST (CONTINUED)

The maturity structure of the instruments is as follows:

	Group and Bank	
	2022	2021
	RM'000	RM'000
Maturity within one year	1,001,266	1,669,423
More than one year to five years	3,465,348	2,298,512
More than five years	7,971,072	6,876,957
	<u>12,437,686</u>	<u>10,844,892</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

11. FINANCING AND ADVANCES

(i) Financing and advances analysed by type and concept

Group 2022	Bai` Inah RM'000	Bai` Bithaman Ajil RM'000	Qard RM'000	Murabahah RM'000	Ijarah Thumma Al-Bai` RM'000	Tawarruq RM'000	Total RM'000
At amortised cost							
Term financing							
- Personal financing	15,078,396	-	-	-	-	43,176,986	58,255,382
- House financing	-	699,555	-	-	-	8,588,989	9,288,544
- Hire-purchase receivables	-	-	-	-	2,284,433	-	2,284,433
- Syndicated financing	-	-	-	-	-	397,821	397,821
- Bridging financing	-	-	-	-	-	71,320	71,320
- Other term financing	75,935	3,220	6	40,918	-	6,122,314	6,242,393
Pawn broking	-	-	-	-	-	2,336,283	2,336,283
Cashline	-	-	-	-	-	482,496	482,496
Revolving credit	-	-	-	-	-	192,309	192,309
Credit card	-	-	-	-	-	391,826	391,826
Staff financing	-	-	-	-	-	497,623	497,623
	15,154,331	702,775	6	40,918	2,284,433	62,257,967	80,440,430

Allowance for ECL on financing and advances:

Stage 1 - 12-month ECL	(860,331)
Stage 2 - lifetime ECL not credit impaired	(874,052)
Stage 3 - lifetime ECL credit impaired	(996,155)

Net financing and advances

77,709,892

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

11. FINANCING AND ADVANCES (CONTINUED)

(i) Financing and advances analysed by type and concept (continued)

Group 2021	Bai` `Inah RM'000	Bai` Bithaman Ajil RM'000	Ar-Rahn RM'000	Qard RM'000	Murabahah RM'000	Ijarah Thumma Al-Bai` RM'000	Tawarruq RM'000	Total RM'000
At amortised cost								
Term financing								
- Personal financing	17,640,575	-	-	-	-	-	42,269,868	59,910,443
- House financing	-	809,343	-	-	-	-	7,579,937	8,389,280
- Hire-purchase receivables	-	-	-	-	-	1,922,355	-	1,922,355
- Syndicated financing	-	-	-	-	-	-	346,196	346,196
- Bridging financing	-	-	-	-	-	-	257,291	257,291
- Other term financing	105,462	3,981	-	11	29,700	-	5,262,980	5,402,134
Pawn broking	-	-	437	-	-	-	2,015,366	2,015,803
Cashline	-	-	-	-	-	-	224,006	224,006
Revolving credit	-	-	-	-	-	-	304,539	304,539
Credit card	-	-	-	-	-	-	356,279	356,279
Staff financing	-	-	-	-	-	-	487,138	487,138
	17,746,037	813,324	437	11	29,700	1,922,355	59,103,600	79,615,464

Allowance for ECL on financing and advances:

Stage 1 - 12-month ECL	(934,553)
Stage 2 - lifetime ECL not credit impaired	(609,842)
Stage 3 - lifetime ECL credit impaired	(774,632)

Net financing and advances

77,296,437

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

11. FINANCING AND ADVANCES (CONTINUED)

(i) Financing and advances analysed by type and concept (continued)

Bank 2022	Bai` Inah RM'000	Bai` Bithaman Ajil RM'000	Qard RM'000	Murabahah RM'000	Thumma Al-Bai` RM'000	Tawarruq RM'000	Total RM'000
At amortised cost							
Term financing							
- Personal financing	15,078,396	-	-	-	-	43,176,986	58,255,382
- House financing	-	699,555	-	-	-	8,887,324	9,586,879
- Hire-purchase receivables	-	-	-	-	2,284,433	-	2,284,433
- Syndicated financing	-	-	-	-	-	397,821	397,821
- Bridging financing	-	-	-	-	-	71,320	71,320
- Other term financing	75,935	3,220	6	40,918	-	6,122,314	6,242,393
Pawn broking	-	-	-	-	-	2,336,283	2,336,283
Cashline	-	-	-	-	-	482,496	482,496
Revolving credit	-	-	-	-	-	192,309	192,309
Credit card	-	-	-	-	-	391,826	391,826
Staff financing	-	-	-	-	-	497,623	497,623
	15,154,331	702,775	6	40,918	2,284,433	62,556,302	80,738,765

Allowance for ECL on financing and advances:

Stage 1 - 12-month ECL	(870,641)
Stage 2 - lifetime ECL not credit impaired	(874,052)
Stage 3 - lifetime ECL credit impaired	(996,155)

Net financing and advances

77,997,917

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

11. FINANCING AND ADVANCES (CONTINUED)

(i) Financing and advances analysed by type and concept (continued)

Bank 2021	Bai` `Inah RM'000	Bai` Bithaman Ajil RM'000	Ar-Rahn RM'000	Qard RM'000	Murabahah RM'000	Ijarah Thumma Al-Bai` RM'000	Tawarruq RM'000	Total RM'000
At amortised cost								
Term financing								
- Personal financing	17,640,575	-	-	-	-	-	42,269,868	59,910,443
- House financing	-	809,343	-	-	-	-	7,813,687	8,623,030
- Hire-purchase receivables	-	-	-	-	-	1,922,355	-	1,922,355
- Syndicated financing	-	-	-	-	-	-	346,196	346,196
- Bridging financing	-	-	-	-	-	-	257,291	257,291
- Other term financing	105,462	3,981	-	11	29,700	-	5,262,980	5,402,134
Pawn broking	-	-	437	-	-	-	2,015,366	2,015,803
Cashline	-	-	-	-	-	-	224,006	224,006
Revolving credit	-	-	-	-	-	-	304,539	304,539
Credit card	-	-	-	-	-	-	356,279	356,279
Staff financing	-	-	-	-	-	-	487,138	487,138
	17,746,037	813,324	437	11	29,700	1,922,355	59,337,350	79,849,214

Allowance for ECL on financing and advances:

Stage 1 - 12-month ECL	(948,159)
Stage 2 - lifetime ECL not credit impaired	(609,842)
Stage 3 - lifetime ECL credit impaired	(774,632)

Net financing and advances

77,516,581

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11. FINANCING AND ADVANCES (CONTINUED)

- (i) Financing and advances analysed by type and concept (continued)

Assets funded under *Ijarah* financing are owned by the Bank throughout the tenure of the *Ijarah* financing and ownership of the assets will be transferred to customer at the end of financing tenure for a token consideration or other amount as specified in the *Ijarah* financing contract.

Included in the Bank's financing and advances is financing granted to Rakyat Holdings Sdn Bhd, a subsidiary of the Bank, amounting to RM228.03 million net of expected credit losses (2021: RM220.14 million), subject to profit rate of 4.14% to 4.45% (2021: 4.53% to 8.62%).

Included in the Group's and the Bank's financing and advances as at 31 December 2022 is government financing scheme as part of the government support measures in response to COVID-19 pandemic for the purpose of SME financing amounting to RM193.15 million (2021: RM128.68 million).

- (ii) Financing and advances analysed by geographical distribution

	Group		Bank	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Central Region	31,789,320	31,337,571	32,087,655	31,571,321
Southern Region	12,293,558	12,143,631	12,293,558	12,143,631
Eastern Region	12,356,109	12,180,512	12,356,109	12,180,512
Northern Region	9,443,527	9,376,603	9,443,527	9,376,603
East Malaysia Region	14,557,916	14,577,147	14,557,916	14,577,147
	<u>80,440,430</u>	<u>79,615,464</u>	<u>80,738,765</u>	<u>79,849,214</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11. FINANCING AND ADVANCES (CONTINUED)

(iii) Financing and advances analysed by economic sector

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Household	74,156,004	74,187,925	74,156,004	74,187,925
Agriculture	97,812	81,262	97,812	81,262
Mining and quarrying	4,450	300	4,450	300
Manufacturing	107,067	76,503	107,067	76,503
Electricity, gas and water	163,602	27,433	163,602	27,433
Construction	798,941	961,923	798,941	961,923
Wholesale and retail trade	862,019	512,490	862,019	512,490
Transportation and communication	923,682	358,223	923,682	358,223
Financial, takaful and business services	2,414,303	2,462,052	2,712,638	2,695,802
Community, social and personal services	912,550	947,353	912,550	947,353
	80,440,430	79,615,464	80,738,765	79,849,214

(iv) Financing and advances analysed by remaining contractual maturity

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Maturity within one year	1,682,514	2,380,353	1,682,514	2,380,353
More than one year				
to three years	4,385,736	2,864,804	4,385,736	2,864,804
More than three years				
to five years	6,232,290	6,423,600	6,232,290	6,423,600
More than five years	68,139,890	67,946,707	68,438,225	68,180,457
	80,440,430	79,615,464	80,738,765	79,849,214

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11. FINANCING AND ADVANCES (CONTINUED)

(v) Financing and advances analysed by customer type

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Individuals	74,162,018	74,104,154	74,162,018	74,104,154
Business enterprises	3,833,726	3,041,960	4,132,061	3,275,710
Non-bank financial institutions				
- Co-operatives	2,277,135	2,214,452	2,277,135	2,214,452
Foreign entities	1,515	1,566	1,515	1,566
Other entities	166,036	253,332	166,036	253,332
	80,440,430	79,615,464	80,738,765	79,849,214

(vi) Financing and advances analysed by profit rate sensitivity

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Fixed rate				
Personal financing	15,935,228	18,896,645	15,935,228	18,896,645
House financing	1,434,130	1,499,808	1,434,130	1,499,808
Others	7,161,500	6,340,666	7,161,500	6,340,666
Floating rate				
Personal financing	42,320,154	41,013,798	42,320,154	41,013,798
House financing	7,854,412	6,889,473	8,152,747	7,123,223
Others	5,735,006	4,975,074	5,735,006	4,975,074
	80,440,430	79,615,464	80,738,765	79,849,214

(vii) Impaired financing and advances analysed by geographical distribution

	Group and Bank	
	2022	2021
	RM'000	RM'000
Central Region	1,135,498	1,035,174
Southern Region	99,524	70,532
Eastern Region	115,091	87,720
Northern Region	92,432	63,022
East Malaysia Region	152,430	97,052
	1,594,975	1,353,500

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11. FINANCING AND ADVANCES (CONTINUED)

(viii) Impaired financing and advances analysed by economic sector

	Group and Bank	
	2022	2021
	RM'000	RM'000
Household	889,764	629,184
Agriculture	3,965	29,225
Mining and quarrying	1,301	-
Manufacturing	5,395	2,010
Electricity, gas and water	2,634	-
Construction	116,051	184,089
Wholesale and retail trade	45,935	7,861
Transportation and communication	108,280	7,617
Financial, takaful and business services	374,639	491,873
Community, social and personal services	47,011	1,641
	<u>1,594,975</u>	<u>1,353,500</u>

(ix) Movements in impaired financing and advances are as follows:

	Group and Bank	
	2022	2021
	RM'000	RM'000
At 1 January	1,353,500	1,518,204
Classified as impaired during the year	2,156,229	2,005,755
Amount written back in respect of recoveries	(1,647,166)	(1,685,467)
Amount written off during the year	(267,588)	(484,992)
	<u>241,475</u>	<u>(164,704)</u>
At 31 December	<u>1,594,975</u>	<u>1,353,500</u>
Gross impaired financing and advances as a percentage of gross financing and advances	<u>1.98%</u>	<u>1.70%</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

11. FINANCING AND ADVANCES (CONTINUED)

(x) Movements in allowance for ECL on financing and advances are as follows:

Group 2022	12-month ECL Stage 1 RM'000	Lifetime ECL Not Credit Impaired Stage 2 RM'000	Lifetime ECL Credit Impaired Stage 3 RM'000	Total RM'000
ECL allowance				
At 1 January 2022	934,553	609,842	774,632	2,319,027
Changes due to financing and advances movements:				
- Transfer to 12-month ECL (Stage 1)	108,654	(77,857)	(30,797)	-
- Transfer to lifetime ECL not credit impaired (Stage 2)	(26,480)	75,372	(48,892)	-
- Transfer to lifetime ECL credit impaired (Stage 3)	(7,545)	(54,806)	62,351	-
New financial assets originated *	145,610	40,565	84,547	270,722
Changes in credit risk	(234,844)	324,983	457,486	547,625
Financial assets derecognised	(59,617)	(44,047)	(35,584)	(139,248)
Amount written off	-	-	(267,588)	(267,588)
At 31 December 2022	<u>860,331</u>	<u>874,052</u>	<u>996,155</u>	<u>2,730,538</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

11. FINANCING AND ADVANCES (CONTINUED)

- (x) Movements in allowance for ECL on financing and advances are as follows (continued):

Group 2021	12-month ECL Stage 1 RM'000	Lifetime ECL Not Credit Impaired Stage 2 RM'000	Lifetime ECL Credit Impaired Stage 3 RM'000	Total RM'000
ECL allowance				
At 1 January 2021	388,082	709,254	975,349	2,072,685
Changes due to financing and advances movements:				
- Transfer to 12-month ECL (Stage 1)	398,873	(336,297)	(62,576)	-
- Transfer to lifetime ECL not credit impaired (Stage 2)	(30,758)	113,902	(83,144)	-
- Transfer to lifetime ECL credit impaired (Stage 3)	(2,623)	(35,976)	38,599	-
New financial assets originated *	108,643	14,599	16,998	140,240
Changes in credit risk Financial assets	99,925	174,923	405,806	680,654
derecognised	(27,589)	(30,563)	(31,408)	(89,560)
Amount written off	-	-	(484,992)	(484,992)
At 31 December 2021	<u>934,553</u>	<u>609,842</u>	<u>774,632</u>	<u>2,319,027</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11. FINANCING AND ADVANCES (CONTINUED)

- (x) Movements in allowance for ECL on financing and advances are as follows (continued):

Bank 2022	12-month ECL Stage 1 RM'000	Lifetime ECL Not Credit Impaired Stage 2 RM'000	Lifetime ECL Credit Impaired Stage 3 RM'000	Total RM'000
ECL allowance				
At 1 January 2022	948,159	609,842	774,632	2,332,633
Changes due to financing and advances movements:				
- Transfer to 12-month ECL (Stage 1)	108,654	(77,857)	(30,797)	-
- Transfer to lifetime ECL not credit impaired (Stage 2)	(26,480)	75,372	(48,892)	-
- Transfer to lifetime ECL credit impaired (Stage 3)	(7,545)	(54,806)	62,351	-
New financial assets originated *	145,610	40,565	84,547	270,722
Changes in credit risk Financial assets	(238,140)	324,983	457,486	544,329
derecognised	(59,617)	(44,047)	(35,584)	(139,248)
Amount written off	-	-	(267,588)	(267,588)
At 31 December 2022	<u>870,641</u>	<u>874,052</u>	<u>996,155</u>	<u>2,740,848</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11. FINANCING AND ADVANCES (CONTINUED)

- (x) Movements in allowance for ECL on financing and advances are as follows (continued):

Bank 2021	12-month ECL Stage 1 RM'000	Lifetime ECL Not Credit Impaired Stage 2 RM'000	Lifetime ECL Credit Impaired Stage 3 RM'000	Total RM'000
ECL allowance				
At 1 January 2021	400,965	709,254	975,349	2,085,568
Changes due to financing and advances movements:				
- Transfer to 12-month ECL (Stage 1)	398,873	(336,297)	(62,576)	-
- Transfer to lifetime ECL not credit impaired (Stage 2)	(30,758)	113,902	(83,144)	-
- Transfer to lifetime ECL credit impaired (Stage 3)	(2,623)	(35,976)	38,599	-
New financial assets originated *	108,643	14,599	16,998	140,240
Changes in credit risk Financial assets	100,648	174,923	405,806	681,377
derecognised	(27,589)	(30,563)	(31,408)	(89,560)
Amount written off	-	-	(484,992)	(484,992)
At 31 December 2021	<u>948,159</u>	<u>609,842</u>	<u>774,632</u>	<u>2,332,633</u>

* New financing and advances originated during the year which were not credit impaired at origination but subsequently the credit risk has deteriorated.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

11. FINANCING AND ADVANCES (CONTINUED)

- (x) Movements in allowance for ECL on financing and advances are as follows (continued):

The following explains how significant changes in the gross carrying amount of financing and advances during the financial year have contributed to the change in the allowance for ECL on financing and advances.

Overall, the total allowance for impairment on financing and advances has increased due to the following:

- a) 12-month ECL (Stage 1) - The decrease by RM74.22 million for the Group and RM77.52 million for the Bank was mainly due to the reversal of management overlays of RM106.59 million in relation to COVID-19 which was guided by the Guidance on Reversing COVID-19-related ECL overlays issued by MASB.
- b) Lifetime ECL (Stage 2) - The increase by RM264.21 million for the Group and the Bank was mainly due to deterioration in credit quality.
- c) Lifetime ECL (Stage 3) - The increase by RM221.52 million for the Group and the Bank was mainly due to deterioration in credit quality and lower written off financing and advances amount during the year.

12. TRADE RECEIVABLES

	Group	
	2022	2021
	RM'000	RM'000
At amortised cost		
Trade receivables	2,245	2,075
Less: Allowance for ECL	(1,017)	(1,166)
	<u>1,228</u>	<u>909</u>

The credit period granted for sale of goods is 30 days (2021: 30 days). No profit is charged on trade receivables.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****12. TRADE RECEIVABLES (CONTINUED)**

The table below is an analysis of trade receivables at the end of the reporting period:

	Group	
	2022	2021
	RM'000	RM'000
Neither past due nor impaired		
1 day to less than 1 month	<u>153</u>	<u>60</u>
Past due but not impaired		
1 month to less than 2 months	850	374
2 months to less than 3 months	<u>265</u>	<u>597</u>
	<u>1,115</u>	<u>971</u>
Past due and impaired		
	<u>977</u>	<u>1,044</u>
	<u>2,245</u>	<u>2,075</u>

Movements in the allowance for ECL are as follows:

	Group	
	2022	2021
	RM'000	RM'000
At 1 January	1,166	1,961
Impairment losses recognised during the year (Note 35(ii))	-	303
Amount recovered during the year (Note 34(ii))	(149)	(1,054)
Amount written off during the year	-	(44)
At 31 December	<u>1,017</u>	<u>1,166</u>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date which credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****13. OTHER ASSETS**

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Amount due from subsidiaries (i)	-	-	7,941	12,524
Other receivables, deposits and prepayments (ii)	975,749	620,169	940,866	584,027
	975,749	620,169	948,807	596,551

The Group's and Bank's other assets include financial assets of RM946.27 million (2021: RM586.52 million) and RM911.79 million (2021: RM550.71 million) that are classified as amortised cost.

(i) Amount due from subsidiaries

The amount due from subsidiaries is non-trade in nature, not subject to financing charges and has no fixed terms of payment.

	Bank	
	2022	2021
	RM'000	RM'000
Outstanding balances	9,452	23,952
Less: Allowance for ECL	(1,511)	(11,428)
	7,941	12,524

Movements in the allowance for ECL of amount due from subsidiaries that are neither past due nor impaired are as follows:

	Bank	
	2022	2021
	RM'000	RM'000
At 1 January	11,428	11,428
Reclassification to other receivables	(9,917)	-
At 31 December	1,511	11,428

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

13. OTHER ASSETS (CONTINUED)

(ii) Other receivables, deposits and prepayments

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Other receivables	723,365	351,626	720,574	350,797
Allowance for ECL	(19,875)	(11,096)	(19,346)	(10,567)
	<u>703,490</u>	<u>340,530</u>	<u>701,228</u>	<u>340,230</u>
Refundable deposits	42,775	45,989	10,564	10,479
Prepayments	29,484	33,650	29,074	33,318
Contribution to Central Liquidity Fund *	200,000	200,000	200,000	200,000
	<u>975,749</u>	<u>620,169</u>	<u>940,866</u>	<u>584,027</u>

Movements in the allowance for ECL of other receivables that are neither past due nor impaired are as follows:

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
At 1 January	11,096	31,973	10,567	31,333
Impairment losses recognised during the year (Note 35(ii))	-	135	-	135
Amount recovered during the year (Note 34(ii))	(1,138)	-	(1,138)	-
Reclassified from amount due from subsidiaries	9,917	-	9,917	-
Amount written off during the year	-	(21,012)	-	(20,901)
At 31 December	<u>19,875</u>	<u>11,096</u>	<u>19,346</u>	<u>10,567</u>

* This contribution is required under sub-section 42(i) of Malaysia Co-operative Societies Commission Act 2007 (Act 665) either at a rate of 3% on the qualifying liability or RM200 million, whichever is lower, commencing in the financial period beginning on or after 1 January 2012.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

14. RIGHT-OF-USE ASSETS

(i) Group as a lessee

The Group and the Bank have lease contracts for buildings and other equipment used in its operations. Leases of buildings generally have lease terms between 1 to 10 years, with the option to extend for another 1 to 3 years, while other equipment generally have lease terms between 1 to 2 years. The Group's and the Bank's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group and the Bank are restricted from assigning and subleasing the leased assets and some contracts require the Group and the Bank to maintain certain financial ratios. There are several lease contracts that include extension and variable lease payments, which are further discussed below.

The Group and the Bank also have certain leases of motor vehicle with lease terms of 12 months or less and lease of office equipment with low value. The Group and the Bank apply the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Buildings RM'000	Other equipment RM'000	Total RM'000
Group			
At 1 January 2021	47,957	8,388	56,345
Additions	1,494	-	1,494
Termination	(4,706)	(15)	(4,721)
Remeasurement	12,147	-	12,147
Depreciation (Note 35(ii))	(14,181)	(2,009)	(16,190)
At 31 December 2021/1 January 2022	42,711	6,364	49,075
Additions	4,589	-	4,589
Termination	(695)	(2)	(697)
Remeasurement	4,067	2,187	6,254
Depreciation (Note 35(ii))	(16,510)	(2,449)	(18,959)
At 31 December 2022	34,162	6,100	40,262

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****14. RIGHT-OF-USE ASSETS (CONTINUED)****(i) Group as a lessee (continued)**

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period (continued):

	Buildings RM'000	Other equipment RM'000	Total RM'000
Bank			
At 1 January 2021	66,542	8,388	74,930
Termination	(4,706)	(15)	(4,721)
Remeasurement	12,715	-	12,715
Depreciation (Note 35(ii))	(19,967)	(2,009)	(21,976)
At 31 December 2021/1 January 2022	54,584	6,364	60,948
Additions	4,589	-	4,589
Termination	(695)	(2)	(697)
Remeasurement	4,374	2,187	6,561
Depreciation (Note 35(ii))	(21,998)	(2,449)	(24,447)
At 31 December 2022	40,854	6,100	46,954

The Group's total cash outflow for leases is RM20,917,000 (2021: RM17,828,000) and for the Bank is RM27,017,000 (2021: RM24,276,000). There are no non-cash additions to right-of-use assets and lease liabilities. The future cash outflows relating to leases that have not yet commenced are disclosed in Note 28.

Some property leases contain extension options exercisable by the Group and the Bank up to three years before the end of the non-cancellable contract period. Where practicable, the Group and the Bank seek to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group and the Bank assess at lease commencement date whether it is reasonably certain to exercise the extension options. The Group and the Bank reassess whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

14. RIGHT-OF-USE ASSETS (CONTINUED)

(i) Group as a lessee (continued)

The following are the amounts recognised in profit or loss:

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Depreciation expense of right-of-use assets (Note 35(ii))	18,959	16,190	24,447	21,976
Finance cost on lease liabilities (Note 35(ii))	1,913	2,117	2,316	2,777
Total amount recognised in profit or loss	20,872	18,307	26,763	24,753

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and to align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

(ii) Group as a lessor

The Group and the Bank have entered into operating leases on its investment property portfolio consisting of certain office buildings (Note 19). These leases have terms of between 1 to 3 years. Rental income recognised by the Group and the Bank during the year is RM22,391,025 (2021: RM19,760,097) and RM21,588,967 (2021: RM19,069,786), respectively.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Future rental income within:				
- 1 year	13,655	13,144	12,807	12,411
- 2 years	8,668	6,530	7,669	5,616
- 3 years	6,874	3,788	4,809	1,881
	29,197	23,462	25,285	19,908

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

15. INVENTORIES

Inventories consist of the following:

	Group	
	2022	2021
	RM'000	RM'000
Trading inventories, at cost	43,801	23,393
Recognised in profit or loss:		
Inventories recognised as cost of sales	66,762	50,955

16. INVESTMENTS IN SUBSIDIARIES

	Bank	
	2022	2021
	RM'000	RM'000
Unquoted shares, at cost	100,744	100,744

Details of the subsidiaries, all incorporated in Malaysia, are as follows:

Name	Proportion of ownership interest and voting power held by the Group		Principal activities
	2022	2021	
	%	%	
Directly owned			
Rakyat Holdings Sdn Bhd *	100	100	Investment and property management
Rakyat Management Services Sdn Bhd *	100	100	Management of Ar-Rahnu business and franchise
Rakyat Nominees Sdn Bhd *	100	100	Dormant
Rakyat Hartanah Sdn Bhd *	100	100	Dormant
Rakyat Asset Management Sdn Bhd *	100	100	Dormant

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries, all incorporated in Malaysia, are as follows (continued):

Name	Proportion of ownership interest and voting power held by the Group		Principal activities
	2022	2021	
	%	%	
Directly owned			
Rakyat Facility Management Sdn Bhd *	100	100	Dormant
Rakyat Niaga Sdn Bhd *	100	100	Dormant
Indirectly owned through Rakyat Holdings Sdn Bhd			
Rakyat Travel Sdn Bhd *	100	100	Dormant

* The financial statements of these subsidiaries were not audited by the Auditor General of Malaysia.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****16. INVESTMENTS IN SUBSIDIARIES (CONTINUED)****Composition of the Group**

Information about the composition of the Group at the end of the reporting period is as follows:

Principal activities	Place of Incorporation and Operation	Number of directly owned subsidiaries		Number of indirectly owned subsidiaries	
		2022	2021	2022	2021
Investment and property management	Malaysia	1	1	-	-
Management of Ar-Rahnu business and franchise	Malaysia	1	1	-	-
Dormant	Malaysia	5	5	1	1
		<u>7</u>	<u>7</u>	<u>1</u>	<u>1</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

17. PROPERTY AND EQUIPMENT

	Freehold land RM'000	Buildings RM'000	Long-term leasehold land and buildings RM'000	Short-term leasehold land and buildings RM'000	Work-in- progress RM'000	Renovation RM'000	Furniture, fittings and office equipment RM'000	Motor vehicles RM'000	Total RM'000
Group									
2022									
At cost									
At 1 January	41,510	474,896	119,060	928	17,196	285,365	439,063	6,696	1,384,714
Additions	-	224	-	-	12,788	1,337	28,391	1,076	43,816
Disposals	-	-	-	-	-	-	(16)	-	(16)
Write-offs	-	-	-	-	-	(79)	(17,079)	-	(17,158)
Reclassifications	-	(205)	-	-	(22,445)	22,650	-	-	-
At 31 December	41,510	474,915	119,060	928	7,539	309,273	450,359	7,772	1,411,356

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

17. PROPERTY AND EQUIPMENT (CONTINUED)

	Freehold land RM'000	Buildings RM'000	Long-term leasehold land and buildings RM'000	Short-term leasehold land and buildings RM'000	Work-in- progress RM'000	Renovation RM'000	Furniture, fittings and office equipment RM'000	Motor vehicles RM'000	Total RM'000
Group (continued)									
2022									
Accumulated depreciation									
At 1 January	-	70,456	30,235	920	-	276,535	396,314	4,068	778,528
Charge for the year	-	9,494	2,455	8	-	9,363	16,916	822	39,058
Disposals	-	-	-	-	-	-	(16)	-	(16)
Write-offs	-	-	-	-	-	(79)	(17,042)	-	(17,121)
Transfer to prepaid lease payments (Note 20)	-	-	(2,295)	-	-	-	-	-	(2,295)
At 31 December	-	79,950	30,395	928	-	285,819	396,172	4,890	798,154
Net book value									
At 31 December	41,510	394,965	88,665	-	7,539	23,454	54,187	2,882	613,202

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

17. PROPERTY AND EQUIPMENT (CONTINUED)

	Freehold land RM'000	Buildings RM'000	Long-term leasehold land and buildings RM'000	Short-term leasehold land and buildings RM'000	Work-in- progress RM'000	Renovation RM'000	Furniture, fittings and office equipment RM'000	Motor vehicles RM'000	Total RM'000
Group (continued)									
2021									
At cost									
At 1 January	41,510	457,291	114,425	928	22,805	284,103	427,086	6,403	1,354,551
Additions	-	-	-	-	16,631	2,036	23,027	569	42,263
Disposals	-	-	-	-	-	(43)	(211)	(276)	(530)
Write-offs	-	-	-	-	-	(731)	(10,839)	-	(11,570)
Reclassifications	-	17,605	4,635	-	(22,240)	-	-	-	-
At 31 December	41,510	474,896	119,060	928	17,196	285,365	439,063	6,696	1,384,714

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

17. PROPERTY AND EQUIPMENT (CONTINUED)

	Freehold land RM'000	Buildings RM'000	Long-term leasehold land and buildings RM'000	Short-term leasehold land and buildings RM'000	Work-in- progress RM'000	Renovation RM'000	Furniture, fittings and office equipment RM'000	Motor vehicles RM'000	Total RM'000
Group (continued)									
2021									
Accumulated depreciation									
At 1 January	-	61,214	27,863	902	-	269,181	389,832	3,453	752,445
Charge for the year	-	9,242	2,372	18	-	8,129	17,272	891	37,924
Disposals	-	-	-	-	-	(43)	(209)	(276)	(528)
Write-offs	-	-	-	-	-	(732)	(10,581)	-	(11,313)
At 31 December	-	70,456	30,235	920	-	276,535	396,314	4,068	778,528
Net book value									
At 31 December	41,510	404,440	88,825	8	17,196	8,830	42,749	2,628	606,186

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

17. PROPERTY AND EQUIPMENT (CONTINUED)

	Freehold land RM'000	Buildings RM'000	Long-term leasehold land and buildings RM'000	Short-term leasehold land and buildings RM'000	Work-in- progress RM'000	Renovation RM'000	Furniture, fittings and office equipment RM'000	Motor vehicles RM'000	Total RM'000
Bank									
2022									
At cost									
At 1 January	40,122	411,851	80,325	928	17,196	283,425	436,447	6,554	1,276,848
Additions	-	224	-	-	12,788	1,337	28,329	671	43,349
Disposals	-	-	-	-	-	-	(8)	-	(8)
Write-offs	-	-	-	-	-	(79)	(17,075)	-	(17,154)
Reclassifications	-	(205)	-	-	(22,445)	22,650	-	-	-
At 31 December	40,122	411,870	80,325	928	7,539	307,333	447,693	7,225	1,303,035

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

17. PROPERTY AND EQUIPMENT (CONTINUED)

	Freehold land RM'000	Buildings RM'000	Long-term leasehold land and buildings RM'000	Short-term leasehold land and buildings RM'000	Work-in- progress RM'000	Renovation RM'000	Furniture, fittings and office equipment RM'000	Motor vehicles RM'000	Total RM'000
Bank (continued)									
2022									
Accumulated depreciation									
At 1 January	-	63,987	24,757	920	-	274,750	394,049	3,939	762,402
Charge for the year	-	8,077	1,585	8	-	9,298	16,786	763	36,517
Disposals	-	-	-	-	-	-	(8)	-	(8)
Write-offs	-	-	-	-	-	(79)	(17,038)	-	(17,117)
Transfer to prepaid lease payments (Note 20)	-	-	(2,295)	-	-	-	-	-	(2,295)
At 31 December	-	72,064	24,047	928	-	283,969	393,789	4,702	779,499
Net book value									
At 31 December	40,122	339,806	56,278	-	7,539	23,364	53,904	2,523	523,536

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

17. PROPERTY AND EQUIPMENT (CONTINUED)

	Freehold land RM'000	Buildings RM'000	Long-term leasehold land and buildings RM'000	Short-term leasehold land and buildings RM'000	Work-in- progress RM'000	Renovation RM'000	Furniture, fittings and office equipment RM'000	Motor vehicles RM'000	Total RM'000
Bank (continued)									
2021									
At cost									
At 1 January	40,122	394,246	75,690	928	22,805	282,135	424,191	5,985	1,246,102
Additions	-	-	-	-	16,631	2,021	22,940	569	42,161
Write-offs	-	-	-	-	-	(731)	(10,684)	-	(11,415)
Reclassifications	-	17,605	4,635	-	(22,240)	-	-	-	-
At 31 December	40,122	411,851	80,325	928	17,196	283,425	436,447	6,554	1,276,848

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

17. PROPERTY AND EQUIPMENT (CONTINUED)

	Freehold land RM'000	Buildings RM'000	Long-term leasehold land and buildings RM'000	Short-term leasehold land and buildings RM'000	Work-in- progress RM'000	Renovation RM'000	Furniture, fittings and office equipment RM'000	Motor vehicles RM'000	Total RM'000
Bank (continued)									
2021									
Accumulated depreciation									
At 1 January	-	56,162	23,255	902	-	267,922	387,585	3,110	738,936
Charge for the year	-	7,825	1,502	18	-	7,560	16,909	829	34,643
Write-offs	-	-	-	-	-	(732)	(10,445)	-	(11,177)
At 31 December	-	63,987	24,757	920	-	274,750	394,049	3,939	762,402
Net book value									
At 31 December	40,122	347,864	55,568	8	17,196	8,675	42,398	2,615	514,446

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****17. PROPERTY AND EQUIPMENT (CONTINUED)**

Land titles of certain freehold land of the Group and the Bank with carrying amount of RM23,012,387 (2021: RM25,014,244) have not yet been issued by the relevant authorities.

18. INTANGIBLE ASSETS

	Goodwill RM'000	Computer software RM'000	Total RM'000
Group			
2022			
At cost			
At 1 January	13,185	889,172	902,357
Additions	-	19,625	19,625
Write-offs	-	(80)	(80)
At 31 December	<u>13,185</u>	<u>908,717</u>	<u>921,902</u>
Accumulated amortisation			
At 1 January	-	323,311	323,311
Charge for the year	-	54,306	54,306
Write-offs	-	(80)	(80)
At 31 December	<u>-</u>	<u>377,537</u>	<u>377,537</u>
Net book value			
At 31 December	<u>13,185</u>	<u>531,180</u>	<u>544,365</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

18. INTANGIBLE ASSETS (CONTINUED)

	Goodwill RM'000	Computer software RM'000	Total RM'000
Group (continued)			
2021			
At cost			
At 1 January	13,185	731,775	744,960
Additions	-	157,520	157,520
Write-offs	-	(123)	(123)
At 31 December	<u>13,185</u>	<u>889,172</u>	<u>902,357</u>
Accumulated amortisation			
At 1 January	-	273,955	273,955
Charge for the year	-	49,448	49,448
Write-offs	-	(92)	(92)
At 31 December	<u>-</u>	<u>323,311</u>	<u>323,311</u>
Net book value			
At 31 December	<u>13,185</u>	<u>565,861</u>	<u>579,046</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

18. INTANGIBLE ASSETS (CONTINUED)

	Computer software RM'000
Bank	
2022	
At cost	
At 1 January	889,172
Additions	19,625
Write-offs	(80)
At 31 December	<u>908,717</u>
Accumulated amortisation	
At 1 January	323,311
Charge for the year	54,306
Write-offs	(80)
At 31 December	<u>377,537</u>
Net book value	
At 31 December	<u>531,180</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

18. INTANGIBLE ASSETS (CONTINUED)

	Computer software RM'000
Bank (continued)	
2021	
At cost	
At 1 January	731,775
Additions	157,520
Write-offs	(123)
At 31 December	<u>889,172</u>
Accumulated amortisation	
At 1 January	273,955
Charge for the year	49,448
Write-offs	(92)
At 31 December	<u>323,311</u>
Net book value	
At 31 December	<u>565,861</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

19. INVESTMENT PROPERTIES

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
At fair value				
At 1 January	1,388,091	1,353,684	948,920	939,305
Additions	76,039	25,536	-	6,836
Gain on revaluation (Note 34(ii))	26,281	8,871	9,450	2,779
At 31 December	<u>1,490,411</u>	<u>1,388,091</u>	<u>958,370</u>	<u>948,920</u>

Investment properties include the following:

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Freehold land	153,055	145,245	145,453	145,203
Buildings	1,022,009	931,692	528,010	522,200
Long-term leasehold land	315,347	311,154	284,907	281,517
	<u>1,490,411</u>	<u>1,388,091</u>	<u>958,370</u>	<u>948,920</u>

Investment properties of the Group and of the Bank are stated at fair value and are situated in Malaysia.

The fair values of the Group's and of the Bank's investment properties as at 31 December 2022 and 31 December 2021 have been arrived at on the basis of valuation carried out by independent valuers who have appropriate qualification and recent experience in the valuation of properties in the relevant locations. The fair value at level 3 was arrived at by using a variety of approaches such as sales comparison and investment method.

The Group and the Bank have assessed that the highest and best use of its properties do not differ from their existing use.

No investment properties were pledged as security for banking facilities at the reporting date.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

19. INVESTMENT PROPERTIES (CONTINUED)

Details of the Group's and the Bank's investment properties and information about the fair value hierarchy are as follows:

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group					
At 31 December 2022	1,490,411	1,490,411	-	-	1,490,411
At 31 December 2021	1,388,091	1,388,091	-	-	1,388,091
Bank					
At 31 December 2022	958,370	958,370	-	-	958,370
At 31 December 2021	948,920	948,920	-	-	948,920

Reconciliation of fair value:

	Freehold land RM'000	Buildings RM'000	Long-term leasehold land RM'000	Total RM'000
Group				
At 1 January 2021	145,235	904,517	303,932	1,353,684
Additions	-	18,700	6,836	25,536
Remeasurement recognised in profit or loss	10	8,475	386	8,871
At 31 December 2021/ 1 January 2022	145,245	931,692	311,154	1,388,091
Additions	-	76,039	-	76,039
Remeasurement recognised in profit or loss (Note 34(ii))	7,810	14,278	4,193	26,281
At 31 December 2022	153,055	1,022,009	315,347	1,490,411

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

19. INVESTMENT PROPERTIES (CONTINUED)

Reconciliation of fair value (continued):

Bank	Freehold land RM'000	Buildings RM'000	Long-term leasehold land RM'000	Total RM'000
At 1 January 2021	145,203	519,635	274,467	939,305
Additions	-	-	6,836	6,836
Remeasurement recognised in profit or loss	-	2,565	214	2,779
At 31 December 2021/ 1 January 2022	145,203	522,200	281,517	948,920
Remeasurement recognised in profit or loss (Note 34(ii))	250	5,810	3,390	9,450
At 31 December 2022	145,453	528,010	284,907	958,370

Land titles for certain freehold land and leasehold land of the Group and the Bank with fair value amounting to RM1,000,000 (2021: RM980,000) have not been issued to the Group and the Bank by the relevant authorities.

The investment properties held by the Group and the Bank are let under operating leases to third parties, from which rental income of RM22,391,025 (2021: RM19,760,097) and RM21,588,967 (2021: RM19,069,786) has been earned during the year.

20. PREPAID LEASE PAYMENTS

	Group and Bank	
	2022	2021
	RM'000	RM'000
Cost		
At 1 January/31 December	79,853	79,853

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

20. PREPAID LEASE PAYMENTS (CONTINUED)

	Group and Bank	
	2022	2021
	RM'000	RM'000
Accumulated amortisation		
At 1 January	20,815	19,225
Charge for the year (Note 35(ii))	1,550	1,590
Transfer from property and equipment (Note 17)	2,295	-
At 31 December	<u>24,660</u>	<u>20,815</u>
	<u>55,193</u>	<u>59,038</u>
	Group and Bank	
	2022	2021
	RM'000	RM'000
Prepaid lease payments include:		
Long-term leasehold land	49,872	52,044
Short-term leasehold land	5,321	6,994
	<u>55,193</u>	<u>59,038</u>

The remaining period of the leasehold land of the Group and of the Bank ranges from 3 to 859 years (2021: 4 to 860 years).

The land titles of certain leasehold land of the Group and of the Bank amounting to RM6,347,002 (2021: RM6,730,115) have not yet been issued to the Group and the Bank by the relevant authorities.

21. DEFERRED TAX ASSETS/(LIABILITIES)

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
At 1 January	187,934	(92,131)	201,000	(80,000)
Recognised in profit or loss (net) (Note 36)				
- relating to origination and reversal of temporary differences	87,838	280,787	89,000	281,000
- underprovision of net deferred tax liabilities	(270)	(722)	-	-
As of 31 December	<u>275,502</u>	<u>187,934</u>	<u>290,000</u>	<u>201,000</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****21. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)**

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

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets, net	290,672	201,484	290,000	201,000
Deferred tax liabilities, net	(15,170)	(13,550)	-	-
	<u>275,502</u>	<u>187,934</u>	<u>290,000</u>	<u>201,000</u>

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

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets	394,825	386,088	393,000	385,000
Deferred tax liabilities	(119,323)	(198,154)	(103,000)	(184,000)
	<u>275,502</u>	<u>187,934</u>	<u>290,000</u>	<u>201,000</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

21. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

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

Group	Financing allowances for ECL RM'000	Provision of liabilities RM'000	Other temporary differences * RM'000	Total RM'000
Deferred tax assets				
At 1 January 2021	112,000	107,954	29,449	249,403
Recognised in profit or loss				
- relating to origination and reversal of temporary differences	132,000	13,350	(8,719)	136,631
- overprovision	-	-	54	54
At 31 December 2021/ 1 January 2022	244,000	121,304	20,784	386,088
Recognised in profit or loss				
- relating to origination and reversal of temporary differences	31,000	(16,056)	(5,937)	9,007
- underprovision	-	-	(270)	(270)
At 31 December 2022	275,000	105,248	14,577	394,825

* Mainly consist of temporary differences in respect of allowance for ECL of other receivables and lease liabilities

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

21. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

The components and movement of deferred tax assets and liabilities during the financial year prior to offsetting are as follows (continued):

Group	FVOCI reserve and impairment losses on financial investments RM'000	Other temporary differences ^ RM'000	Total RM'000
Deferred tax liabilities			
At 1 January 2021	207,000	134,534	341,534
Recognised in profit or loss			
- relating to origination and reversal of temporary differences	(174,000)	29,844	(144,156)
- overprovision	-	776	776
At 31 December 2021/ 1 January 2022	33,000	165,154	198,154
Recognised in profit or loss			
- relating to origination and reversal of temporary differences	(103,000)	24,169	(78,831)
At 31 December 2022	(70,000)	189,323	119,323

^ Mainly consist of temporary differences in respect of property and equipment, investment in properties and right-of-use assets

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

21. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

The components and movement of deferred tax assets and liabilities during the financial year prior to offsetting are as follows (continued):

Bank	Financing allowances for ECL RM'000	Provision of liabilities RM'000	Other temporary differences * RM'000	Total RM'000
Deferred tax assets				
At 1 January 2021	112,000	107,000	29,000	248,000
Recognised in profit or loss - relating to origination and reversal of temporary differences	<u>132,000</u>	<u>14,000</u>	<u>(9,000)</u>	<u>137,000</u>
At 31 December 2021/ 1 January 2022	244,000	121,000	20,000	385,000
Recognised in profit or loss - relating to origination and reversal of temporary differences	<u>31,000</u>	<u>(17,000)</u>	<u>(6,000)</u>	<u>8,000</u>
At 31 December 2022	275,000	104,000	14,000	393,000

* Mainly consist of temporary differences in respect of allowance for ECL of other receivables and lease liabilities

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

21. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

The components and movement of deferred tax assets and liabilities during the financial year prior to offsetting are as follows (continued):

Bank	FVOCI reserve and impairment losses on financial investments RM'000	Other temporary differences ^ RM'000	Total RM'000
Deferred tax liabilities			
At 1 January 2021	207,000	121,000	328,000
Recognised in profit or loss - relating to origination and reversal of temporary differences	(174,000)	30,000	(144,000)
At 31 December 2021/ 1 January 2022	33,000	151,000	184,000
Recognised in profit or loss - relating to origination and reversal of temporary differences	(103,000)	22,000	(81,000)
At 31 December 2022	(70,000)	173,000	103,000

^ Mainly consist of temporary differences in respect of property and equipment, investment in properties and right-of-use assets

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

22. DEPOSITS FROM CUSTOMERS

	Group and Bank	
	2022	2021
	RM'000	RM'000
At amortised cost		
Savings deposits		
Qard	6,690,395	6,910,552
Demand deposits		
Qard	2,803,919	2,321,400
Term deposits		
Tawarruq	75,856,383	74,016,432
Negotiable Islamic debt certificates	987,500	3,275,500
	<u>86,338,197</u>	<u>86,523,884</u>

Deposits from customers are sourced from the following type of customers:

	Group and Bank	
	2022	2021
	RM'000	RM'000
Government	41,953,477	43,517,087
Business enterprises	20,689,800	19,314,090
Co-operatives	2,691,533	2,439,694
Individuals	19,042,369	19,597,897
Others	1,961,018	1,655,116
	<u>86,338,197</u>	<u>86,523,884</u>

Maturity structure of deposits from customers are as follows:

	Group and Bank	
	2022	2021
	RM'000	RM'000
Maturity within six months	72,020,090	69,244,255
More than six months to one year	8,484,552	11,156,420
More than one year to five years	5,833,555	6,123,209
	<u>86,338,197</u>	<u>86,523,884</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

23. INVESTMENT ACCOUNTS OF CUSTOMERS

- a) By type and Shariah contract

	Group and Bank	
	2022	2021
	RM'000	RM'000
Unrestricted investment accounts		
Without maturity:		
Mudarabah	<u>19,983</u>	<u>-</u>

- b) By type of customers

	Group and Bank	
	2022	2021
	RM'000	RM'000
Individuals	<u>19,983</u>	<u>-</u>

- c) Movement of unrestricted investment accounts of customers

	Group and Bank	
	2022	2021
	RM'000	RM'000
As at 1 January	-	-
Funding inflows/outflows:		
Net movement	19,972	-
Bank's share of profit:		
Profit distributed to Mudharib	11	-
As at 31 December	<u>19,983</u>	<u>-</u>

	Group and Bank	
	2022	2021
	RM'000	RM'000
Investment portfolio:		
Personal financing	13,988	-
Islamic debt securities	<u>5,995</u>	<u>-</u>
	<u>19,983</u>	<u>-</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****23. INVESTMENT ACCOUNTS OF CUSTOMERS (CONTINUED)**

- d) By maturity structures, profit sharing ratio and rate of return

Group and Bank 2022	Investment account holders		
	Total amount RM'000	Average profit sharing ratio (%)	Average rate of return (%)
Unrestricted investment accounts:			
Less than 3 months			
Mudarabah	19,983	4.80	0.02

24. DEPOSITS AND PLACEMENTS FROM BANKS AND FINANCIAL INSTITUTIONS

	Group and Bank	
	2022 RM'000	2021 RM'000
At amortised cost		
Cash and short-term funds	<u>1,592,461</u>	<u>850,000</u>

25. RECOURSE OBLIGATIONS ON FINANCING SOLD TO CAGAMAS

This represents proceeds received from financing sold directly to Cagamas Berhad with recourse to the Bank. Types of financing involved are personal financing and house financing. Under these agreements, the Bank undertakes to administer the financing on behalf of Cagamas Berhad and to replace any financing which are regarded as defective based on prudential criteria set by Cagamas Berhad.

Recourse obligations on financing sold to Cagamas are stated at amortised cost.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

26. DEBT SECURITIES ISSUED

	Note	Group and Bank	
		2022	2021
		RM'000	RM'000
Issued under the RM9.0 billion Senior Islamic Medium Term Notes (IMTN) Programme:			
RM850 million IMTN due in 2022	(i)(a)	-	853,176
RM430 million IMTN due in 2022	(i)(b)	-	433,370
Issued under the RM10.0 billion Senior Sukuk Wakalah Programme:			
RM400 million IMTN due in 2025	(ii)(a)	402,477	402,368
RM300 million IMTN due in 2027	(ii)(a)	301,962	301,905
RM300 million IMTN due in 2026	(ii)(b)	302,052	301,996
RM700 million IMTN due in 2028	(ii)(b)	705,261	705,138
RM700 million IMTN due in 2027	(ii)(c)	703,709	-
RM800 million IMTN due in 2029	(ii)(c)	804,627	-
RM200 million IMTN due in 2025	(ii)(d)	201,261	-
RM200 million IMTN due in 2027	(ii)(d)	201,355	-
RM100 million IMTN due in 2029	(ii)(d)	100,682	-
Issued under the RM5.0 billion Tier II Subordinated Programme:			
RM300 million Tier II due in 2031	(iii)(a)	300,005	299,987
		4,023,391	3,297,940

(i) On 25 October 2013, the Bank established a RM9.0 billion Senior IMTNs Programme to issue Sukuk Musharakah via a Special Purpose Vehicle ("SPV"), Imtiaz Sukuk II Berhad with a programme tenor of 10 years.

(a) On 29 May 2017, the Bank issued the eighth tranche of RM850 million. The eighth tranche bears a profit distribution rate at 4.58%. The profit is payable semi-annually each year commencing 29 November 2017. The eighth tranche has been fully redeemed on 27 May 2022.

(b) On 17 October 2017, the Bank issued the tenth tranche of RM430 million. The tenth tranche bears a profit distribution rate at 4.57%. The profit is payable semi-annually each year commencing 17 April 2018. The tenth tranche has been fully redeemed on 17 October 2022.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

26. DEBT SECURITIES ISSUED (CONTINUED)

The Sukuk Musharakah constitutes direct, unconditional and unsecured obligations of the Issuer and shall at all times rank pari passu without discrimination, preference or priority among themselves and at least pari passu with all other unsecured and unsubordinated obligations of the Issuer, subject to the previous of the Transaction Documents and those preferred by law.

- (ii) On 10 July 2020, the Bank established a RM10 billion Senior IMTNs Programme to issue Sukuk Wakalah via a SPV, Imtiaz Sukuk II Berhad with a programme tenor of 30 years.
- (a) On 7 October 2020, the Bank issued the first and second tranches of RM400 million and RM300 million, respectively. The first tranche bears a profit distribution rate at 2.97% maturing on 7 October 2025. The second tranche bears a profit distribution rate at 3.20% maturing on 7 October 2027. The profit is payable semi-annually each year commencing 7 April 2021.
- (b) On 19 April 2021, the Bank issued the third and fourth tranches of RM300 million and RM700 million. The third tranche bears a profit distribution rate at 3.54% maturing on 17 April 2026. The fourth tranche bears a profit distribution rate at 3.90% maturing on 19 April 2028. The profit is payable semi-annually each year commencing 20 October 2021.
- (c) On 12 May 2022, the Bank issued the fifth and sixth tranches of RM700 million and RM800 million, respectively. The fifth tranche bears a profit distribution rate at 4.38% maturing on 12 May 2027. The sixth tranche bears a profit distribution rate at 4.77% maturing on 11 May 2029. The profit is payable semi-annually each year commencing 14 November 2022.
- (d) On 8 November 2022, the Bank issued the seventh, eighth and ninth tranches of RM200 million, RM200 million and RM100 million, respectively. The seventh tranche bears a profit distribution rate at 4.63% maturing on 7 November 2025. The eighth tranche bears a profit distribution rate at 4.97% maturing on 8 November 2027. The ninth tranche bears a profit distribution rate at 5.00% maturing on 8 November 2029. The profit is payable semi-annually each year commencing 8 May 2023.

The Sukuk Wakalah constitutes direct, unconditional and unsecured obligations of the Issuer and shall at all times rank pari passu without discrimination, preference or priority among themselves and at least pari passu with all other unsecured and unsubordinated obligations of the Issuer, subject to the previous of the Transaction Documents and those preferred by law.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

26. DEBT SECURITIES ISSUED (CONTINUED)

- (iii) On 19 April 2016, the Bank established a Subordinated Sukuk Programme to issue a Basel III compliant Tier II Subordinated Sukuk Murabahah of up to RM5.0 billion in nominal value. The issuance was made via a SPV, Mumtaz Rakyat Sukuk Berhad. The Subordinated Sukuk Programme has a tenor of up to 20 years from the date of the first issuance and shall be issued with a maturity for at least 5 years and up to 20 years.

On 25 June 2021, the Bank issued the second tranche of RM300 million on nominal value of the Tier II Subordinated Sukuk for a tenor of 10 years on a 10 non-callable 5 basis with profit distribution rate at 3.78% and maturing on 25 June 2031. The profit is payable semi-annually each year commencing 27 December 2021.

The Subordinated Sukuk Murabahah will constitute direct, unconditional, unsecured and subordinated obligations of the Issuer ranking pari passu without any preference among themselves and at least pari passu with all other present and future unsecured and subordinated obligations of the Issuer, except those preferred by law and the Transaction Documents.

The proceeds from the issuances were utilised by the Bank for Shariah-compliant working capital and general corporate purposes.

27. CASHLINE FACILITY

The cashline facility is a committed line provided by local banks. It is an interbank arrangement where the facility is collateralised on agreed terms and alternative source of funds.

As at the end of the reporting period, the following are the assets that are pledged as the collateral for the cashline facility:

	Group and Bank	
	2022	2021
	RM'000	RM'000
Cash and short-term funds	239,829	234,841
Deposits and placements with financial institutions	368,303	361,249
	<u>608,132</u>	<u>596,090</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****28. OTHER LIABILITIES**

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Amount due to subsidiaries (i)	-	-	148,921	177,889
Sundry creditors	167,601	169,554	172,000	176,286
Income payable	428,136	431,786	428,136	431,786
Other liabilities and accruals	586,074	654,131	574,556	646,389
Lease liabilities (ii)	42,378	51,236	49,457	63,705
Allowances for ECL on financial guarantee (iii)	2,664	4,213	2,664	4,213
Government fund	303,240	333,732	303,240	333,732
Zakat payable	55,322	52,370	53,383	50,260
	<u>1,585,415</u>	<u>1,697,022</u>	<u>1,732,357</u>	<u>1,884,260</u>

Included in the government fund is amount received by the Group and the Bank under various financing facilities established by the government to provide relief and support recovery for SME/micro enterprises at below than the market rate.

The Group's and Bank's other liabilities include financial liabilities of RM588.74 million (2021: RM658.34 million) and RM577.22 million (2021: RM650.60 million) that are classified as amortised cost.

(i) Amount due to subsidiaries

	Bank	
	2022	2021
	RM'000	RM'000
Term deposits	121,754	118,486
Savings deposits	27,167	59,403
	<u>148,921</u>	<u>177,889</u>

The amount due to subsidiaries represents deposits placed with the Bank at profit rate paid/payable ranging from 1.90% to 2.30% (2021: 1.90% to 2.30%) per annum and have maturity period ranging from 30 days to 365 days (2021: 30 days to 365 days).

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****28. OTHER LIABILITIES (CONTINUED)****(ii) Lease liabilities**

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
At 1 January	51,236	58,027	63,705	77,210
Additions	4,589	1,494	4,589	-
Termination	(697)	(2,342)	(697)	(2,342)
Remeasurement	6,254	9,768	6,561	10,336
Lease payments	(20,917)	(17,828)	(27,017)	(24,276)
Finance cost on lease liabilities (Note 35(ii))	1,913	2,117	2,316	2,777
At 31 December	42,378	51,236	49,457	63,705

Future minimum rentals commitment under non-cancellable operating leases as at 31 December are as follows:

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Future rental commitment within :				
- 1 year	661	1,399	895	381
- 2 years	10,191	608	11,224	4,488
- 3 years	23,849	10,921	29,342	13,771
- 4 years	5,041	31,684	5,094	38,112
- 5 years	2,423	6,058	2,689	6,387
- 6 years onwards	213	566	213	566
	42,378	51,236	49,457	63,705

The Group and the Bank do not face a significant liquidity risk with regards to its lease liabilities. Lease liabilities are monitored within the Group's and the Bank's treasury function.

All lease obligations are denominated in Ringgit Malaysia.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

28. OTHER LIABILITIES (CONTINUED)

(iii) Allowances for ECL on financial guarantee

Group and Bank	Lifetime ECL Not Credit Impaired Stage 2 RM'000	Lifetime ECL Credit Impaired Stage 3 RM'000	Total RM'000
At 1 January 2021	3,298	2,664	5,962
Changes in credit risk	(1,749)	-	(1,749)
At 31 December 2021/ 1 January 2022	1,549	2,664	4,213
Changes in credit risk	(1,549)	-	(1,549)
At 31 December 2022	-	2,664	2,664

29. SHARE CAPITAL

	Group and Bank	
	2022	2021
	RM'000	RM'000
Issued and fully paid - Ordinary shares		
At 1 January	2,986,030	2,986,030
Net issuance during the year	22,939	18,282
Share withdrawal	(26,704)	(22,374)
Transfer from share redemption fund *	3,765	4,092
At 31 December	2,986,030	2,986,030

Membership as of 31 December is as follows:

	Group and Bank	
	2022	2021
Individual	815,367	824,799
Co-operative	2,264	2,267
	817,631	827,066

* The share redemption fund is maintained under Paragraph 19(i) of Undang-undang Kecil Bank Kerjasama Rakyat Malaysia Berhad for redemption of shares by members.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

30. RESERVES

Group	←		Non-distributable		→		Distributable	Total
	Capital reserve RM'000	Statutory reserve RM'000	ECL reserve RM'000	Fair value reserve RM'000	Regulatory reserve RM'000	Total other reserve RM'000	Retained profits RM'000	
At 1 January 2022	14,617	7,306,693	129	202,791	329,672	7,853,902	10,809,378	18,663,280
Profit after taxation and zakat	-	-	-	-	-	-	1,813,552	1,813,552
Transfer from retained profits	-	460,125	-	-	-	460,125	(460,125)	-
Contribution to the Co-operative Education Trust Fund	-	-	-	-	-	-	(33,565)	(33,565)
Contribution to the Co-operative Development Provident Fund	-	-	-	-	-	-	(16,782)	(16,782)
Contribution to Bank Rakyat Foundation	-	-	-	-	-	-	(14,303)	(14,303)
Fair value reserve								
- Change in fair value	-	-	-	(415,204)	-	(415,204)	-	(415,204)
- Transferred to profit or loss	-	-	-	(1,349)	-	(1,349)	-	(1,349)
Change in ECL reserve	-	-	(51)	-	-	(51)	-	(51)
Dividends (Note 40)	-	-	-	-	-	-	(429,476)	(429,476)
At 31 December 2022	14,617	7,766,818	78	(213,762)	329,672	7,897,423	11,668,679	19,566,102

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

30. RESERVES (CONTINUED)

Group (continued)	←		Non-distributable		→		Distributable	Total
	Capital reserve RM'000	Statutory reserve RM'000	ECL reserve RM'000	Fair value reserve RM'000	Regulatory reserve RM'000	Total other reserve RM'000	Retained profits RM'000	
At 1 January 2021	14,617	6,833,392	174	913,708	329,672	8,091,563	9,860,818	17,952,381
Profit after taxation and zakat	-	-	-	-	-	-	1,857,885	1,857,885
Transfer from retained profits	-	473,301	-	-	-	473,301	(473,301)	-
Contribution to the Co-operative Education Trust Fund	-	-	-	-	-	-	(32,302)	(32,302)
Contribution to the Co-operative Development Provident Fund	-	-	-	-	-	-	(16,151)	(16,151)
Contribution to Bank Rakyat Foundation	-	-	-	-	-	-	(14,341)	(14,341)
Fair value reserve								
- Change in fair value	-	-	-	(708,613)	-	(708,613)	-	(708,613)
- Transferred to profit or loss	-	-	-	(2,304)	-	(2,304)	-	(2,304)
Change in ECL reserve	-	-	(45)	-	-	(45)	-	(45)
Dividends (Note 40)	-	-	-	-	-	-	(373,230)	(373,230)
At 31 December 2021	14,617	7,306,693	129	202,791	329,672	7,853,902	10,809,378	18,663,280

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

30. RESERVES (CONTINUED)

	←		Non-distributable		→		Distributable	
	Capital	Statutory	ECL	Fair value	Regulatory	Total other	Retained	Total
	reserve	reserve	reserve	reserve	reserve	reserve	profits	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bank								
At 1 January 2022	15,358	7,306,693	129	202,791	329,672	7,854,643	10,373,508	18,228,151
Profit after taxation and zakat	-	-	-	-	-	-	1,800,649	1,800,649
Transfer from retained profits	-	460,125	-	-	-	460,125	(460,125)	-
Contribution to the Co-operative Education Trust Fund	-	-	-	-	-	-	(33,565)	(33,565)
Contribution to the Co-operative Development Provident Fund	-	-	-	-	-	-	(16,782)	(16,782)
Contribution to Bank Rakyat Foundation	-	-	-	-	-	-	(14,303)	(14,303)
Fair value reserve								
- Change in fair value	-	-	-	(415,204)	-	(415,204)	-	(415,204)
- Transferred to profit or loss	-	-	-	(1,349)	-	(1,349)	-	(1,349)
Change in ECL reserve	-	-	(51)	-	-	(51)	-	(51)
Dividends (Note 40)	-	-	-	-	-	-	(429,476)	(429,476)
At 31 December 2022	15,358	7,766,818	78	(213,762)	329,672	7,898,164	11,219,906	19,118,070

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

30. RESERVES (CONTINUED)

	←		Non-distributable		→		Distributable	
	Capital reserve RM'000	Statutory reserve RM'000	ECL reserve RM'000	Fair value reserve RM'000	Regulatory reserve RM'000	Total other reserve RM'000	Retained profits RM'000	Total RM'000
Bank (continued)								
At 1 January 2021	15,358	6,833,392	174	913,708	329,672	8,092,304	9,430,095	17,522,399
Profit after taxation and zakat	-	-	-	-	-	-	1,852,738	1,852,738
Transfer from retained profits	-	473,301	-	-	-	473,301	(473,301)	-
Contribution to the Co-operative Education Trust Fund	-	-	-	-	-	-	(32,302)	(32,302)
Contribution to the Co-operative Development Provident Fund	-	-	-	-	-	-	(16,151)	(16,151)
Contribution to Bank Rakyat Foundation	-	-	-	-	-	-	(14,341)	(14,341)
Fair value reserve								
- Change in fair value	-	-	-	(708,613)	-	(708,613)	-	(708,613)
- Transferred to profit or loss	-	-	-	(2,304)	-	(2,304)	-	(2,304)
Change in ECL reserve	-	-	(45)	-	-	(45)	-	(45)
Dividends (Note 40)	-	-	-	-	-	-	(373,230)	(373,230)
At 31 December 2021	15,358	7,306,693	129	202,791	329,672	7,854,643	10,373,508	18,228,151

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

30. RESERVES (CONTINUED)

(i) Statutory reserve

The statutory reserve is maintained in compliance with Development Financial Institutions Act 2002 (Act 618) and is not distributable as dividend.

(ii) Capital reserve

This is a reserve required to be maintained under Co-operative Societies Act 1993 and consists of capital gain from disposal of land or building, or both, under non-current assets.

(iii) ECL reserve

This ECL reserve comprises ECL allowance for financial investments at FVOCI. The ECL allowance will be reversed to profit or loss upon disposal or derecognition of the financial instruments.

(iv) Fair value reserve of financial investments at FVOCI

This reserve relates to unrealised fair value gains and losses on financial investments at fair value through other comprehensive income.

(v) Regulatory reserve

The regulatory reserve is maintained as an additional credit risk buffer to ensure the robustness of the financing impairment assessment methodology. The regulatory reserve is maintained in accordance with Bank Negara Malaysia's policy on Financial Reporting for Development Financial Institutions to maintain, in aggregate, loss allowance for non-credit impaired exposures and regulatory reserve of no less than 1% (2021: no less than 1%) of total credit exposures, net of loss allowance for credit-impaired exposures.

During the year, Bank Negara Malaysia permitted reduction of the reserve as part of the COVID-19 related measures to disburse prudential buffers. The Bank has not disbursed the reserve for the year 2022.

(vi) Retained profits

Included in retained profits is an amount of RM1,340,000,000 (2021: RM1,340,000,000) earmarked to improve the Rate of Return Risk (ROR) exposure as part of asset and liability management strategies.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

31. INCOME

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of depositors' fund (i)	4,434,593	4,349,252	4,443,306	4,357,001
Income derived from investment account funds (ii)	283	-	283	-
Income derived from investment of shareholders' fund (iii)	1,376,501	1,294,949	1,379,206	1,297,257
Income generated by subsidiaries (iv)	92,846	64,349	-	-
	<u>5,904,223</u>	<u>5,708,550</u>	<u>5,822,795</u>	<u>5,654,258</u>

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL:

	Group and Bank	
	2022	2021
	RM'000	RM'000
Amortised cost before modification	15,042,499	23,543,608
Net modification loss	<u>(287,942)</u>	<u>(176,532)</u>

(i) Income derived from investment of depositors' fund

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Income from financing and advances *	3,459,995	3,394,640	3,468,708	3,402,389
Income from deposits and placements with banks and financial institutions	12,586	8,396	12,586	8,396
Income from financial investments	962,012	946,216	962,012	946,216
	<u>4,434,593</u>	<u>4,349,252</u>	<u>4,443,306</u>	<u>4,357,001</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

31. INCOME (CONTINUED)

(ii) Income derived from investment account funds

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Income from financing and advances *	224	-	224	-
Income from financial investments	59	-	59	-
	<u>283</u>	<u>-</u>	<u>283</u>	<u>-</u>

(iii) Income derived from investment of shareholders' fund

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Income from financing and advances *	1,073,985	1,010,722	1,076,690	1,013,030
Income from deposits and placements with banks and financial institutions	3,907	2,500	3,907	2,500
Income from financial investments	298,609	281,727	298,609	281,727
	<u>1,376,501</u>	<u>1,294,949</u>	<u>1,379,206</u>	<u>1,297,257</u>

* Included in income from financing and advances for the current year is profit accrued on impaired financing of RM64,925,919 (2021: RM71,443,653).

Included the net effect under government support measures to provide relief and support recovery for SME/micro enterprises in order to sustain their business operations amounting to RM5,902,547 (2021: RM27,523,270) for the Group and the Bank.

(iv) Income generated by subsidiaries

	Group	
	2022	2021
	RM'000	RM'000
Pawning income	82,140	54,550
Rental income	832	716
Management fee	9,874	9,083
	<u>92,846</u>	<u>64,349</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

32. EXPENDITURE

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Income attributable to depositors (i)	2,173,261	1,976,444	2,176,841	1,980,012
Income attributable to investment account holders (ii)	11	-	11	-
Profit expense on financing sold with recourse to Cagamas	15,467	16,567	15,467	16,567
Profit expense on debt securities issued	150,551	134,198	150,551	134,198
Profit expense on cashline facility	8,647	3,473	8,647	3,473
Cost of sales	79,416	53,758	-	-
	<u>2,427,353</u>	<u>2,184,440</u>	<u>2,351,517</u>	<u>2,134,250</u>

(i) Income attributable to depositors

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Deposits from customers				
Non-Mudarabah	2,146,088	1,951,789	2,149,668	1,955,357
Deposits and placements from banks and other financial institutions				
Non-Mudarabah	27,173	24,655	27,173	24,655
	<u>2,173,261</u>	<u>1,976,444</u>	<u>2,176,841</u>	<u>1,980,012</u>

(ii) Income attributable to investment account holders

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Unrestricted investment accounts				
Mudarabah	11	-	11	-

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

33. ALLOWANCES FOR IMPAIRMENT

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Allowance for impairment on financing and advances (i)	677,550	729,585	674,254	730,308
Allowance for impairment on financial investments (ii)	(7,452)	(693)	(7,452)	(693)
	<u>670,098</u>	<u>728,892</u>	<u>666,802</u>	<u>729,615</u>

(i) Allowance for impairment on financing and advances

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Stage 1 - 12-month ECL	(74,222)	546,471	(77,518)	547,194
Stage 2 - lifetime ECL not credit impaired	262,661	(101,161)	262,661	(101,161)
Stage 3 - lifetime ECL credit impaired	489,111	284,275	489,111	284,275
	<u>677,550</u>	<u>729,585</u>	<u>674,254</u>	<u>730,308</u>

(ii) Allowance for impairment on financial investments

	Group and Bank	
	2022	2021
	RM'000	RM'000
Financial investments at fair value through other comprehensive income (Note 9)	(51)	(45)
Financial investments at amortised cost (Note 10)	(7,401)	(648)
	<u>(7,452)</u>	<u>(693)</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

34. OTHER OPERATING INCOME

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Fees and commission (i)	115,346	103,439	115,346	103,439
Other income (ii)	325,447	251,755	308,304	244,363
	440,793	355,194	423,650	347,802

(i) Fees and commission

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Takaful commission	64,082	60,600	64,082	60,600
ATM service fees	4	9	4	9
Wasiat commission	9,484	8,813	9,484	8,813
Other commission	22,592	23,251	22,592	23,251
Processing fees	27	35	27	35
MEPS fees	15,167	6,476	15,167	6,476
Other fees	3,990	4,255	3,990	4,255
	115,346	103,439	115,346	103,439

(ii) Other income

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Net other income from financial instruments				
Dividend from financial investments at fair value through profit or loss	15,623	17,538	15,623	17,538
Net (loss)/gain on disposal of financial investments at fair value through profit or loss	(24,813)	2,608	(24,813)	2,608
Net gain on disposal of financial investments at fair value through other comprehensive income	1,349	2,304	1,349	2,304

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

34. OTHER OPERATING INCOME (CONTINUED)

(ii) Other income (continued)

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Net other income from financial instruments (continued)				
Net loss on revaluation of financial investments at fair value through profit or loss	(846)	(46,840)	(846)	(46,840)
	(8,687)	(24,390)	(8,687)	(24,390)
Others				
Rental income	21,598	19,095	21,627	19,120
Compensation for late payment	6,450	6,903	6,450	6,903
Charges from credit card services	5,145	5,092	5,145	5,092
Other service charges	13,634	12,823	13,634	12,823
Recoveries from financing written off	187,865	169,933	187,865	169,933
Writeback for impairment on trade receivables (Note 12)	149	1,054	-	-
Writeback for impairment on other receivables, deposits and prepayments (Note 13(ii))	1,138	-	1,138	-
Gain on disposal of property and equipment	-	185	-	-
Other income	71,874	52,189	71,682	52,103
Gain on revaluation of investment properties (Note 19)	26,281	8,871	9,450	2,779
	334,134	276,145	316,991	268,753
	325,447	251,755	308,304	244,363

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

35. OPERATING EXPENSES

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Personnel expenses (i)	1,002,758	959,515	997,121	955,256
Other overheads and expenditure (ii)	548,496	564,831	552,776	567,843
	<u>1,551,254</u>	<u>1,524,346</u>	<u>1,549,897</u>	<u>1,523,099</u>

(i) Personnel expenses

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Salaries and wages	499,122	456,792	495,449	454,085
Allowances and bonuses	259,230	300,629	257,987	299,652
Defined contribution plan - EPF	159,244	144,772	158,957	144,533
Social security contributions				
- SOCSO	5,763	5,153	5,731	5,128
Other staff related costs	79,399	52,169	78,997	51,858
	<u>1,002,758</u>	<u>959,515</u>	<u>997,121</u>	<u>955,256</u>

Total number of staff (excluding the Board of Directors) for the Group is 6,168 (2021: 6,060) and for the Bank is 6,117 (2021: 6,022).

(ii) Other overheads and expenditures

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Establishment				
Rental	1,781	1,074	1,818	1,098
Depreciation of property and equipment (Note 17)	39,058	37,924	36,517	34,643
Depreciation of right-of-use assets (Note 14)	18,959	16,190	24,447	21,976
Amortisation of prepaid lease payments (Note 20)	1,550	1,590	1,550	1,590

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

35. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditures (continued)

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Establishment (continued)				
Amortisation of intangible assets (Note 18)	54,306	49,448	54,306	49,448
Finance cost on lease liabilities (Note 28(ii))	1,913	2,117	2,316	2,777
Repair and maintenance	93,965	137,432	93,887	137,346
Takaful	10,022	9,562	9,967	9,515
	221,554	255,337	224,808	258,393
Promotion				
Advertisement and publicity	27,999	17,793	27,991	17,789
General expenses				
Legal and professional fees	19,482	38,739	19,270	38,480
Auditors' remuneration	1,365	1,351	1,200	1,200
Communication expenses	21,950	35,243	21,907	35,194
Utilities expenses	17,562	18,212	17,522	18,174
Printing and stationery	18,540	16,781	18,461	16,709
Postage and courier	19,574	13,962	19,515	13,910
Security expenses	29,533	22,666	29,533	22,666
Service charges	44,112	37,048	47,072	38,577
Loss on financing written off	6,936	6,785	6,936	6,785
Property and equipment written off	37	257	37	238
Intangible assets written off	-	31	-	31
Commission expenses	77,334	61,067	77,334	61,067
Travelling and transportation	18,499	6,052	18,475	6,036
Others	24,019	33,507	22,715	32,594
	298,943	291,701	299,977	291,661
	548,496	564,831	552,776	567,843

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

35. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

The above expenditure includes the following statutory disclosures:

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Impairment losses on:				
Trade receivables (Note 12)	-	303	-	-
Other receivables, deposits and prepayments (Note 13(ii))	-	135	-	135
Auditors' remuneration:				
Current year:				
Statutory audit fees	1,365	1,351	1,200	1,200
Amortisation of prepaid lease payment (Note 20)	1,550	1,590	1,550	1,590
Depreciation of property and equipment (Note 17)	39,058	37,924	36,517	34,643
Amortisation of intangible assets (Note 18)	54,306	49,448	54,306	49,448
Depreciation of right-of-use assets (Note 14)	18,959	16,190	24,447	21,976
Finance cost on lease liabilities (Note 28(ii))	1,913	2,117	2,316	2,777
Property and equipment written off	37	257	37	238
Intangible assets written off	-	31	-	31
Rental of premises	1,755	1,058	1,818	1,098
Rental of equipment	26	16	-	-

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

35. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

Included in general expenses are the following Chief Executive Officer, Directors and Shariah Committee members' remuneration:

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Chief Executive Officer				
Salary and other remuneration	1,001	-	1,001	-
Bonuses	624	-	624	-
EPF contributions	304	-	304	-
Other emoluments	4	-	4	-
	1,933	-	1,933	-
Former Chief Executive Officer				
Salary and other remuneration	613	860	613	860
Bonuses	922	602	922	602
EPF contributions	292	271	292	271
Other emoluments	3	-	3	-
	1,830	1,733	1,830	1,733
Non-Executive Directors				
Fees	2,434	3,165	2,321	3,025
Other emoluments	31	51	31	51
	2,465	3,216	2,352	3,076
	6,228	4,949	6,115	4,809
Shariah Committee				
Fees	444	476	444	476
Other emoluments	-	10	-	10
	444	486	444	486
	6,672	5,435	6,559	5,295

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

35. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

Total remuneration of the Chief Executive Officer and Directors is as follows:

	Bank			Group		
	Remuneration received from the Bank			Bank	Remuneration received from Subsidiary Companies	
	Salary and bonus RM'000	Fees RM'000	Other emoluments RM'000	Total RM'000	Fees RM'000	Total RM'000
2022						
Chief Executive Officer						
Dr. Mohammad Hanis Osman	1,929	-	4	1,933	-	-
Non-Executive Directors						
Datuk Mohd Irwan Mohd Mubarak	-	319	-	319	21	21
Datuk Haji Abd Rani Lebai Jaafar	-	308	31	339	92	92
Dato' Sri Suriani Dato' Ahmad	-	186	-	186	-	-
Dato' Shamsul Azri Abu Bakar	-	202	-	202	-	-
Tunku Dato' Ahmad Burhanuddin						
Tunku Datuk Seri Adnan	-	271	-	271	-	-
Mohd Jafri Kudus	-	231	-	231	-	-
Dato' Dr. Vaseehar Hassan Abdul Razack	-	257	-	257	-	-
Prof. Dr. Raduwan Idar	-	114	-	114	-	-
Idris Abdul Hamid	-	52	-	52	-	-
Datin Norhamizah Mat Tahir	-	165	-	165	-	-
	-	2,105	31	2,136	113	113

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

35. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

Total remuneration of the Chief Executive Officer and Directors is as follows (continued):

	Bank			Group		
	Remuneration received from the Bank			Bank	Remuneration received from Subsidiary Companies	
	Salary and bonus RM'000	Fees RM'000	Other emoluments RM'000	Total RM'000	Fees RM'000	Total RM'000
2022 (continued)						
Former Chief Executive Officer						
Dato' Syed Abdul Aziz Syed Hassan	1,827	-	3	1,830	-	-
Former Non-Executive Directors						
Mohamad Rafi Shahzada	-	216	-	216	-	-
	3,756	2,321	38	6,115	113	113

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

35. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

Total remuneration of the Chief Executive Officer and Directors is as follows (continued):

	Bank			Group		
	Remuneration received from the Bank			Bank	Remuneration received from Subsidiary Companies	
	Salary and bonus RM'000	Fees RM'000	Other emoluments RM'000	Total RM'000	Fees RM'000	Total RM'000
2021						
Chief Executive Officer						
Dato' Syed Abdul Aziz Syed Hassan	1,733	-	-	1,733	-	-
Non-Executive Directors						
Datuk Haji Abd Rani Lebai Jaafar	-	549	31	580	123	123
Dato' Sri Suriani Dato' Ahmad	-	177	-	177	-	-
Dato' Shamsul Azri Abu Bakar	-	247	-	247	-	-
Tunku Dato' Ahmad Burhanuddin						
Tunku Datuk Seri Adnan	-	415	-	415	-	-
Datin Norhamizah Mat Tahir	-	336	-	336	-	-
Mohd Jafri Kudus	-	343	-	343	-	-
Datuk Mohd Irwan Mohd Mubarak	-	368	-	368	17	17

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

35. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

Total remuneration of the Chief Executive Officer and Directors is as follows (continued):

	Bank			Group		
	Remuneration received from the Bank			Bank	Remuneration received from Subsidiary Companies	
	Salary and bonus RM'000	Fees RM'000	Other emoluments RM'000	Total RM'000	Fees RM'000	Total RM'000
2021 (continued)						
Non-Executive Directors (continued)						
Mohamad Rafi Shahzada	-	186	-	186	-	-
Dato' Dr. Vaseehar Hassan Abdul Razack	-	108	-	108	-	-
	-	2,729	31	2,760	140	140
Former Non-Executive Directors						
Yuri Zaharin Wahab	-	276	10	286	-	-
Prof. Dr. Obiyathulla Ismath Bacha	-	10	10	20	-	-
Sofiyah Yahya	-	10	-	10	-	-
	-	296	20	316	-	-
	1,733	3,025	51	4,809	140	140

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

35. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

Total remuneration of the Shariah Committee is as follows:

2022

Shariah Committees

Prof. Dr. Azman Mohd Noor
Dr. Mohamad Zaini Yahaya
Ustaz Wan Rumaizi Wan Husin
Prof. Dato' Dr. Mohd Azmi Omar
Dr. Tuan Badrul Hisyam Tuan Soh
Sahibus Samahah Dr. Mohamad Sabri Haron

Group and Bank		
Remuneration received from the Bank		
Fees RM'000	Other emoluments RM'000	Total RM'000
98	-	98
80	-	80
72	-	72
69	-	69
70	-	70
55	-	55
444	-	444

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

35. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

Total remuneration of the Shariah Committee is as follows (continued):

2021

Shariah Committees

Prof. Dr. Azman Mohd Noor
Ustaz Wan Rumaizi Wan Husin
Dr. Tuan Badrul Hisyam Tuan Soh
Dr. Mohamad Zaini Yahaya
Prof. Dato' Dr. Mohd Azmi Omar

Former Shariah Committee

Dato' Setia Hj. Mohd Tamyas Abd Wahid
Dr. Abdullaah Jalil

Group and Bank		
Remuneration received from the Bank		
Fees	Other	
RM'000	emoluments	Total
	RM'000	RM'000
98	-	98
81	-	81
57	-	57
88	-	88
72	-	72
396	-	396
62	5	67
18	5	23
80	10	90
476	10	486

The above disclosure on total remuneration of the Shariah Committee is presented in accordance with para 12.16 as per BNM's policy on Financial Reporting for Development Financial Institutions, which became effective on or after 1 January 2020.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

36. TAXATION

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax				
Current year	2,843	44,771	-	42,650
Overprovision in prior years	(73,442)	(38,907)	(73,271)	(39,757)
	<u>(70,599)</u>	<u>5,864</u>	<u>(73,271)</u>	<u>2,893</u>
Deferred tax (Note 21)				
Current year	(87,838)	(280,787)	(89,000)	(281,000)
Underprovision in prior years	270	722	-	-
	<u>(87,568)</u>	<u>(280,065)</u>	<u>(89,000)</u>	<u>(281,000)</u>
Total	<u>(158,167)</u>	<u>(274,201)</u>	<u>(162,271)</u>	<u>(278,107)</u>

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

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Profit before taxation and zakat	<u>1,696,311</u>	<u>1,626,066</u>	<u>1,678,229</u>	<u>1,615,096</u>
Tax expense at statutory tax rate of 24% (2021: 24%)*	407,115	390,256	402,775	387,623
Non-taxable income	(230,217)	(185,509)	(231,703)	(187,999)
Non-deductible expenses	134,149	25,733	135,969	28,522
Tax exempt under Section 65(A) of the Income Tax Act 1967	(396,042)	(466,496)	(396,041)	(466,496)
(Over)/Underprovision in prior years:				
Income tax	(73,442)	(38,907)	(73,271)	(39,757)
Deferred tax	270	722	-	-
	<u>(158,167)</u>	<u>(274,201)</u>	<u>(162,271)</u>	<u>(278,107)</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

36. TAXATION (CONTINUED)

* The Bank, being a co-operative society uses the tax rates under Part IV, Schedule 1 of the Income Tax Act, 1967 as follows:

- On the first RM30,000 of chargeable income: 0% (2021: 0%)
- On the next RM30,000 of chargeable income: 5% (2021: 5%)
- On the next RM40,000 of chargeable income: 10% (2021: 10%)
- On the next RM50,000 of chargeable income: 15% (2021: 15%)
- On the next RM100,000 of chargeable income: 18% (2021: 18%)
- On the next RM250,000 of chargeable income: 21% (2021: 21%)
- On the next RM250,000 of chargeable income: 23% (2021: 23%)
- In excess of RM750,000 of chargeable income: 24% (2021: 24%)

37. ZAKAT

The Group's and the Bank's zakat have been computed by applying the growth capital method based on the rate of 2.5%. This method applies the rate on owners' equity, long term liability, net of fixed assets and non-current assets, and subjected to allowable adjustments.

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Provision for current year	41,075	42,917	40,000	41,000
Overprovision in prior years	(149)	(535)	(149)	(535)
	<u>40,926</u>	<u>42,382</u>	<u>39,851</u>	<u>40,465</u>

38. STATUTORY APPROPRIATIONS

Maintenance of statutory reserve fund is required under the Development Financial Institutions Act 2002 (Act 618), whereas contributions to Co-operative Education Trust Fund and Co-operative Development Provident Fund are made in compliance with the Co-operative Societies Act 1993 (Act 502).

Contribution to Bank Rakyat Foundation is made under paragraph 65(ii) of Undang-Undang Kecil Bank Kerjasama Rakyat Malaysia Berhad, which states that net profit for the year can be utilised towards a fund meant for welfare and benefits of members.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

39. EARNINGS PER SHARE

Basic earnings per ordinary share have been calculated based on the Group's and the Bank's profit after taxation and zakat of RM1,813,552,000 (2021: RM1,857,885,000) and RM1,800,649,000 (2021: RM1,852,738,000) divided by the weighted average number of ordinary shares of 2,937,247,000 (2021: 2,940,605,000) of RM1 each in issue during the financial year.

40. DIVIDENDS

	Group and Bank	
	2022	2021
	RM'000	RM'000
Cash dividend of 15% for the year ended 31 December 2021 (2020: 13%)	429,476	373,230

During the financial year ended 31 December 2022, the Bank paid a cash dividend of 15% amounting to RM429 million in regard to the previous financial year ended 31 December 2021.

In respect of the current financial year, the Board of Directors has proposed a cash dividend of up to 15% amounting to approximately RM450 million. The proposed dividend will be recognised in the subsequent financial year upon approval by the relevant external authorities.

41. COMMITMENTS AND CONTINGENCIES

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

	Group and Bank	
	2022	2021
	RM'000	RM'000
Contingent liabilities		
Bank guarantee given in respect of banking facilities granted to customers	149,847	130,900
Claims for damages from litigation taken against the Bank	15,575	140,403
Commitments		
Undrawn financing	2,407,682	2,271,831
	2,573,104	2,543,134

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

41. COMMITMENTS AND CONTINGENCIES (CONTINUED)

A summary of the status of material litigations against the Bank is as follows:

Case 1

The Bank had terminated financing facility and filed a claim against a customer and its corporate guarantors to recover the outstanding financing of approximately RM24 million. The main contractor, the customer and its corporate guarantors had also filed claims against the Bank respectively. The High Court on 24 January 2018 had dismissed the main contractor's claim against the Bank and other defendants. The Court of Appeal has dismissed the suit on 19 August 2022 which is a basis for the Bank to remove RM101.66 million of contingent liabilities during the current financial year.

However, the counter claim by the Bank against the customer and its corporate guarantors was dismissed by the Court. Meanwhile, the customer's counter claim against the Bank was allowed but no sum has been determined by the Court and is subject to further assessment. The corporate guarantors' counter claim against the Bank was allowed but it was a non-monetary claim. The hearing of Assessment of Damages is set to be from 26 June 2023 to 28 June 2023. With regards to Bank's Application for Leave to Appeal to the Federal Court of which the hearing was held on 2 February 2023, the Court has adjourned the Bank's Leave Application as the Ground of Judgment from Court of Appeal is not yet received. The Court has yet to fix the hearing date for the Leave Application.

Case 2

The Bank had granted three financing facilities to the Defendants for the purpose of financing a development project. The total amount of the facilities is RM47.68 million. Under the terms of the financing facilities, the Bank agreed to build and handover the project to the first Defendant and it was also agreed that the Bank will appoint the first Defendant as the Contractor for the project. At the same time, the first Defendant had entered into an agreement with a third party in relation to the completion of the project.

However, the agreements were subsequently terminated by the third party as the Defendant failed to fulfill their obligations under the agreements. The Bank then initiated a recovery action against the Defendant after failing to settle the outstanding amount. The Defendant has filed a counterclaim against the Bank claiming misrepresentation by the Bank which has led them to enter into the financing agreement.

The Court of Appeal dismissed the Defendant's appeal on 28 June 2022. The Defendant then applied to the Federal Court which fixed a new Case Management date on 16 March 2023. According to the Bank's solicitors, the Bank has a good chance of success and as such, the Bank has removed RM30.00 million of contingent liabilities during the current financial year.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

42. CAPITAL COMMITMENTS

Capital expenditure approved but not provided for in the financial statements are as follows:

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Capital expenditure				
Approved and contracted for	370,647	385,118	294,982	244,868

43. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial or operational decisions, or if one other party controls both.

The related parties of the Group and of the Bank are:

43.1 Subsidiaries

Details of the subsidiaries are shown in Note 16.

43.2 Key Management Personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and of the Bank either directly or indirectly. The key management personnel of the Group and of the Bank includes Executive Director and Non-Executive Directors of the Bank and certain members of senior management of the Bank and heads of major subsidiaries of the Group.

Remuneration of Directors and other members of key management are as follows:

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Short-term employee benefits				
Fees	2,434	3,165	2,321	3,025
Salary	8,524	5,501	8,524	5,501
Allowances	1,058	717	1,058	717
EPF contribution	2,788	1,724	2,788	1,724
Bonuses	5,827	3,630	5,827	3,630
Other emoluments	38	51	38	51
	20,669	14,788	20,556	14,648

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

43. RELATED PARTY TRANSACTIONS (CONTINUED)

43.2 Key Management Personnel (continued)

Included in the total compensation for key management personnel are the following items:

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Directors' remuneration				
From the Bank	2,352	3,076	2,352	3,076
From subsidiaries	113	140	-	-
	<u>2,465</u>	<u>3,216</u>	<u>2,352</u>	<u>3,076</u>

43.3 Transactions with subsidiaries

All related party transactions within the Bank Rakyat group are conducted on normal commercial terms which are not more favourable than those generally available to the public.

	Bank	
	2022	2021
	RM'000	RM'000
Income earned		
Income from financing and advances	(11,418)	(10,057)
Rental income	(44)	(40)
Expenditure incurred		
Profit expenses	3,580	3,569
Management fee expenses	3,019	1,561
Rental expenses	6,650	6,441
	<u>1,787</u>	<u>1,474</u>

44. FINANCING FACILITIES WITH CONNECTED PARTIES

	Group and Bank	
	2022	2021
	RM'000	RM'000
Outstanding exposures with connected parties	4,453,193	4,125,195
% of outstanding exposures to connected parties as a proportion of total exposure	3.94%	3.71%
% of outstanding exposures financing exposures with connected parties which is non-performing or in default	<u>0.01%</u>	<u>0.00%</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

44. FINANCING FACILITIES WITH CONNECTED PARTIES (CONTINUED)

The above disclosure on Financing Facilities with Connected Parties is presented in accordance with para 14.1 as per BNM's policy on Financing Facilities with Connected Parties, which became effective on 13 July 2016.

45. FINANCIAL INSTRUMENTS

45.1 Net gains and losses arising from financial instruments

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Net gains/(losses) arising on:				
Financial assets measured at fair value through profit or loss				
Income ^	15,641	18,543	15,641	18,543
Dividend	15,623	17,538	15,623	17,538
Disposal	(24,813)	2,608	(24,813)	2,608
Revaluation	(846)	(46,840)	(846)	(46,840)
	<u>5,605</u>	<u>(8,151)</u>	<u>5,605</u>	<u>(8,151)</u>
Financial assets measured at fair value through other comprehensive income				
Income ^	778,404	807,587	778,404	807,587
Disposal	1,349	2,304	1,349	2,304
Revaluation on:				
Equity instruments	14,395	14,714	14,395	14,714
Debt instruments	(429,599)	(723,327)	(429,599)	(723,327)
	<u>364,549</u>	<u>101,278</u>	<u>364,549</u>	<u>101,278</u>
Financial assets measured at amortised cost: ^				
Income from:				
Financing and advances	4,534,204	4,405,362	4,545,622	4,415,419
Deposits and placements with banks and financial institutions	16,493	10,896	16,493	10,896
Financial investments at amortised cost	466,635	401,813	466,635	401,813
	<u>5,017,332</u>	<u>4,818,071</u>	<u>5,028,750</u>	<u>4,828,128</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

45. FINANCIAL INSTRUMENTS (CONTINUED)

45.1 Net gains and losses arising from financial instruments (continued)

	Group		Bank	
	2022	2021	2022	2021
	RM'000	RM'000	RM'000	RM'000
Financial liabilities				
measured at amortised				
cost: ^				
Income attributable to				
depositors	(2,146,088)	(1,951,789)	(2,149,668)	(1,955,357)
Income attributable to				
investment account				
holders	(11)	-	(11)	-
Income attributable to				
deposits and placements				
from banks and other				
financial institutions	(27,173)	(24,655)	(27,173)	(24,655)
Profit expense on financing				
sold with recourse to				
Cagamas	(15,467)	(16,567)	(15,467)	(16,567)
Profit expense on debt				
securities issued	(150,551)	(134,198)	(150,551)	(134,198)
Profit expense on				
cashline facility	(8,647)	(3,473)	(8,647)	(3,473)
	(2,347,937)	(2,130,682)	(2,351,517)	(2,134,250)
	3,039,549	2,780,516	3,047,387	2,787,005
Net gains/(losses) on				
impairments of financial				
instruments:				
Financial assets at:				
Amortised cost	(670,149)	(728,937)	(666,853)	(729,660)
Fair value through other				
comprehensive income	51	45	51	45
	(670,098)	(728,892)	(666,802)	(729,615)

^ Profit income and expenses for these financial instruments are calculated using the effective profit rate method.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT

46.1 Overview

The Bank's business activities involve the use of financial instruments that expose the Bank to a variety of financial risks with the following as the primary risks:

- (i) Credit risk
- (ii) Liquidity risk
- (iii) Market risk
- (iv) Operational risk

46.2 Risk management framework

Risk Management Framework articulates the objectives, guiding principles and governance structure for risk management processes in the Bank. This enables the identification, assessment and measurement control and continuous monitoring of all material risks on a group-and bank-wide basis, supported by robust management information system that facilitates timely and reliable reporting of risks and the integration of information across the Bank.

Risk Management within the Bank is guided by the following principles:

- Alignment of risk taking activities with the Bank's risk appetite;
- Risk aware decision making with clear understanding of risks and their impacts on profitability and sustainability;
- Accountability through ownership of risks, controls, and profitability inherent in the Bank's business and support functions; and
- Integration of risk management, compliance and ethical business practices into the culture of the Bank.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.2 Risk management framework (continued)

The Bank's Risk Appetite Statement is as follows:

"The Bank's business strategy and risk-taking activities should always be within the capacity of the Bank. This is achieved by strengthening the following six dimensions - Risk Governance; Capital Adequacy and Shareholders' Value; Reputation as Islamic Bank; Asset Quality; Liquidity; and Operational Resilience."

46.2.1 Risk governance

The Bank manages its risks in accordance with the "Three Lines of Defence Model", which places accountability and ownership to the source of risk, whilst ensuring sufficient level of independent oversight.

The "Three Lines of Defence" consists of the following components:

(i) First Line of Defence - Informed Decision Making by Business Units

The Business Units are responsible to identify, manage and report their own risks. At this stage risk awareness is instilled starting at risk taking units so that Risk Management is incorporated into every aspect of work conducted.

(ii) Second Line of Defence - Oversight by Risk Management and Compliance

Risk Management and Compliance supports business units, as well as review and report key risks to the Management and Board of Directors. In doing so, Risk Management and Compliance provides support to Management and Board of Directors in fulfilling their oversight functions.

(iii) Third Line of Defence - Independent Assurance by Internal Audit

Internal Audit conducts quality assurance review, to ensure that the risk-taking activities are in line with established standards. Internal Audit provides recommendations for improvement where necessary. Its functions complement the support extended to the Management and Board Audit Committee in the risk oversight functions.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.2 Risk management framework (continued)

46.2.1 Risk governance (continued)

Roles and responsibilities of the oversight Committee:

Roles and responsibilities of the Board Risk Committee ("BRC"):

- (a) The BRC shall be responsible to review and recommend risk management strategies, policies, appetite and tolerance for Board's approval.
- (b) The BRC with the recommendation of Management Risk Committee periodically reviews the Risk Management Framework.
- (c) The BRC shall be responsible to assess the adequacy of risk management policies, processes and infrastructure to manage various types of risks is comprehensive and recommend to the Board for approval.
- (d) Review management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

Roles and responsibilities of Management Risk Committee:

- (a) Assess whether the Bank's corporate objectives are supported by a sound risk strategy and an effective risk management framework that is appropriate to the nature, scale and complexity of its activities.
- (b) Establish, review and implement Board approved risk management framework and policies.
- (c) Communicate approved policies to employees and monitor as well as enforce compliance with these policies.
- (d) Periodically review Risk Management Framework and recommend to Management Risk Committee for escalation to BRC and Board.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.2 Risk management framework (continued)

46.2.1 Risk governance (continued)

Roles and responsibilities of the oversight Committee (continued):

Roles and responsibilities of Operational Risk Management Committee:

- (a) Review and recommend operational risk management strategies, policies, guidelines and procedures.
- (b) Review and assess the adequacy of operational risk management framework, policies, guidelines and procedures in identifying, assessing, controlling and monitoring of operational risk and the extent to which these are operating effectively.
- (c) Ensure that infrastructure, resources and systems are in place to effectively manage operational risks.
- (d) Review operational risk profiles and periodic reports, including progress and follow-up actions.
- (e) Monitor the identified operational risks, key risk indicators and loss incidents in the business and functional units' operations.

Roles and responsibilities of Financing Review Committee:

- (a) Direct, monitor, review and consider such issues as may materially impact on the present and future quality of the Bank's financing book.
- (b) Conduct post-mortem on impaired financing and to learn weaknesses in existing credit policies and processes.
- (c) Ensure the procedures and resources are effective to identify and manage irregular and problem credits, minimise credit loss and maximise recoveries.
- (d) Review and recommend any enhancement of credit related policies, processes and procedures.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk

Credit risk is the risk of suffering financial or non-financial loss should any of the customers, clients or market counterparties fail to fulfill their contractual obligations through the Bank's financing, hedging, trading and investing activities.

The Bank's retail and corporate credit exposures are governed by credit policies and stringent underwriting criteria. The Bank's credit processes are in line with industry best practices which emphasizes on individual accountability with clear lines of responsibility where credit administration, early monitoring and recovery are independent from Business Units.

46.3.1 Management of credit risk

The Bank's credit risk management includes the establishment of comprehensive credit risk policies, guidelines and procedures that document financing standards, credit risk rating, acceptable collateral and valuation, and compliance with regulatory and statutory requirements. The policies are periodically reviewed to ensure their continuous relevance.

Risk Management is responsible to formulate and review the credit risk policies, guidelines and procedures as well as credit portfolio monitoring. Risk Management also conducts independent credit assessments to evaluate quality of credit proposals by Business Units for corporate customers.

Risk Management also prepares reports to be presented to Board and Senior Management. The reports contain information on identified credit risk factors. With this information, Board and Senior Management are able to effectively identify adverse credit risk trends, take corrective actions and formulate business strategies accordingly.

46.3.2 Financing to retail customers

Financing granted to retail customers is individually underwritten by assessing historical payment track record and payment capacity of the customer. This process is governed by Retail Credit Risk Policy, Product Policies and assessed using credit scorecard. Both Retail Credit Risk Policy and credit scorecard are developed by Risk Management while Product Policies are developed by Product Division within Retail Banking and are independently reviewed by Risk Management.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.2 Financing to retail customers (continued)

The credit approving authority and credit approving officers have the responsibility to ensure that credit risk is properly assessed and all crucial credit information of the customer is included in the financing application.

Risk Management is also responsible to assess new/variations of financing products or programs to ensure that the products/programs offered to customers are beneficial to both customers and Bank whilst mitigating the inherent risks.

46.3.3 Financing to corporate customers

Granting of credit to corporate customers is individually underwritten as guided by the Bank's risk appetite and policies. In its oversight role, Risk Management conducts independent assessments on all credit proposals to corporate customers prior to approval.

46.3.4 Purchase of investment securities

Credit qualities of financial instruments are assessed based on ratings from external credit rating agencies.

Portfolio review and monitoring is frequently conducted in ensuring the exposures are effectively managed and concentration risk is observed at all times.

46.3.5 Impaired financing and investment securities

Individually impaired financing and investment securities are financing and advances and investment securities (other than those carried at fair value through profit or loss) for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and profits due according to the contractual terms of the financing/investment security agreement(s).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.6 Neither past due nor impaired financing and investment securities

These are financing and investment securities from which contractual payment of profit or principal have not defaulted and therefore are not impaired since there is no objective evidence of impairment.

46.3.7 Past due but not impaired financing and investment securities

Past due but not impaired financing and investment securities, other than those carried at fair value through profit or loss, are those for which contractual profits or principal payments are past due, more than 1 day but less than three (3) months.

46.3.8 Financing with renegotiated terms

Financing with renegotiated terms are financing that have been restructured due to deterioration in the customer's financial position. Once the financing is restructured it remains in this category independent of satisfactory performance after restructuring.

46.3.9 Allowances for impairment

The Bank establishes an allowance for impairment loss on assets carried at amortised cost and fair value through other comprehensive income, which represents an estimation of expected losses in the financing and investment security portfolio.

The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective financing loss allowance established for groups of homogenous assets. Both components of allowance incorporates historical, current, and forecasted information in estimating the expected losses.

Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.10 Write-off policy

The Bank writes-off a financing or an investment security, and any related allowances for impairment losses, when the Bank determines that the financing or investment security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the customer's/issuer's financial position such that the customer/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

46.3.11 Collateral on financing and advances

In mitigating credit risk on financing and advances granted to customers, collaterals are obtained as follows:

- (i) House financing - charges over residential properties.
- (ii) Commercial property financing - charges over the properties being financed.
- (iii) Vehicle financing - ownership claims over the vehicles being financed.
- (iv) Other financing and advances - charges over business assets such as premises, trade receivables or deposits.

46.3.12 Credit grading for investment securities

Credit qualities of financial instruments are assessed based on ratings from external credit ratings agencies.

At the end of the reporting period, instruments rated with "Grade D" are those that have defaulted beyond their maturity period.

46.3.13 Maximum exposure to credit risk

The following table presents the Bank's credit exposure of on-balance sheet and off-balance sheet financial instruments.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****46. FINANCIAL RISK MANAGEMENT (CONTINUED)****46.3 Credit risk (continued)****46.3.13 Maximum exposure to credit risk (continued)**

For on-balance sheet assets, the exposure to credit risk equals the carrying amount.

For credit commitments, maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

	Group	
	2022	2021
	RM'000	RM'000
Assets		
Cash and short-term funds	1,834,420	835,189
Deposits and placements with financial institutions	368,445	672,463
Financial investments at fair value through profit or loss	255,027	976,032
Financial investments at fair value through other comprehensive income	20,466,301	20,781,718
Financial investments at amortised cost	12,427,045	10,826,850
Financing and advances	77,709,892	77,296,437
Trade receivables	1,228	909
Other receivables	703,490	340,530
	<u>113,765,848</u>	<u>111,730,128</u>
Commitments		
Undrawn financing	<u>2,407,682</u>	<u>2,271,831</u>
Total maximum exposure to credit risk	<u>116,173,530</u>	<u>114,001,959</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.13 Maximum exposure to credit risk (continued)

	Bank	
	2022	2021
	RM'000	RM'000
Assets		
Cash and short-term funds	1,831,709	834,987
Deposits and placements with financial institutions	368,303	672,463
Financial investments at fair value through profit or loss	255,027	976,032
Financial investments at fair value through other comprehensive income	20,466,293	20,781,710
Financial investments at amortised cost	12,427,045	10,826,850
Financing and advances	77,997,917	77,516,581
Other receivables	709,169	352,754
	<u>114,055,463</u>	<u>111,961,377</u>
Commitments		
Undrawn financing	<u>2,407,682</u>	<u>2,271,831</u>
Total maximum exposure to credit risk	<u>116,463,145</u>	<u>114,233,208</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.14 Credit risk exposure on financing and advances

	Group	
	2022	2021
	RM'000	RM'000
At amortised cost		
Neither past due nor impaired		
0 month	<u>77,092,037</u>	<u>77,360,901</u>
Past due but not impaired		
1 month	1,186,885	616,274
2 months	568,051	252,876
3 months	876	31,913
	<u>1,755,812</u>	<u>901,063</u>
Past due and impaired		
Less than 4 months	492,016	438,104
4 months to 6 months	261,515	91,981
7 months to 9 months	171,194	118,725
More than 9 months	667,856	704,690
	<u>1,592,581</u>	<u>1,353,500</u>
Gross financing and advances	80,440,430	79,615,464
Less:		
Stage 1 - 12-month ECL	(860,331)	(934,553)
Stage 2 - lifetime ECL not credit impaired	(874,052)	(609,842)
Stage 3 - lifetime ECL credit impaired	<u>(996,155)</u>	<u>(774,632)</u>
Net financing and advances	<u>77,709,892</u>	<u>77,296,437</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.14 Credit risk exposure on financing and advances (continued)

	Bank	
	2022	2021
	RM'000	RM'000
At amortised cost		
Neither past due nor impaired		
0 month	<u>77,390,372</u>	<u>77,594,651</u>
Past due but not impaired		
1 month	1,186,885	616,274
2 months	568,051	252,876
3 months	876	31,913
	<u>1,755,812</u>	<u>901,063</u>
Past due and impaired		
Less than 4 months	492,016	438,104
4 months to 6 months	261,515	91,981
7 months to 9 months	171,194	118,725
More than 9 months	667,856	704,690
	<u>1,592,581</u>	<u>1,353,500</u>
Gross financing and advances	80,738,765	79,849,214
Less:		
Stage 1 - 12-month ECL	(870,641)	(948,159)
Stage 2 - lifetime ECL not credit impaired	(874,052)	(609,842)
Stage 3 - lifetime ECL credit impaired	<u>(996,155)</u>	<u>(774,632)</u>
Net financing and advances	<u>77,997,917</u>	<u>77,516,581</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.15 Credit risk exposure on investment securities

Group 2022	Financial investments at fair value through profit or loss RM'000	Financial investments at fair value through other compre- hensive income RM'000	Financial investments at amortised cost RM'000	Total RM'000
Rated securities				
Islamic debt securities				
Grade AAA	-	3,333,756	962,732	4,296,488
Grade AA+	-	119,668	-	119,668
Grade AA	-	239,341	30,039	269,380
Grade AA-	-	293,923	68,183	362,106
Grade AA1	-	174,782	107,058	281,840
Grade AA2	-	106,418	50,934	157,352
Grade AA3	-	252,295	57,192	309,487
	-	4,520,183	1,276,138	5,796,321
Cagamas sukuk				
Grade AAA	-	651,866	50,451	702,317
Negotiable Islamic debt certificates				
Grade AA1	-	-	49,925	49,925
	-	5,172,049	1,376,514	6,548,563
Unrated securities				
Government investment issues	41,827	6,803,294	7,803,055	14,648,176
Government sukuk	-	8,403,783	3,184,122	11,587,905
Khazanah sukuk	-	-	63,354	63,354
Islamic redeemable convertible preference shares	213,200	-	-	213,200
	255,027	15,207,077	11,050,531	26,512,635
Shares				
Unquoted shares	-	87,175	-	87,175
	255,027	20,466,301	12,427,045	33,148,373

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.15 Credit risk exposure on investment securities (continued)

Bank 2022	Financial investments at fair value through profit or loss RM'000	Financial investments at fair value through other compre- hensive income RM'000	Financial investments at amortised cost RM'000	Total RM'000
Rated securities				
Islamic debt securities				
Grade AAA	-	3,333,756	962,732	4,296,488
Grade AA+	-	119,668	-	119,668
Grade AA	-	239,341	30,039	269,380
Grade AA-	-	293,923	68,183	362,106
Grade AA1	-	174,782	107,058	281,840
Grade AA2	-	106,418	50,934	157,352
Grade AA3	-	252,295	57,192	309,487
	-	4,520,183	1,276,138	5,796,321
Cagamas sukuk				
Grade AAA	-	651,866	50,451	702,317
Negotiable Islamic debt certificates				
Grade AA1	-	-	49,925	49,925
	-	5,172,049	1,376,514	6,548,563
Unrated securities				
Government investment issues	41,827	6,803,294	7,803,055	14,648,176
Government sukuk	-	8,403,783	3,184,122	11,587,905
Khazanah sukuk	-	-	63,354	63,354
Islamic redeemable convertible preference shares	213,200	-	-	213,200
	255,027	15,207,077	11,050,531	26,512,635
Shares				
Unquoted shares	-	87,167	-	87,167
	255,027	20,466,293	12,427,045	33,148,365

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.15 Credit risk exposure on investment securities (continued)

Group 2021	Financial investments at fair value through profit or loss RM'000	Financial investments at fair value through other compre- hensive income RM'000	Financial investments at amortised cost RM'000	Total RM'000
Rated securities				
Islamic debt securities				
Grade AAA	-	3,580,875	249,755	3,830,630
Grade AA+	-	204,172	-	204,172
Grade AA	-	274,972	5,170	280,142
Grade AA-	-	284,251	84,082	368,333
Grade AA1	-	185,615	67,033	252,648
Grade AA2	-	139,783	20,545	160,328
Grade AA3	-	366,704	27,173	393,877
	-	5,036,372	453,758	5,490,130
Cagamas sukuk				
Grade AAA	-	1,256,502	76,349	1,332,851
Negotiable Islamic debt certificates				
Grade AA2	-	-	99,928	99,928
	-	6,292,874	630,035	6,922,909
Unrated securities				
Government investment issues	695,939	5,550,252	6,925,903	13,172,094
Government sukuk	-	8,709,494	3,170,872	11,880,366
Khazanah sukuk	-	156,319	100,040	256,359
Islamic redeemable convertible preference shares	213,200	-	-	213,200
	909,139	14,416,065	10,196,815	25,522,019
Shares				
Quoted and unit trust shares	66,893	-	-	66,893
Unquoted shares	-	72,779	-	72,779
	66,893	72,779	-	139,672
	976,032	20,781,718	10,826,850	32,584,600

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.15 Credit risk exposure on investment securities (continued)

Bank 2021	Financial investments at fair value through profit or loss RM'000	Financial investments at fair value through other compre- hensive income RM'000	Financial investments at amortised cost RM'000	Total RM'000
Rated securities				
Islamic debt securities				
Grade AAA	-	3,580,875	249,755	3,830,630
Grade AA+	-	204,172	-	204,172
Grade AA	-	274,972	5,170	280,142
Grade AA-	-	284,251	84,082	368,333
Grade AA1	-	185,615	67,033	252,648
Grade AA2	-	139,783	20,545	160,328
Grade AA3	-	366,704	27,173	393,877
	-	5,036,372	453,758	5,490,130
Cagamas sukuk				
Grade AAA	-	1,256,502	76,349	1,332,851
Negotiable Islamic debt certificates				
Grade AA2	-	-	99,928	99,928
	-	6,292,874	630,035	6,922,909
Unrated securities				
Government investment issues	695,939	5,550,252	6,925,903	13,172,094
Government sukuk	-	8,709,494	3,170,872	11,880,366
Khazanah sukuk	-	156,319	100,040	256,359
Islamic redeemable convertible preference shares	213,200	-	-	213,200
	909,139	14,416,065	10,196,815	25,522,019
Shares				
Quoted and unit trust shares	66,893	-	-	66,893
Unquoted shares	-	72,771	-	72,771
	66,893	72,771	-	139,664
	976,032	20,781,710	10,826,850	32,584,592

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****46. FINANCIAL RISK MANAGEMENT (CONTINUED)****46.3 Credit risk (continued)****46.3.16 Maximum exposure to credit risk**

The following analysis represents the Group's maximum exposure to credit risk of on-balance sheet financial assets and off-balance sheet exposure, excluding any collateral held or other credit enhancements. For on-balance sheet financial assets, the exposure to credit risk equals their carrying amount. For off-balance sheet exposure, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if obligations of the instruments issued are called upon and/or the full amount of the undrawn credit facilities granted to customers.

	2022	2021
	RM'000	RM'000
Group		
Credit exposure for on-balance sheet financial assets		
Cash and short-term funds	1,834,420	835,189
Deposits and placements with financial institutions	368,445	672,463
Financial investments portfolio *	33,082,558	32,462,970
Financing and advances	71,203,954	69,032,986
Trade receivables	1,228	909
Other assets	903,490	540,530
Credit exposure for off-balance sheet financial assets		
Undrawn financing	2,407,682	2,271,831
Total maximum credit risk exposure	<u>109,801,777</u>	<u>105,816,878</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.16 Maximum exposure to credit risk (continued)

	2022 RM'000	2021 RM'000
Bank		
Credit exposure for on-balance sheet financial assets		
Cash and short-term funds	1,831,709	834,987
Deposits and placements with financial institutions	368,303	672,463
Financial investments portfolio *	33,082,558	32,462,970
Financing and advances	71,203,954	69,032,986
Other assets	948,807	552,754
Credit exposure for off-balance sheet financial assets		
Undrawn financing	2,407,682	2,271,831
Total maximum credit risk exposure	109,843,013	105,827,991

* Financial investment portfolio consists of financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments at amortised costs, excluding equity investments.

46.3.17 Exposures to COVID-19 impacted sectors

	2022 RM'000	2021 RM'000
Group and Bank		
Financing and advances		
On-balance sheet (net of impairment)		
Retail and wholesale/trading, manufacturing, transportation, agriculture, food and beverage services/restaurants	3,428,350	3,388,882

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.18 COVID-19 customer relief and support measures

Group and Bank At 31 December 2022	Retail customers					Non-retail customers	Grand total RM'000
	House financing RM'000	Personal financing RM'000	Hire- purchase RM'000	Other term financing RM'000	Total RM'000	Corporate financing RM'000	
Total payment moratoriums, repayment assistances, rescheduling and restructuring ("R&R") granted	720,517	2,710,852	123,645	285,512	3,840,526	59,742	3,900,268
<i>of which:</i>							
Resumed payments	506,929	1,896,081	102,445	270,509	2,775,964	44,465	2,820,429
Extended and paying as per revised schedules	51,262	489,831	2,353	6,544	549,990	4,031	554,021
Missed payments	162,326	324,940	18,847	8,459	514,572	11,246	525,818
<i>As a percentage of total:</i>							
Resumed payments	70%	70%	83%	95%	72%	74%	73%
Extended and paying as per revised schedules	7%	18%	2%	2%	14%	7%	14%
Missed payments	23%	12%	15%	3%	13%	19%	13%
	100%	100%	100%	100%	99%	100%	100%

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.18 COVID-19 customer relief and support measures (continued)

Group and Bank At 31 December 2021	Retail customers					Non-retail customers	Grand total RM'000
	House financing RM'000	Personal financing RM'000	Hire- purchase RM'000	Other term financing RM'000	Total RM'000	Corporate financing RM'000	
Total payment moratoriums, repayment assistances, rescheduling and restructuring ("R&R") granted	4,322,768	37,260,066	1,246,073	353,528	43,182,435	1,131,206	44,313,641
<i>of which:</i>							
Resumed payments	3,205,622	24,784,149	923,510	326,229	29,239,510	918,885	30,158,395
Extended and paying as per revised schedules	885,837	12,231,692	294,242	19,197	13,430,968	168,499	13,599,467
Missed payments	231,309	244,225	28,321	8,102	511,957	43,822	555,779
<i>As a percentage of total:</i>							
Resumed payments	75%	66%	74%	93%	68%	81%	68%
Extended and paying as per revised schedules	20%	33%	24%	5%	31%	15%	31%
Missed payments	5%	1%	2%	2%	1%	4%	1%
	100%	100%	100%	100%	100%	100%	100%

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.19 Overlays and adjustments for expected credit losses amid COVID-19 environment

As the MFRS 9 models are expected to generate expected credit losses ("ECL") with sufficient reliability in view of recalibration and validation of ECL models in a post Covid-19 environment, overlays and post-model adjustments in relation to Covid-19 have been reversed.

Notwithstanding, the Bank continues to exercise caution on measuring future macroeconomic headwinds by mainly providing overlays to the identified customers possibly affected from the continuous Overnight Policy Rate ("OPR") hikes. The impact of these post-model adjustments were estimated at account level, remain outside the core MFRS 9 process and amounted to RM481 million (2021: RM578 million) as at 31 December 2022.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk

Liquidity risk arises from mismatches in the timing of cash flows due to the inability to meet maturing or regulatory obligations and customers' demands for funds when required, which may adversely affect daily operations, Bank's reputation and incur unacceptable losses.

46.4.1 Management of liquidity risk

The management of liquidity risk is subject to Bank Negara Malaysia's Liquidity Framework and Liquidity Coverage Ratio requirements as well as the Bank's liquidity risk management framework.

The Bank adopts various liquidity risk measurement tools in managing the cash flows for daily movement as well as medium and long-term positions to ensure sufficient funding sources to meet obligations.

It is important for the Bank to maintain diversification strategy of funding sources and providers to ensure the stability of the funding structure and adequate standby facilities while managing excessive concentration towards key depositors. The Bank maintains sufficient high-quality liquid assets to withstand against any unforeseen liquidity stress.

In addition, a liquidity stress testing is conducted based on sensitivity analysis for various stress scenarios covering the Bank's specific and market-wide crisis scenario. The stress scenarios would provide a valuable assessment on the impact from adverse liquidity environment and the Bank's vulnerable portfolios.

The Bank has established liquidity contingency funding plan which entails the early warning indicators as well as strategies and actions to be taken by the liquidity crisis management team arising from different liquidity crisis scenarios.

The Bank's liquidity risk management framework, policies and procedures are reviewed periodically which are endorsed by Asset and Liability Committee ("ALCO") and approved by the Board. ALCO meets on a monthly basis and is responsible to monitor the liquidity risk position against the Bank's risk appetite and approved limits.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.2 Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

For this purpose, net liquid assets are considered as including cash and cash equivalents and investment grade securities for which there is an active and liquid market.

Details of the reported Bank ratio of net liquid assets to deposits from customers at the end of the reporting period and during the year were as follows:

	Bank	
	2022	2021
At 31 December	33.83%	31.84%
Average for the year	32.76%	32.19%
Maximum for the year	33.83%	33.23%
Minimum for the year	32.17%	31.26%

46.4.3 Liquidity risk of assets and liabilities

The main thrust of liquidity management is the projection of up to one year of the maturity profile of the Bank's assets, liabilities and off-balance sheet commitments from a given position.

The focus is on the ability of the Bank to match its short-term liquidity requirement arising from maturing obligations with maturing assets, followed by a medium-term assessment of liquidity up to one year.

The primary basis for determining the appropriate time bands is the contractual maturity, which is when the cash flows crystallise.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities

Group 2022	Up to 1 week RM'000	More than 1 week- 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 6 months RM'000	More than 6 months- 1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Assets								
Cash, deposits and placements with financial institutions	1,048,968	785,594	-	-	368,303	-	-	2,202,865
Investment securities	-	130,033	366,094	911,274	2,250,986	29,189,611	300,375	33,148,373
Financing and advances	791,658	1,179,159	2,125,812	3,197,583	5,938,730	67,207,488	(2,730,538)	77,709,892
Trade receivables	2,092	153	-	-	-	-	(1,017)	1,228
Other assets	-	-	723,365	-	-	-	222,900	946,265
	1,842,718	2,094,939	3,215,271	4,108,857	8,558,019	96,397,099	(2,208,280)	114,008,623

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Group (continued) 2022	Up to 1 week RM'000	More than 1 week- 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 6 months RM'000	More than 6 months- 1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Liabilities								
Deposits from customers	17,874,155	19,601,521	20,535,292	14,009,122	8,484,552	5,833,555	-	86,338,197
Investment accounts of customers	19,983	-	-	-	-	-	-	19,983
Deposits and placements from banks and financial institutions	305,082	1,187,379	100,000	-	-	-	-	1,592,461
Recourse obligations on financing sold to Cagamas	-	-	-	-	-	500,000	-	500,000
Debt securities issued	-	-	-	23,391	-	4,000,000	-	4,023,391
Cashline facility	401,203	302,919	-	-	-	-	-	704,122
Trade payables	-	-	1,735	-	-	-	-	1,735
Other liabilities	-	55	1,237,243	165	331	41,717	305,904	1,585,415
	18,600,423	21,091,874	21,874,270	14,032,678	8,484,883	10,375,272	305,904	94,765,304
Net maturity mismatch	(16,757,705)	(18,996,935)	(18,658,999)	(9,923,821)	73,136	86,021,827	(2,514,184)	19,243,319

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Group (continued) 2022	Up to 1 week RM'000	More than 1 week- 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 6 months RM'000	More than 6 months- 1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Commitment and contingencies								
Bank guarantee given in respect of banking facilities granted to customers	149,847	-	-	-	-	-	-	149,847
Claims for damages from litigation taken against the Bank	-	-	-	-	-	15,575	-	15,575
Undrawn financing	2,407,682	-	-	-	-	-	-	2,407,682
	2,557,529	-	-	-	-	15,575	-	2,573,104

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Group 2021	Up to 1 week RM'000	More than 1 week- 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 6 months RM'000	More than 6 months- 1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Assets								
Cash, deposits and placements with financial institutions	835,189	-	311,214	-	361,249	-	-	1,507,652
Investment securities	-	304,065	334,578	1,506,914	2,652,425	27,664,988	121,630	32,584,600
Financing and advances	533,934	1,066,585	2,193,918	3,152,636	5,683,199	66,985,192	(2,319,027)	77,296,437
Trade receivables	2,015	60	-	-	-	-	(1,166)	909
Other assets	-	-	351,626	-	-	-	234,893	586,519
	<u>1,371,138</u>	<u>1,370,710</u>	<u>3,191,336</u>	<u>4,659,550</u>	<u>8,696,873</u>	<u>94,650,180</u>	<u>(1,963,670)</u>	<u>111,976,117</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Group (continued) 2021	Up to 1 week RM'000	More than 1 week- 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 6 months RM'000	More than 6 months- 1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Liabilities								
Deposits from customers	15,617,109	16,397,345	20,446,183	16,783,618	11,156,420	6,123,209	-	86,523,884
Deposits and placements from banks and financial institutions	450,000	150,000	250,000	-	-	-	-	850,000
Recourse obligations on financing sold to Cagamas	-	1,834	3,699	5,626	307,152	-	-	318,311
Debt securities issued	-	-	-	867,940	430,000	2,000,000	-	3,297,940
Cashline facility	-	400,032	300,385	-	-	-	-	700,417
Trade payables	-	-	1,839	-	-	-	-	1,839
Other liabilities	-	116	1,308,074	350	700	49,837	337,945	1,697,022
	<u>16,067,109</u>	<u>16,949,327</u>	<u>22,310,180</u>	<u>17,657,534</u>	<u>11,894,272</u>	<u>8,173,046</u>	<u>337,945</u>	<u>93,389,413</u>
Net maturity mismatch	(14,695,971)	(15,578,617)	(19,118,844)	(12,997,984)	(3,197,399)	86,477,134	(2,301,615)	18,586,704

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Group (continued) 2021	Up to 1 week RM'000	More than 1 week- 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 6 months RM'000	More than 6 months- 1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Commitment and contingencies								
Bank guarantee given in respect of banking facilities granted to customers	130,900	-	-	-	-	-	-	130,900
Claims for damages from litigation taken against the Bank	-	-	-	-	-	140,403	-	140,403
Undrawn financing	2,271,831	-	-	-	-	-	-	2,271,831
	<u>2,402,731</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>140,403</u>	<u>-</u>	<u>2,543,134</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Bank 2022	Up to 1 week RM'000	More than 1 week- 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 6 months RM'000	More than 6 months- 1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Assets								
Cash, deposits and placements with financial institutions	1,046,115	785,594	-	-	368,303	-	-	2,200,012
Investment securities	-	130,033	366,094	911,274	2,250,986	29,189,611	300,367	33,148,365
Financing and advances	791,658	1,179,159	2,125,812	3,197,583	5,938,730	67,505,823	(2,740,848)	77,997,917
Other assets	-	-	728,515	-	-	-	191,218	919,733
	1,837,773	2,094,786	3,220,421	4,108,857	8,558,019	96,695,434	(2,249,263)	114,266,027

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Bank (continued) 2022	Up to 1 week RM'000	More than 1 week- 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 6 months RM'000	More than 6 months- 1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Liabilities								
Deposits from customers	17,874,155	19,601,521	20,535,292	14,009,122	8,484,552	5,833,555	-	86,338,197
Investment accounts of customers	19,983	-	-	-	-	-	-	19,983
Deposits and placements from banks and financial institutions	305,082	1,187,379	100,000	-	-	-	-	1,592,461
Recourse obligations on financing sold to Cagamas	-	-	-	-	-	500,000	-	500,000
Debt securities issued	-	-	-	23,391	-	4,000,000	-	4,023,391
Cashline facility	401,203	302,919	-	-	-	-	-	704,122
Other liabilities	6,993	7,461	1,265,404	21,454	49,412	48,562	333,071	1,732,357
	18,607,416	21,099,280	21,900,696	14,053,967	8,533,964	10,382,117	333,071	94,910,511
Net maturity mismatch	(16,769,643)	(19,004,494)	(18,680,275)	(9,945,110)	24,055	86,313,317	(2,582,334)	19,355,516

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Bank (continued) 2022	Up to 1 week RM'000	More than 1 week- 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 6 months RM'000	More than 6 months- 1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Commitment and contingencies								
Bank guarantee given in respect of banking facilities granted to customers	149,847	-	-	-	-	-	-	149,847
Claims for damages from litigation taken against the Bank	-	-	-	-	-	15,575	-	15,575
Undrawn financing	2,407,682	-	-	-	-	-	-	2,407,682
	2,557,529	-	-	-	-	15,575	-	2,573,104

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Bank 2021	Up to 1 week RM'000	More than 1 week- 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 6 months RM'000	More than 6 months- 1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Assets								
Cash, deposits and placements with financial institutions	834,987	-	311,214	-	361,249	-	-	1,507,450
Investment securities	-	304,065	334,578	1,506,914	2,652,425	27,664,988	121,622	32,584,592
Financing and advances	533,934	1,066,585	2,193,918	3,152,636	5,683,199	67,218,942	(2,332,633)	77,516,581
Other assets	-	-	363,321	-	-	-	199,912	563,233
	<u>1,368,921</u>	<u>1,370,650</u>	<u>3,203,031</u>	<u>4,659,550</u>	<u>8,696,873</u>	<u>94,883,930</u>	<u>(2,011,099)</u>	<u>112,171,856</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Bank (continued) 2021	Up to 1 week RM'000	More than 1 week- 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 6 months RM'000	More than 6 months- 1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Liabilities								
Deposits from customers	15,617,109	16,397,345	20,446,183	16,783,618	11,156,420	6,123,209	-	86,523,884
Deposits and placements from banks and financial institutions	450,000	150,000	250,000	-	-	-	-	850,000
Recourse obligations on financing sold to Cagamas	-	1,834	3,699	5,626	307,152	-	-	318,311
Debt securities issued	-	-	-	867,940	430,000	2,000,000	-	3,297,940
Cashline facility	-	400,032	300,385	-	-	-	-	700,417
Other liabilities	928	7,573	1,324,335	30,931	59,821	63,324	397,348	1,884,260
	<u>16,068,037</u>	<u>16,956,784</u>	<u>22,324,602</u>	<u>17,688,115</u>	<u>11,953,393</u>	<u>8,186,533</u>	<u>397,348</u>	<u>93,574,812</u>
Net maturity mismatch	(14,699,116)	(15,586,134)	(19,121,571)	(13,028,565)	(3,256,520)	86,697,397	(2,408,447)	18,597,044

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Bank (continued) 2021	Up to 1 week RM'000	More than 1 week- 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 6 months RM'000	More than 6 months- 1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Commitment and contingencies								
Bank guarantee given in respect of banking facilities granted to customers	130,900	-	-	-	-	-	-	130,900
Claims for damages from litigation taken against the Bank	-	-	-	-	-	140,403	-	140,403
Undrawn financing	2,271,831	-	-	-	-	-	-	2,271,831
	<u>2,402,731</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>140,403</u>	<u>-</u>	<u>2,543,134</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.5 Contractual maturity of financial liabilities on an undiscounted basis

The tables below present the cash flows payable by the Group and the Bank under financial liabilities by remaining contractual maturities as at 31 December 2022 and 31 December 2021. The amounts disclosed in the table will not agree to the carrying amounts reported in the statements of financial positions as the amounts incorporated all contractual cash flows, on an undiscounted basis, relating to both principal and profit analysis. The Group and the Bank manage profit liquidity risk based on discounted expected cash flows.

Group 2022	Up to 1 week RM'000	More than 1 week- 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 6 months RM'000	More than 6 months- 1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Liabilities								
Deposits from customers	17,911,560	19,646,875	20,710,507	14,248,146	8,795,764	7,509,634	-	88,822,486
Investment accounts of customers	19,983	-	-	-	-	-	-	19,983
Deposits and placements from banks and financial institutions	305,082	1,187,379	100,000	-	-	-	-	1,592,461
Recourse obligations on financing sold to Cagamas	-	-	5,850	5,850	11,700	469,803	-	493,203
Debt securities issued	-	-	-	80,993	82,665	4,701,877	-	4,865,535
Trade payables	-	-	1,735	-	-	-	-	1,735
Financing from other financial institutions	-	-	-	-	-	-	-	-
Cashline facility	401,203	302,919	-	-	-	-	-	704,122
Other liabilities	-	55	1,237,243	165	331	41,717	305,904	1,585,415
	18,637,828	21,137,228	22,055,335	14,335,154	8,890,460	12,723,031	305,904	98,084,940

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.5 Contractual maturity of financial liabilities on an undiscounted basis (continued)

Group 2021	Up to 1 week RM'000	More than 1 week- 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 6 months RM'000	More than 6 months- 1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Liabilities								
Deposits from customers	15,678,932	16,424,494	20,546,341	16,986,269	11,438,960	7,667,554	-	88,742,550
Deposits and placements from banks and financial institutions	450,416	150,454	251,264	-	-	-	-	852,134
Recourse obligations on financing sold to Cagamas	-	3,166	6,339	9,528	314,741	-	-	333,774
Debt securities issued	-	-	-	914,059	475,265	2,367,462	-	3,756,786
Trade payables	-	-	1,839	-	-	-	-	1,839
Cashline facility	-	401,002	301,325	-	-	-	-	702,327
Other liabilities	-	116	1,308,074	350	700	49,837	337,945	1,697,022
	16,129,348	16,979,232	22,415,182	17,910,206	12,229,666	10,084,853	337,945	96,086,432

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.5 Contractual maturity of financial liabilities on an undiscounted basis (continued)

Bank 2022	Up to 1 week RM'000	More than 1 week- 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 6 months RM'000	More than 6 months- 1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Liabilities								
Deposits from customers	17,911,560	19,646,875	20,710,507	14,248,146	8,795,764	7,509,634	-	88,822,486
Investment accounts of customers	19,983	-	-	-	-	-	-	19,983
Deposits and placements from banks and financial institutions	305,082	1,187,379	100,000	-	-	-	-	1,592,461
Recourse obligations on financing sold to Cagamas	-	-	5,850	5,850	11,700	469,803	-	493,203
Debt securities issued	-	-	-	80,993	82,665	4,701,877	-	4,865,535
Cashline facility	401,203	302,919	-	-	-	-	-	704,122
Other liabilities	6,993	7,461	1,265,404	21,454	49,412	48,562	333,071	1,732,357
	18,644,821	21,144,634	22,081,761	14,356,443	8,939,541	12,729,876	333,071	98,230,147

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.5 Contractual maturity of financial liabilities on an undiscounted basis (continued)

Bank 2021	Up to 1 week RM'000	More than 1 week- 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 6 months RM'000	More than 6 months- 1 year RM'000	More than 1 year RM'000	No specific maturity RM'000	Total RM'000
Liabilities								
Deposits from customers	15,678,932	16,424,494	20,546,341	16,986,269	11,438,960	7,667,554	-	88,742,550
Deposits and placements from banks and financial institutions	450,416	150,454	251,264	-	-	-	-	852,134
Recourse obligations on financing sold to Cagamas	-	3,166	6,339	9,528	314,741	-	-	333,774
Debt securities issued	-	-	-	914,059	475,265	2,367,462	-	3,756,786
Cashline facility	-	401,002	301,325	-	-	-	-	702,327
Other liabilities	928	7,573	1,324,335	30,931	59,821	63,324	397,348	1,884,260
	<u>16,130,276</u>	<u>16,986,689</u>	<u>22,429,604</u>	<u>17,940,787</u>	<u>12,288,787</u>	<u>10,098,340</u>	<u>397,348</u>	<u>96,271,831</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk

Market risk is defined as the risk of financial loss due to changes in equity prices, benchmark rates, credit spreads, foreign-exchange rates, commodity prices, and other indicators whose values are set in a public market. Changes in market rates can affect the Bank's net earnings and also the economic value of Bank's equity.

The function of Market Risk and Asset Liability Management ("ALM") is to manage and control market risk exposure in order to optimize return on risk while maintaining a market profile consistent with the Bank's strategic plan.

The Bank has established the market risk policy, strategy and processes which are periodically reviewed and updated to take into account changes in activities and market structure to ensure effective implementation of risk management policies.

46.5.1 Management of market risk

The Bank manages market risk by segregating exposure to market risk between trading and non-trading portfolios. Trading portfolios are held by the treasury department which consist of financial assets that are managed on fair value basis.

The risk measurement techniques employed by the Bank to measure and quantify the market value changes and the level of market risk comprise of Value-at-Risk ("VaR"), Modified Duration and Present Value of One Basis Point ("PV01").

Exposure of the Bank to the foreign exchange rates is minimal since operation of foreign currency unit is limited to remittance services only.

46.5.2 Profit rate risk

Investment in debt securities and financing are exposed to risk of change in profit rates that would result in changes in cash flows. On the other hand, investment in equity securities and other short-term receivables and payables are not significantly exposed to profit rate risk.

Among other efforts in mitigating this risk is by diversifying investment mainly in fixed-income securities with different duration. The Bank has not engaged in hedging through derivative instruments during the year.

The sensitivity of the Bank's financial assets and liabilities to the profit rate risk is measured and monitored proactively using multiple measurement techniques such as Gap Analysis, Duration and Simulation Model.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****46. FINANCIAL RISK MANAGEMENT (CONTINUED)****46.5 Market risk (continued)****46.5.2 Profit rate risk (continued)**

The following shows the Bank's sensitivity to an increase or decrease in market profit rates, assuming no asymmetrical movement in yield curves and a constant financial position.

Sensitivity of projected net profit income	Increase by 100 bp RM'000	Decrease by 100 bp RM'000	Increase by 50 bp RM'000	Decrease by 50 bp RM'000
Bank				
2022				
Year ended				
31 December	51,931	(66,434)	25,958	(24,454)
Average for the year	42,318	(57,286)	21,241	(20,281)
Maximum for the year	101,165	(14,185)	50,575	(16,712)
Minimum for the year	22,341	(117,337)	10,110	(50,561)
2021				
Year ended				
31 December	83,351	(100,261)	41,670	(41,658)
Average for the year	69,627	(84,255)	34,801	(34,750)
Maximum for the year	122,631	(47,959)	61,305	(16,228)
Minimum for the year	32,508	(137,325)	16,246	(61,284)

46.5.3 Exposure to profit rate

Among other controls to ensure that market risk exposures remain within tolerable levels include stress testing, new product approval procedures and listing of permissible instruments that can be traded.

Periodic stress testing and control assessment are conducted to address the plausible market events relating to the threat of market failure that could disrupt the Bank's profitability and capital adequacy in ensuring its resiliency.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

46.5.4 Exposure to profit rate risk on profit-bearing financial instruments

Group	Non-trading book						Trading book	Total
	Up to 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 1 year RM'000	More than 1 year- 5 years RM'000	More than 5 years RM'000	Non-profit sensitive RM'000		
2022								
Assets								
Cash, deposits and placements with financial institutions	-	-	368,303	-	-	1,834,562	-	2,202,865
Financial investments at fair value through profit or loss	-	-	-	-	-	-	255,027	255,027
Financial investments at fair value through other comprehensive income	80,107	305,057	2,282,572	9,071,730	8,639,660	-	87,175	20,466,301
Financial investments at amortised cost	49,926	61,039	879,693	3,465,323	7,971,064	-	-	12,427,045
Financing and advances								
- Non-impaired	55,735,839	78,237	76,946	3,310,421	17,590,801	2,053,211	-	78,845,455
- Impaired, net of allowances	-	-	-	-	-	(1,135,563)	-	(1,135,563)
Other non-profit sensitive balances	-	-	-	-	-	4,273,596	-	4,273,596
	55,865,872	444,333	3,607,514	15,847,474	34,201,525	7,025,806	342,202	117,334,726

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

46.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Group (continued) 2022	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 1 year RM'000	More than 1 year- 5 years RM'000	More than 5 years RM'000	Non-profit sensitive RM'000		
Liabilities								
Deposits from customers	31,101,097	20,535,291	22,493,674	9,453,101	2,755,034	-	-	86,338,197
Investment accounts of customers	19,983	-	-	-	-	-	-	19,983
Deposits and placements from banks and financial institutions	1,492,461	100,000	-	-	-	-	-	1,592,461
Recourse obligations on financing sold to Cagamas	-	-	-	500,000	-	-	-	500,000
Debt securities issued	-	-	-	2,112,817	1,910,574	-	-	4,023,391
Cashline facility	704,122	-	-	-	-	-	-	704,122
Other non-profit sensitive balances	-	-	-	-	-	1,602,320	-	1,602,320
	33,317,663	20,635,291	22,493,674	12,065,918	4,665,608	1,602,320	-	94,780,474

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

46.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Group (continued) 2022	Non-trading book					Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
	Up to 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 1 year RM'000	More than 1 year- 5 years RM'000	More than 5 years RM'000			
On-balance sheet profit sensitivity gap	22,548,209	(20,190,958)	(18,886,160)	3,781,556	29,535,917	5,423,486	342,202	22,554,252
Total profit sensitivity gap	22,548,209	(20,190,958)	(18,886,160)	3,781,556	29,535,917	5,423,486	342,202	22,554,252

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

46.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Group (continued) 2021	Non-trading book					Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
	Up to 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 1 year RM'000	More than 1 year- 5 years RM'000	More than 5 years RM'000			
Assets								
Cash, deposits and placements with financial institutions	150,189	311,214	211,060	-	-	835,189	-	1,507,652
Financial investments at fair value through profit or loss	-	-	-	-	-	-	976,032	976,032
Financial investments at fair value through other comprehensive income	199,160	335,682	2,589,900	9,814,429	7,769,768	-	72,779	20,781,718
Financial investments at amortised cost	105,022	-	1,546,374	2,298,504	6,876,950	-	-	10,826,850
Financing and advances								
- Non-impaired	52,857,393	45,689	65,819	3,569,809	19,915,070	1,808,184	-	78,261,964
- Impaired, net of allowances	-	-	-	-	-	(965,527)	-	(965,527)
Other non-profit sensitive balances	-	-	-	-	-	3,669,469	-	3,669,469
	53,311,764	692,585	4,413,153	15,682,742	34,561,788	5,347,315	1,048,811	115,058,158

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

46.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Group (continued) 2021	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 1 year RM'000	More than 1 year- 5 years RM'000	More than 5 years RM'000	Non-profit sensitive RM'000		
Liabilities								
Deposits from customers	25,829,046	20,446,183	27,940,038	10,182,524	2,126,093	-	-	86,523,884
Deposits and placements from banks and financial institutions	600,000	250,000	-	-	-	-	-	850,000
Recourse obligations on financing sold to Cagamas	-	-	-	318,311	-	-	-	318,311
Debt securities issued	-	-	1,286,546	704,367	1,307,027	-	-	3,297,940
Cashline facility	400,032	300,385	-	-	-	-	-	700,417
Other non-profit sensitive balances	-	-	-	-	-	1,712,411	-	1,712,411
	26,829,078	20,996,568	29,226,584	11,205,202	3,433,120	1,712,411	-	93,402,963

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

46.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Group (continued) 2021	Non-trading book					Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
	Up to 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 1 year RM'000	More than 1 year- 5 years RM'000	More than 5 years RM'000			
On-balance sheet profit sensitivity gap	26,482,686	(20,303,983)	(24,813,431)	4,477,540	31,128,668	3,634,904	1,048,811	21,655,195
Total profit sensitivity gap	26,482,686	(20,303,983)	(24,813,431)	4,477,540	31,128,668	3,634,904	1,048,811	21,655,195

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

46.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Bank	Non-trading book					Non-profit sensitive	Trading book	Total
	Up to 1 month	More than 1 month- 3 months	More than 3 months- 1 year	More than 1 year- 5 years	More than 5 years			
2022	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets								
Cash, deposits and placements with financial institutions	-	-	368,303	-	-	1,831,709	-	2,200,012
Financial investments at fair value through profit or loss	-	-	-	-	-	-	255,027	255,027
Financial investments at fair value through other comprehensive income	80,107	305,057	2,282,572	9,071,730	8,639,660	-	87,167	20,466,293
Financial investments at amortised cost	49,926	61,039	879,693	3,465,323	7,971,064	-	-	12,427,045
Financing and advances								
- Non-impaired	55,735,839	78,237	76,946	3,310,421	17,889,136	2,053,211	-	79,143,790
- Impaired, net of allowances	-	-	-	-	-	(1,145,873)	-	(1,145,873)
Other non-profit sensitive balances	-	-	-	-	-	3,670,437	-	3,670,437
	55,865,872	444,333	3,607,514	15,847,474	34,499,860	6,409,484	342,194	117,016,731

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

46.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Bank (continued) 2022	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 1 year RM'000	More than 1 year- 5 years RM'000	More than 5 years RM'000	Non-profit sensitive RM'000		
Liabilities								
Deposits from customers	31,101,097	20,535,291	22,493,674	9,453,101	2,755,034	-	-	86,338,197
Investment accounts of customers	19,983	-	-	-	-	-	-	19,983
Deposits and placements from banks and financial institutions	1,492,461	100,000	-	-	-	-	-	1,592,461
Recourse obligations on financing sold to Cagamas	-	-	-	500,000	-	-	-	500,000
Debt securities issued	-	-	-	2,112,817	1,910,574	-	-	4,023,391
Cashline facility	704,122	-	-	-	-	-	-	704,122
Other non-profit sensitive balances	-	-	-	-	-	1,732,357	-	1,732,357
	33,317,663	20,635,291	22,493,674	12,065,918	4,665,608	1,732,357	-	94,910,511

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

46.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

	Non-trading book					Non-profit sensitive	Trading book	Total
	Up to 1 month	More than 1 month- 3 months	More than 3 months- 1 year	More than 1 year- 5 years	More than 5 years			
Bank (continued) 2022	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On-balance sheet profit sensitivity gap	22,548,209	(20,190,958)	(18,886,160)	3,781,556	29,834,252	4,677,127	342,194	22,106,220
Total profit sensitivity gap	22,548,209	(20,190,958)	(18,886,160)	3,781,556	29,834,252	4,677,127	342,194	22,106,220

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

46.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Bank (continued) 2021	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 1 year RM'000	More than 1 year- 5 years RM'000	More than 5 years RM'000	Non-profit sensitive RM'000		
Assets								
Cash, deposits and placements with financial institutions	150,189	311,214	211,060	-	-	834,987	-	1,507,450
Financial investments at fair value through profit or loss	-	-	-	-	-	-	976,032	976,032
Financial investments at fair value through other comprehensive income	199,160	335,682	2,589,900	9,814,429	7,769,768	-	72,771	20,781,710
Financial investments at amortised cost	105,022	-	1,546,374	2,298,504	6,876,950	-	-	10,826,850
Financing and advances								
- Non-impaired	52,857,393	45,689	65,819	3,569,809	20,148,820	1,808,184	-	78,495,714
- Impaired, net of allowances	-	-	-	-	-	(979,133)	-	(979,133)
Other non-profit sensitive balances	-	-	-	-	-	3,186,255	-	3,186,255
	53,311,764	692,585	4,413,153	15,682,742	34,795,538	4,850,293	1,048,803	114,794,878

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

46.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Bank (continued) 2021	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 1 year RM'000	More than 1 year- 5 years RM'000	More than 5 years RM'000	Non-profit sensitive RM'000		
Liabilities								
Deposits from customers	25,829,046	20,446,183	27,940,038	10,182,524	2,126,093	-	-	86,523,884
Deposits and placements from banks and financial institutions	600,000	250,000	-	-	-	-	-	850,000
Recourse obligations on financing sold to Cagamas	-	-	-	318,311	-	-	-	318,311
Debt securities issued	-	-	1,286,546	704,367	1,307,027	-	-	3,297,940
Cashline facility	400,032	300,385	-	-	-	-	-	700,417
Other non-profit sensitive balances	-	-	-	-	-	1,884,260	-	1,884,260
	26,829,078	20,996,568	29,226,584	11,205,202	3,433,120	1,884,260	-	93,574,812

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

46.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

	Non-trading book					Non-profit sensitive	Trading book	Total
	Up to 1 month	More than 1 month- 3 months	More than 3 months- 1 year	More than 1 year- 5 years	More than 5 years			
Bank (continued) 2021	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On-balance sheet profit sensitivity gap	26,482,686	(20,303,983)	(24,813,431)	4,477,540	31,362,418	2,966,033	1,048,803	21,220,066
Total profit sensitivity gap	26,482,686	(20,303,983)	(24,813,431)	4,477,540	31,362,418	2,966,033	1,048,803	21,220,066

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.6 Operational risk

The Bank defines operational risk as the risk of loss or non-achievement of business objectives due to inadequate or failed internal processes, people and systems, or from external events.

The Bank's Operational Risk Management ("ORM") Framework sets out the governance and oversight structure, roles and relationships of the three lines of defense mechanism as well as the high level principles and methodologies for operational risk identification, assessment, control and monitoring.

The framework recognises the relationships between operational risk and other risk types such as strategic, credit, market and reputation risks; and is cascaded to also govern the management of operational risk sub-types i.e. legal and compliance risk, Shariah non-compliance risk, Information Technology risk and outsourcing risk.

The Bank has no appetite for losses arising from inadequate internal controls, systems, and processes; which can be elaborated as zero appetite for:

- Failure to maintain a sound and proportionate system of internal controls to manage the expected operational risk losses and avoid the unexpected operational risk losses;
- Regulatory censures, fines or prosecution relating to the laws and regulations applicable to the Bank; and
- Failure to comply with Shariah rules and parameters as set out by the Shariah Committee ("SC") and/or the Shariah Advisory Council of Bank Negara Malaysia.

The Bank continuously monitors its operational risk exposure to ensure the level of exposure is within the acceptable tolerance. This is conducted by means of the established governance and oversight structure as well as through the day-to-day operational risk management processes.

ORM processes are undertaken through the implementation of tools such as Risk and Control Self-Assessment ("RCSA"), Key Risk Indicator ("KRI") and Loss Event Data ("LED") collection. RCSA is a tool used to identify and assess the risks in key business processes, evaluate the effectiveness of internal controls and provide the basis for determining risk responses/strategies in pursuing business objectives. KRI provides an early warning signal of any increase in risk exposure and/or occurrence of control failures. To support operational risk analytics, the Bank collects LED based on BNM's Operational Risk Integrated Online Network ("ORION") requirements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.6 Operational risk (continued)

To improve its operational resilience, the Bank has revamped its Business Continuity Management ("BCM") framework and processes by streamlining the governance structure and response matrix based on the severity of disruption; namely code Amber, Red and Black. Code Amber incidents are isolated disruption affecting only a particular business/activity which shall be managed by the respective business involved. The entire crisis management hierarchy headed by Managing Director/President shall be activated under Code Black, which is a full-on crisis that could potentially affect the going concern of the Bank. To ensure the effectiveness of the business continuity plans and to be in line with regulatory requirements, regular exercises, disaster simulations and recovery drills are conducted throughout the year.

46.7 Capital management

The objective of capital management is to maintain a strong capital position to support business growth, to maintain investors, depositors, customers and market confidence and to provide cushion for any potential losses. In line with this objective, the Bank manages its capital actively and ensures that the capital adequacy ratios which take into account the risk profile of the Bank, are above the regulatory minimum requirement.

Capital adequacy and the use of regulatory capital are monitored monthly by the Bank's management, employing techniques based on the Capital Framework for Development Financial Institutions by Bank Negara Malaysia. The required information is filed with Bank Negara Malaysia on a monthly basis.

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level agreed with Bank Negara Malaysia which takes into account the risk profile of the Bank. The regulatory capital requirements are strictly observed when managing economic capital.

The Bank's regulatory capital comprises two tiers:

- (i) Tier 1 capital: share capital, statutory reserve, capital reserve and retained profits; and
- (ii) Tier 2 capital: subordinated sukuk, collective impairment allowances on non-impaired financing and regulatory reserve.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.7 Capital management (continued)

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and exposures not recognised in the statements of financial position.

The Bank's policy is to maintain a strong capital base so as to ensure investors', creditors' and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

46.7.1 Capital adequacy ratio

The Bank is required to comply with the core capital ratio and risk-weighted capital adequacy ratio prescribed by Bank Negara Malaysia. The capital adequacy ratios of the Bank are computed in accordance with BNM's Capital Framework for Development Financial Institutions (Capital Component & Risk-Weighted Asset). The Bank was in compliance with all prescribed capital ratios throughout the period.

	Bank	
	2022	2021
Before proposed dividend		
Core capital ratio	24.996%	23.868%
Risk-weighted capital adequacy ratio	27.581%	26.277%
After proposed dividend		
Core capital ratio	24.485%	23.349%
Risk-weighted capital adequacy ratio	27.069%	25.757%

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.7 Capital management (continued)

46.7.1 Capital adequacy ratio (continued)

The above ratios are derived by taking into account the core capital and capital base against the risk-weighted assets of the Bank. Components of the capital are as follows:

	Bank	
	2022	2021
	RM'000	RM'000
Tier I capital		
Paid-up share capital	2,986,030	2,986,030
Retained profits	11,219,906	10,373,508
Other reserves	7,782,176	7,322,051
Total Tier I capital (core)	21,988,112	20,681,589
Tier II capital		
Subordinated sukuk	300,000	300,000
Collective impairment *	1,744,693	1,558,001
Regulatory reserve	329,672	329,672
Total Tier II capital	2,374,365	2,187,673
Total capital	24,362,477	22,869,262
Less: Investment in subsidiaries	(100,744)	(100,744)
Total capital base	24,261,733	22,768,518

* This is a surplus amount allowable after taking into account the collective impairment allowance on impaired financing of the Bank.

Assets in various categories are risk-weighted as follows:

	Bank	
	2022	2021
	RM'000	RM'000
Total assets assigned 20% risk-weighted	224,109	421,050
Total assets assigned 50% risk-weighted	2,479,554	2,596,734
Total assets assigned 100% risk-weighted	84,211,144	82,638,060
Off-Balance Sheet claims assigned 100% risk-weighted	1,051,069	993,140
	87,965,876	86,648,984

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****46. FINANCIAL RISK MANAGEMENT (CONTINUED)****46.7 Capital management (continued)****46.7.2 Transitional Arrangement**

Based on the BNM's policy document on Transitional Arrangements for Regulatory Capital Treatment of Accounting Provisions for Development Financial Institutions (DFIs) issued on 9 December 2020, the prescribed development financial institutions ("DFIs") which elect to apply the transitional arrangements are allowed to add back a portion of the Stage 1 and Stage 2 provisions for expected credit losses to Tier I Capital over a four-year period from financial year beginning 2020 or a three-year period from financial year beginning 2021. The Group and Bank elected to adopt the transitional arrangements for four-year period from financial year beginning 2020.

Bank 2022	Before Transitional Arrangement RM'000	After Transitional Arrangement RM'000
Total Tier I Capital	21,988,112	21,988,112
of which: Total Add-back	-	813,338
Total Additional Tier I Capital	21,988,112	22,801,450
Total Tier II Capital	2,374,365	2,374,365
of which: Loss provisions	2,074,365	2,074,365
Total Risk Weighted Assets	87,965,876	87,965,876
Core capital ratio	24.996%	25.921%
Risk-weighted capital adequacy ratio	27.581%	28.505%

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.7 Capital management (continued)

46.7.2 Transitional Arrangement (continued)

Bank (continued) 2021	Before Transitional Arrangement RM'000	After Transitional Arrangement RM'000
Total Tier I Capital	20,681,589	20,681,589
of which: Total Add-back	-	899,305
Total Additional Tier I Capital	<u>20,681,589</u>	<u>21,580,894</u>
Total Tier II Capital	2,187,673	2,187,673
of which: Loss provisions	1,887,673	1,887,673
Total Risk Weighted Assets	86,648,984	86,648,984
Core capital ratio	23.868%	24.906%
Risk-weighted capital adequacy ratio	26.277%	27.315%

47. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. Fair value is the amount at which the financial asset could be exchanged or a financial liability could be settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the best estimates of fair values as at the end of the reporting period.

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 appropriate methodologies and assumptions on 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.

Fair value information for non-financial assets and liabilities is excluded as they do not fall within the scope of MFRS 132, *Financial Instruments: Disclosure and Presentation* which requires the fair value information to be disclosed.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.1 Valuation of financial instruments

The Group and the Bank measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- (i) Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- (ii) Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- (iii) Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices. For all other financial instruments, the Group and the Bank determine fair values using valuation techniques.

There were no financial liabilities of the Group and the Bank at the end of the reporting period that were measured at fair value.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.2 Valuation of financial instruments at fair value

Group 2022	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Financial investments at fair value through profit or loss					
Government investment issues	41,827	41,827	-	41,827	-
Islamic redeemable convertible preference shares	213,200	213,200	-	213,200	-
	255,027	255,027	-	255,027	-
Financial investments at fair value through other comprehensive income					
Islamic debt securities	4,520,183	4,520,183	-	4,520,183	-
Government investment issues	6,803,294	6,803,294	-	6,803,294	-
Government sukuk	8,403,783	8,403,783	-	8,403,783	-
Cagamas sukuk	651,866	651,866	-	651,866	-
Unquoted shares	87,175	87,175	-	-	87,175
	20,466,301	20,466,301	-	20,379,126	87,175

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.2 Valuation of financial instruments at fair value (continued)

Group 2021	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Financial investments at fair value through profit or loss					
Government investment issues	695,939	695,939	-	695,939	-
Islamic redeemable convertible preference shares	213,200	213,200	-	213,200	-
Quoted shares	66,893	66,893	66,893	-	-
	<u>976,032</u>	<u>976,032</u>	<u>66,893</u>	<u>909,139</u>	<u>-</u>
Financial investments at fair value through other comprehensive income					
Islamic debt securities	5,036,372	5,036,372	-	5,036,372	-
Government investment issues	5,550,252	5,550,252	-	5,550,252	-
Government sukuk	8,709,494	8,709,494	-	8,709,494	-
Khazanah sukuk	156,319	156,319	-	156,319	-
Cagamas sukuk	1,256,502	1,256,502	-	1,256,502	-
Unquoted shares	72,779	72,779	-	-	72,779
	<u>20,781,718</u>	<u>20,781,718</u>	<u>-</u>	<u>20,708,939</u>	<u>72,779</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.2 Valuation of financial instruments at fair value (continued)

Bank 2022	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Financial investments at fair value through profit or loss					
Government investment issues	41,827	41,827	-	41,827	-
Islamic redeemable convertible preference shares	213,200	213,200	-	213,200	-
	255,027	255,027	-	255,027	-
Financial investments at fair value through other comprehensive income					
Islamic debt securities	4,520,183	4,520,183	-	4,520,183	-
Government investment issues	6,803,294	6,803,294	-	6,803,294	-
Government sukuk	8,403,783	8,403,783	-	8,403,783	-
Cagamas sukuk	651,866	651,866	-	651,866	-
Unquoted shares	87,167	87,167	-	-	87,167
	20,466,293	20,466,293	-	20,379,126	87,167

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.2 Valuation of financial instruments at fair value (continued)

Bank 2021	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Financial investments at fair value through profit or loss					
Government investment issues	695,939	695,939	-	695,939	-
Islamic redeemable convertible preference shares	213,200	213,200	-	213,200	-
Quoted shares	66,893	66,893	66,893	-	-
	<u>976,032</u>	<u>976,032</u>	<u>66,893</u>	<u>909,139</u>	<u>-</u>
Financial investments at fair value through other comprehensive income					
Islamic debt securities	5,036,372	5,036,372	-	5,036,372	-
Government investment issues	5,550,252	5,550,252	-	5,550,252	-
Government sukuk	8,709,494	8,709,494	-	8,709,494	-
Khazanah sukuk	156,319	156,319	-	156,319	-
Cagamas sukuk	1,256,502	1,256,502	-	1,256,502	-
Unquoted shares	72,771	72,771	-	-	72,771
	<u>20,781,710</u>	<u>20,781,710</u>	<u>-</u>	<u>20,708,939</u>	<u>72,771</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)****47.2 Valuation of financial instruments at fair value (continued)**

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial instruments which are recorded at fair value:

	Group	
	2022	2021
	RM'000	RM'000
Financial investments at fair value through other comprehensive income		
Unquoted shares		
At 1 January	72,779	57,965
Addition of unquoted shares	1	100
Unrealised gains recognised in other comprehensive income	14,395	14,714
At 31 December	87,175	72,779
	Bank	
	2022	2021
	RM'000	RM'000
Financial investments at fair value through other comprehensive income		
Unquoted shares		
At 1 January	72,771	57,957
Addition of unquoted shares	1	100
Unrealised gains recognised in other comprehensive income	14,395	14,714
At 31 December	87,167	72,771

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required)

Set out below is a comparison of the carrying amount and fair value of financial instruments that are not measured at fair value in the financial statements.

	Carrying amount 2022 RM'000	Fair value 2022 RM'000	Carrying amount 2021 RM'000	Fair value 2021 RM'000
Group				
Financial assets				
Cash and short-term funds	1,834,420	1,834,420	835,189	835,189
Deposits and placements with financial institutions	368,445	368,445	672,463	672,463
Financial investments at amortised cost	12,427,045	12,015,044	10,826,850	10,682,828
Financing and advances	77,709,892	79,940,749	77,296,437	79,026,320
Trade receivables	1,228	1,228	909	909
Other receivables and deposits	946,265	946,265	586,519	586,519
Financial liabilities				
Deposits from customers	86,338,197	86,151,840	86,523,884	86,383,292
Investment accounts of customers	19,983	19,983	-	-
Deposits and placements from banks and financial institutions	1,592,461	1,592,461	850,000	850,000
Recourse obligations on financing sold to Cagamas	500,000	501,777	318,311	318,646
Debt securities issued	4,023,391	3,921,772	3,297,940	3,261,597
Trade payables	1,735	1,735	1,839	1,839
Cashline facility	704,122	704,122	700,417	700,417
Other liabilities	996,677	996,677	1,038,678	1,038,678

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required) (continued)

	Carrying amount 2022 RM'000	Fair value 2022 RM'000	Carrying amount 2021 RM'000	Fair value 2021 RM'000
Bank				
Financial assets				
Cash and short-term funds	1,831,709	1,831,709	834,987	834,987
Deposits and placements with financial institutions	368,303	368,303	672,463	672,463
Financial investments at amortised cost	12,427,045	12,015,044	10,826,850	10,682,828
Financing and advances	77,997,917	80,228,774	77,516,581	79,246,464
Other receivables and deposits	911,792	911,792	550,709	550,709
Financial liabilities				
Deposits from customers	86,338,197	86,151,840	86,523,884	86,383,292
Investment accounts of customers	19,983	19,983	-	-
Deposits and placements from banks and financial institutions	1,592,461	1,592,461	850,000	850,000
Recourse obligations on financing sold to Cagamas	500,000	501,777	318,311	318,646
Debt securities issued	4,023,391	3,921,772	3,297,940	3,261,597
Cashline facility	704,122	704,122	700,417	700,417
Other liabilities	1,155,137	1,155,137	1,233,658	1,233,658

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required) (continued)

Group	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
2022					
Financial assets					
Cash and short-term funds	1,834,420	1,834,420	-	-	1,834,420
Deposits and placements with financial institutions	368,445	368,445	-	-	368,445
Financial investments at amortised cost					
Government sukuk	3,184,122	3,071,187	-	3,071,187	-
Government investment issues	7,803,055	7,520,318	-	7,520,318	-
Islamic debt securities	1,276,138	1,259,758	-	1,259,758	-
Khazanah sukuk	63,354	63,682	-	63,682	-
Cagamas sukuk	50,451	50,173	-	50,173	-
Negotiable Islamic debt certificates	49,925	49,925	-	-	49,925
Financing and advances	77,709,892	79,940,749	-	-	79,940,749
Trade receivables	1,228	1,228	-	-	1,228
Other receivables and deposits	946,265	946,265	-	-	946,265
	93,287,295	95,106,150	-	11,965,118	83,141,032

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required) (continued)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group (continued)					
2022					
Financial liabilities					
Deposits from customers	86,338,197	86,151,840	-	-	86,151,840
Investment accounts of customers	19,983	19,983	-	-	19,983
Deposits and placements from banks and financial Institutions	1,592,461	1,592,461	-	-	1,592,461
Recourse obligations on financing sold to Cagamas	500,000	501,777	-	-	501,777
Debt securities issued	4,023,391	3,921,772	-	3,921,772	-
Trade payables	1,735	1,735	-	-	1,735
Cashline facility	704,122	704,122	-	-	704,122
Other liabilities	996,677	996,677	-	-	996,677
	94,176,566	93,890,367	-	3,921,772	89,968,595

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required) (continued)

Group	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
2021					
Financial assets					
Cash and short-term funds	835,189	835,189	-	-	835,189
Deposits and placements with financial institutions	672,463	672,463	-	-	672,463
Financial investments at amortised cost:					
Government sukuk	3,170,872	3,137,762	-	3,137,762	-
Government investment issues	6,925,903	6,816,254	-	6,816,254	-
Islamic debt securities	453,758	449,496	-	449,496	-
Khazanah sukuk	100,040	102,220	-	102,220	-
Cagamas sukuk	76,349	77,168	-	77,168	-
Negotiable Islamic debt certificates	99,928	99,928	-	-	99,928
Financing and advances	77,296,437	79,026,320	-	-	79,026,320
Trade receivables	909	909	-	-	909
Other receivables and deposits	586,519	586,519	-	-	586,519
	90,218,367	91,804,228	-	10,582,900	81,221,328

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required) (continued)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group (continued)					
2021					
Financial liabilities					
Deposits from customers	86,523,884	86,383,292	-	-	86,383,292
Deposits and placements from banks and financial Institutions	850,000	850,000	-	-	850,000
Recourse obligations on financing sold to Cagamas	318,311	318,646	-	-	318,646
Debt securities issued	3,297,940	3,261,597	-	3,261,597	-
Trade payables	1,839	1,839	-	-	1,839
Cashline facility	700,417	700,417	-	-	700,417
Other liabilities	1,038,678	1,038,678	-	-	1,038,678
	<u>92,731,069</u>	<u>92,554,469</u>	<u>-</u>	<u>3,261,597</u>	<u>89,292,872</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required) (continued)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Bank					
2022					
Financial assets					
Cash and short-term funds	1,831,709	1,831,709	-	-	1,831,709
Deposits and placements with financial institutions	368,303	368,303	-	-	368,303
Financial investments at amortised cost:					
Government sukuk	3,184,122	3,071,187	-	3,071,187	-
Government investment issues	7,803,055	7,520,318	-	7,520,318	-
Islamic debt securities	1,276,138	1,259,758	-	1,259,758	-
Khazanah sukuk	63,354	63,682	-	63,682	-
Cagamas sukuk	50,451	50,173	-	50,173	-
Negotiable Islamic debt certificates	49,925	49,925	-	-	49,925
Financing and advances	77,997,917	80,228,774	-	-	80,228,774
Other receivables and deposits	911,792	911,792	-	-	911,792
	93,536,766	95,355,621	-	11,965,118	83,390,503

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required) (continued)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Bank (continued)					
2022					
Financial liabilities					
Deposits from customers	86,338,197	86,151,840	-	-	86,151,840
Investment accounts of customers	19,983	19,983	-	-	19,983
Deposits and placements from banks and financial Institutions	1,592,461	1,592,461	-	-	1,592,461
Recourse obligations on financing sold to Cagamas	500,000	501,777	-	-	501,777
Debt securities issued	4,023,391	3,921,772	-	3,921,772	-
Cashline facility	704,122	704,122	-	-	704,122
Other liabilities	1,155,137	1,155,137	-	-	1,155,137
	94,333,291	94,047,092	-	3,921,772	90,125,320

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required) (continued)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Bank					
2021					
Financial assets					
Cash and short-term funds	834,987	834,987	-	-	834,987
Deposits and placements with financial institutions	672,463	672,463	-	-	672,463
Financial investments at amortised cost:					
Government sukuk	3,170,872	3,137,762	-	3,137,762	-
Government investment issues	6,925,903	6,816,254	-	6,816,254	-
Islamic debt securities	453,758	449,496	-	449,496	-
Khazanah sukuk	100,040	102,220	-	102,220	-
Cagamas sukuk	76,349	77,168	-	77,168	-
Negotiable Islamic debt certificates	99,928	99,928	-	-	99,928
Financing and advances	77,516,581	79,246,464	-	-	79,246,464
Other receivables and deposits	550,709	550,709	-	-	550,709
	90,401,590	91,987,451	-	10,582,900	81,404,551

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required) (continued)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Bank (continued)					
2021					
Financial liabilities					
Deposits from customers	86,523,884	86,383,292	-	-	86,383,292
Deposits and placements from banks and financial Institutions	850,000	850,000	-	-	850,000
Recourse obligations on financing sold to Cagamas	318,311	318,646	-	-	318,646
Debt securities issued	3,297,940	3,261,597	-	3,261,597	-
Cashline facility	700,417	700,417	-	-	700,417
Other liabilities	1,884,260	1,884,260	-	-	1,884,260
	<u>93,574,812</u>	<u>93,398,212</u>	<u>-</u>	<u>3,261,597</u>	<u>90,136,615</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required) (continued)

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

47.3.1 Cash and short-term funds

The carrying amounts of cash and short-term funds approximate fair values due to the relatively short maturity of the financial instruments. This is similar to deposits and placements with financial institutions maturing within one month that have a relatively short maturity period.

47.3.2 Deposits and placements with financial institutions

The fair values of deposits and placements with financial institutions are not materially sensitive to changes in market profit rate because of their limited term to maturity.

47.3.3 Financial investments at amortised cost

Financial investments at amortised are carried at amortised cost at the end of the reporting period. Fair values for these financial instruments are estimated based on broker quotes from Bond Pricing Agency Malaysia.

47.3.4 Financing and advances

Financing and advances are carried at amortised cost at the end of the reporting period. Fair valuation of these financial instruments are estimated based on discounted payment to be received in the future using the effective profit rate offered for similar financing at the reporting date.

47.3.5 Trade and other receivables

The carrying amounts of trade and other receivables reported in the statements of financial position approximate their fair values due to the relatively short-term maturity of these instruments.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required) (continued)

47.3.6 Deposits from customers

The fair values of deposits payable on demand (demand and savings deposits), or deposits with remaining maturity of less than one year are estimated to approximate their carrying amounts.

The fair values of deposits with remaining maturities of more than one year are estimated using discounted cash flows based on effective profit rates for similar deposits from customers at the reporting date.

However, since all deposits received can be classified as Islamic deposits, their fair values are deemed to approximate their carrying amounts as profit rates are determined at the end of the maturity period based on the sharing of profits generated from investments of the deposits.

47.3.7 Deposits and placements from banks and financial institutions

The fair values of these financial instruments with remaining maturity of less than one year approximate their carrying amounts due to the relatively short maturity of the financial instruments.

47.3.8 Recourse obligations on financing sold to Cagamas

The fair values for recourse obligations sold to Cagamas that have remaining maturity of less than one year are estimated to approximate their carrying amounts. For remaining maturity of more than one year, they are estimated using discounted cash flows based on prevailing Cagamas rates at the reporting date.

47.3.9 Debt securities issued

Debt securities issued are measured at amortised cost at the end of the reporting period. The fair value of the securities are derived by referring to the present value of the expected amount due in the future by applying the effective profit rate for the debt securities at the reporting date.

47.3.10 Trade and other liabilities

The carrying amounts of trade and other liabilities reported in the statements of financial position approximate their fair values due to the relatively short-term maturity of these instruments.

