



**CERTIFICATE OF THE THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
BANK KERJASAMA RAKYAT MALAYSIA BERHAD
FOR THE YEAR ENDED 31 DISEMBER 2019**

**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 2019**

Certificate on the Audit of the Financial Statements

Opinion

The financial statements of Bank Kerjasama Rakyat Malaysia Berhad and of the Group have been audited by my representative which comprise the Statements of Financial Position as at 31 December 2019 and Statements of Profit or Loss and Other Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 4 to 206.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank Kerjasama Rakyat Malaysia Berhad and of the Group as at 31 December 2019 and of their financial performance and cash flows for the year then ended in accordance with the Malaysian Financial Reporting Standard (MFRS) and guidelines issued by Bank Negara Malaysia, Bank Kerjasama Rakyat Malaysia Berhad (Special Provisions) Act 1978 (Act 202), the Cooperative Societies Act 1993 (Act 502) and the Development Financial Institutions Act 2002 (Act 618).

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

Responsibilities of the Directors for the Financial Statements

The 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 Malaysian Financial Reporting Standard (MFRS) and guidelines issued by Bank Negara Malaysia, Bank Kerjasama Rakyat Malaysia Berhad (Special Provisions) Act 1978 (Act 202), the Cooperative Societies Act 1993 (Act 502) and the Development Financial Institutions Act 2002 (Act 618). The Directors are also responsible for such internal control as it 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 Directors are responsible for assessing 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 and of 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 Directors.
- d. Conclude on the appropriateness of the Director's 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 of the Group and of the Bank Kerjasama Rakyat Malaysia Berhad's ability to continue as a going concern. If I conclude that a material uncertainty exists, I have 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.
- e. Evaluate the overall presentation of the financial statements of the Group and of the Bank Kerjasama Rakyat Malaysia Berhad including the disclosures, and whether the Financial Statements of the Group and of the Bank Kerjasama Rakyat Malaysia Berhad represents the underlying transactions and events in a manner that achieves fair presentation.
- f. Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express 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.

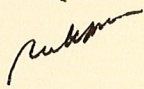
We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Certificate on Other Legal and Regulatory Requirements

In accordance with the requirements of guidelines issued by Bank Negara Malaysia, Bank Kerjasama Rakyat Malaysia Berhad (Special Provisions) Act 1978 (Act 202), the Cooperative 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 15 to the Financial Statements.

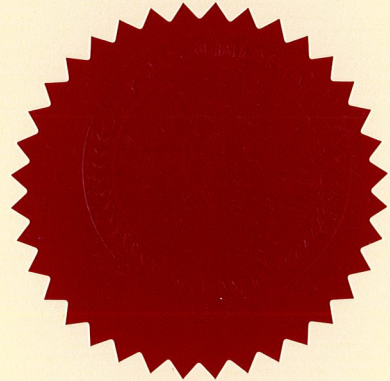
Other Matters

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



(DATO' NIK AZMAN NIK ABDUL MAJID)
AUDITOR GENERAL
MALAYSIA

PUTRAJAYA
17 MARCH 2020



STATEMENT BY DIRECTORS

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

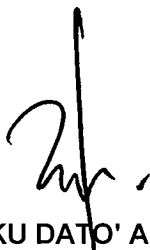
- (i) The financial statements of the Bank have been prepared in accordance with the provisions of Bank Kerjasama Rakyat Malaysia Berhad (Special Provisions) Act 1978 (Act 202), the Co-operative Societies Act 1993 (Act 502), Development Financial Institutions Act 2002 (Act 618) and applicable Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS") with modifications based on 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 2019 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 NORIPAH KAMSO
Chairman



TUNKU DATO' AHMAD BURHANUDDIN TUNKU DATUK SERI ADNAN
Director

Kuala Lumpur
Date: **25 FEB 2020**



Annual Report of Shariah Committee of Bank Rakyat 2019



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

In carrying out the roles and responsibilities of Shariah Committee 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 31st December 2019.

The Management of Bank Rakyat is responsible to ensure Bank Rakyat conducts its business in accordance with Shariah principles. It is our responsibility to form an independent opinion, based on our review of Bank Rakyat's operation and to report to the Board of Director of Bank Rakyat.

During the financial year ended 31st December 2019, the Shariah Committee had convened 15 times including 3 special sittings in which we reviewed on products, services, transactions, processes and banking documentations.

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.

To ensure smoothness of banking operation, we empowered and delegated the approval authority to Shariah Research and Advisory Department to approve generic Shariah related matters and the approvals by the Shariah Research and Advisory Department are duly reported to us on quarterly basis for review and confirmation.

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 principles and the contracts relating to the following products offered by Bank Rakyat in a year of 2019 as below :
 - i. Implementation of Special Financing Package for Cooperative based on the concept of *Tawarruq (Dual Wakalah)* launched on 3rd April 2019.
 - ii. Implementation of Bank Rakyat Platinum Explorer Credit Card-i based on the concept of *Tawarruq* launched on 27th September 2019
2. We have endorsed and approved the transactions, applications and dealings entered into by Bank Rakyat through the following processes :
 - i. Shariah review on products and departmental policies, guidelines and procedures.
 - ii. Shariah review on legal and banking documents, Products Disclosure Sheet (PDS), notices and marketing materials prior to publishment.
 - iii. Shariah review on Shariah compliance status of commercial banking customers prior to approval of financing.
 - iv. Shariah review on product operations at the branches level, related departments and Bank's subsidiaries which involve review on legal documents executed and *akad* sequences.
 - v. Shariah review on system application related to banking products.
 - vi. Shariah 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 on operations, documentations and system application of departments, branches and subsidiaries of Bank Rakyat.



SHARIAH RESEARCH AND ADVISORY, SHARIAH REVIEW, SHARIAH AUDIT AND SHARIAH RISK

3. Shariah Research 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.
4. We have assessed the work carried out by Shariah Research 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.
5. Shariah Research and Advisory provide advisory on product development and day to day business operations which includes issuing of Shariah Compliance Review Certificate, Shariah parameters, vetting of legal documentation, screening business banking financing applications, approving marketing materials and co-operative appointment of card merchants as delegated by us. They are also responsible to produce Shariah research papers on current issues related to Islamic Banking products and services as well as *Takyif Fiqhi* to support the business proposal of the bank.
6. Shariah Review and Shariah Audit have performed their review and audit based on review and audit plan 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.
7. Shariah Risk responsible to systematically identify, measure, monitor and control Shariah non-compliance risks, and therefore mitigate or minimize the occurrence of Shariah non-compliances. A systematic approach of managing Shariah non-compliance risks will enable the Bank to continue its operations and activities effectively without exposing the Bank to unacceptable levels of risk.
8. During the financial year of 2019, Shariah Review, Shariah Audit and Shariah Risk presented to us the following reports :

Shariah Review

- a. Shariah Review Report on 147 Bank Rakyat's branches
- b. Shariah Review Report on 17 Rakyat Xcess & Ar-Rahnu X'change (combo), 4 Rakyat Xcess and 27 Ar-Rahnu X'hange
- c. Shariah Review Report on 4 *Auto Finance Centre (AFC)*



- d. Shariah Review Report on 43 corporate financing and cooperative financing application
- e. Shariah Review Report on 17 Trade Finance application
- f. Shariah Review Report on 7 subsidiaries of Bank Rakyat :
 - i. Rakyat Management Services Sdn. Bhd (RMS)
 - ii. Rakyat Holdings Sdn. Bhd.
 - iii. Rakyat Asset Sdn. Bhd.
 - iv. Rakyat Hartanah Sdn. Bhd.
 - v. Rakyat Niaga Sdn. Bhd.
 - vi. Rakyat Facility Management Sdn. Bhd.
 - vii. Rakyat Travel Sdn. Bhd.
- g. Shariah Review Report on Cooperatives that receive financing from Bank Rakyat
- h. Shariah Review Report : Member's Services Department
- i. Shariah Review Report : Co-operative Development & Supervision Department
- j. Shariah Review Report : Money Market Department
- k. Shariah Review Report : Foreign Exchange Department
- l. Shariah Review Report : Correspondance Banking Department
- m. Shariah Review Report : Treasury Marketing Department
- n. Shariah Review Report : Equity Department
- o. Shariah Review Report : Fixed Income Department
- p. Shariah Review Report : Retail Unsecured Financing Department (Personal Financing-i & Education- i)
- q. Shariah Review Report : Product Development (Secured Financing) Department, Mortgage Processing & Control Department, and Mortgage Financing Department.
- r. Shariah Review Report : Hire Purchase Business Development & Marketing Department
- s. Shariah Review Report : Micro & Program Financing Department
- t. Shariah Review Report : Business Banking Division



- u. Shariah Review Report : Co-operative Financing (Business Development) Department

Shariah Audit

- a) Shariah Audit Report : Corporate Communications Department: Review on Donation and Sponsorship
- b) Shariah Audit Report : Home Financing-i
- c) Shariah Audit Report : Auto Financing-i
- d) Shariah Audit Report : Personal Financing-i
- e) Shariah Audit Report : Term Deposit-i
- f) Shariah Audit Report: Event Management
- g) Shariah Audit Report : Strategic Marketing Department
- h) Shariah Audit Report : Delivery Channel
- i) Shariah Audit Report : Follow-up on Unresolved Audit Findings for Quarter 4, 2018
- j) Shariah Audit Report : Fixed Income Department
- k) Shariah Audit Report : Foreign Exchange Department
- l) Shariah Audit Report : Early Monitoring Department
- m) Shariah Audit Report : Money Market
- n) Shariah Audit Report : Pawn Broking-i Ar- Rahnu
- o) Shariah Audit Report : Government & Government Linked Company (Business Development) Department
- p) Shariah Audit Report : Collection Centre
- q) Shariah Audit Report : Credit Card-i: Limited Review on Acquiring Business
- r) Shariah Audit Report : Rakyat Travel Sdn Bhd



- s) Shariah Audit Report : Retail Recovery
- t) Shariah Audit Report : Follow-up on Unresolved Audit Findings for Quarter 1, 2019
- u) Shariah Audit Report : Legal (Corporate Financing & Documentation) Department
- v) Shariah Audit Report : Transaction Corporate Banking Department
- w) Shariah Audit Report : Departments and Divisions under Corporate Services Sector (Other than Transaction Corporate Banking Department)
- x) Shariah Audit Report : Departments and Division under Strategy & Transformation Sector
- y) Shariah Audit Report : Retail Banking Strategy & Performance Management Division
- z) Shariah Audit Report : Customer Service Management & Guidelines Sector
- aa) Shariah Audit Report : Follow-up on Unresolved Audit Findings for Quarter 2, 2019
- bb) Shariah Audit Report : Legal (Operation & Litigation) Department
- cc) Shariah Audit Report : Compliance & Governance Sector
- dd) Shariah Audit Report : Rakyat Management Services Sdn Bhd
- ee) Shariah Audit Report : Staff Financing
- ff) Shariah Audit Report : Trade Finance Department
- gg) Shariah Audit Report : Follow-up on Unresolved Audit Findings for Quarter 3, 2019

Shariah Risk

- a) Shariah Risk Profiling 2018



Shariah Training and Awareness

9. For the year of 2019, twenty-seven (27) Shariah training and briefing sessions were conducted within Bank's internal employees covering more than 900 of participants throughout Malaysia with almost 80 training hours of total spent.
10. Training Academy of Bank Rakyat also retained the slot of Shariah application in Islamic Banking for half day session during the induction program which has been specifically organized for new recruitments, as one of the effort to ensure all level of the bank's employees understand the application of Shariah in every product offered by the bank.
11. Bank Rakyat has also committed to strengthen the level of understanding for Shariah knowledge of its employees with the organization of International Shariah Scholars Roundtable (iSHAR) program while also extending the recognition of Bank Rakyat in the eyes of industry player. Seven (7) members of Shariah Committee together with twenty-four (24) Shariah officers has attended the two (2) days robust discussion among prominent international and local Shariah scholars of Islamic Finance industry.
12. Apart from the roundtable discussion, Bank Rakyat Shariah Committee members has also participated in various international Islamic finance and Shariah-related training programs & seminars, in which one (1) of the member has become the speaker at the 7th International Conference of Entrepreneurial Finance (CIFEMA'2019) held in Morocco. In addition, three (3) other members of Shariah Committee has also attended 13th Muzakarah Cendekiawan Shariah Nusantara and 14th International Shariah Scholars Forum (ISSF) organised by International Shariah Research Academy for Islamic Finance (ISRA).
13. With the aim to inculcate the Shariah compliance culture within Bank Rakyat, Shariah Review Department has involved in two (2) series of Zero Tolerance Clinic briefing sessions together with other compliance-related function, which was attended by employees of selected branches nationwide. On the same note, Shariah officers who conducted Shariah Review at all 147 branches were delegated to deliver a briefing session with branch employees regarding Shariah compliance. Those programs aim to provide awareness to Business & Support Unit (BSU) in order to avoid the risk of Shariah non-compliant event and to update any new Shariah rulings issued by Bank Rakyat or regulators.



Shariah Non Compliance Issue

14. For the financial year ended 31st December 2019, the Shariah non-compliance issues deliberated by us were as follows :
 - a) Delay of issuance of a Gold Certificate to Rakyat Management Services Sdn Bhd (RMS).
 - b) Overcharge safekeeping fees on delay for closing customer's account after the payment received from Rakyat Management Services Sdn Bhd (RMS).
 - c) Payment via cheque / Interbank GIRO and Gold Wafer transactions delivery for Rakyat Management Services Sdn Bhd (RMS) were not conducted on spot basis (T+0).
 - d) The approval of *Aslah* Awam Personal Financing-i application signed by third party without the knowledge and consent from the customer.
 - e) Public auction process for *Ar-Rahnu* was not carried out in accordance with the requirement of *Garis Panduan Operasi Pembiayaan 215 Pajak Gadai-i*.
 - f) Closing of customer's account for *Ar-Rahnu* below reserve price.
 - g) Payment of conventional insurance coverage of Vehicle Financing-i *An- Naqlu 2*.
 - h) Overcharged of the Late Payment Charges (LPC) in the IBS System on Retail Financing-i.
15. All of the Shariah non-compliance events together with the rectification plans were presented to us and the Board of Directors for approval, and was subsequently reported to Bank Negara Malaysia in accordance with the Shariah non-compliance reporting requirements imposed by the Islamic Financial Services Act 2013 (IFSA).
16. Shariah non-compliance events experienced by the Bank were mostly due to the non-compliance to the operational guidelines detected by Shariah Review, Shariah Audit and Compliance Division. 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 of the staff.
17. Within the financial year of 2019, the Bank received Shariah non-compliant income amounting of **RM 336, 948.14**. The amount was returned to the affected customers and part of it was disposed for charitable purposes upon Shariah Committee and Board of Director's approval.



Zakat on Business

18. In the financial year of 2019, we confirmed that the bank has fulfilled its obligation to pay zakat on its business to Majlis Agama Islam Negeri nationwide amounting **RM 14,661,750.00** 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).
19. For the zakat asnaf, we confirmed that business zakat of the bank was distributed accordingly for **RM 8,797,050.00** to the eligible asnaf as guided by Policy and Procedure Business Zakat Management of Bank Rakyat that was approved by us.
20. In summary, we endorsed that Bank Rakyat has managed to pay zakat on business for the year of 2019 in total sum of **RM 23,458,800.00**.

Bank Rakyat Waqf Initiative

21. Bank Rakyat has break new ground in Waqf industry when the Bank signed and sealed the collaboration agreement with Majlis Agama Islam dan Adat Melayu Terengganu (MAIDAM) on 24 October 2018. Under this collaboration, the bank agreed to promote, collect and manage the Waqf fun together with MAIDAM. The Bank also agrees to enable all the services that fits to the collection of Waqf.
22. The Waqf fund collected is managed by the Joint Management Committee (JMC) which comprises the representative of the bank and MAIDAM. The JMC has decided to assist MAIDAM in establishing new MAIDAM Hemodialysis Centre in Terengganu.
23. In financial year of 2019, we confirmed that the Bank has fulfilled its Waqf Corporate Social Responsibilities by helping MAIDAM achieving its target collections for the renovations and facilities cost of establishing the Hemodialysis Centre.
24. As at 30 November 2019, the Bank managed to collect **RM 1,289,876.10 million** from various collection channel offered by the Bank. From these figures, the Bank has contributed amounting of **RM 187,988.05** matching grant to match the collections from the public by the ratio of RM 1: RM 1.

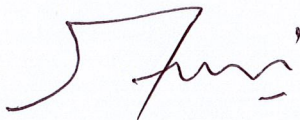


Based on the report, **we opined that :**

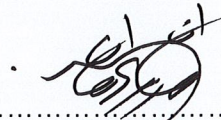
1. The Shariah principles and contracts implemented on products listed in paragraph 1 are in compliance with the Shariah principles and Shariah resolutions issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.
2. The transactions, applications and dealings 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 will be carried out on an on-going basis.
5. All earnings that have been realized from sources or by means prohibited with the Shariah principles were disposed accordingly.
6. The calculation and distribution of zakat on Banking Business for the year of 2019 is in compliance with Shariah principles.
7. The collection of waqf fund under Bank Rakyat Waqf Initiative for the year of 2019 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 31st December 2019 have been conducted in conformity with the Shariah principles.

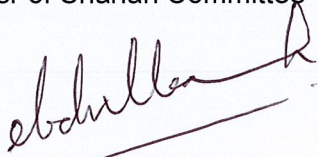
Annual Report of Shariah Committee of Bank Rakyat 2019



USTAZ MD. YUNUS ABD. AZIZ
Member of Shariah Committee



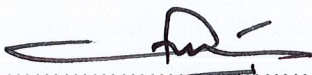
USTAZ WAN RUMAIZI WAN HUSIN
Member of Shariah Committee



USTAZ ABDULLAAH JALIL
Member of Shariah Committee



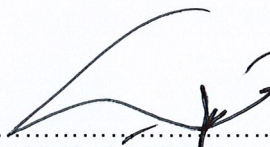
PROF. MADYA DR. AZMAN MOHD NOOR
Member of Shariah Committee



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



DR. MOHAMAD ZAINI YAHAYA
Member of Shariah Committee

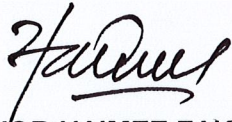


SS DATO' SETIA HJ. MOHD TAMYES ABD WAHID
Chairman of Shariah Committee

STATUTORY DECLARATION

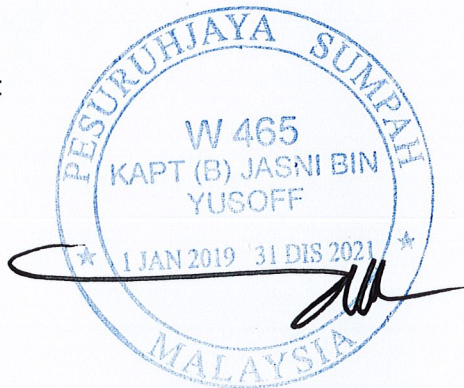
I, **NOR HAIMEE ZAKARIA**, being the officer primarily responsible for the financial management of Bank Kerjasama Rakyat Malaysia Berhad, do solemnly and sincerely declare that the financial statements are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously 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 **25 FEB 2020**



NOR HAIMEE ZAKARIA

Before me:



Lot 1.08, Tingkat 1,
Bangunan KWSP, Jln Raja Laut
50350 Kuala Lumpur
Tel: 019 6680745

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 2019.

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 15 to the financial statements.

There have been no significant changes in the nature of these principal activities of the Bank and of its subsidiaries during the year.

RESULTS OF OPERATIONS

	Group RM'000	Bank RM'000
Profit before taxation and zakat	1,793,867	1,751,665
Taxation	(122,936)	(112,130)
Zakat	(39,184)	(36,459)
Profit after taxation and zakat	1,631,747	1,603,076
Statutory appropriations	(477,362)	(477,362)
Profit for the year after statutory appropriations	1,154,385	1,125,714
Other comprehensive income	504,566	504,566
Total comprehensive income for the year	<u>1,658,951</u>	<u>1,630,280</u>
Total comprehensive income for the year attributable to: Equity holders of the Bank	<u>1,658,951</u>	<u>1,630,280</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 2019, the Bank paid a cash dividend of 13% amounting to RM379 million in regard to the previous financial year ended 31 December 2018.

In respect of the current financial year, the Board of Directors has proposed a cash dividend of up to 14% amounting to approximately RM420 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 206 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 2019 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:

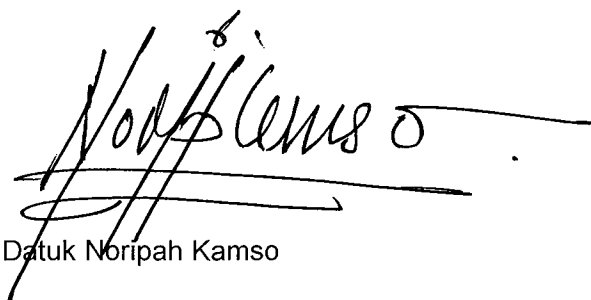
- (i) any charge on the assets of the Group and of the Bank which has arisen since the end of the financial year which secures the liability of any other person; and
- (ii) any contingent liability of the Group and of the Bank which has arisen since the end of the financial year.

No contingent or other liability which has not been discharged has been undertaken by the Group and the Bank, except as disclosed in Note 39 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 Noripah Kamso



Tunku Dato' Ahmad Burhanuddin
Tunku Datuk Seri Adnan

Kuala Lumpur, Malaysia

25 FEB 2020

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019**

		Group		Bank	
	Note	2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short-term funds	6	1,760,287	1,163,630	1,759,669	1,161,454
Financial investments at fair value through profit or loss	7	636,693	742,297	636,693	742,297
Financial investments at fair value through other comprehensive income	8	22,273,842	22,329,782	22,273,834	22,329,773
Financial investments at amortised cost	9	10,261,091	10,155,789	10,261,091	10,155,789
Financing and advances	10	70,967,646	69,003,855	71,042,565	69,003,855
Trade receivables	11	324	2,459	-	-
Other assets	12	1,139,698	1,132,604	1,121,584	1,097,380
Right-of-use assets	13	64,287	-	90,230	-
Inventories	14	6,790	8,018	-	-
Investment in subsidiaries	15	-	-	100,744	100,744
Property and equipment	16	696,761	713,862	598,167	621,876
Intangible assets	17	294,321	265,294	281,136	252,109
Investment properties	18	1,322,726	1,214,812	1,008,047	1,005,948
Prepaid lease payments	19	59,182	60,708	59,182	60,708
Tax recoverable		139,957	5,780	137,455	3,267
Deferred tax assets	20	673	86,333	-	86,000
Total assets		109,624,278	106,885,223	109,370,397	106,621,200

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2019 (CONTINUED)

	Note	Group 2019 RM'000	2018 RM'000	Bank 2019 RM'000	2018 RM'000
Liabilities					
Deposits from customers	21	83,831,405	82,735,900	83,831,405	82,735,900
Deposits and placements from banks and financial institutions	22	1,300,000	824,000	1,300,000	824,000
Trade payables		1,652	2,840	-	-
Recourse obligations on financing sold to Cagamas	23	360,770	710,335	360,770	710,335
Debt securities issued	24	2,562,786	3,143,366	2,562,786	3,143,366
Cashline facility	25	200,607	-	200,607	-
Other liabilities	26	1,732,223	1,590,976	1,897,370	1,711,453
Provision for taxation		110	18	-	-
Deferred tax liabilities	20	80,017	4,064	69,000	-
Total liabilities		90,069,570	89,011,499	90,221,938	89,125,054
Shareholders' fund					
Share capital	27	2,986,030	2,986,030	2,986,030	2,986,030
Share redemption fund		9,860	19,104	9,860	19,104
Reserves	28	16,558,818	14,868,590	16,152,569	14,491,012
Total shareholders' fund		19,554,708	17,873,724	19,148,459	17,496,146
Total liabilities and shareholders' fund		109,624,278	106,885,223	109,370,397	106,621,200
Commitments and contingencies	39	2,340,818	2,796,414	2,340,818	2,796,414

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 2019**

		Group		Bank	
	Note	2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Income	29	6,498,151	6,455,074	6,424,127	6,402,324
Expenditure	30	(3,327,879)	(3,382,670)	(3,259,395)	(3,328,724)
Net income		3,170,272	3,072,404	3,164,732	3,073,600
Allowances for impairment	31	(547,125)	(417,511)	(556,852)	(417,511)
Other operating income	32	581,182	414,637	552,677	445,026
Operating expenses	33	(1,410,462)	(1,210,351)	(1,408,892)	(1,226,113)
Profit before taxation and zakat		1,793,867	1,859,179	1,751,665	1,875,002
Taxation	34	(122,936)	(76,025)	(112,130)	(70,609)
Zakat	35	(39,184)	(25,533)	(36,459)	(24,592)
Profit after taxation and zakat		1,631,747	1,757,621	1,603,076	1,779,801
Statutory appropriations	36				
Transfer to statutory reserve: 25% (2018: 25%)		(409,882)	(451,098)	(409,882)	(451,098)
Contribution to the Co-operative Education Trust Fund: 2% (2018: 2%)		(35,033)	(37,500)	(35,033)	(37,500)
Contribution to the Co-operative Development Provident Fund: 1% (2018: 1%)		(17,517)	(18,750)	(17,517)	(18,750)
Contribution to Bank Rakyat Foundation		(14,930)	(14,930)	(14,930)	(14,930)
		(477,362)	(522,278)	(477,362)	(522,278)
Profit for the year		1,154,385	1,235,343	1,125,714	1,257,523

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

	Note	Group 2019 RM'000	2018 RM'000	Bank 2019 RM'000	2018 RM'000
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Net gain on revaluation of financial investments at fair value through other comprehensive income	28(iii)	504,566	48,468	504,566	48,468
		<u>504,566</u>	<u>48,468</u>	<u>504,566</u>	<u>48,468</u>
Total comprehensive income for the year		<u>1,658,951</u>	<u>1,283,811</u>	<u>1,630,280</u>	<u>1,305,991</u>
Earnings per share (RM)					
Basic	37	<u>0.55</u>	<u>0.59</u>	<u>-</u>	<u>-</u>

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 2019**

Group	← Non-distributable →			Distributable	
	Share capital RM'000	Share redemption fund RM'000	Other reserves RM'000	Retained profits RM'000	Total equity RM'000
At 1 January 2018	2,986,030	36,440	6,036,130	7,567,061	16,625,661
Profit after taxation and zakat	-	-	-	1,757,621	1,757,621
Transfer to statutory reserve	-	-	-	(451,098)	(451,098)
Contribution to the Co-operative Education Trust Fund	-	-	-	(37,500)	(37,500)
Contribution to the Co-operative Development Provident Fund	-	-	-	(18,750)	(18,750)
Contribution to Bank Rakyat Foundation	-	-	-	(14,930)	(14,930)
Profit for the year	-	-	-	1,235,343	1,235,343
Other comprehensive income	-	-	48,468	-	48,468
Total comprehensive income for the year	-	-	48,468	1,235,343	1,283,811
Transfer from retained profits	-	-	451,098	-	451,098
Issuance to new member	14,168	-	-	-	14,168
Share withdrawal	(31,504)	-	-	-	(31,504)
Transfer to share capital	17,336	(17,336)	-	-	-
Dividends (Note 38)	-	-	-	(469,774)	(469,774)
Overprovision in contribution to Bank Rakyat Foundation	-	-	-	264	264
At 31 December 2018	2,986,030	19,104	6,535,696	8,332,894	17,873,724
	Note 27		Note 28	Note 28	

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

Group	← Non-distributable →			Distributable	
	Share capital RM'000	Share redemption fund RM'000	Other reserves RM'000	Retained profits RM'000	Total equity RM'000
At 1 January 2019	2,986,030	19,104	6,535,696	8,332,894	17,873,724
Profit after taxation and zakat	-	-	-	1,631,747	1,631,747
Transfer to statutory reserve	-	-	-	(409,882)	(409,882)
Contribution to the Co-operative Education Trust Fund	-	-	-	(35,033)	(35,033)
Contribution to the Co-operative Development Provident Fund	-	-	-	(17,517)	(17,517)
Contribution to Bank Rakyat Foundation	-	-	-	(14,930)	(14,930)
Profit for the year	-	-	-	1,154,385	1,154,385
Other comprehensive income	-	-	504,566	-	504,566
Total comprehensive income for the year	-	-	504,566	1,154,385	1,658,951
Transfer from retained profits	-	-	409,882	-	409,882
Issuance to new member	13,840	-	-	-	13,840
Share withdrawal	(23,084)	-	-	-	(23,084)
Transfer to share capital	9,244	(9,244)	-	-	-
Dividends (Note 38)	-	-	-	(378,973)	(378,973)
Overprovision in contribution to Bank Rakyat Foundation	-	-	-	368	368
At 31 December 2019	2,986,030	9,860	7,450,144	9,108,674	19,554,708
	Note 27		Note 28	Note 28	

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

	← Non-distributable →			Distributable	
	Share capital RM'000	Share redemption fund RM'000	Other reserves RM'000	Retained profits RM'000	Total equity RM'000
Bank					
At 1 January 2018	2,986,030	36,440	6,036,871	7,166,562	16,225,903
Profit after taxation and zakat	-	-	-	1,779,801	1,779,801
Transfer to statutory reserve	-	-	-	(451,098)	(451,098)
Contribution to the Co-operative Education Trust Fund	-	-	-	(37,500)	(37,500)
Contribution to the Co-operative Development Provident Fund	-	-	-	(18,750)	(18,750)
Contribution to Bank Rakyat Foundation	-	-	-	(14,930)	(14,930)
Profit for the year	-	-	-	1,257,523	1,257,523
Other comprehensive income	-	-	48,468	-	48,468
Total comprehensive income for the year	-	-	48,468	1,257,523	1,305,991
Transfer from retained profits	-	-	451,098	-	451,098
Issuance to new member	14,168	-	-	-	14,168
Share withdrawal	(31,504)	-	-	-	(31,504)
Transfer to share capital	17,336	(17,336)	-	-	-
Dividends (Note 38)	-	-	-	(469,774)	(469,774)
Overprovision in contribution to Bank Rakyat Foundation	-	-	-	264	264
At 31 December 2018	2,986,030	19,104	6,536,437	7,954,575	17,496,146
	Note 27		Note 28	Note 28	

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

	← Non-distributable →			Distributable	
	Share capital	Share redemption fund	Other reserves	Retained profits	Total equity
	RM'000	RM'000	RM'000	RM'000	RM'000
Bank					
At 1 January 2019	2,986,030	19,104	6,536,437	7,954,575	17,496,146
Profit after taxation and zakat	-	-	-	1,603,076	1,603,076
Transfer to statutory reserve	-	-	-	(409,882)	(409,882)
Contribution to the Co-operative Education Trust Fund	-	-	-	(35,033)	(35,033)
Contribution to the Co-operative Development Provident Fund	-	-	-	(17,517)	(17,517)
Contribution to Bank Rakyat Foundation	-	-	-	(14,930)	(14,930)
Profit for the year	-	-	-	1,125,714	1,125,714
Other comprehensive income	-	-	504,566	-	504,566
Total comprehensive income for the year	-	-	504,566	1,125,714	1,630,280
Transfer from retained profits	-	-	409,882	-	409,882
Issuance to new member	13,840	-	-	-	13,840
Share withdrawal	(23,084)	-	-	-	(23,084)
Transfer to share capital	9,244	(9,244)	-	-	-
Dividends (Note 38)	-	-	-	(378,973)	(378,973)
Overprovision in contribution to Bank Rakyat Foundation	-	-	-	368	368
At 31 December 2019	2,986,030	9,860	7,450,885	8,701,684	19,148,459
	Note 27		Note 28	Note 28	

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 2019**

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Cash flows generated from/(used in) operating activities				
Profit for the year	1,154,385	1,235,343	1,125,714	1,257,523
Adjustment for:				
Transfer to statutory reserve	409,882	451,098	409,882	451,098
Contribution to the Co-operative Education Trust Fund	35,033	37,500	35,033	37,500
Contribution to the Co-operative Development Provident Fund	17,517	18,750	17,517	18,750
Contribution to Bank Rakyat Foundation	14,930	14,930	14,930	14,930
Taxation	122,936	76,025	112,130	70,609
Zakat	39,184	25,533	36,459	24,592
Profit expense on debt securities issued (Note 30)	127,971	156,649	127,971	156,649
Allowance for impairment on financing and advances (Note 31)	549,627	417,769	559,354	417,769
(Writeback)/Allowance for impairment on financial investment at fair value through other comprehensive income (Note 31)	(201)	475	(201)	475
Writeback for impairment on financial investments at amortised cost (Note 31)	(2,301)	(733)	(2,301)	(733)
Depreciation of property and equipment (Note 33(ii))	58,945	63,839	55,173	60,308
Depreciation of right-of-use assets (Note 33(ii))	18,252	-	23,808	-
Amortisation of prepaid lease payment (Note 33(ii))	1,526	1,526	1,526	1,526
Amortisation of intangible assets (Note 33(ii))	24,146	22,929	24,146	22,929
Property and equipment written off (Note 33(ii))	81	6	81	6
Gain on disposal of property and equipment (Note 32(ii))	(785)	(244)	(31)	(1)
Loss on financing written off (Note 33(ii))	14,221	15,188	14,221	15,188
Impairment of trade and other receivables (Note 33(ii))	20,442	398	26,945	971
Gain on revaluation of investment properties (Note 32(ii))	(30,421)	(103,259)	(2,913)	(104,841)
Writeback for impairment on trade receivables (Note 32(ii))	(181)	(224)	-	-

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Cash flows generated from/(used in) operating activities (continued)				
Adjustment for: (continued)				
Net gain on disposal of financial investments at fair value through profit or loss (Note 32(ii))	(30,702)	(9,123)	(30,702)	(9,123)
Net gain on disposal of financial investments at fair value through other comprehensive income (Note 32(ii))	(2,990)	(213)	(2,990)	(213)
Net (gain)/loss on revaluation of financial investments at fair value through profit or loss (Note 32(ii))	(26,560)	167,745	(26,560)	167,745
Profit expense on financing sold with recourse to Cagamas (Note 30)	26,844	34,313	26,844	34,313
Profit expense on cashline facility (Note 30)	607	-	607	-
Dividend from financial investments at fair value through profit or loss (Note 32(ii))	(19,406)	(12,596)	(19,406)	(12,596)
Dividend from subsidiary (Note 32(ii))	-	-	-	(34,768)
Operating profit before working capital changes	2,522,982	2,613,624	2,527,237	2,590,606
Decrease/(Increase) in assets:				
Deposits and placements with financial institutions	-	101,384	-	100,992
Financing and advances	(2,516,526)	(259,655)	(2,601,172)	(259,655)
Trade receivables	1,834	(470)	-	-
Other assets	(27,054)	(114,102)	(51,149)	(112,351)
Inventories	1,228	1,273	-	-
(Decrease)/Increase in liabilities:				
Deposits from customers	1,095,505	(499,596)	1,095,505	(499,596)
Deposits and placements from banks and financial institutions	476,000	824,000	476,000	824,000
Trade payables	(1,188)	159	-	-
Recourse obligations on financing sold to Cagamas	(376,409)	(72,312)	(376,409)	(72,312)
Other liabilities	(8,267)	121,516	19,635	130,895
Cash generated from operations	1,168,105	2,715,821	1,089,647	2,702,579
Income tax paid	(104,945)	(111,522)	(99,348)	(106,148)
Tax refund	9,537	-	8,030	-
Zakat paid	(32,143)	(39,464)	(31,059)	(38,137)
Net cash generated from operating activities	1,040,554	2,564,835	967,270	2,558,294

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Cash flows generated from/(used in) investing activities				
Purchases of financial investments at fair value through profit or loss	(2,390,000)	(2,376,463)	(2,390,000)	(2,376,463)
Proceed from disposal of financial investments at fair value through profit or loss	2,552,866	2,049,873	2,552,866	2,049,401
Purchases of financial investments at fair value through other comprehensive income	(1,935,000)	(4,981,000)	(1,935,000)	(4,981,000)
Proceed from disposal of financial investments at fair value through other comprehensive income	2,498,696	2,394,659	2,498,696	2,394,659
Purchases of financial investments at amortised cost	(3,808,000)	(5,408,260)	(3,808,000)	(5,408,260)
Proceeds from disposal of financial investments at amortised cost	3,704,999	5,690,256	3,704,999	5,690,256
Purchase of investment properties	(89,567)	(46,321)	-	(43,722)
Proceeds from disposal of investment properties	1,385	-	814	-
Purchase of property and equipment	(32,163)	(81,819)	(31,647)	(81,416)
Purchase of intangible assets	(53,174)	(211,562)	(53,174)	(211,562)
Proceeds from disposal of property and equipment	1,712	324	133	1
Proceeds from disposal of intangible assets	1	-	1	-
Purchase of right-of-use assets	(24,781)	-	(31,587)	-
Dividend from financial investments at fair value through profit or loss	19,406	12,596	19,406	12,596
Dividend from subsidiary	-	-	-	34,768
Investment in subsidiaries	-	-	-	(34,768)
Net cash generated from/(used in) investing activities	446,380	(2,957,717)	527,507	(2,955,510)

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Cash flows generated from/(used in) financing activities				
Proceeds from issue of shares to members	13,840	14,168	13,840	14,168
Dividend paid	(378,973)	(469,774)	(378,973)	(469,774)
Fund received from government	2,649	1,392	2,649	1,392
Payment of profit expenses on debt securities issued	(708,551)	(457,053)	(708,551)	(457,053)
Payment of financing from other financial institutions	-	(8,844)	-	-
Repayment of lease liabilities	(19,242)	-	(25,527)	-
Receipt of cashline facilities	200,000	-	200,000	-
Net cash used in financing activities	(890,277)	(920,111)	(896,562)	(911,267)
Net increase/(decrease) in cash and cash equivalents	596,657	(1,312,993)	598,215	(1,308,483)
Cash and cash equivalents at beginning of the year	1,163,630	2,476,623	1,161,454	2,469,937
Cash and cash equivalents at end of the year	1,760,287	1,163,630	1,759,669	1,161,454
Cash and cash equivalents comprises:				
Cash and short-term funds (Note 6)	1,760,287	1,163,630	1,759,669	1,161,454
	1,760,287	1,163,630	1,759,669	1,161,454

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 2019

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 15.

There have been no significant changes in the nature of these principal activities of the Bank and its subsidiaries during the year.

The Bank has a total of 147 branches as of 31 December 2019 (2018: 147).

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"), International Financial Reporting Standards ("IFRS"), 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.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

The following are accounting standards, amendments and interpretations 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 2020

- Amendments to MFRS 3, *Business Combinations - Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material*
- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement* and MFRS 7, *Financial Instruments: Disclosures - Profit Rate Benchmark Reform*
- The Revised Conceptual Framework for Financial Reporting

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

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 impacts to the current period and prior period financial statements of the Group and of the Bank.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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.

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.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Subsidiaries and basis of consolidation (continued)

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.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 as held-for-sale in accordance with MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Business combinations (continued)

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.

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 statement 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Business combinations (continued)

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.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 instrument. 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")

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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)

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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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)

- 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)
- The expected frequency, value and timing of sales are also important aspects of the Group and the Bank's assessment

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 repayments of principal or amortisation of the premium/discount).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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)

(b) The SPPP test (continued)

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 applies 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.

(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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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”)
(continued)**

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.

From 1 January 2018, 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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)

Subsequent to initial recognition, financial assets held-for-trading and financial assets designated at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recognized in the income statements 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.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

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*.

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 2019**

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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 (continued)

MFRS 9 does not distinguish between individual assessment and collective assessment. Therefore, the Group and the Bank has 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.

(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 the profit or loss upon derecognition of the assets.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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

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.

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")
- 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 based on subject matter expert's best judgement from current economic conditions.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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)

(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.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.5 Modification of financing (continued)

- Significant extension of the financing term when the customer is not in financial difficulty
- 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.

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.

3.5.1.6 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 did not reclassify its financial assets in 2019.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

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 borrowing 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.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

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 borrowed funds.

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.

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.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.7 Determination of fair value (continued)

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 statement 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 statement of cash flows, cash and cash equivalents consist of cash and short term funds with original maturity of less than three months.

3.7 Leases

The Group and the Bank has applied MFRS 16 using the modified retrospective approach and therefore comparative information has not been restated and is presented under MFRS 117. The details of accounting policies under both MFRS 117 and MFRS 16 are presented separately below. Leases comprise operating lease.

Policies applicable before 1 January 2019

Lease of assets is classified as operating lease where a significant portion of the risks and rewards of ownership is retained by the lessor.

Policies applicable from 1 January 2019

At inception of a contract, the Group and the Bank assesses 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 uses the definition of a lease in MFRS 16.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Leases (continued)

(a) Group as lessor

The Group and the Bank enters 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 and 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 and 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 32). 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 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Leases (continued)

(b) Group as lessee

Policies applicable from 1 January 2019

The Group and the Bank applies 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 recognises 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 incurs 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 expects 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 equipments	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 2019**

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 applies 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 allocates 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 penalties 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. The Group and the Bank presents lease liabilities in 'Other liabilities' (Note 26) in the statements of financial position.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Leases (continued)

(b) Group as lessee (continued)

(ii) Lease liabilities (continued)

In calculating the present value of lease payments, the Group and the Bank uses finance rate implicit in the lease. If this rate cannot be readily determined, the lessees uses its incremental borrowing 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 did not make any such adjustments during the periods presented.

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

The Group and the Bank applies 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 2019**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Borrowing costs

Borrowing 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 borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing 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 2019**

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 considers 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 accounts 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 impairment losses. Historical cost includes expenditure 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 are 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 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 2019**

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 is recognised in profit or loss.

3.11 Intangibles assets

In addition to goodwill, intangible asset also includes 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 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Intangibles 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 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 7 to 863 years (2018: 8 to 864 years).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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 2019**

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 2019**

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 2019

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 2019**

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 2019**

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 2019**

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
- 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 2019**

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 statement 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 2019**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.4 Deferred tax

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 determines 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 has several lease contracts that include extension and termination options. The Group and the Bank applies 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 reassesses 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 included 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 exercises 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 13 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

5. CHANGES IN ACCOUNTING POLICIES

On 1 January 2019, the Group and the Bank adopted the following amendments to MFRSs and annual improvements to MFRSs:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures*
- Amendments to MFRS 119, *Employee Benefits - Curtailment or Settlement*
- Annual Improvements to MFRS Standards 2015 – 2017 Cycle
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*

The adoption of the accounting standards, amendments or interpretations did not have any material financial impact on the financial statements of the Group and the Bank except as mentioned below:

5.1 MFRS 16 Leases

The Group and the Bank has applied MFRS 16 using the modified retrospective approach which:

- Requires the Group to recognise the cumulative effect of initially applying MFRS 16 as an adjustment to the opening balance of retained profits at the date of initial application.
- Does not permit restatement of comparatives, which continue to be presented under MFRS 117 and IC Int. 4.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 16 Leases (continued)

MFRS 16 introduces a single accounting model for a lessee and eliminates the distinction between finance lease and operating lease. Lessee is now required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Upon adoption of MFRS 16, the Group and the Bank are required to account for major part of their operating leases in the balance sheet by recognising the "right-of-use" assets and the lease liabilities, thus increasing the assets and liabilities of the Group and of the Bank. Details of these new requirements are disclosed in Note 3.7. The effect of adoption of MFRS 16 on the Group's consolidated financial statements is described below. Additionally, the disclosure requirements in MFRS 16 have not generally been applied to comparative information.

The change in definition of a lease mainly relates to the concept of control. MFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in MFRS 117 and IC Int. 4. The Group and the Bank applies the definition of a lease and related guidance set out in MFRS 16 to all lease contracts entered into (or changed) before or on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

• **Lessee**

MFRS 16 changes how the Group and the Bank accounts for leases previously classified as operating leases under MFRS 117, which were off balance sheet. Applying MFRS 16, for all leases (except as noted below), the Group and the Bank:

- (a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments (discounted using the Group's and the Bank's incremental borrowing rate at the date of initial application), with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with MFRS 16:C8(b)(ii);
- (b) Recognises depreciation of right-of-use assets and finance cost on lease liabilities in the consolidated statement of profit or loss;
- (c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and finance cost (presented within operating activities) in the consolidated statement of cash flows.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 16 Leases (continued)

- **Lessee (continued)**

Under MFRS 16, right-of-use assets are tested for impairment in accordance with MFRS 136.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group and the Bank has opted to recognise a lease expense on a straight-line basis as permitted by MFRS 16. This expense is presented in Note 33.

The Group and the Bank has used the practical expedient to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application when applying the cumulative catch-up approach to leases previously classified as operating leases applying MFRS 117.

At the commencement date of lease, a lessee will recognise a lease liability to make lease payments and an asset representing the "right to use" of the underlying asset during the lease term. Subsequently, the "right-of-use" asset is depreciated in accordance with the principle in MFRS 116, Property, Plant and Equipment and the lease liability is accreted over time with profit expense recognised in the profit or loss.

- **Lessor**

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases. However, MFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 16 Leases (continued)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	Group 2018 RM'000	Bank 2018 RM'000
Asset		
Operating lease commitments as at 31 December 2018	20,301	27,431
Weighted average incremental financing rate	4.36%	4.33%
Discounted operating lease commitments as at 1 January 2019	18,743	23,057
Less:		
Commitments relating to low value leases	(6,698)	(6,568)
Add:		
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	45,713	65,963
Lease liabilities as at 1 January 2019	<u>57,758</u>	<u>82,452</u>

The effect from the adoption of MFRS 16 on 1 January 2019 is, as follows:

	Note	Group RM'000	Bank RM'000
Assets			
Right-of-use assets	13	<u>57,758</u>	<u>82,452</u>
Liabilities			
Lease liabilities	26(ii)	<u>57,758</u>	<u>82,452</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.2 IC Interpretation 23, *Uncertainty over Income Tax Treatments*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of MFRS 112, *Income Taxes*. It does not apply to taxes or levies outside the scope of MFRS 112, nor does it specifically include requirements relating to penalty associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatment separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group and the Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Group and the Bank applies significant judgement in identifying uncertainties over income tax treatments. Since the Group and the Bank operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. Upon adoption of the Interpretation, the Group and the Bank considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The tax filings of the Bank and the subsidiaries in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group and the Bank determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group and the Bank.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

6. CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	1,060,218	833,602	1,059,600	831,426
Money at call and deposit placements maturing within one month	700,069	330,028	700,069	330,028
	<u>1,760,287</u>	<u>1,163,630</u>	<u>1,759,669</u>	<u>1,161,454</u>

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

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	<u>1,760,287</u>	<u>1,163,630</u>	<u>1,759,669</u>	<u>1,161,454</u>

7. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Bank	
	2019	2018
	RM'000	RM'000
Debt instruments at fair value through profit or loss:		
Government investment issues	157,486	203,600
Islamic redeemable convertible preference shares	211,282	202,096
	<u>368,768</u>	<u>405,696</u>
Equity securities at fair value through profit or loss:		
Quoted shares	266,325	335,182
Unit trust shares	1,600	1,419
	<u>267,925</u>	<u>336,601</u>
Total financial investments at fair value through profit or loss	<u>636,693</u>	<u>742,297</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

8. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Debt instruments at fair value through other comprehensive income:				
Islamic debt securities	4,608,879	4,766,558	4,608,879	4,766,558
Government investment issues	9,100,909	9,218,783	9,100,909	9,218,783
Government sukuk	6,134,061	5,637,781	6,134,061	5,637,781
Khazanah sukuk	229,607	217,208	229,607	217,208
Cagamas sukuk	2,153,540	2,451,645	2,153,540	2,451,645
	<u>22,226,996</u>	<u>22,291,975</u>	<u>22,226,996</u>	<u>22,291,975</u>
Equity securities at fair value through other comprehensive income:				
Unquoted shares	46,846	37,807	46,838	37,798
	<u>46,846</u>	<u>37,807</u>	<u>46,838</u>	<u>37,798</u>
Total financial investments at fair value through other comprehensive income	<u>22,273,842</u>	<u>22,329,782</u>	<u>22,273,834</u>	<u>22,329,773</u>

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 2018	-
Changes in credit risk (Note 31(ii))	475
At 31 December 2018/ 1 January 2019	<u>475</u>
Changes in credit risk (Note 31(ii))	(201)
At 31 December 2019	<u>274</u>

The decrease in ECL Stage 1 of RM201,000 is due to decrease in gross carrying amount during the financial year.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

9. FINANCIAL INVESTMENTS AT AMORTISED COST

	Group and Bank	
	2019	2018
	RM'000	RM'000
At amortised cost		
Islamic debt securities	735,102	701,498
Government investment issues	5,480,591	5,912,370
Government sukuk	2,900,312	2,312,408
Khazanah sukuk	304,401	340,579
Cagamas sukuk	711,149	698,173
Negotiable Islamic debt certificates	99,599	148,698
Islamic commercial papers	49,860	64,287
	<u>10,281,014</u>	<u>10,178,013</u>
Less: Allowance for ECL		
Negotiable Islamic debt certificates	(17)	-
Islamic debt securities	(19,906)	(22,224)
	<u>10,261,091</u>	<u>10,155,789</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 2018	-	22,957	22,957
Changes in credit risk (Note 31(ii))	55	(788)	(733)
At 31 December 2018 / At 1 January 2019	<u>55</u>	<u>22,169</u>	<u>22,224</u>
Changes in credit risk (Note 31(ii))	39	(2,340)	(2,301)
At 31 December 2019	<u>94</u>	<u>19,829</u>	<u>19,923</u>

The increase in ECL Stage 1 of RM39,000 is due to increase in gross carrying amount from additions in investments during the financial year. The decrease in ECL Stage 3 due to partial redemption of impaired sukuk.

The maturity structure of the instruments is as follows:

	Group and Bank	
	2019	2018
	RM'000	RM'000
Maturity within one year	1,898,226	2,658,104
More than one year to five years	4,884,628	5,527,070
More than five years	3,498,160	1,992,839
	<u>10,281,014</u>	<u>10,178,013</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

10. FINANCING AND ADVANCES

(i) Financing and advances analysed by type and concept

Group 2019	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	20,762,085	-	-	-	-	-	34,763,503	55,525,588
- House financing	-	1,044,913	-	-	452,902	-	5,155,839	6,653,654
- Hire-purchase receivables	-	-	-	-	-	1,845,108	9,522	1,854,630
- Syndicated financing	-	-	-	-	237,085	-	-	237,085
- Bridging financing	-	-	-	-	283,521	-	-	283,521
- Other term financing	66,250	4,979	-	18	3,233,099	-	1,333,355	4,637,701
Pawn broking	-	-	1,944,649	-	-	-	-	1,944,649
Cashline	-	-	-	-	-	-	66,503	66,503
Revolving credit	-	-	-	-	347,700	-	-	347,700
Credit card	-	-	-	-	-	-	406,699	406,699
Staff financing	-	458,250	-	-	-	-	-	458,250
	20,828,335	1,508,142	1,944,649	18	4,554,307	1,845,108	41,735,421	72,415,980
Allowance for ECL on financing and advances:								
Stage 1 - 12 months ECL								(240,167)
Stage 2 - lifetime ECL not credit impaired								(397,011)
Stage 3 - lifetime ECL credit impaired								(811,156)
Net financing and advances								70,967,646

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

10. FINANCING AND ADVANCES (CONTINUED)

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

Group 2018	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	23,873,401	-	-	-	-	-	31,003,712	54,877,113
- House financing	-	1,192,687	-	-	359,162	-	4,370,474	5,922,323
- Hire-purchase receivables	-	-	-	-	-	1,573,656	895	1,574,551
- Syndicated financing	-	-	-	-	356,259	-	-	356,259
- Bridging financing	-	-	-	-	232,863	-	-	232,863
- Other term financing	78,869	5,707	-	24	3,169,491	15	1,219,133	4,473,239
Pawn broking	-	-	1,728,090	-	-	-	-	1,728,090
Revolving credit	-	-	-	-	367,287	-	-	367,287
Credit card	-	-	-	-	-	-	444,036	444,036
Staff financing	-	425,103	-	-	-	-	-	425,103
	<u>23,952,270</u>	<u>1,623,497</u>	<u>1,728,090</u>	<u>24</u>	<u>4,485,062</u>	<u>1,573,671</u>	<u>37,038,250</u>	<u>70,400,864</u>

Allowance for ECL on financing and advances:

Stage 1 - 12 months ECL	(428,090)
Stage 2 - lifetime ECL not credit impaired	(118,761)
Stage 3 - lifetime ECL credit impaired	(850,158)

Net financing and advances

69,003,855

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

10. FINANCING AND ADVANCES (CONTINUED)

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

Bank 2019	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	20,762,085	-	-	-	-	-	34,763,503	55,525,588
- House financing	-	1,044,913	-	-	537,548	-	5,155,839	6,738,300
- Hire-purchase receivables	-	-	-	-	-	1,845,108	9,522	1,854,630
- Syndicated financing	-	-	-	-	237,085	-	-	237,085
- Bridging financing	-	-	-	-	283,521	-	-	283,521
- Other term financing	66,250	4,979	-	18	3,233,099	-	1,333,355	4,637,701
Pawn broking	-	-	1,944,649	-	-	-	-	1,944,649
Cashline	-	-	-	-	-	-	66,503	66,503
Revolving credit	-	-	-	-	347,700	-	-	347,700
Credit card	-	-	-	-	-	-	406,699	406,699
Staff financing	-	458,250	-	-	-	-	-	458,250
	20,828,335	1,508,142	1,944,649	18	4,638,953	1,845,108	41,735,421	72,500,626
Allowance for ECL on financing and advances:								
Stage 1 - 12 months ECL								(249,894)
Stage 2 - lifetime ECL not credit impaired								(397,011)
Stage 3 - lifetime ECL credit impaired								(811,156)
Net financing and advances								71,042,565

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

10. FINANCING AND ADVANCES (CONTINUED)

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

Bank 2018	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	23,873,401	-	-	-	-	-	31,003,712	54,877,113
- House financing	-	1,192,687	-	-	359,162	-	4,370,474	5,922,323
- Hire-purchase receivables	-	-	-	-	-	1,573,656	895	1,574,551
- Syndicated financing	-	-	-	-	356,259	-	-	356,259
- Bridging financing	-	-	-	-	232,863	-	-	232,863
- Other term financing	78,869	5,707	-	24	3,169,491	15	1,219,133	4,473,239
Pawn broking	-	-	1,728,090	-	-	-	-	1,728,090
Revolving credit	-	-	-	-	367,287	-	-	367,287
Credit card	-	-	-	-	-	-	444,036	444,036
Staff financing	-	425,103	-	-	-	-	-	425,103
	<u>23,952,270</u>	<u>1,623,497</u>	<u>1,728,090</u>	<u>24</u>	<u>4,485,062</u>	<u>1,573,671</u>	<u>37,038,250</u>	<u>70,400,864</u>

Allowance for ECL on financing and advances:

Stage 1 - 12 months ECL	(428,090)
Stage 2 - lifetime ECL not credit impaired	(118,761)
Stage 3 - lifetime ECL credit impaired	(850,158)

Net financing and advances

69,003,855

* 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.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

10. FINANCING AND ADVANCES (CONTINUED)

(ii) Financing and advances analysed by geographical distribution

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Central Region	28,874,958	28,249,446	28,959,604	28,249,446
Southern Region	10,768,864	10,264,927	10,768,864	10,264,927
Eastern Region	10,997,519	10,838,776	10,997,519	10,838,776
Northern Region	8,471,190	8,170,372	8,471,190	8,170,372
East Malaysia Region	13,303,449	12,877,343	13,303,449	12,877,343
	<u>72,415,980</u>	<u>70,400,864</u>	<u>72,500,626</u>	<u>70,400,864</u>

(iii) Financing and advances analysed by economic sector

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Purchase of securities	1,815	45,169	1,815	45,169
Purchase of non-residential property	820,354	186,904	820,354	186,904
Consumption credit	67,508,049	65,951,587	67,508,049	65,951,587
Agriculture	62,930	100,667	62,930	100,667
Manufacturing	141,538	120,681	141,538	120,681
Electricity, gas and water	990	182	990	182
Construction	749,747	906,823	749,747	906,823
Wholesale and retail trade	232,079	167,938	232,079	167,938
Transportation and communication	85,094	80,817	85,094	80,817
Financial, takaful and business services	2,614,715	2,560,520	2,699,361	2,560,520
Community, social and personal services	198,669	279,576	198,669	279,576
	<u>72,415,980</u>	<u>70,400,864</u>	<u>72,500,626</u>	<u>70,400,864</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

10. FINANCING AND ADVANCES (CONTINUED)

(iv) Financing and advances analysed by remaining contractual maturity

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Maturity within one year	2,688,183	2,893,708	2,688,183	2,893,708
More than one year to three years	2,126,805	1,595,693	2,211,451	1,595,693
More than three years to five years	5,139,496	3,564,192	5,139,496	3,564,192
More than five years	62,461,496	62,347,271	62,461,496	62,347,271
	72,415,980	70,400,864	72,500,626	70,400,864

(v) Financing and advances analysed by customer type

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Individuals	67,910,842	66,148,042	67,910,842	66,148,042
Business enterprises	1,931,899	1,928,258	2,016,545	1,928,258
Non-bank financial institutions				
- Co-operatives	2,426,352	2,224,996	2,426,352	2,224,996
Non-bank financial institutions				
- Others	319	-	319	-
Foreign entities	2,097	1,489	2,097	1,489
Other entities	144,471	98,079	144,471	98,079
	72,415,980	70,400,864	72,500,626	70,400,864

(vi) Financing and advances analysed by profit rate sensitivity

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Fixed rate				
Personal financing	22,806,716	26,808,792	22,806,716	26,808,792
House financing	855,351	969,214	855,351	969,214
Others	6,070,147	5,689,323	6,070,147	5,689,323
Floating rate				
Personal financing	32,718,873	28,068,321	32,718,873	28,068,321
House financing	5,798,303	4,953,109	5,882,949	4,953,109
Others	4,166,590	3,912,105	4,166,590	3,912,105
	72,415,980	70,400,864	72,500,626	70,400,864

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

10. FINANCING AND ADVANCES (CONTINUED)

(vii) Impaired financing and advances analysed by geographical distribution

	Group and Bank	
	2019	2018
	RM'000	RM'000
Central Region	1,139,062	1,216,919
Southern Region	55,161	67,541
Eastern Region	72,259	68,085
Northern Region	49,418	51,818
East Malaysia Region	80,374	86,387
	1,396,274	1,490,750

(viii) Impaired financing and advances analysed by economic sector

	Group and Bank	
	2019	2018
	RM'000	RM'000
Purchase of securities	68	65
Purchase of non-residential property	25,784	111,397
Consumption credit	518,303	568,030
Agriculture	22,893	-
Manufacturing	70,185	83,723
Construction	241,195	361,126
Wholesale and retail trade	5,743	-
Transportation and communication	11,040	11,149
Financial, takaful and business services	501,063	354,982
Community, social and personal services	-	278
	1,396,274	1,490,750

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

	Group and Bank	
	2019	2018
	RM'000	RM'000
As of 1 January	1,490,750	1,575,025
Classified as impaired during the year	1,287,592	1,360,789
Amount written back in respect of recoveries	(894,879)	(972,603)
Amount written off during the year	(487,189)	(472,461)
	(94,476)	(84,275)
As of 31 December	1,396,274	1,490,750
Gross impaired financing and advances as a percentage of gross financing and advances	1.93%	2.12%

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

10. FINANCING AND ADVANCES (CONTINUED)

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

Group 2019	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				
As of 1 January 2019	428,090	118,761	850,158	1,397,009
Changes due to financing and advances movements:				
-Transfer to 12-month ECL (Stage 1)	2,191	(2,099)	(5,168)	(5,076)
-Transfer to lifetime ECL not credit impaired (Stage 2)	(50,784)	112,093	(96,693)	(35,384)
-Transfer to lifetime ECL credit impaired (Stage 3)	(4,745)	(12,735)	555,456	537,976
New financial assets originated	123,344	12,566	34,175	170,085
Changes in credit risk	(65,936)	(39,143)	29,071	(76,008)
Financial assets derecognised	(77,757)	(17,440)	(44,026)	(139,223)
Changes to models used for ECL calculations	(114,236)	225,008	(24,628)	86,144
Amount written off	-	-	(487,189)	(487,189)
At 31 December 2019	<u>240,167</u>	<u>397,011</u>	<u>811,156</u>	<u>1,448,334</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

10. FINANCING AND ADVANCES (CONTINUED)

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

Group 2018	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				
As of 1 January 2018	398,815	176,090	876,796	1,451,701
Changes due to financing and advances movements:				
-Transfer to 12-month ECL (Stage 1)	7,838	(17,125)	(33,194)	(42,481)
-Transfer to lifetime ECL not credit impaired (Stage 2)	(13,510)	65,054	(46,938)	4,606
-Transfer to lifetime ECL credit impaired (Stage 3)	(4,611)	(11,209)	643,360	627,540
New financial assets originated	131,353	4,771	65,130	201,254
Changes in credit risk	(51,150)	(86,619)	(97,237)	(235,006)
Financial assets derecognised	(40,645)	(12,201)	(85,298)	(138,144)
Amount written off	-	-	(472,461)	(472,461)
At 31 December 2018	<u>428,090</u>	<u>118,761</u>	<u>850,158</u>	<u>1,397,009</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

10. FINANCING AND ADVANCES (CONTINUED)

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

Bank 2019	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				
As of 1 January 2019	428,090	118,761	850,158	1,397,009
Changes due to financing and advances movements:				
-Transfer to 12-month ECL (Stage 1)	2,191	(2,099)	(5,168)	(5,076)
-Transfer to lifetime ECL not credit impaired (Stage 2)	(50,784)	112,093	(96,693)	(35,384)
-Transfer to lifetime ECL credit impaired (Stage 3)	(4,745)	(12,735)	555,456	537,976
New financial assets originated	133,071	12,566	34,175	179,812
Changes in credit risk	(65,936)	(39,143)	29,071	(76,008)
Financial assets derecognised	(77,757)	(17,440)	(44,026)	(139,223)
Changes to models used for ECL calculations	(114,236)	225,008	(24,628)	86,144
Amount written off	-	-	(487,189)	(487,189)
At 31 December 2019	<u>249,894</u>	<u>397,011</u>	<u>811,156</u>	<u>1,458,061</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

10. FINANCING AND ADVANCES (CONTINUED)

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

Bank 2018	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				
As of 1 January 2018	398,815	176,090	876,796	1,451,701
Changes due to financing and advances movements:				
-Transfer to 12-month ECL (Stage 1)	7,838	(17,125)	(33,194)	(42,481)
-Transfer to lifetime ECL not credit impaired (Stage 2)	(13,510)	65,054	(46,938)	4,606
-Transfer to lifetime ECL credit impaired (Stage 3)	(4,611)	(11,209)	643,360	627,540
New financial assets originated	131,353	4,771	65,130	201,254
Changes in credit risk	(51,150)	(86,619)	(97,237)	(235,006)
Financial assets derecognised	(40,645)	(12,201)	(85,298)	(138,144)
Amount written off	-	-	(472,461)	(472,461)
At 31 December 2018	<u>428,090</u>	<u>118,761</u>	<u>850,158</u>	<u>1,397,009</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

10. 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 increased by due to the followings:

- a) 12 month ECL (Stage 1) - decrease by RM187.9 million for the Group and decrease by RM178.2 million for the Bank mainly from remeasurement of ECL due to improvement in credit quality and partially offset by financing and advances that were newly originated.
- b) Lifetime ECL (Stage 2) - increase by RM278.2 million for the Group and the Bank mainly from financing and advances that migrated into Stage 2 due to deterioration in credit quality.
- c) Lifetime ECL (Stage 3) - decrease by RM39.0 million for the Group and the Bank mainly from amount written off and partially offset by financing and advances that migrated into Stage 3 due to deterioration in credit quality.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

11. TRADE RECEIVABLES

	Group	
	2019	2018
	RM'000	RM'000
At amortised cost		
Trade receivables	2,295	4,134
Less: Allowance for ECL	(1,971)	(1,675)
	<u>324</u>	<u>2,459</u>

The credit period granted for sale of goods is 30 days (2018: 30 days). No profit is charged on trade receivables.

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

	Group	
	2019	2018
	RM'000	RM'000
Neither past due nor impaired		
1 day to less than 1 month	<u>143</u>	<u>982</u>
Past due but not impaired		
1 month to less than 2 months	658	832
2 months to less than 3 months	38	83
3 months to less than 4 months	323	253
4 months and above	-	759
	<u>1,019</u>	<u>1,927</u>
Past due and impaired	<u>1,133</u>	<u>1,225</u>
	<u>2,295</u>	<u>4,134</u>

Movements in the allowance for ECL are as follows:

	Group	
	2019	2018
	RM'000	RM'000
As of 1 January	1,675	2,251
Impairment losses recognised during the year (Note 33(ii))	482	30
Amount recovered during the year (Note 32(ii))	(181)	(224)
Amount written off during the year	(5)	(382)
As of 31 December	<u>1,971</u>	<u>1,675</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 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 2019

12. OTHER ASSETS

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Amount due from subsidiaries (i)	-	-	13,148	18,492
Other receivables, deposits and prepayments (ii)	1,139,698	1,132,604	1,108,436	1,078,888
	<u>1,139,698</u>	<u>1,132,604</u>	<u>1,121,584</u>	<u>1,097,380</u>

(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	
	2019	2018
	RM'000	RM'000
Outstanding balances	24,576	22,657
Less: Allowance for ECL	(11,428)	(4,165)
	<u>13,148</u>	<u>18,492</u>

Movements in the allowance for ECL of amount due from subsidiaries are as follows:

	Bank	
	2019	2018
	RM'000	RM'000
As of 1 January	4,165	3,201
Impairment losses recognised during the year (Note 33(ii))	7,263	964
As of 31 December	<u>11,428</u>	<u>4,165</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

12. OTHER ASSETS (CONTINUED)

(ii) Other receivables, deposits and prepayments

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Other receivables	737,812	725,311	741,208	721,511
Allowance for ECL	(20,563)	(15,730)	(19,813)	(15,258)
	<u>717,249</u>	<u>709,581</u>	<u>721,395</u>	<u>706,253</u>
Refundable deposits	45,440	54,991	10,185	10,004
Prepayments	177,009	168,032	176,856	162,631
Contribution to Central Liquidity Monetary Fund *	200,000	200,000	200,000	200,000
	<u>1,139,698</u>	<u>1,132,604</u>	<u>1,108,436</u>	<u>1,078,888</u>

Movements in the allowance for ECL of other receivables are as follows:

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
As of 1 January	15,730	15,369	15,258	15,258
Impairment losses recognised during the year (Note 33(ii))	19,960	368	19,682	7
Amount written off during the year	(15,127)	(7)	(15,127)	(7)
As of 31 December	<u>20,563</u>	<u>15,730</u>	<u>19,813</u>	<u>15,258</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 2019

13. RIGHT-OF-USE ASSETS

(i) Group as a lessee

The Group and the Bank has lease contracts for buildings and other equipment used in its operations. Leases of buildings generally have lease terms between 1 to 10 years, with 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 is 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 has 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 applies 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 2019	53,386	4,372	57,758
Additions	23,462	1,319	24,781
Depreciation (Note 33(ii))	(15,526)	(2,726)	(18,252)
At 31 December 2019	<u>61,322</u>	<u>2,965</u>	<u>64,287</u>
	Buildings RM'000	Other equipment RM'000	Total RM'000
Bank			
At 1 January 2019	78,080	4,372	82,452
Additions	30,267	1,319	31,586
Depreciation (Note 33(ii))	(21,082)	(2,726)	(23,808)
At 31 December 2019	<u>87,265</u>	<u>2,965</u>	<u>90,230</u>

The total cash outflow for leases for the Group is RM19,242,000 and for the Bank is RM25,527,000. 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 26.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

13. RIGHT-OF-USE ASSETS (CONTINUED)

(i) Group as a lessee (continued)

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 seeks 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 assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group and the Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The following are the amounts recognised in profit or loss:

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Depreciation expense of right-of-use assets (Note 33(ii))	18,252	-	23,808	-
Finance cost on lease liabilities (Note 33(ii))	2,578	-	3,604	-
Expense relating to leases of low-value assets (included in administrative expenses)	3,434	-	3,391	-
Total amount recognised in profit or loss	24,264	-	30,803	-

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 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.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

13. RIGHT-OF-USE ASSETS (CONTINUED)

(ii) Group as a lessor

The Bank has entered into operating leases on its investment property portfolio consisting of certain office buildings (Note 18). These leases have terms of between 1 and 3 years. Rental income recognised by the Bank during the year is RM20,941,435 (2018:RM26,388,924).

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

	Bank	
	2019	2018
	RM'000	RM'000
Future rental income within :		
- 1 year	18,073	-
- 2 years	13,246	-
- 3 years	5,129	-
	36,448	-

14. INVENTORIES

Inventories consist of the following:

	Group	
	2019	2018
	RM'000	RM'000
Trading inventories, at cost	6,790	8,018

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

15. INVESTMENT IN SUBSIDIARIES

	Bank	
	2019	2018
	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
	2019	2018	
	%	%	
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	Property development and project management
Rakyat Asset Management Sdn Bhd *	100	100	Management services and co-operative administrator
Rakyat Facility Management Sdn Bhd *	100	100	Building management and maintenance
Rakyat Niaga Sdn Bhd *	100	100	Trading and supply of goods
Indirectly owned through Rakyat Holdings Sdn Bhd			
Rakyat Travel Sdn Bhd *	100	100	Transportation and travelling services

* 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 2019

15. INVESTMENT 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	
		2019	2018	2019	2018
Investment and property management	Malaysia	1	1	-	-
Property development and project management	Malaysia	1	1	-	-
Management of Ar-Rahnu business and franchise	Malaysia	1	1	-	-
Management services and co-operative administrator	Malaysia	1	1	-	-
Building management and maintenance	Malaysia	1	1	-	-
Trading and supply of goods	Malaysia	1	1	-	-
Transportation and travelling services	Malaysia	-	-	1	1
Dormant	Malaysia	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 2019**

16. 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									
2019									
At cost									
At 1 January	41,009	434,349	113,239	928	99,977	276,954	413,592	8,426	1,388,474
Additions	501	5,355	-	-	50	4,867	19,471	1,919	32,163
Disposals	-	-	-	-	-	(805)	(4,815)	(5,056)	(10,676)
Write-offs	-	-	-	-	-	(602)	(2,802)	-	(3,404)
Reclassifications	-	11,155	-	-	(14,073)	2,918	-	-	-
Transfer from investment properties (Note 18)	-	6,330	4,359	-	-	-	-	-	10,689
At 31 December	41,510	457,189	117,598	928	85,954	283,332	425,446	5,289	1,417,246

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

16. 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)									
2019									
Accumulated depreciation									
At 1 January	-	42,074	23,147	709	-	246,518	355,813	6,351	674,612
Charge for the year	-	10,231	2,224	172	-	16,649	28,862	807	58,945
Disposals	-	-	-	-	-	(793)	(4,701)	(4,255)	(9,749)
Write-offs	-	-	-	-	-	(602)	(2,721)	-	(3,323)
At 31 December	-	52,305	25,371	881	-	261,772	377,253	2,903	720,485
Net book value									
At 31 December	41,510	404,884	92,227	47	85,954	21,560	48,193	2,386	696,761

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

16. 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)									
2018									
At cost									
At 1 January	40,529	380,826	113,239	928	36,504	275,431	666,897	9,624	1,523,978
Additions	480	3,811	-	-	63,473	3,014	11,037	4	81,819
Disposals	-	-	-	-	-	(146)	(56)	(1,202)	(1,404)
Write-offs	-	-	-	-	-	(1,345)	(3,572)	-	(4,917)
Transfer to investment properties (Note 18)	-	(15,085)	-	-	-	-	-	-	(15,085)
Transfer from investment properties (Note 18)	-	64,797	-	-	-	-	-	-	64,797
Transfer to intangible assets (Note 17)	-	-	-	-	-	-	(260,714)	-	(260,714)
At 31 December	41,009	434,349	113,239	928	99,977	276,954	413,592	8,426	1,388,474

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

16. 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)									
2018									
Accumulated depreciation									
At 1 January	-	34,496	21,017	538	-	230,416	522,446	6,691	815,604
Charge for the year	-	8,936	2,130	171	-	17,553	34,223	826	63,839
Disposals	-	-	-	-	-	(106)	(52)	(1,166)	(1,324)
Write-offs	-	-	-	-	-	(1,345)	(3,566)	-	(4,911)
Transfer to investment properties (Note 18)	-	(1,358)	-	-	-	-	-	-	(1,358)
Transfer to intangible assets (Note 17)	-	-	-	-	-	-	(197,238)	-	(197,238)
At 31 December	-	42,074	23,147	709	-	246,518	355,813	6,351	674,612
Net book value									
At 31 December	41,009	392,275	90,092	219	99,977	30,436	57,779	2,075	713,862

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

16. 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									
2019									
At cost									
At 1 January	39,621	377,634	78,863	928	99,977	274,108	408,738	2,865	1,282,734
Additions	501	5,355	-	-	50	4,580	19,242	1,919	31,647
Disposals	-	-	-	-	-	(620)	(4,145)	-	(4,765)
Write-offs	-	-	-	-	-	(602)	(2,802)	-	(3,404)
Reclassifications	-	11,155	-	-	(14,073)	2,918	-	-	-
At 31 December	40,122	394,144	78,863	928	85,954	280,384	421,033	4,784	1,306,212

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

16. 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)									
2019									
Accumulated depreciation									
At 1 January	-	39,853	20,279	709	-	245,117	352,673	2,227	660,858
Charge for the year	-	8,817	1,354	172	-	16,197	28,349	284	55,173
Disposals	-	-	-	-	-	(620)	(4,043)	-	(4,663)
Write-offs	-	-	-	-	-	(602)	(2,721)	-	(3,323)
At 31 December	-	48,670	21,633	881	-	260,092	374,258	2,511	708,045
Net book value									
At 31 December	40,122	345,474	57,230	47	85,954	20,292	46,775	2,273	598,167

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

16. 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)									
2018									
At cost									
At 1 January	39,141	360,721	78,863	928	36,504	272,480	662,376	2,865	1,453,878
Additions	480	3,811	-	-	63,473	2,973	10,679	-	81,416
Disposals	-	-	-	-	-	-	(31)	-	(31)
Write-offs	-	-	-	-	-	(1,345)	(3,572)	-	(4,917)
Transfer to investment properties (Note 18)	-	(15,085)	-	-	-	-	-	-	(15,085)
Transfer from investment properties (Note 18)	-	28,187	-	-	-	-	-	-	28,187
Transfer to intangible assets (Note 17)	-	-	-	-	-	-	(260,714)	-	(260,714)
At 31 December	39,621	377,634	78,863	928	99,977	274,108	408,738	2,865	1,282,734

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

16. 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)									
2018									
Accumulated depreciation									
At 1 January	-	33,562	18,924	538	-	229,198	519,866	2,000	804,088
Charge for the year	-	7,649	1,355	171	-	17,264	33,642	227	60,308
Disposals	-	-	-	-	-	-	(31)	-	(31)
Write-offs	-	-	-	-	-	(1,345)	(3,566)	-	(4,911)
Transfer to investment properties (Note 18)	-	(1,358)	-	-	-	-	-	-	(1,358)
Transfer to intangible assets (Note 17)	-	-	-	-	-	-	(197,238)	-	(197,238)
At 31 December	-	39,853	20,279	709	-	245,117	352,673	2,227	660,858
Net book value									
At 31 December	39,621	337,781	58,584	219	99,977	28,991	56,065	638	621,876

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

16. PROPERTY AND EQUIPMENT (CONTINUED)

Land titles of certain freehold land of the Bank with carrying amount of RM3,083,674 (2018: RM3,164,088) have not yet been issued by the relevant authorities.

17. INTANGIBLE ASSETS

	Goodwill RM'000	Computer software RM'000	Software in deve- lopment RM'000	Total RM'000
Group				
2019				
At cost				
At 1 January	13,185	282,410	189,856	485,451
Additions	-	17,808	35,366	53,174
Disposals	-	(113)	-	(113)
At 31 December	<u>13,185</u>	<u>300,105</u>	<u>225,222</u>	<u>538,512</u>
Accumulated amortisation				
At 1 January	-	220,157	-	220,157
Charge for the year	-	24,146	-	24,146
Disposals	-	(112)	-	(112)
At 31 December	<u>-</u>	<u>244,191</u>	<u>-</u>	<u>244,191</u>
Net book value				
At 31 December	<u>13,185</u>	<u>55,914</u>	<u>225,222</u>	<u>294,321</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

17. INTANGIBLE ASSETS (CONTINUED)

	Goodwill RM'000	Computer software RM'000	Software in deve- lopment RM'000	Total RM'000
Group (continued)				
2018				
At cost				
At 1 January	13,185	-	-	13,185
Transfer from property and equipment (Note 16)	-	260,714	-	260,714
Additions	-	21,706	189,856	211,562
Write-offs	-	(10)	-	(10)
At 31 December	<u>13,185</u>	<u>282,410</u>	<u>189,856</u>	<u>485,451</u>
Accumulated amortisation				
At 1 January	-	-	-	-
Transfer from property and equipment (Note 16)	-	197,238	-	197,238
Charge for the year	-	22,929	-	22,929
Write-offs	-	(10)	-	(10)
At 31 December	<u>-</u>	<u>220,157</u>	<u>-</u>	<u>220,157</u>
Net book value				
At 31 December	<u>13,185</u>	<u>62,253</u>	<u>189,856</u>	<u>265,294</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

17. INTANGIBLE ASSETS (CONTINUED)

	Computer software RM'000	Software in deve- lopment RM'000	Total RM'000
Bank			
2019			
At cost			
At 1 January	282,410	189,856	472,266
Additions	17,808	35,366	53,174
Disposals	(113)	-	(113)
At 31 December	<u>300,105</u>	<u>225,222</u>	<u>525,327</u>
Accumulated amortisation			
At 1 January	220,157	-	220,157
Charge for the year	24,146	-	24,146
Disposals	(112)	-	(112)
At 31 December	<u>244,191</u>	<u>-</u>	<u>244,191</u>
Net book value			
At 31 December	<u>55,914</u>	<u>225,222</u>	<u>281,136</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

17. INTANGIBLE ASSETS (CONTINUED)

	Computer software RM'000	Software in deve- lopment RM'000	Total RM'000
Bank (continued)			
2018			
At cost			
At 1 January	-	-	-
Transfer from property and equipment (Note 16)	260,714	-	260,714
Additions	21,706	189,856	211,562
Write-offs	(10)	-	(10)
At 31 December	<u>282,410</u>	<u>189,856</u>	<u>472,266</u>
Accumulated amortisation			
At 1 January	-	-	-
Transfer from property and equipment (Note 16)	197,238	-	197,238
Charge for the year	22,929	-	22,929
Write-offs	(10)	-	(10)
At 31 December	<u>220,157</u>	<u>-</u>	<u>220,157</u>
Net book value			
At 31 December	<u>62,253</u>	<u>189,856</u>	<u>252,109</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

18. INVESTMENT PROPERTIES

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
At fair value				
As of 1 January	1,214,812	1,116,302	1,005,948	871,845
Additions	89,567	46,321	-	43,722
Gain on revaluation (Note 32(ii))	30,421	103,259	2,913	104,841
Disposal	(1,385)	-	(814)	-
Transfer from property and equipment (Note 16)	-	13,727	-	13,727
Transfer to property and equipment (Note 16)	(10,689)	(64,797)	-	(28,187)
As of 31 December	<u>1,322,726</u>	<u>1,214,812</u>	<u>1,008,047</u>	<u>1,005,948</u>

Investment properties include the following:

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Freehold land	145,192	145,132	145,160	145,100
Buildings	848,390	752,816	560,197	558,308
Long-term leasehold land	329,144	316,864	302,690	302,540
	<u>1,322,726</u>	<u>1,214,812</u>	<u>1,008,047</u>	<u>1,005,948</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 2019 and 31 December 2018 have been arrived at on the basis of a 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 was arrived at by using a variety of approaches such as comparison and investment method.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

18. 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					
As at 31 December 2019	1,322,726	1,322,726	-	-	1,322,726
As at 31 December 2018	<u>1,214,812</u>	<u>1,214,812</u>	<u>-</u>	<u>-</u>	<u>1,214,812</u>
Bank					
As at 31 December 2019	1,008,047	1,008,047	-	-	1,008,047
As at 31 December 2018	<u>1,005,948</u>	<u>1,005,948</u>	<u>-</u>	<u>-</u>	<u>1,005,948</u>

Reconciliation of fair value:

Group	Freehold land RM'000	Buildings RM'000	Long-term leasehold land RM'000	Total RM'000
As at 1 January 2018	144,072	689,703	282,527	1,116,302
Additions	-	42,282	4,039	46,321
Remeasurement recognised in profit or loss	1,060	71,901	30,298	103,259
Transfer from property and equipment	-	13,727	-	13,727
Transfer to property and equipment	-	(64,797)	-	(64,797)
As at 31 December 2018 / 1 January 2019	145,132	752,816	316,864	1,214,812
Additions	-	88,825	742	89,567
Disposal	-	(510)	(875)	(1,385)
Remeasurement recognised in profit or loss	60	31,953	(1,592)	30,421
Transfer to property and equipment	-	(6,330)	(4,359)	(10,689)
Reclassifications	-	(18,364)	18,364	-
As at 31 December 2019	<u>145,192</u>	<u>848,390</u>	<u>329,144</u>	<u>1,322,726</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

18. INVESTMENT PROPERTIES (CONTINUED)

Bank	Freehold land RM'000	Buildings RM'000	Long-term leasehold land RM'000	Total RM'000
As at 1 January 2018	144,050	459,075	268,720	871,845
Additions	-	39,780	3,942	43,722
Remeasurement recognised in profit or loss	1,050	73,913	29,878	104,841
Transfer from property and equipment	-	13,727	-	13,727
Transfer to property and equipment	-	(28,187)	-	(28,187)
As at 31 December 2018 / 1 January 2019	145,100	558,308	302,540	1,005,948
Disposal	-	-	(814)	(814)
Remeasurement recognised in profit or loss	60	1,889	964	2,913
As at 31 December 2019	<u>145,160</u>	<u>560,197</u>	<u>302,690</u>	<u>1,008,047</u>

Land titles for certain freehold land and leasehold land of the Group and the Bank with fair value amounting to RM950,000 (2018: RM41,150,000) and RM950,000 (2018: RM41,150,000) 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 RM24,472,000 (2018: RM28,252,000) and RM20,921,435 (2018: RM26,388,924) has been earned during the year.

19. PREPAID LEASE PAYMENTS

	Group and Bank	
	2019	2018
	RM'000	RM'000
Cost		
As of 1 January / 31 December	<u>76,680</u>	<u>76,680</u>
Accumulated amortisation		
As of 1 January	15,972	14,446
Charge for the year (Note 33(ii))	<u>1,526</u>	<u>1,526</u>
As of 31 December	<u>17,498</u>	<u>15,972</u>
	<u>59,182</u>	<u>60,708</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

19. PREPAID LEASE PAYMENTS (CONTINUED)

	Group and Bank	
	2019	2018
	RM'000	RM'000
Prepaid lease payments include:		
Long-term leasehold land	51,817	53,158
Short-term leasehold land	7,365	7,550
	<u>59,182</u>	<u>60,708</u>

The remaining period of the leasehold land of the Group and of the Bank ranges from 6 to 862 years (2018: 7 to 863 years).

The land titles of certain leasehold land of the Group and of the Bank amounting to RM7,815,139 (2018: RM8,005,970) have not yet been issued to the Bank by the relevant authorities.

20. DEFERRED TAX ASSETS/(LIABILITIES)

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
As of 1 January	82,269	118,075	86,000	122,000
Recognised in profit or loss (net) (Note 34)				
- relating to origination and reversal of temporary differences	(157,733)	(36,046)	(155,000)	(36,000)
- (under)/over provision of net deferred tax liabilities	(3,880)	240	-	-
As of 31 December	<u>(79,344)</u>	<u>82,269</u>	<u>(69,000)</u>	<u>86,000</u>

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	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets, net	673	86,333	-	86,000
Deferred tax liabilities, net	(80,017)	(4,064)	(69,000)	-
	<u>(79,344)</u>	<u>82,269</u>	<u>(69,000)</u>	<u>86,000</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets	164,634	191,910	163,000	191,000
Deferred tax liabilities	(243,978)	(109,641)	(232,000)	(105,000)
	(79,344)	82,269	(69,000)	86,000

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				
As of 1 January 2018	132,000	44,874	4,202	181,076
Recognised in profit or loss (Note 34)				
- relating to origination and reversal of temporary differences	(11,000)	21,877	(43)	10,834
As of 31 December 2018/ 1 January 2019	121,000	66,751	4,159	191,910
Recognised in profit or loss (Note 34)				
- relating to origination and reversal of temporary differences	(80,000)	27,139	25,140	(27,721)
- underprovision	-	-	445	445
As of 31 December 2019	41,000	93,890	29,744	164,634

* 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 2019**

20. 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			
As of 1 January 2018	(9,000)	72,001	63,001
Recognised in profit or loss (Note 34)			
- relating to origination and reversal of temporary differences	35,000	11,400	46,400
- underprovision	-	240	240
As of 31 December 2018/ 1 January 2019	26,000	83,641	109,641
Recognised in profit or loss (Note 34)			
- relating to origination and reversal of temporary differences	112,000	18,012	130,012
- underprovision	-	4,325	4,325
As of 31 December 2019	138,000	105,978	243,978

^ 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 2019

20. 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				
As of 1 January 2018	132,000	44,000	4,000	180,000
Recognised in profit or loss (Note 34)				
- relating to origination and reversal of temporary differences	(11,000)	22,000	-	11,000
As of 31 December 2018/ 1 January 2019	121,000	66,000	4,000	191,000
Recognised in profit or loss (Note 34)				
- relating to origination and reversal of temporary differences	(80,000)	27,000	25,000	(28,000)
As of 31 December 2019	41,000	93,000	29,000	163,000

* 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 2019**

20. 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			
As of 1 January 2018	(9,000)	67,000	58,000
Recognised in profit or loss (Note 34)			
- relating to origination and reversal of temporary differences	35,000	12,000	47,000
As of 31 December 2018/ 1 January 2019	26,000	79,000	105,000
Recognised in profit or loss (Note 34)			
- relating to origination and reversal of temporary differences	112,000	15,000	127,000
As of 31 December 2019	138,000	94,000	232,000

^ 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 2019

21. DEPOSITS FROM CUSTOMERS

	Group and Bank	
	2019	2018
	RM'000	RM'000
Savings deposits		
Qard	6,600,630	5,733,537
Term deposits		
Tawarruq	71,217,750	68,929,351
General investment deposits		
Mudarabah	-	12
Negotiable Islamic debt certificates	6,013,025	8,073,000
	83,831,405	82,735,900

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

	Group and Bank	
	2019	2018
	RM'000	RM'000
Government	36,682,261	35,013,502
Business enterprises	26,572,859	31,067,164
Co-operatives	2,286,547	1,947,233
Individuals	16,531,690	12,627,150
Others	1,758,048	2,080,851
	83,831,405	82,735,900

Maturity structure of deposits from customers is as follows:

	Group and Bank	
	2019	2018
	RM'000	RM'000
Maturity within six months	64,065,013	67,062,381
More than six months to one year	14,599,626	11,142,683
More than one year to five years	5,166,766	4,530,836
	83,831,405	82,735,900

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019****22. DEPOSITS AND PLACEMENTS FROM BANKS AND FINANCIAL INSTITUTIONS**

	Group and Bank	
	2019	2018
	RM'000	RM'000
Licensed Islamic banks	1,300,000	824,000

23. 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.

24. DEBT SECURITIES ISSUED

	Note	Group and Bank	
		2019	2018
		RM'000	RM'000
Issued under the RM9.0 billion Islamic Medium Term Notes (IMTN) Programme:			
RM425 million IMTN due in 2019	(i)(a)	-	430,099
RM150 million IMTN due in 2019	(i)(b)	-	150,579
RM350 million IMTN due in 2021	(i)(b)	351,491	351,361
RM350 million IMTN due in 2020	(i)(c)	351,391	351,374
RM850 million IMTN due in 2022	(i)(c)	853,325	853,338
RM270 million IMTN due in 2020	(i)(d)	272,491	272,462
RM430 million IMTN due in 2022	(i)(d)	433,730	433,843
Issued under the RM5.0 billion Tier II Subordinated Programme:			
RM300 million Tier II due in 2026	(ii)(a)	300,358	300,310
		2,562,786	3,143,366

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

24. DEBT SECURITIES ISSUED (CONTINUED)

- (i) On 25 October 2013, the Bank established a RM9.0 billion 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 24 March 2014, the Bank issued the fourth tranche of RM425 million of the IMTNs. The fourth tranche has a tenor of 5 years with profit distribution rate at 4.60% and matures on 22 March 2019. The profit is payable semi-annually each year commencing 24 September 2014. The fourth tranche has been fully redeemed on 22 March 2019.
 - (b) On 24 November 2014, the Bank issued the fifth and sixth tranches of RM150 million and RM350 million. The fifth tranche bears a profit distribution rate at 4.50% and matures on 22 November 2019. The sixth tranche bears a profit distribution rate at 4.65% maturing on 24 November 2021. The profit is payable semi-annually each year commencing 25 May 2015. The fifth tranche has been fully redeemed on 22 November 2019.
 - (c) On 29 May 2017, the Bank issued the seventh and eighth tranches of RM350 million and RM850 million. The seventh tranche bears a profit distribution rate at 4.46% maturing on 29 May 2020. The eighth tranche bears a profit distribution rate at 4.58% maturing on 27 May 2022. The profit is payable semi-annually each year commencing 29 November 2017.
 - (d) On 17 October 2017, the Bank issued the ninth and tenth tranches of RM270 million and RM430 million. The ninth tranche bears a profit distribution rate at 4.45% maturing on 16 October 2020. The tenth tranche bears a profit distribution rate at 4.57% maturing on 17 October 2022. The profit is payable semi-annually each year commencing 17 April 2018.

The Sukuk Musharakah constitute 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 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.
 - (a) On 20 June 2016, the Bank issued the first 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 4.95% and maturing on 19 June 2026. The profit is payable semi-annually each year commencing 20 December 2016.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

24. DEBT SECURITIES ISSUED (CONTINUED)

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.

25. CASHLINE FACILITY

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

26. OTHER LIABILITIES

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Amount due to subsidiaries (i)	-	-	196,557	129,703
Sundry creditors	207,017	265,305	217,285	272,765
Income payable	675,759	676,657	675,759	676,657
Other liabilities and accruals	561,203	417,904	495,972	402,265
Lease liabilities (ii)	65,875	-	92,116	-
Allowances for ECL on financial guarantee (iii)	11,113	-	11,113	-
Government fund	163,616	190,511	163,616	190,511
Zakat payable	47,640	40,599	44,952	39,552
	1,732,223	1,590,976	1,897,370	1,711,453

(i) Amount due to subsidiaries

	Bank	
	2019	2018
	RM'000	RM'000
Term deposits	171,979	107,717
Savings deposits	24,578	21,986
	196,557	129,703

The amount due to subsidiaries of RM196,557,000 (2018: RM129,703,000) represents deposits placed with the Bank. The average profit rate paid/payable to subsidiaries is 3.68% (2018: 3.87%) per annum.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019****26. OTHER LIABILITIES (CONTINUED)****(ii) Lease liabilities**

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

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
At 1 January	57,758	-	82,452	-
Additions	24,781	-	31,587	-
Lease payments	(19,242)	-	(25,527)	-
Accretion of				
profit (Note 33(ii))	2,578	-	3,604	-
At 31 December	65,875	-	92,116	-

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

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Future rental commitment within :				
- 1 year	3,390	-	2,927	-
- 2 years	2,643	-	2,643	-
- 3 years	17,086	-	21,540	-
- 4 years	9,314	-	20,336	-
- 5 years	15,358	-	20,195	-
6 years onwards	18,084	-	24,475	-
	65,875	-	92,116	-

The Group and the Bank does not face a significant liquidity risk with regard 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 2019

26. OTHER LIABILITIES (CONTINUED)

(iii) Allowances for ECL on financial guarantee

Group and Bank	12-month ECL Stage 1 RM'000
At 1 January 2019	-
New financial guarantee originated	<u>11,113</u>
At 31 December 2019	<u>11,113</u>

27. SHARE CAPITAL

	Group and Bank	
	2019	2018
	RM'000	RM'000
Issued and fully paid - Ordinary shares		
As of 1 January	2,986,030	2,986,030
Net issuance during the year	13,840	14,168
Share withdrawal	(23,084)	(31,504)
Transfer from share redemption fund *	9,244	17,336
As of 31 December	<u>2,986,030</u>	<u>2,986,030</u>

Membership as of 31 December is as follows:

	Group and Bank	
	2019	2018
Individual	840,592	852,618
Co-operative	<u>2,256</u>	<u>2,237</u>
	<u>842,848</u>	<u>854,855</u>

* 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 2019**

28. RESERVES

Group	Non-distributable			Distributable			Total RM'000
	Capital reserve RM'000	Statutory reserve RM'000	Fair value reserve of financial investments at FVOCI RM'000	Regulatory reserve RM'000	Total other reserve RM'000	Retained profits RM'000	
At 1 January 2019	14,617	6,082,580	108,827	329,672	6,535,696	8,332,894	14,868,590
Profit after taxation and zakat	-	-	-	-	-	1,631,747	1,631,747
Transfer from retained profits	-	409,882	-	-	409,882	(409,882)	-
Contribution to the Co-operative Education Trust Fund	-	-	-	-	-	(35,033)	(35,033)
Contribution to the Co-operative Development Provident Fund	-	-	-	-	-	(17,517)	(17,517)
Contribution to Bank Rakyat Foundation	-	-	-	-	-	(14,562)	(14,562)
Unrealised net gain on revaluation of financial investments at fair value through other comprehensive income	-	-	504,566	-	504,566	-	504,566
Dividends (Note 38)	-	-	-	-	-	(378,973)	(378,973)
At 31 December 2019	14,617	6,492,462	613,393	329,672	7,450,144	9,108,674	16,558,818

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

28. RESERVES (CONTINUED)

	← Non-distributable			→ Distributable			
	Capital reserve RM'000	Statutory reserve RM'000	Fair value reserve of financial investments at FVOCI RM'000	Regulatory reserve RM'000	Total other reserve RM'000	Retained profits RM'000	Total RM'000
Group (continued)							
At 1 January 2018	14,617	5,631,482	60,359	329,672	6,036,130	7,567,061	13,603,191
Profit after taxation and zakat	-	-	-	-	-	1,757,621	1,757,621
Transfer from retained profits	-	451,098	-	-	451,098	(451,098)	-
Contribution to the Co-operative Education Trust Fund	-	-	-	-	-	(37,500)	(37,500)
Contribution to the Co-operative Development Provident Fund	-	-	-	-	-	(18,750)	(18,750)
Contribution to Bank Rakyat Foundation	-	-	-	-	-	(14,666)	(14,666)
Unrealised net gain on revaluation of financial investments at fair value through other comprehensive income	-	-	48,468	-	48,468	-	48,468
Dividends (Note 38)	-	-	-	-	-	(469,774)	(469,774)
At 31 December 2018	14,617	6,082,580	108,827	329,672	6,535,696	8,332,894	14,868,590

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

28. RESERVES (CONTINUED)

	← Non-distributable			→ Distributable			
	Capital reserve RM'000	Statutory reserve RM'000	Fair value reserve of financial investments at FVOCI RM'000	Regulatory reserve RM'000	Total other reserve RM'000	Retained profits RM'000	Total RM'000
Bank							
At 1 January 2019	15,358	6,082,580	108,827	329,672	6,536,437	7,954,575	14,491,012
Profit after taxation and zakat	-	-	-	-	-	1,603,076	1,603,076
Transfer from retained profits	-	409,882	-	-	409,882	(409,882)	-
Contribution to the Co-operative Education Trust Fund	-	-	-	-	-	(35,033)	(35,033)
Contribution to the Co-operative Development Provident Fund	-	-	-	-	-	(17,517)	(17,517)
Contribution to Bank Rakyat Foundation	-	-	-	-	-	(14,562)	(14,562)
Unrealised net gain on revaluation of financial investments at fair value through other comprehensive income	-	-	504,566	-	504,566	-	504,566
Dividends (Note 38)	-	-	-	-	-	(378,973)	(378,973)
At 31 December 2019	15,358	6,492,462	613,393	329,672	7,450,885	8,701,684	16,152,569

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

28. RESERVES (CONTINUED)

	← Non-distributable			→ Distributable			
	Capital reserve RM'000	Statutory reserve RM'000	Fair value reserve of financial investments at FVOCI RM'000	Regulatory reserve RM'000	Total other reserve RM'000	Retained profits RM'000	Total RM'000
Bank (continued)							
At 1 January 2018	15,358	5,631,482	60,359	329,672	6,036,871	7,166,562	13,203,433
Profit after taxation and zakat	-	-	-	-	-	1,779,801	1,779,801
Transfer from retained profits	-	451,098	-	-	451,098	(451,098)	-
Contribution to the Co-operative Education Trust Fund	-	-	-	-	-	(37,500)	(37,500)
Contribution to the Co-operative Development Provident Fund	-	-	-	-	-	(18,750)	(18,750)
Contribution to Bank Rakyat Foundation	-	-	-	-	-	(14,666)	(14,666)
Unrealised net gain on revaluation of financial investments at fair value through other comprehensive income	-	-	48,468	-	48,468	-	48,468
Dividends (Note 38)	-	-	-	-	-	(469,774)	(469,774)
At 31 December 2018	15,358	6,082,580	108,827	329,672	6,536,437	7,954,575	14,491,012

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

28. 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) 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.

(iv) Regulatory reserve

The regulatory reserve is maintained as an additional credit risk buffer to ensure the robustness of the financing impairment assessment methodology.

(v) Retained profits

Included in retained profits is an amount of RM1,340,000,000 (2018: RM1,340,000,000) earmarked to improve the Rate of Return Risk (ROR) exposure as part of asset and liability management strategies.

29. INCOME

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of depositors' fund (i)	5,044,592	5,070,124	5,045,218	5,070,124
Income derived from investment of shareholders' fund (ii)	1,378,737	1,332,200	1,378,909	1,332,200
Income generated by subsidiaries (iii)	74,822	52,750	-	-
	<u>6,498,151</u>	<u>6,455,074</u>	<u>6,424,127</u>	<u>6,402,324</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

29. INCOME (CONTINUED)

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	
	2019	2018
	RM'000	RM'000
Amortised cost before modification	676,180	496,305
Net modification loss	(40,713)	(37,613)

(i) Income derived from investment of depositors' fund

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Income from financing and advances *	3,991,155	4,025,807	3,991,781	4,025,807
Income from deposits and placements with banks and financial institutions	8,091	14,640	8,091	14,640
Income from financial investments	1,045,346	1,029,677	1,045,346	1,029,677
	5,044,592	5,070,124	5,045,218	5,070,124

(ii) Income derived from investment of shareholders' fund

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Income from financing and advances *	1,090,822	1,057,801	1,090,994	1,057,801
Income from deposits and placements with banks and financial institutions	2,212	3,846	2,212	3,846
Income from financial investments	285,703	270,553	285,703	270,553
	1,378,737	1,332,200	1,378,909	1,332,200

* Included in income from financing and advances for the current year is profit accrued on impaired financing of RM69,989,354 (2018: RM83,031,216).

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

29. INCOME (CONTINUED)

(iii) Income generated by subsidiaries

	Group	
	2019	2018
	RM'000	RM'000
Agency income	4,811	4,668
Pawning income	58,306	37,339
Rental income	3,354	3,272
Management fee	8,023	7,149
Sale of goods	175	42
Other charges	153	280
	74,822	52,750

30. EXPENDITURE

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Income attributable to depositors (i)	3,099,344	3,134,023	3,103,973	3,137,762
Profit expense on financing sold with recourse to Cagamas	26,844	34,313	26,844	34,313
Profit expense on debt securities issued	127,971	156,649	127,971	156,649
Profit expense on cashline facility	607	-	607	-
Cost of sales	73,113	57,685	-	-
	3,327,879	3,382,670	3,259,395	3,328,724

(i) Income attributable to depositors

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Deposits from customers				
Non-Mudarabah	3,064,180	3,121,405	3,068,809	3,125,144
Deposits and placements from banks and other financial institutions				
Non-Mudarabah	35,164	12,618	35,164	12,618
	3,099,344	3,134,023	3,103,973	3,137,762

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

31. ALLOWANCES FOR IMPAIRMENT

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Allowance for impairment on financing and advances (i)	549,627	417,769	559,354	417,769
Allowance for impairment on financial investments (ii)	(2,502)	(258)	(2,502)	(258)
	<u>547,125</u>	<u>417,511</u>	<u>556,852</u>	<u>417,511</u>

(i) Allowance for impairment on financing and advances

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Stage 1 - 12 months ECL	(176,810)	29,275	(167,083)	29,275
Stage 2 - lifetime ECL not credit impaired	278,250	(57,329)	278,250	(57,329)
Stage 3 - lifetime ECL credit impaired	448,187	445,823	448,187	445,823
	<u>549,627</u>	<u>417,769</u>	<u>559,354</u>	<u>417,769</u>

(ii) Allowance for impairment on financial investments

	Group and Bank	
	2019	2018
	RM'000	RM'000
Financial investments at fair value through other comprehensive income (Note 8)	(201)	475
Financial investments at amortised cost (Note 9)	(2,301)	(733)
	<u>(2,502)</u>	<u>(258)</u>

32. OTHER OPERATING INCOME

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Fees and commission (i)	159,040	82,222	159,040	82,222
Other income (ii)	422,142	332,415	393,637	362,804
	<u>581,182</u>	<u>414,637</u>	<u>552,677</u>	<u>445,026</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

32. OTHER OPERATING INCOME (CONTINUED)

(i) Fees and commission

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Takaful commission	42,200	26,298	42,200	26,298
ATM service fees	15,499	16,277	15,499	16,277
Wasiat commission	7,413	1,945	7,413	1,945
Other commission	81,723	23,136	81,723	23,136
Processing fees	6	2,007	6	2,007
MEPS fees	9,540	10,001	9,540	10,001
Other fees	2,659	2,558	2,659	2,558
	159,040	82,222	159,040	82,222

(ii) Other income

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Other income from financial instruments				
Dividend from financial investments at fair value through profit or loss	19,406	12,596	19,406	12,596
Net gain on disposal of financial investments at fair value through profit or loss	30,702	9,123	30,702	9,123
Net gain on disposal of financial investments at fair value through other comprehensive income	2,990	213	2,990	213
Net gain/(loss) on revaluation of financial investments at fair value through profit or loss	26,560	(167,745)	26,560	(167,745)

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

32. OTHER OPERATING INCOME (CONTINUED)

(ii) Other income (continued)

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Others				
Rental income	20,484	24,980	20,993	26,447
Compensation for late payment	4,894	5,058	4,894	5,058
Charges from credit card services	10,896	12,027	10,896	12,027
Other service charges	12,248	11,681	12,248	11,681
Recoveries from financing written off	210,304	261,112	210,304	261,112
Writeback of ECL on trade receivables (Note 11)	181	224	-	-
Gain on disposal of property and equipment	785	244	31	1
Other income	52,271	59,643	51,700	52,682
Gain on revaluation of investment properties (Note 18)	30,421	103,259	2,913	104,841
Dividend from subsidiary	-	-	-	34,768
	422,142	332,415	393,637	362,804

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

33. OPERATING EXPENSES

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Personnel expenses (i)	826,597	708,048	809,144	691,078
Other overheads and expenditure (ii)	583,865	502,303	599,748	535,035
	<u>1,410,462</u>	<u>1,210,351</u>	<u>1,408,892</u>	<u>1,226,113</u>

(i) Personnel expenses

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Salaries and wages	387,144	351,006	377,858	339,498
Allowances and bonuses	257,592	212,631	251,965	209,620
Defined contribution plan				
- EPF	115,071	85,351	113,771	83,809
Social security contributions				
- SOCSO	4,898	4,573	4,713	4,339
Other staff related costs	61,892	54,487	60,837	53,812
	<u>826,597</u>	<u>708,048</u>	<u>809,144</u>	<u>691,078</u>

Total number of staff (excluding the Board of Directors) for the Group is 5,789 (2018: 5,399) and for the Bank is 5,752 (2018: 5,236).

(ii) Other overheads and expenditure

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Establishment				
Rental	4,271	20,301	4,244	27,431
Depreciation of property and equipment (Note 16)	58,945	63,839	55,173	60,308
Depreciation of right-of-use assets (Note 13)	18,252	-	23,808	-
Amortisation of prepaid lease payments (Note 19)	1,526	1,526	1,526	1,526
Amortisation of intangible assets (Note 17)	24,146	22,929	24,146	22,929
Finance cost on lease liabilities (Note 26(ii))	2,578	-	3,604	-
Repair and maintenance	91,583	80,459	91,410	80,210
Takaful	5,931	6,172	5,858	6,030
	<u>207,232</u>	<u>195,226</u>	<u>209,769</u>	<u>198,434</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

33. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Promotion				
Advertisement and publicity	<u>22,226</u>	<u>28,704</u>	<u>21,892</u>	<u>28,182</u>
General expenses				
Legal and professional fees	27,977	11,818	25,335	11,076
Auditors' remuneration	1,532	3,413	1,328	3,099
Communication expenses	34,525	28,823	34,330	28,569
Utilities expenses	33,236	18,311	32,845	18,163
Printing and stationery	22,380	21,655	22,093	21,329
Postage and courier	8,746	10,046	8,668	10,010
Security expenses	29,692	28,351	29,639	28,312
Service charges	33,579	25,732	51,530	52,858
Loss on financing written off	14,221	15,188	14,221	15,188
Property and equipment written off	81	6	81	6
Commission expenses	80,869	64,854	80,869	64,854
Travelling and transportation	11,574	11,220	17,734	16,461
Others	55,995	38,956	49,414	38,494
	<u>354,407</u>	<u>278,373</u>	<u>368,087</u>	<u>308,419</u>
	<u>583,865</u>	<u>502,303</u>	<u>599,748</u>	<u>535,035</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

33. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

The above expenditure includes the following statutory disclosures:

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Impairment losses on:				
Trade receivables (Note 11)	482	30	-	-
Amount due from subsidiaries (Note 12(ii))	-	-	7,263	964
Other receivables, deposits and prepayments (Note 12(ii))	19,960	368	19,682	7
Auditors' remuneration:				
Current year:				
Statutory audit fees	1,532	2,115	1,328	1,800
Other services	-	1,299	-	1,299
Overprovision in prior year	-	(1)	-	-
Amortisation of prepaid lease payment (Note 19)	1,526	1,526	1,526	1,526
Depreciation of property and equipment (Note 16)	58,945	63,839	55,173	60,308
Amortisation of intangible assets (Note 17)	24,146	22,929	24,146	22,929
Depreciation of right-of-use assets	18,252	-	23,808	-
Finance cost on lease liabilities	2,578	-	3,604	-
Property and equipment written off	81	6	81	6
Finance cost on financing from other financial institutions	-	204	-	-
Rental of premises	837	13,276	853	20,536
Rental of equipment	3,434	7,025	3,391	6,895

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019****33. OPERATING EXPENSES (CONTINUED)****(ii) Other overheads and expenditure (continued)**

Included in general expenses are the following Directors' remuneration:

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Executive Director				
Salary and other remuneration	634	1,200	634	1,200
Bonuses	2,000	3,232	2,000	3,232
EPF contributions	501	842	501	842
Other emoluments	27	73	27	73
	3,162	5,347	3,162	5,347
Non-Executive Directors				
Fees	2,030	1,811	1,805	1,452
Other emoluments	38	17	38	17
	2,068	1,828	1,843	1,469
	5,230	7,175	5,005	6,816

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

33. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

Total remuneration of the Directors is as follows:

	Remuneration received from Bank				Remuneration received from Subsidiary Companies			Group
	Salary and bonus RM'000	Fees RM'000	Other emoluments RM'000	Total RM'000	Fees RM'000	Other emoluments RM'000	Total RM'000	Total RM'000
2019								
Executive Director								
Dato' Rosman Mohamed	390	76	3	469	4	-	4	473
Non-Executive Directors								
Datuk Noripah Kamso	-	304	29	333	-	-	-	333
Datuk Wan Suraya								
Wan Mohd Radzi	-	190	-	190	94	-	94	284
Hj. Abd Rani Lebai Jaafar	-	249	-	249	6	-	6	255
Prof. Dr. Obiyathulla Ismath Bacha	-	162	-	162	-	-	-	162
Muhamad Shahril Othman	-	95	-	95	-	-	-	95
Tunku Dato' Ahmad Burhanuddin								
Tunku Datuk Seri Adnan	-	41	-	41	-	-	-	41
Yuri Zaharin Wahab	-	44	-	44	-	-	-	44
Sofiyan Yahya	-	29	-	29	-	-	-	29
	-	1,114	29	1,143	100	-	100	1,243

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

33. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

Total remuneration of the Directors is as follows: (continued)

	Remuneration received from Bank				Remuneration received from Subsidiary Companies			Group
	Salary and bonus RM'000	Fees RM'000	Other emoluments RM'000	Total RM'000	Fees RM'000	Other emoluments RM'000	Total RM'000	Total RM'000
2019 (continued)								
Former Executive Director								
Dato' Zulkiflee Abbas Abdul Hamid	2,745	-	24	2,769	-	-	-	2,769
Former Non-Executive Directors								
Edham Reza Shah								
Dato' Abdul Rahman	-	199	-	199	32	-	32	231
Dato' Sri Jamil Salleh	-	149	-	149	48	-	48	197
Wan Zamri Wan Zain	-	128	-	128	-	-	-	128
Hjh. Armi Zainudin	-	36	9	45	-	-	-	45
Dato' Siti Zauyah Md. Desa	-	103	-	103	41	-	41	144
	-	615	9	624	121	-	121	745
	-	1,729	38	1,767	221	-	221	1,988
	3,135	1,805	65	5,005	225	-	225	5,230

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

33. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

Total remuneration of the Directors is as follows: (continued)

	Remuneration received from Bank				Remuneration received from Subsidiary Companies			Group
	Salary and bonus RM'000	Fees RM'000	Other emoluments RM'000	Total RM'000	Fees RM'000	Other emoluments RM'000	Total RM'000	Total RM'000
2018								
Executive Director								
Dato' Zulkiflee Abbas Abdul Hamid	5,274	-	73	5,347	-	-	-	5,347
Non-Executive Directors								
Datuk Noripah Kamso	-	14	-	14	-	-	-	14
Dato' Sri Jamil Salleh	-	165	-	165	140	-	140	305
Dato' Sri Alias Haji Ahmad	-	155	-	155	65	-	65	220
Dato' Siti Zauyah Md. Desa	-	168	-	168	93	-	93	261
Wan Zamri Wan Zain	-	203	-	203	-	-	-	203
Hj. Abd Rani Lebai Jaafar	-	199	-	199	-	-	-	199
Hjh. Armi Zainudin	-	152	-	152	-	-	-	152
Datuk Wan Suraya Wan Mohd Radzi	-	7	-	7	-	-	-	7
	-	1,063	-	1,063	298	-	298	1,361

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

33. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

Total remuneration of the Directors is as follows: (continued)

	Remuneration received from Bank				Remuneration received from Subsidiary Companies			Group
	Salary and bonus RM'000	Fees RM'000	Other emoluments RM'000	Total RM'000	Fees RM'000	Other emoluments RM'000	Total RM'000	Total RM'000
2018 (continued)								
Former Non-Executive Directors								
Tan Sri Hj. Shukry Mohd Salleh	-	245	7	252	-	-	-	252
Datin Dr. Nik Sarina Lugman Hashim	-	71	-	71	34	-	34	105
Razalee Amin	-	21	-	21	14	-	14	35
Datuk Hj. Abdul Rahman Kasim	-	52	10	62	13	-	13	75
	-	389	17	406	61	-	61	467
	-	1,452	17	1,469	359	-	359	1,828
	5,274	1,452	90	6,816	359	-	359	7,175

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

34. TAXATION

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax				
Current year	62,848	29,550	59,034	23,684
(Over)/Underprovision in prior years	(101,525)	10,669	(101,904)	10,925
	(38,677)	40,219	(42,870)	34,609
Deferred tax (Note 20)				
Current year	157,733	36,046	155,000	36,000
Under/(Over)provision in prior years	3,880	(240)	-	-
	161,613	35,806	155,000	36,000
Total	122,936	76,025	112,130	70,609

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	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Profit before taxation and zakat	1,793,867	1,859,179	1,751,665	1,875,002
Tax expense at statutory tax rate of 24% (2018: 24%)	430,528	446,203	420,361	449,961
Non-taxable income	(115,980)	(120,361)	(120,233)	(129,279)
Non-deductible expenses	337,979	167,186	345,852	166,434
Tax exempt under Section 65(A) of the Income Tax Act 1967	(431,946)	(416,953)	(431,946)	(416,953)
Tax implication on adoption of MFRS 9	-	(10,479)	-	(10,479)
(Over)/Underprovision in prior years:				
Income tax	(101,525)	10,669	(101,904)	10,925
Deferred tax	3,880	(240)	-	-
	122,936	76,025	112,130	70,609

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

35. 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.

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Provision for current year	42,725	27,943	40,000	27,000
Overprovision in prior years	(3,541)	(2,410)	(3,541)	(2,408)
	<u>39,184</u>	<u>25,533</u>	<u>36,459</u>	<u>24,592</u>

36. 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.

37. EARNINGS PER SHARE

Basic earnings per ordinary share have been calculated based on the Group's profit after taxation and zakat of RM1,631,747,000 (2018: RM1,757,621,000) divided by the weighted average number of ordinary shares of 2,945,355,000 (2018: 2,960,691,000) of RM1 each in issue during the financial year.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

38. DIVIDENDS

	Group and Bank	
	2019	2018
	RM'000	RM'000
Cash dividend of 13% for the year ended 31 December 2018 (2018: 16%)	378,973	469,774

During the financial year ended 31 December 2019, the Bank paid a cash dividend of 13% amounting to RM379 million in regard to the previous financial year ended 31 December 2018.

In respect of the current financial year, the Board of Directors has proposed a cash dividend of up to 14% amounting to approximately RM420 million. The proposed dividend will be recognised in the subsequent financial year upon approval by the relevant external authorities.

39. 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	
	2019	2018
	RM'000	RM'000
Contingent liabilities		
Bank guarantee given in respect of banking facilities granted to customers	80,666	479,730
Claims for damages from litigation taken against the Bank	106,053	131,885
Commitments		
Undrawn financing	2,154,099	2,184,799
	2,340,818	2,796,414

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

39. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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. 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 Bank has filed an appeal to the Court of Appeal on 19 February 2018 and the hearing is fixed on 6 May 2020. The Bank's solicitor is of the view that based on the evidence at trial and the main legal arguments for the appeal, the Bank has a fair chance in the said appeal.

40. CAPITAL COMMITMENTS

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

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Capital expenditure				
Approved and contracted for	466,560	665,529	227,625	338,279

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

41. 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:

41.1 Subsidiaries

Details of the subsidiaries are shown in Note 15.

41.2 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	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Short-term employee benefits				
Fees	2,030	1,811	1,805	1,452
Salary	4,060	4,728	3,550	4,124
Allowances	442	514	442	514
EPF contribution	1,585	1,914	1,497	1,776
Bonuses	3,854	4,891	3,854	4,739
Other emoluments	123	188	66	90
	12,094	14,046	11,214	12,695

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

	Group		Bank	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Directors' remuneration				
From the Bank	5,005	6,816	5,005	6,816
From subsidiaries	225	359	-	-
	5,230	7,175	5,005	6,816

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

41. RELATED PARTY TRANSACTIONS (CONTINUED)

41.3 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	
	2019	2018
	RM'000	RM'000
Income earned		
Rental income	(524)	(1,482)
Expenditure incurred		
Profit expenses	4,629	3,738
Management fee expenses	17,653	26,444
Rental expenses	6,496	6,145
Purchase of goods and services	152	2,078
Travelling and transportation	6,305	5,616
	34,711	42,539

42. FINANCING FACILITIES WITH CONNECTED PARTIES

	Group and Bank	
	2019	2018
	RM'000	RM'000
Outstanding exposures with connected parties	1,177,375	2,347,292
% of outstanding exposures to connected parties as a proportion of total exposure	1.14%	2.25%
% of outstanding exposures financing exposures with connected parties which is non-performing or in default	0.00%	0.00%

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT

43.1 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

43.2 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 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.2 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."

43.2.1 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 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.2 Risk management framework (continued)

43.2.1 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 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.2 Risk management framework (continued)

43.2.1 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 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, minimize credit loss and maximize recoveries.
- (d) Review and recommend any enhancement of credit related policies, process and procedures.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.3 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.

43.3.1 Management of credit risk

The Bank's credit risk management includes 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 assessment 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.

43.3.2 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 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.3 Credit risk (continued)

43.3.2 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/variation of financing product or program to ensure that the product/program offered to customers is beneficial to both customers and Bank whilst mitigating the inherent risks.

43.3.3 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 assessment on all credit proposals to corporate customers prior to approval.

43.3.4 Purchase of investment securities

Credit qualities of financial instruments are assessed based on ratings from external credit ratings agencies.

Portfolio review and monitoring is frequently conducted in ensuring the exposures are effectively managed and concentration risk is observed at all times.

43.3.5 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 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.3 Credit risk (continued)

43.3.6 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.

43.3.7 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.

43.3.8 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.

43.3.9 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 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.3 Credit risk (continued)

43.3.10 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.

43.3.11 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.

43.3.12 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.

43.3.13 Maximum exposure to credit risk

The following table presents the Bank's credit exposure of on-balance sheet and off-balance sheet financial instruments.

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.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019****43. FINANCIAL RISK MANAGEMENT (CONTINUED)****43.3 Credit risk (continued)****43.3.13 Maximum exposure to credit risk (continued)**

	Group	
	2019	2018
	RM'000	RM'000
Assets		
Cash and short-term funds	1,760,287	1,163,630
Financial investments at fair value through profit or loss	636,693	742,297
Financial investments at fair value through other comprehensive income	22,273,842	22,329,782
Financial investments at amortised cost	10,261,091	10,155,789
Financing and advances	70,967,646	69,003,855
Trade receivables	324	2,459
Other receivables	717,249	709,581
	<u>106,617,132</u>	<u>104,107,393</u>
Commitments		
Undrawn financing	<u>2,154,099</u>	<u>2,184,799</u>
Total maximum exposure to credit risk	<u>108,771,231</u>	<u>106,292,192</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.3 Credit risk (continued)

43.3.13 Maximum exposure to credit risk (continued)

	Bank	
	2019	2018
	RM'000	RM'000
Assets		
Cash and short-term funds	1,759,669	1,161,454
Financial investments at fair value through profit or loss	636,693	742,297
Financial investments at fair value through other comprehensive income	22,273,834	22,329,773
Financial investments at amortised cost	10,261,091	10,155,789
Financing and advances	71,042,565	69,003,855
Other receivables	734,543	724,745
	<u>106,708,395</u>	<u>104,117,913</u>
Commitments		
Undrawn financing	<u>2,154,099</u>	<u>2,184,799</u>
Total maximum exposure to credit risk	<u>108,862,494</u>	<u>106,302,712</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.3 Credit risk (continued)

43.3.14 Credit risk exposure on financing and advances

	Group	
	2019	2018
	RM'000	RM'000
At amortised cost		
Neither past due nor impaired		
0 month	<u>67,623,085</u>	<u>64,956,424</u>
Past due but not impaired		
1 month	2,214,803	2,670,707
2 months	778,867	881,237
3 months	<u>402,951</u>	<u>401,746</u>
	<u>3,396,621</u>	<u>3,953,690</u>
Past due and impaired		
Less than 4 months	216,283	224,230
4 months to 6 months	253,879	279,687
7 months to 9 months	166,903	233,644
More than 9 months	<u>759,209</u>	<u>753,189</u>
	<u>1,396,274</u>	<u>1,490,750</u>
Gross financing and advances	72,415,980	70,400,864
Less:		
Stage 1 - 12 months ECL	(240,167)	(428,090)
Stage 2 - lifetime ECL not credit impaired	(397,011)	(118,761)
Stage 3 - lifetime ECL credit impaired	<u>(811,156)</u>	<u>(850,158)</u>
Net financing and advances	<u>70,967,646</u>	<u>69,003,855</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.3 Credit risk (continued)

43.3.14 Credit risk exposure on financing and advances (continued)

	Bank	
	2019	2018
	RM'000	RM'000
At amortised cost		
Neither past due nor impaired		
0 month	<u>67,707,731</u>	<u>64,956,424</u>
Past due but not impaired		
1 month	2,214,803	2,670,707
2 months	778,867	881,237
3 months	<u>402,951</u>	<u>401,746</u>
	<u>3,396,621</u>	<u>3,953,690</u>
Past due and impaired		
Less than 4 months	216,283	224,230
4 months to 6 months	253,879	279,687
7 months to 9 months	166,903	233,644
More than 9 months	<u>759,209</u>	<u>753,189</u>
	<u>1,396,274</u>	<u>1,490,750</u>
Gross financing and advances	72,500,626	70,400,864
Less:		
Stage 1 - 12 months ECL	(249,894)	(428,090)
Stage 2 - lifetime ECL not credit impaired	(397,011)	(118,761)
Stage 3 - lifetime ECL credit impaired	<u>(811,156)</u>	<u>(850,158)</u>
Net financing and advances	<u>71,042,565</u>	<u>69,003,855</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.3 Credit risk (continued)

43.3.15 Credit risk exposure on investment securities

Group 2019	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	-	3,210,072	386,641	3,596,713
Grade AA+	-	65,956	5,206	71,162
Grade AA	-	200,231	5,272	205,503
Grade AA-	-	188,407	85,590	273,997
Grade AA1	-	304,514	153,740	458,254
Grade AA2	-	382,463	20,801	403,264
Grade AA3	-	257,236	57,947	315,183
	-	4,608,879	715,197	5,324,076
Cagamas sukuk				
Grade AAA	-	2,153,540	711,148	2,864,688
Negotiable Islamic debt certificates				
Grade AA3	-	-	99,582	99,582
	-	6,762,419	1,525,927	8,288,346
Unrated securities				
Government investment issues				
	157,486	9,100,909	5,480,591	14,738,986
Government sukuk	-	6,134,061	2,900,312	9,034,373
Khazanah sukuk	-	229,607	304,401	534,008
Islamic commercial paper	-	-	49,860	49,860
Islamic redeemable convertible preference shares				
	211,282	-	-	211,282
	368,768	15,464,577	8,735,164	24,568,509
Shares				
Quoted and unit trust shares	267,925	-	-	267,925
Unquoted shares	-	46,846	-	46,846
	267,925	46,846	-	314,771
	636,693	22,273,842	10,261,091	33,171,626

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.3 Credit risk (continued)

43.3.15 Credit risk exposure on investment securities (continued)

Bank 2019	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	-	3,210,072	386,641	3,596,713
Grade AA+	-	65,956	5,206	71,162
Grade AA	-	200,231	5,272	205,503
Grade AA-	-	188,407	85,590	273,997
Grade AA1	-	304,514	153,740	458,254
Grade AA2	-	382,463	20,801	403,264
Grade AA3	-	257,236	57,947	315,183
	-	4,608,879	715,197	5,324,076
Cagamas sukuk				
Grade AAA	-	2,153,540	711,148	2,864,688
Negotiable Islamic debt certificates				
Grade AA3	-	-	99,582	99,582
	-	6,762,419	1,525,927	8,288,346
Unrated securities				
Government investment issues				
	157,486	9,100,909	5,480,591	14,738,986
Government sukuk	-	6,134,061	2,900,312	9,034,373
Khazanah sukuk	-	229,607	304,401	534,008
Islamic commercial paper	-	-	49,860	49,860
Islamic redeemable convertible preference shares				
	211,282	-	-	211,282
	368,768	15,464,577	8,735,164	24,568,509
Shares				
Quoted and unit trust shares	267,925	-	-	267,925
Unquoted shares	-	46,838	-	46,838
	267,925	46,838	-	314,763
	636,693	22,273,834	10,261,091	33,171,618

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.3 Credit risk (continued)

43.3.15 Credit risk exposure on investment securities (continued)

Group 2018	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	-	3,017,743	379,347	3,397,090
Grade AA+	-	80,075	111,540	191,615
Grade AA	-	215,063	20,207	235,270
Grade AA-	-	151,408	-	151,408
Grade AA1	-	686,346	131,767	818,113
Grade AA2	-	350,765	-	350,765
Grade AA3	-	265,158	36,413	301,571
	-	4,766,558	679,274	5,445,832
Cagamas sukuk				
Grade AAA	-	2,451,645	698,173	3,149,818
Negotiable Islamic debt certificates				
Grade AA3	-	-	148,698	148,698
	-	7,218,203	1,526,145	8,744,348
Unrated securities				
Government investment issues				
	203,600	9,218,783	5,912,370	15,334,753
Government sukuk	-	5,637,781	2,312,408	7,950,189
Khazanah sukuk	-	217,208	340,579	557,787
Islamic commercial paper	-	-	64,287	64,287
Islamic redeemable convertible preference shares				
	202,096	-	-	202,096
	405,696	15,073,772	8,629,644	24,109,112
Shares				
Quoted and unit trust shares	336,601	-	-	336,601
Unquoted shares	-	37,807	-	37,807
	336,601	37,807	-	374,408
	742,297	22,329,782	10,155,789	33,227,868

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.3 Credit risk (continued)

43.3.15 Credit risk exposure on investment securities (continued)

Bank 2018	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	-	3,017,743	379,347	3,397,090
Grade AA+	-	80,075	111,540	191,615
Grade AA	-	215,063	20,207	235,270
Grade AA-	-	151,408	-	151,408
Grade AA1	-	686,346	131,767	818,113
Grade AA2	-	350,765	-	350,765
Grade AA3	-	265,158	36,413	301,571
	-	4,766,558	679,274	5,445,832
Cagamas sukuk				
Grade AAA	-	2,451,645	698,173	3,149,818
Negotiable Islamic debt certificates				
Grade AA3	-	-	148,698	148,698
	-	7,218,203	1,526,145	8,744,348
Unrated securities				
Government investment issues				
	203,600	9,218,783	5,912,370	15,334,753
Government sukuk	-	5,637,781	2,312,408	7,950,189
Khazanah sukuk	-	217,208	340,579	557,787
Islamic commercial paper	-	-	64,287	64,287
Islamic redeemable convertible preference shares				
	202,096	-	-	202,096
	405,696	15,073,772	8,629,644	24,109,112
Shares				
Quoted and unit trust shares	336,601	-	-	336,601
Unquoted shares	-	37,798	-	37,798
	336,601	37,798	-	374,399
	742,297	22,329,773	10,155,789	33,227,859

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019****43. FINANCIAL RISK MANAGEMENT (CONTINUED)****43.3 Credit risk (continued)****43.3.16 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.

	2019	2018
	RM'000	RM'000
Group		
Credit exposure for on-balance sheet financial assets:		
Cash and short-term funds	1,760,287	1,163,630
Financial investments portfolio *	32,896,974	32,876,158
Financing and advances	61,055,665	60,007,394
Trade receivables	324	2,459
Other assets	1,139,698	1,132,604
Credit exposure for off-balance sheet financial assets:		
Undrawn financing	2,154,099	2,184,799
Total maximum credit risk exposure	<u>99,007,047</u>	<u>97,367,044</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.3 Credit risk (continued)

43.3.16 Maximum exposure to credit risk (continued)

	2019 RM'000	2018 RM'000
Bank		
Credit exposure for on-balance sheet financial assets:		
Cash and short-term funds	1,759,669	1,161,454
Financial investments portfolio *	32,896,974	32,876,158
Financing and advances	61,055,665	60,007,394
Other assets	1,121,584	1,097,380
Credit exposure for off-balance sheet financial assets:		
Undrawn financing	2,154,099	2,184,799
Total maximum credit risk exposure	<u>98,987,991</u>	<u>97,327,185</u>

- * 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.

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43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.4 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.

43.4.1 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 stability of 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 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
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43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.4 Liquidity risk (continued)

43.4.2 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 2019	2018
At 31 December	34.50%	33.99%
Average for the year	34.17%	34.42%
Maximum for the year	34.55%	34.94%
Minimum for the year	33.72%	33.79%

43.4.3 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 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.4 Liquidity risk (continued)

43.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities

Group 2019	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	1,760,287	-	-	-	-	-	-	1,760,287
Investment securities	-	100,878	224,476	2,269,587	2,612,383	27,438,249	526,053	33,171,626
Financing and advances	411,667	1,131,136	2,563,706	3,806,796	5,557,351	58,945,324	(1,448,334)	70,967,646
Trade receivables	-	-	-	-	-	-	324	324
Other assets	-	-	-	-	-	-	3,724,395	3,724,395
	2,171,954	1,232,014	2,788,182	6,076,383	8,169,734	86,383,573	2,802,438	109,624,278

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**NOTES TO THE FINANCIAL STATEMENTS
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43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.4 Liquidity risk (continued)

43.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Group 2019	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	12,299,801	15,957,176	21,974,506	13,833,530	14,599,627	5,166,765	-	83,831,405
Deposits and placements from banks and financial institutions	-	1,200,000	100,000	-	-	-	-	1,300,000
Recourse obligations on financing sold to Cagamas	-	1,735	3,498	5,321	10,910	339,306	-	360,770
Debt securities issued	-	-	-	362,786	270,000	1,930,000	-	2,562,786
Cashline facility	-	200,607	-	-	-	-	-	200,607
Trade payables	-	-	-	-	-	-	1,652	1,652
Other liabilities	-	-	-	-	-	-	1,812,350	1,812,350
	12,299,801	17,359,518	22,078,004	14,201,637	14,880,537	7,436,071	1,814,002	90,069,570
Shareholders' fund	-	-	-	-	-	-	19,554,708	19,554,708
Net maturity mismatch	(10,127,847)	(16,127,504)	(19,289,822)	(8,125,254)	(6,710,803)	78,947,502	(18,566,272)	-

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.4 Liquidity risk (continued)

43.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Group 2019	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	80,666	-	-	-	-	-	-	80,666
Claims for damages from litigation taken against the Bank	-	-	-	-	-	106,053	-	106,053
Undrawn financing	2,154,099	-	-	-	-	-	-	2,154,099
	2,234,765	-	-	-	-	106,053	-	2,340,818

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
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43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.4 Liquidity risk (continued)

43.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Group 2018	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	1,163,630	-	-	-	-	-	-	1,163,630
Investment securities	-	45,873	848,642	799,888	3,249,344	27,707,617	576,504	33,227,868
Financing and advances	344,572	1,074,604	2,378,022	3,637,380	5,374,957	57,591,329	(1,397,009)	69,003,855
Trade receivables	-	-	-	-	-	-	2,459	2,459
Other assets	-	-	-	-	-	-	3,487,411	3,487,411
	<u>1,508,202</u>	<u>1,120,477</u>	<u>3,226,664</u>	<u>4,437,268</u>	<u>8,624,301</u>	<u>85,298,946</u>	<u>2,669,365</u>	<u>106,885,223</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.4 Liquidity risk (continued)

43.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Group 2018	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	14,014,969	17,805,016	19,981,985	14,602,308	11,651,628	4,679,994	-	82,735,900
Deposits and placements from banks and financial institutions	424,000	400,000	-	-	-	-	-	824,000
Recourse obligations on financing sold to Cagamas	-	3,230	6,514	9,909	329,808	360,874	-	710,335
Debt securities issued	-	-	430,099	13,267	150,000	2,550,000	-	3,143,366
Trade payables	-	-	-	-	-	-	2,840	2,840
Other liabilities	-	-	-	-	-	-	1,595,058	1,595,058
	14,438,969	18,208,246	20,418,598	14,625,484	12,131,436	7,590,868	1,597,898	89,011,499
Shareholders' fund	-	-	-	-	-	-	17,873,724	17,873,724
Net maturity mismatch	(12,930,767)	(17,087,769)	(17,191,934)	(10,188,216)	(3,507,135)	77,708,078	(16,802,257)	-

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**NOTES TO THE FINANCIAL STATEMENTS
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43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.4 Liquidity risk (continued)

43.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Group 2018	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	479,730	-	-	-	-	-	-	479,730
Claims for damages from litigation taken against the Bank	-	-	-	-	-	131,885	-	131,885
Undrawn financing	2,184,799	-	-	-	-	-	-	2,184,799
	<u>2,664,529</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>131,885</u>	<u>-</u>	<u>2,796,414</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
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43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.4 Liquidity risk (continued)

43.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Bank 2019	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	1,759,669	-	-	-	-	-	-	1,759,669
Investment securities	-	100,878	224,476	2,269,587	2,612,383	27,438,249	526,045	33,171,618
Financing and advances	411,667	1,131,136	2,563,706	3,806,796	5,557,351	59,029,970	(1,458,061)	71,042,565
Other assets	-	-	-	-	-	-	3,396,545	3,396,545
	2,171,336	1,232,014	2,788,182	6,076,383	8,169,734	86,468,219	2,464,529	109,370,397

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
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43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.4 Liquidity risk (continued)

43.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Bank 2019	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	12,299,801	15,957,176	21,974,506	13,833,530	14,599,627	5,166,765	-	83,831,405
Deposits and placements from banks and financial institutions	-	1,200,000	100,000	-	-	-	-	1,300,000
Recourse obligations on financing sold to Cagamas	-	1,735	3,498	5,321	10,910	339,306	-	360,770
Debt securities issued	-	-	-	362,786	270,000	1,930,000	-	2,562,786
Cashline facility	-	200,607	-	-	-	-	-	200,607
Other liabilities	-	-	-	-	-	-	1,966,370	1,966,370
	12,299,801	17,359,518	22,078,004	14,201,637	14,880,537	7,436,071	1,966,370	90,221,938
Shareholders' fund	-	-	-	-	-	-	19,148,459	19,148,459
Net maturity mismatch	(10,128,465)	(16,127,504)	(19,289,822)	(8,125,254)	(6,710,803)	79,032,148	(18,650,300)	-

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.4 Liquidity risk (continued)

43.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Bank 2019	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	80,666	-	-	-	-	-	-	80,666
Claims for damages from litigation taken against the Bank	-	-	-	-	-	106,053	-	106,053
Undrawn financing	2,154,099	-	-	-	-	-	-	2,154,099
	2,234,765	-	-	-	-	106,053	-	2,340,818

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.4 Liquidity risk (continued)

43.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Bank 2018	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	1,161,454	-	-	-	-	-	-	1,161,454
Investment securities	-	45,873	848,642	799,888	3,249,344	27,707,617	576,495	33,227,859
Financing and advances	344,572	1,074,604	2,378,022	3,637,380	5,374,957	57,591,329	(1,397,009)	69,003,855
Other assets	-	-	-	-	-	-	3,228,032	3,228,032
	<u>1,506,026</u>	<u>1,120,477</u>	<u>3,226,664</u>	<u>4,437,268</u>	<u>8,624,301</u>	<u>85,298,946</u>	<u>2,407,518</u>	<u>106,621,200</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.4 Liquidity risk (continued)

43.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Bank 2018	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	14,014,969	17,805,016	19,981,985	14,602,308	11,651,628	4,679,994	-	82,735,900
Deposits and placements from banks and financial institutions	424,000	400,000	-	-	-	-	-	824,000
Recourse obligations on financing sold to Cagamas	-	3,230	6,514	9,909	329,808	360,874	-	710,335
Debt securities issued	-	-	430,099	13,267	150,000	2,550,000	-	3,143,366
Other liabilities	-	-	-	-	-	-	1,711,453	1,711,453
	<u>14,438,969</u>	<u>18,208,246</u>	<u>20,418,598</u>	<u>14,625,484</u>	<u>12,131,436</u>	<u>7,590,868</u>	<u>1,711,453</u>	<u>89,125,054</u>
Shareholders' fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,496,146</u>	<u>17,496,146</u>
Net maturity mismatch	<u>(12,932,943)</u>	<u>(17,087,769)</u>	<u>(17,191,934)</u>	<u>(10,188,216)</u>	<u>(3,507,135)</u>	<u>77,708,078</u>	<u>(16,800,081)</u>	<u>-</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.4 Liquidity risk (continued)

43.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (continued)

Bank 2018	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	479,730	-	-	-	-	-	-	479,730
Claims for damages from litigation taken against the Bank	-	-	-	-	-	131,885	-	131,885
Undrawn financing	2,184,799	-	-	-	-	-	-	2,184,799
	<u>2,664,529</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>131,885</u>	<u>-</u>	<u>2,796,414</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.4 Liquidity risk (continued)

43.4.5 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 2019 and 31 December 2018. 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 2019	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	13,718,848	16,102,310	22,219,322	13,793,380	13,291,312	7,591,557	-	86,716,729
Deposits and placements from banks and financial institutions	-	1,204,414	100,583	-	-	-	-	1,304,997
Recourse obligations on financing sold to Cagamas	-	3,244	6,495	9,760	19,587	291,843	-	330,929
Debt securities issued	-	-	-	408,717	321,285	2,125,068	-	2,855,070
Trade payables	-	-	-	-	-	-	1,652	1,652
Cashline facility	-	200,921	-	-	-	-	-	200,921
Other liabilities	-	-	-	-	-	-	1,732,223	1,732,223
	13,718,848	17,510,889	22,326,400	14,211,857	13,632,184	10,008,468	1,733,875	93,142,521

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.4 Liquidity risk (continued)

43.4.5 Contractual maturity of financial liabilities on an undiscounted basis (continued)

Group 2018	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	14,088,750	18,012,655	20,275,770	14,808,832	11,907,537	6,404,154	-	85,497,698
Deposits and placements from banks and financial institutions	424,392	401,239	-	-	-	-	-	825,631
Recourse obligations on financing sold to Cagamas	-	6,009	12,035	18,095	340,167	410,322	-	786,628
Debt securities issued	-	-	434,588	61,532	212,431	2,855,071	-	3,563,622
Trade payables	-	-	-	-	-	-	2,840	2,840
Other liabilities	-	-	-	-	-	-	1,590,976	1,590,976
	<u>14,513,142</u>	<u>18,419,903</u>	<u>20,722,393</u>	<u>14,888,459</u>	<u>12,460,135</u>	<u>9,669,547</u>	<u>1,593,816</u>	<u>92,267,395</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.4 Liquidity risk (continued)

43.4.5 Contractual maturity of financial liabilities on an undiscounted basis (continued)

Bank 2019	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	13,718,848	16,102,310	22,219,322	13,793,380	13,291,312	7,591,557	-	86,716,729
Deposits and placements from banks and financial institutions	-	1,204,414	100,583	-	-	-	-	1,304,997
Recourse obligations on financing sold to Cagamas	-	3,244	6,495	9,760	19,587	291,843	-	330,929
Debt securities issued	-	-	-	408,717	321,285	2,125,068	-	2,855,070
Cashline facility	-	200,921	-	-	-	-	-	200,921
Other liabilities	-	-	-	-	-	-	1,897,370	1,897,370
	13,718,848	17,510,889	22,326,400	14,211,857	13,632,184	10,008,468	1,897,370	93,306,016

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.4 Liquidity risk (continued)

43.4.5 Contractual maturity of financial liabilities on an undiscounted basis (continued)

Bank 2018	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	14,088,750	18,012,655	20,275,770	14,808,832	11,907,537	6,404,154	-	85,497,698
Deposits and placements from banks and financial institutions	424,392	401,239	-	-	-	-	-	825,631
Recourse obligations on financing sold to Cagamas	-	6,009	12,035	18,095	340,167	410,322	-	786,628
Debt securities issued	-	-	434,588	61,532	212,431	2,855,071	-	3,563,622
Other liabilities	-	-	-	-	-	-	1,711,453	1,711,453
	<u>14,513,142</u>	<u>18,419,903</u>	<u>20,722,393</u>	<u>14,888,459</u>	<u>12,460,135</u>	<u>9,669,547</u>	<u>1,711,453</u>	<u>92,385,032</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 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.

43.5.1 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 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.

43.5.2 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 2019****43. FINANCIAL RISK MANAGEMENT (CONTINUED)****43.5 Market risk (continued)****43.5.2 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 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				
2019				
Year ended				
31 December	(7,669)	(2,858)	(3,850)	3,880
Average for the year	(69,608)	59,225	(34,815)	35,001
Maximum for the year	(123,022)	(2,858)	(61,523)	3,880
Minimum for the year	(7,669)	112,658	(3,850)	61,546
2018				
Year ended				
31 December	(120,848)	110,824	(60,436)	60,459
Average for the year	(168,233)	143,780	(84,143)	78,781
Maximum for the year	(191,979)	103,231	(96,012)	58,491
Minimum for the year	(129,032)	169,414	(64,546)	92,114

43.5.3 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 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 Market risk (continued)

43.5.4 Exposure to profit rate risk on profit-bearing financial instruments

Group 2019	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	700,069	-	-	-	-	1,060,218	-	1,760,287
Financial investments at fair value through profit or loss	-	-	-	-	-	-	636,693	636,693
Financial investments at fair value through other comprehensive income	51,018	35,433	3,242,493	12,994,107	5,903,945	-	46,846	22,273,842
Financial investments at amortised cost	49,860	189,043	1,639,477	4,884,577	3,498,134	-	-	10,261,091
Financing and advances								
- Non-impaired	41,629,583	45,929	60,308	2,725,789	24,618,250	1,939,847	-	71,019,706
- Impaired, net of allowances	-	-	-	-	-	(52,060)	-	(52,060)
Other non-profit sensitive balances	-	-	-	-	-	3,724,719	-	3,724,719
	42,430,530	270,405	4,942,278	20,604,473	34,020,329	6,672,724	683,539	109,624,278

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 Market risk (continued)

43.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Group (continued) 2019	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			
Liabilities								
Deposits from customers	25,560,707	22,015,162	26,666,378	7,423,383	2,165,775	-	-	83,831,405
Deposits and placements from banks and financial institutions	1,200,000	100,000	-	-	-	-	-	1,300,000
Recourse obligations on financing sold to Cagamas	-	-	-	360,770	-	-	-	360,770
Debt securities issued	-	-	623,882	1,638,546	300,358	-	-	2,562,786
Cashline facility	200,607	-	-	-	-	-	-	200,607
Other non-profit sensitive balances	-	-	-	-	-	1,814,002	-	1,814,002
	26,961,314	22,115,162	27,290,260	9,422,699	2,466,133	1,814,002	-	90,069,570

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 Market risk (continued)

43.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Group (continued) 2019	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			
Shareholders' fund	-	-	-	-	-	19,554,708	-	19,554,708
On-balance sheet profit sensitivity gap	15,469,216	(21,844,757)	(22,347,982)	11,181,774	31,554,196	(14,695,986)	683,539	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-
Total profit sensitivity gap	15,469,216	(21,844,757)	(22,347,982)	11,181,774	31,554,196	(14,695,986)	683,539	-

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**NOTES TO THE FINANCIAL STATEMENTS
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43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 Market risk (continued)

43.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Group (continued) 2018	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	330,028	-	-	-	-	833,602	-	1,163,630
Financial investments at fair value through profit or loss	-	-	-	-	-	-	742,297	742,297
Financial investments at fair value through other comprehensive income	35,682	543,406	1,728,749	12,781,551	7,203,061	(475)	37,808	22,329,782
Financial investments at amortised cost	10,191	305,236	2,320,509	5,527,070	1,992,838	(55)	-	10,155,789
Financing and advances								
- Non-impaired	35,851,611	2,328	60,862	2,668,959	28,613,618	1,712,736	-	68,910,114
- Impaired, net of allowances	-	-	-	-	-	93,741	-	93,741
Other non-profit sensitive balances	-	-	-	-	-	3,489,870	-	3,489,870
	36,227,512	850,970	4,110,120	20,977,580	37,809,517	6,129,419	780,105	106,885,223

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**NOTES TO THE FINANCIAL STATEMENTS
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43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 Market risk (continued)

43.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Group (continued) 2018	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			
Liabilities								
Deposits from customers	26,682,915	21,536,091	26,144,588	6,529,835	1,842,471	-	-	82,735,900
Deposits and placements from banks and financial institutions	824,000	-	-	-	-	-	-	824,000
Recourse obligations on financing sold to Cagamas	-	-	329,296	381,039	-	-	-	710,335
Debt securities issued	-	430,099	150,579	2,262,378	300,310	-	-	3,143,366
Other non-profit sensitive balances	-	-	-	-	-	1,597,898	-	1,597,898
	<u>27,506,915</u>	<u>21,966,190</u>	<u>26,624,463</u>	<u>9,173,252</u>	<u>2,142,781</u>	<u>1,597,898</u>	<u>-</u>	<u>89,011,499</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 Market risk (continued)

43.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Group (continued) 2018	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			
Shareholders' fund	-	-	-	-	-	17,873,724	-	17,873,724
On-balance sheet profit sensitivity gap	8,720,597	(21,115,220)	(22,514,343)	11,804,328	35,666,736	(13,342,203)	780,105	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-
Total profit sensitivity gap	8,720,597	(21,115,220)	(22,514,343)	11,804,328	35,666,736	(13,342,203)	780,105	-

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**NOTES TO THE FINANCIAL STATEMENTS
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43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 Market risk (continued)

43.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Bank 2019	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	700,069	-	-	-	-	1,059,600	-	1,759,669
Financial investments at fair value through profit or loss	-	-	-	-	-	-	636,693	636,693
Financial investments at fair value through other comprehensive income	51,018	35,433	3,242,493	12,994,107	5,903,945	-	46,838	22,273,834
Financial investments at amortised cost	49,860	189,043	1,639,477	4,884,577	3,498,134	-	-	10,261,091
Financing and advances								
- Non-impaired	41,629,583	45,929	60,308	2,810,435	24,618,250	1,939,847	-	71,104,352
- Impaired, net of allowances	-	-	-	-	-	(61,787)	-	(61,787)
Other non-profit sensitive balances	-	-	-	-	-	3,396,545	-	3,396,545
	42,430,530	270,405	4,942,278	20,689,119	34,020,329	6,334,205	683,531	109,370,397

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**NOTES TO THE FINANCIAL STATEMENTS
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43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 Market risk (continued)

43.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Bank (continued) 2019	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		
Liabilities								
Deposits from customers	25,560,707	22,015,162	26,666,378	7,423,383	2,165,775	-	-	83,831,405
Deposits and placements from banks and financial institutions	1,200,000	100,000	-	-	-	-	-	1,300,000
Recourse obligations on financing sold to Cagamas	-	-	-	360,770	-	-	-	360,770
Debt securities issued	-	-	623,882	1,638,546	300,358	-	-	2,562,786
Cashline facility	200,607	-	-	-	-	-	-	200,607
Other non-profit sensitive balances	-	-	-	-	-	1,966,370	-	1,966,370
	26,961,314	22,115,162	27,290,260	9,422,699	2,466,133	1,966,370	-	90,221,938

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**NOTES TO THE FINANCIAL STATEMENTS
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43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 Market risk (continued)

43.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

	Non-trading book						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	Non-profit sensitive		
Bank (continued) 2019	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Shareholders' fund	-	-	-	-	-	19,148,459	-	19,148,459
On-balance sheet profit sensitivity gap	15,469,216	(21,844,757)	(22,347,982)	11,266,420	31,554,196	(14,780,624)	683,531	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-
Total profit sensitivity gap	15,469,216	(21,844,757)	(22,347,982)	11,266,420	31,554,196	(14,780,624)	683,531	-

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**NOTES TO THE FINANCIAL STATEMENTS
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43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 Market risk (continued)

43.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Bank (continued) 2018	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	330,028	-	-	-	-	831,426	-	1,161,454
Financial investments at fair value through profit or loss	-	-	-	-	-	-	742,297	742,297
Financial investments at fair value through other comprehensive income	35,682	543,406	1,728,749	12,781,551	7,203,061	(475)	37,799	22,329,773
Financial investments at amortised cost	10,191	305,236	2,320,509	5,527,070	1,992,838	(55)	-	10,155,789
Financing and advances								
- Non-impaired	35,851,611	2,328	60,862	2,668,959	28,613,618	1,712,736	-	68,910,114
- Impaired, net of allowances	-	-	-	-	-	93,741	-	93,741
Other non-profit sensitive balances	-	-	-	-	-	3,228,032	-	3,228,032
	36,227,512	850,970	4,110,120	20,977,580	37,809,517	5,865,405	780,096	106,621,200

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**NOTES TO THE FINANCIAL STATEMENTS
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43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 Market risk (continued)

43.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

Bank (continued) 2018	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	26,682,915	21,536,091	26,144,588	6,529,835	1,842,471	-	-	82,735,900
Deposits and placements from banks and financial institutions	824,000	-	-	-	-	-	-	824,000
Recourse obligations on financing sold to Cagamas	-	-	329,296	381,039	-	-	-	710,335
Debt securities issued	-	430,099	150,579	2,262,378	300,310	-	-	3,143,366
Other non-profit sensitive balances	-	-	-	-	-	1,711,453	-	1,711,453
	27,506,915	21,966,190	26,624,463	9,173,252	2,142,781	1,711,453	-	89,125,054

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**NOTES TO THE FINANCIAL STATEMENTS
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43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.5 Market risk (continued)

43.5.4 Exposure to profit rate risk on profit-bearing financial instruments (continued)

	Non-trading book						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	Non-profit sensitive		
Bank (continued) 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Shareholders' fund	-	-	-	-	-	17,496,146	-	17,496,146
On-balance sheet profit sensitivity gap	8,720,597	(21,115,220)	(22,514,343)	11,804,328	35,666,736	(13,342,194)	780,096	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-
Total profit sensitivity gap	8,720,597	(21,115,220)	(22,514,343)	11,804,328	35,666,736	(13,342,194)	780,096	-

**NOTES TO THE FINANCIAL STATEMENTS
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43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.6 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 system, 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.

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43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.6 Operational risk (continued)

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 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.

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 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 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.

43.7 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- (i) To comply with the capital requirements set by the regulators of the banking markets where the entities within the Bank operate;
- (ii) To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- (iii) To maintain a strong capital base to support the development of its business.

**NOTES TO THE FINANCIAL STATEMENTS
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43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.7 Capital management (continued)

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines under the New Liquidity Framework developed 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: collective impairment allowances on non-impaired financing and regulatory reserve.

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 statement 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.7 Capital management (continued)

43.7.1 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 Bank was in compliance with all prescribed capital ratios throughout the period.

	Bank	
	2019	2018
Before proposed dividend		
Core capital ratio	22.64%	21.87%
Risk-weighted capital adequacy ratio	24.12%	23.25%
After proposed dividend		
Core capital ratio	22.12%	21.33%
Risk-weighted capital adequacy ratio	23.60%	22.72%

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	
	2019	2018
	RM'000	RM'000
Tier I capital		
Paid-up share capital	2,986,030	2,986,030
Retained profits	8,701,684	7,954,575
Other reserves	6,507,820	6,097,938
Total Tier I capital (core)	18,195,534	17,038,543
Tier II capital		
Subordinated sukuk	300,000	300,000
Collective impairment *	658,018	546,851
Regulatory reserve	329,672	329,672
Total Tier II capital	1,287,690	1,176,523
Total capital	19,483,224	18,215,066
Less: Investment in subsidiaries	(100,744)	(100,744)
Total capital base	19,382,480	18,114,322

* This is a surplus amount allowable after taking into account the collective impairment allowance on impaired financing of the Bank.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

43. FINANCIAL RISK MANAGEMENT (CONTINUED)

43.7 Capital management (continued)

43.7.1 Capital adequacy ratio (continued)

Assets in various categories are risk-weighted as follows:

	Bank	
	2019	2018
	RM'000	RM'000
Total assets assigned 20% risk-weighted	732,872	725,709
Total assets assigned 50% risk-weighted	2,613,334	2,890,810
Total assets assigned 100% risk-weighted	75,696,226	72,926,532
Off-Balance Sheet claims assigned 100% risk-weighted	1,320,418	1,353,289
	<u>80,362,850</u>	<u>77,896,340</u>

44. 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
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44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

44.1 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
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44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

44.2 Valuation of financial instruments at fair value

Group	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
2019					
Financial investments at fair value through profit or loss					
Government investment issues	157,486	157,486	-	157,486	-
Islamic redeemable convertible preference shares	211,282	211,282	-	211,282	-
Quoted shares	266,325	266,325	266,325	-	-
Unit trust shares	1,600	1,600	-	1,600	-
	636,693	636,693	266,325	370,368	-
Financial investments at fair value through other comprehensive income					
Islamic debt securities	4,608,879	4,608,879	-	4,608,879	-
Government investment issues	9,100,909	9,100,909	-	9,100,909	-
Government sukuk	6,134,061	6,134,061	-	6,134,061	-
Khazanah sukuk	229,607	229,607	-	229,607	-
Cagamas sukuk	2,153,540	2,153,540	-	2,153,540	-
Unquoted shares	46,846	46,846	-	-	46,846
	22,273,842	22,273,842	-	22,226,996	46,846

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

44.2 Valuation of financial instruments at fair value (continued)

Group	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
2018					
Financial investments at fair value through profit or loss					
Government investment issues	203,600	203,600	-	203,600	-
Islamic redeemable convertible preference shares	202,096	202,096	-	202,096	-
Quoted shares	335,182	335,182	335,182	-	-
Unit trust shares	1,419	1,419	-	1,419	-
	<u>742,297</u>	<u>742,297</u>	<u>335,182</u>	<u>407,115</u>	<u>-</u>
Financial investments at fair value through other comprehensive income					
Islamic debt securities	4,766,558	4,766,558	-	4,766,558	-
Government investment issues	9,218,783	9,218,783	-	9,218,783	-
Government sukuk	5,637,781	5,637,781	-	5,637,781	-
Khazanah sukuk	217,208	217,208	-	217,208	-
Cagamas sukuk	2,451,645	2,451,645	-	2,451,645	-
Unquoted shares	37,807	37,807	-	-	37,807
	<u>22,329,782</u>	<u>22,329,782</u>	<u>-</u>	<u>22,291,975</u>	<u>37,807</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
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44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

44.2 Valuation of financial instruments at fair value (continued)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Bank					
2019					
Financial investments at fair value through profit or loss					
Government investment issues	157,486	157,486	-	157,486	-
Islamic redeemable convertible preference shares	211,282	211,282	-	211,282	-
Quoted shares	266,325	266,325	266,325	-	-
Unit trust shares	1,600	1,600	-	1,600	-
	636,693	636,693	266,325	370,368	-
Financial investments at fair value through other comprehensive income					
Islamic debt securities	4,608,879	4,608,879	-	4,608,879	-
Government investment issues	9,100,909	9,100,909	-	9,100,909	-
Government sukuk	6,134,061	6,134,061	-	6,134,061	-
Khazanah sukuk	229,607	229,607	-	229,607	-
Cagamas sukuk	2,153,540	2,153,540	-	2,153,540	-
Unquoted shares	46,838	46,838	-	-	46,838
	22,273,834	22,273,834	-	22,226,996	46,838

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44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

44.2 Valuation of financial instruments at fair value (continued)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Bank					
2018					
Financial investments at fair value through profit or loss					
Government investment issues	203,600	203,600	-	203,600	-
Islamic redeemable convertible preference shares	202,096	202,096	-	202,096	-
Quoted shares	335,182	335,182	335,182	-	-
Unit trust shares	1,419	1,419	-	1,419	-
	<u>742,297</u>	<u>742,297</u>	<u>335,182</u>	<u>407,115</u>	<u>-</u>
Financial investments at fair value through other comprehensive income					
Islamic debt securities	4,766,558	4,766,558	-	4,766,558	-
Government investment issues	9,218,783	9,218,783	-	9,218,783	-
Government sukuk	5,637,781	5,637,781	-	5,637,781	-
Khazanah sukuk	217,208	217,208	-	217,208	-
Cagamas sukuk	2,451,645	2,451,645	-	2,451,645	-
Unquoted shares	37,798	37,798	-	-	37,798
	<u>22,329,773</u>	<u>22,329,773</u>	<u>-</u>	<u>22,291,975</u>	<u>37,798</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

44.2 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	
	2019	2018
	RM'000	RM'000
Financial investments at fair value through other comprehensive income		
Unquoted shares		
At 1 January	37,807	8,064
Addition of unquoted shares	-	3
Unrealised gains recognised in other comprehensive income	9,039	29,740
At 31 December	46,846	37,807
	Bank	
	2019	2018
	RM'000	RM'000
Financial investments at fair value through other comprehensive income		
Unquoted shares		
At 1 January	37,798	7,583
Addition of unquoted shares	-	3
Unrealised gains recognised in other comprehensive income	9,040	30,212
At 31 December	46,838	37,798

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

44.3 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 2019 RM'000	Fair value 2019 RM'000	Carrying amount 2018 RM'000	Fair value 2018 RM'000
Group				
Financial assets				
Cash and short-term funds	1,760,287	1,760,287	1,163,630	1,163,630
Financial investments at amortised cost	10,261,091	10,329,590	10,155,789	10,072,444
Financing and advances	70,967,646	74,754,053	69,003,855	73,479,723
Trade receivables	324	324	2,459	2,459
Other receivables and deposits	962,689	962,689	964,572	964,572
Financial liabilities				
Deposits from customers	83,831,405	84,466,510	82,735,900	82,905,425
Deposits and placements from banks and financial institutions	1,300,000	1,300,000	824,000	824,000
Recourse obligations on financing sold to Cagamas	360,770	457,181	710,335	702,741
Debt securities issued	2,562,786	2,595,294	3,143,366	3,140,978
Trade payables	1,652	1,652	2,840	2,840
Cashline facility	200,607	200,607	-	-
Other liabilities	1,449,722	1,449,722	1,409,003	1,409,003

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

44.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required) (continued)

	Carrying amount 2019 RM'000	Fair value 2019 RM'000	Carrying amount 2018 RM'000	Fair value 2018 RM'000
Bank				
Financial assets				
Cash and short-term funds	1,759,669	1,759,669	1,161,454	1,161,454
Financial investments at amortised cost	10,261,091	10,329,590	10,155,789	10,072,444
Financing and advances	71,042,565	74,828,972	69,003,855	73,479,723
Other receivables and deposits	931,580	931,580	916,257	916,257
Financial liabilities				
Deposits from customers	83,831,405	84,466,510	82,735,900	82,905,425
Deposits and placements from banks and financial institutions	1,300,000	1,300,000	824,000	824,000
Recourse obligations on financing sold to Cagamas	360,770	457,181	710,335	702,741
Debt securities issued	2,562,786	2,595,294	3,143,366	3,140,978
Cashline facility	200,607	200,607	-	-
Other liabilities	1,618,252	1,618,252	1,531,376	1,531,376

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44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

44.3 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
2019					
Financial assets					
Cash and short-term funds	1,760,287	1,760,287	-	-	1,760,287
Financial investments at amortised cost:					
Government sukuk	2,900,312	2,909,649	-	2,909,649	-
Government investment issues	5,480,591	5,536,057	-	5,536,057	-
Islamic debt securities	715,196	712,410	-	712,410	-
Khazanah sukuk	304,401	309,173	-	309,173	-
Cagamas sukuk	711,149	712,842	-	712,842	-
Negotiable Islamic debt certificates	99,582	99,599	-	-	99,599
Islamic commercial paper	49,860	49,860	-	49,860	-
Financing and advances	71,042,565	74,754,053	-	-	74,754,053
Trade receivables	324	324	-	-	324
Other receivables and deposits	962,689	962,689	-	-	962,689
	84,026,956	87,806,943	-	10,229,991	77,576,952

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FOR THE YEAR ENDED 31 DECEMBER 2019**

44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

44.3 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)					
2019					
Financial liabilities					
Deposits from customers	83,831,405	84,466,510	-	-	84,466,510
Deposits and placements from banks and financial Institutions	1,300,000	1,300,000	-	-	1,300,000
Recourse obligations on financing sold to Cagamas	360,770	457,181	-	-	457,181
Debt securities issued	2,562,786	2,595,294	-	2,595,294	-
Trade payables	1,652	1,652	-	-	1,652
Cashline facility	200,607	200,607	-	-	200,607
Other liabilities	1,449,722	1,449,722	-	-	1,449,722
	89,706,942	90,470,966	-	2,595,294	87,875,672

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

44.3 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
2018					
Financial assets					
Cash and short-term funds	1,163,630	1,163,630	-	-	1,163,630
Financial investments at amortised cost:					
Government sukuk	2,312,408	2,295,743	-	2,295,743	-
Government investment issues	5,912,370	5,856,014	-	5,856,014	-
Islamic debt securities	679,274	673,137	-	673,137	-
Khazanah sukuk	340,579	342,541	-	342,541	-
Cagamas sukuk	698,173	692,024	-	692,024	-
Negotiable Islamic debt certificates	148,698	148,698	-	-	148,698
Islamic commercial paper	64,287	64,287	-	64,287	-
Financing and advances	69,003,855	73,479,723	-	-	73,479,723
Trade receivables	2,459	2,459	-	-	2,459
Other receivables and deposits	964,572	964,572	-	-	964,572
	81,290,305	85,682,828	-	9,923,746	75,759,082

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**NOTES TO THE FINANCIAL STATEMENTS
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44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

44.3 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)					
2018					
Financial liabilities					
Deposits from customers	82,735,900	82,905,425	-	-	82,905,425
Deposits and placements from banks and financial Institutions	824,000	824,000	-	-	824,000
Recourse obligations on financing sold to Cagamas	710,335	702,741	-	-	702,741
Debt securities issued	3,143,366	3,140,978	-	3,140,978	-
Trade payables	2,840	2,840	-	-	2,840
Other liabilities	1,409,003	1,409,003	-	-	1,409,003
	88,825,444	88,984,987	-	3,140,978	85,844,009

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

44.3 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					
2019					
Financial assets					
Cash and short-term funds	1,759,669	1,759,669	-	-	1,759,669
Financial investments at amortised cost:					
Government sukuk	2,900,312	2,909,649	-	2,909,649	-
Government investment issues	5,480,591	5,536,057	-	5,536,057	-
Islamic debt securities	715,196	712,410	-	712,410	-
Khazanah sukuk	304,401	309,173	-	309,173	-
Cagamas sukuk	711,149	712,842	-	712,842	-
Negotiable Islamic debt certificates	99,582	99,599	-	-	99,599
Islamic commercial paper	49,860	49,860	-	49,860	-
Financing and advances	71,042,565	74,828,972	-	-	74,828,972
Other receivables and deposits	931,580	931,580	-	-	931,580
	83,994,905	87,849,811	-	10,229,991	77,619,820

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**NOTES TO THE FINANCIAL STATEMENTS
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44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

44.3 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)					
2019					
Financial liabilities					
Deposits from customers	83,831,405	84,466,510	-	-	84,466,510
Deposits and placements from banks and financial Institutions	1,300,000	1,300,000	-	-	1,300,000
Recourse obligations on financing sold to Cagamas	360,770	457,181	-	-	457,181
Debt securities issued	2,562,786	2,595,294	-	2,595,294	-
Cashline facility	200,607	200,607	-	-	200,607
Other liabilities	1,618,252	1,618,252	-	-	1,618,252
	89,873,820	90,637,844	-	2,595,294	88,042,550

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**NOTES TO THE FINANCIAL STATEMENTS
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44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

44.3 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					
2018					
Financial assets					
Cash and short-term funds	1,161,454	1,161,454	-	-	1,161,454
Financial investments at amortised cost:					
Government sukuk	2,312,408	2,295,743	-	2,295,743	-
Government investment issues	5,912,370	5,856,014	-	5,856,014	-
Islamic debt securities	679,274	673,137	-	673,137	-
Khazanah sukuk	340,579	342,541	-	342,541	-
Cagamas sukuk	698,173	692,024	-	692,024	-
Negotiable Islamic debt certificates	148,698	148,698	-	-	148,698
Islamic commercial paper	64,287	64,287		64,287	-
Financing and advances	69,003,855	73,479,723	-	-	73,479,723
Other receivables and deposits	916,257	916,257	-	-	916,257
	<u>81,237,355</u>	<u>85,629,878</u>	<u>-</u>	<u>9,923,746</u>	<u>75,706,132</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

44.3 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)					
2018					
Financial liabilities					
Deposits from customers	82,735,900	82,905,425	-	-	82,905,425
Deposits and placements from banks and financial Institutions	824,000	824,000	-	-	824,000
Recourse obligations on financing sold to Cagamas	710,335	702,741	-	-	702,741
Debt securities issued	3,143,366	3,140,978	-	3,140,978	-
Other liabilities	1,531,376	1,531,376	-	-	1,531,376
	88,944,977	89,104,520	-	3,140,978	85,963,542

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44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

44.3 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:

44.3.1 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 relatively short maturity period.

44.3.2 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.

44.3.3 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.

44.3.4 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 effective profit rate offered for similar financing at the reporting date.

44.3.5 Trade and other receivables

The carrying amounts of trade and other receivables reported in the statement of financial position approximate their fair values due to the relatively short-term maturity of these instruments.

**NOTES TO THE FINANCIAL STATEMENTS
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44. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

44.3 Valuation of financial instruments not carried at fair value (but fair value disclosures are required) (continued)

44.3.6 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.

44.3.7 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.

44.3.8 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.

44.3.9 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.

44.3.10 Trade and other liabilities

The carrying amounts of trade and other liabilities reported in the statement of financial position approximate their fair values due to the relatively short-term maturity of these instruments.