REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF BANK KERJASAMA RAKYAT MALAYSIA BERHAD FOR THE YEAR ENDED 31 DECEMBER 2018

KETUA AUDIT NEGARA
MALAYSIA

REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
BANK KERJASAMA RAKYAT MALAYSIA BERHAD
FOR THE YEAR ENDED 31 DECEMBER 2018

Report 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 2018 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, notes to the financial statements, including a summary of significant accounting policies as set out on pages 4 to 215.

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 2018 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, 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 report. 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 Bank Kerjasama Rakyat Malaysia Berhad and of the Group and I have fulfilled the other ethical responsibilities in accordance with the The International Standards of Supreme Audit Institutions.

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

The Directors of Bank Kerjasama Rakyat Malaysia Berhad are responsible for the other information in the Annual Report. 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 report thereon and I do not express any form of assurance conclusion thereon.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation of financial statements of Bank Kerjasama Rakyat Malaysia Berhad and of the Group that give a true and fair view in accordance with Malaysian Financial Reporting Standards, 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 Bank Kerjasama Rakyat Malaysia Berhad and of the Group that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of Bank Kerjasama Rakyat Malaysia Berhad and of the Group, the Directors are responsible for assessing Bank Kerjasama Rakyat Malaysia Berhad and of the Groups' 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 Bank Kerjasama Rakyat Malaysia Berhad and of the Group as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report 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 skepticism throughout the audit. I also:

a. Identify and assess the risks of material misstatement of the financial statements of the Bank Kerjasama Rakyat Malaysia Berhad and of the Group, 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 Bank Kerjasama Rakyat Malaysia Berhad and of the Groups' internal control.

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

d. Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Bank Kerjasama Rakyat Malaysia Berhad or the Groups' ability to continue as a going concern. If I conclude that a material uncertainty exists, I have to draw attention in my auditor's report to the related disclosures in the financial statements of Bank Kerjasama Rakyat Malaysia Berhad and of the Group 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 report.

e. Evaluate the overall presentation of the financial statements of Bank Kerjasama Rakyat Malaysia Berhad and of the Group, including the disclosures 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 an opinion on the financial statements of the Group. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control identified during my audit.

Report 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 also report the following:

a. In my opinion, the accounting and other records required to be kept by Bank Kerjasama Rakyat Malaysia Berhad and its subsidiaries of which I have acted as auditor have been properly kept 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).

b. I have considered the accounts and the auditors' reports of all the subsidiaries of which I have not acted as auditor, which are indicated in Note 17 to the financial statements, being accounts that have been included in the consolidated accounts.

c. I am satisfied that the accounts of the subsidiaries that have been consolidated with the Bank Kerjasama Rakyat Malaysia Berhad's financial statements are appropriate and proper in form and content for the purposes of the preparation of the financial statements of the Group and I have received satisfactory information and explanations required by me for those purposes.

d. The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment.

Other Matters

This report is made solely for the Directors and for no other purpose. I do not assume responsibility to any other person for the content of this report.

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

PUTRAJAYA
26 MARCH 2019

STATEMENT BY DIRECTORS

We, **DATUK NORIPAH KAMSO** and **DATO' ZULKIFLEE ABBAS ABDUL HAMID**, 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 2018 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

DATO' ZULKIFLEE ABBAS ABDUL HAMID
Managing Director/President

Kuala Lumpur
Date: 14 MAR 2019

Annual Report of Shariah Committee of Bank Rakyat 2018

بِسْمِ اللَّهِ الرَّحْمَٰنِ الرَّحِيمِ

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 2018.

The Management of Bank Rakyat is responsible for ensuring 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 2018, the Shariah Committee had convened 14 times with an addition of another 2 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 Compliance Division to approve generic Shariah related matters and the approvals by the Shariah Compliance Division are duly reported to us on quarterly basis for review and confirmation.

We planned and performed our review to obtain all the 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 2018 as below :

   i. Implementation of Cash Line-i (Corporate) based on the concept of *Tawarruq* launched on 17th October 2018.

   ii. Waqaf Fund Initiative involving strategic collaboration with *Majlis Agama Islam Dan Adat Melayu Terengganu* (MAIDAM) launched on 14th December 2018

   iii. System enhancement and replacement of Shariah contract for *Kontrak-i Tijari* from *Bai Inah* to *Tawarruq* executed on July 2018.

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 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

1. 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.

2. 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.

3. 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.

4. 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.

5. 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.

6. During the financial year of 2018, Shariah Review and Shariah Audit 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 26 Ar-Rahnu X'hange
   c. Shariah Review Report on 46 corporate financing and cooperative financing application
   d. Shariah Review Report on 42 Trade Finance application
   e. Shariah Review Report on 4 Treasury Departments and 7 subsidiaries of Bank Rakyat,
   f. Shariah Review Report : Branch Operation Processing Department
   g. Shariah Review Report : Virtual Banking Department
   h. Shariah Review Report : Payroll & Benefits Administration Department

i. Shariah Review Report : Card & Payment Business Department
j. Shariah Review Report : Business Banking Division
k. Shariah Review Report : Early Monitoring Department
l. Shariah Review Report : Cash Management Department
m. Shariah Review Report : Legal (Corporate Financing & Documentation) Department
n. Shariah Review Report : Money Market Department
o. Shariah Review Report : Foreign Exchange Department
p. Shariah Review Report : Equity Department
q. Shariah Review Report : Fixed Income Department
r. Shariah Review Report : Marketing & Communication Division
s. Shariah Review Report : Strategic Marketing Department

Shariah Audit

a) Shariah Audit Report : Special Audit on Zakat Management
b) Shariah Audit Report : Micro Financing-i
c) Shariah Audit Report : Auto Financing-i
d) Shariah Audit Report: SME Financing
e) Shariah Audit Report : Virtual Banking Department
f) Shariah Audit Report : Corporate Banking (Operations)
g) Shariah Audit Report: Corporate Banking (Government / Government Linked Company)
h) Shariah Audit Report : Legal (Corporate Financing & Documentation)
i) Shariah Audit Report : Member's Services
j) Shariah Audit Report : Payroll & Benefit Administration Department (Staff Financing)
k) Shariah Audit Report : Shariah Review Department
l) Shariah Audit Report : Shariah Research & Advisory Department
m) Shariah Audit Report : Private (Business Development) Department
n) Shariah Audit Report : Limited review on settlement arrangement handled by Business Rehabilitation Department
o) Shariah Audit Report : Limited review on Rakyat Hartanah Sdn Bhd's Operation
p) Shariah Audit Report : Limited review on Shariah governance process related to documentation of Trade Finance
q) Shariah Audit Report : Limited review on Credit Card-i, Acquiring Business
r) Shariah Audit Report : Limited review on Shariah governance process related to sukuk documentation, Capital Management
s) Shariah Audit Report : Limited review on outsourcing of gold wafers production, Rakyat Management Services Sdn Bhd
t) Shariah Audit Report : Limited review on Unit Trust & Estate Management Department
u) Shariah Audit Report : Limited review on Shariah Risk Unit, Operational Risk Department
v) Shariah Audit Report : Limited review on management of tenancy & rental collection, Rakyat Holdings Sdn Bhd

w) Shariah Audit Report : Limited review on Combo Debit Card-i
x) Shariah Audit Report: Limited review on investment activities of quoted shares handled by Equity Department

Shariah Training and Awareness

1. For the financial year of 2018, a total of 39 Shariah training and awareness programmes have been conducted to internal employees of the bank which were attended by more than 900 participants throughout Malaysia.

2. To increase the awareness on Shariah governance and compliance among the head quarter's (HQ) staffs, the Bank conducts Shariah Town Hall session whereby we were responsible to update on Shariah requirements and rulings issued either by us or the regulators and sharing on Shariah non – compliance incidences detected by Shariah Review and Syariah Audit to avoid any occurrence event in meeting the business objectives.

3. Training Academy of Bank Rakyat also retained the slots of Shariah application in Islamic Banking during the induction programme which has been specifically organized for new recruitments, as one of the efforts to ensure all levels of the bank's employees understand the application of Shariah in every products offered by the bank.

4. Bank Rakyat has also committed to elevate the knowledge and understanding of Shariah as well as Islamic Banking of its employees by execution of in-house intensive programme. 7 members of Shariah Committee together with 22 Shariah officers has attended 5 days Intensive Course of Muamalat from the Perspective of Mazhab Shafi'i, which were proudly led by Sheikh Dr. Abdul Sattar Abu Ghuddah, a prominent Shariah scholar of worldwide Islamic Finance industry. In addition, to sharpen the internal talent and accommodate the training efficiency, 2 Shariah officers have successfully completed the Certified Training Professional (CTP) by Finance Accreditation Agency (FAA) whom an independent quality assurance and accreditation body supported by Bank Negara Malaysia (Central Bank of Malaysia) and Securities Commission Malaysia.

5. Bank Rakyat has conducted 15 series of Zero Tolerance Clinic program which includes Shariah compliance briefing session attended by representatives of management from each branches throughout Malaysia, is an effort to increase the awareness on Shariah compliance culture among the employees at branches.

Shariah Non Compliance Issue

1. For the financial year ended 31st December 2018, the Shariah non-compliance issues deliberated by us were as follows :

    a) Overcharged safekeeping fees in the process of Gold Auction between branch and Rakyat Management Services Sdn Bhd (RMS) due to the delayed in closing of customers account.

    b) Subscription of conventional insurance premium financed by the bank for Vehicle Financing-i (An-Naqlu 2) involving 11 accounts from 7 branches.

    c) Execution of disbursement payment to customers on the purchase of Shariah non-compliant goods under the *Skim Pinjaman Tukar-i* .

2. All of the events together with the rectification plans were presented to us and the Board of Directors for approval, and was accordingly reported to Bank Negara Malaysia in accordance with the Shariah non-compliance reporting requirements imposed by the Islamic Financial Services Act 2013 (IFSA).

3. Shariah non-compliance events experienced by the Bank were mostly due to operational non-compliances detected by Shariah Review and Shariah Audit. The Bank has taken the corrective as well as preventive measures in order to avoid the same Shariah non-compliance events from occurring in the future which includes specific Shariah training to all of the staff.

4. Within the financial year of 2018, the Bank received Shariah non-compliant income amounting of **RM 10,979.11.** 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

1. In the financial year of 2018, we confirmed that the Bank has fulfilled its obligation to pay zakat on its business to Majlis Agama Islam Negeri-Negeri by adopting the growth capital computation methode and in compliance with the Manual Pengurusan Zakat Perbankan issued by Jabatan Wakaf, Zakat dan Haji.

2. For the Zakat Asnaf, we confirmed that Business Zakat of the Bank was distributed accordingly to the eligible asnaf as guided by Policy and Procedure Business Zakat Management of Bank Rakyat that was apprroved by us.

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 incidences 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 2018 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 2018 have been conducted in conformity with the Shariah principles.

BANK RAKYAT

Annual Report of Shariah Committee of Bank Rakyat 2018

....
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 14 MAR 2019

NOR HAIMEE ZAKARIA

Before me:

PESURUHJAYA SUMPAH
W 465
KAPT (B) JASNI BIN YUSOFF
1 JAN 2019 - 31 DIS 2021
MALAYSIA

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 2018.

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 17 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	1,859,179	1,875,002
Taxation	(76,025)	(70,609)
Zakat	(25,533)	(24,592)
Profit after taxation and zakat	1,757,621	1,779,801
Statutory appropriations	(522,278)	(522,278)
Profit for the year after statutory appropriations	1,235,343	1,257,523
Other comprehensive income	48,468	48,468
Total comprehensive income for the year	1,283,811	1,305,991
Total comprehensive income for the year attributable to:		
Equity holders of the Bank	1,283,811	1,305,991

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.

DIVIDENDS

During the financial year ended 31 December 2018, the Bank paid a cash dividend of 16% amounting to RM470 million in regards to the previous financial year ended 31 December 2017.

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

OTHER STATUTORY INFORMATION

In the opinion of the Directors, the financial statements set out on pages 4 to 215 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 2018 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 41 to the financial statements. No contingent or other liability has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Bank to meet their obligations as and when they fall due.

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

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

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

Datuk Noripah Kamso

Dato' Zulkiflee Abbas Abdul Hamid

Kuala Lumpur, Malaysia

14 MAR 2019

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Assets					
Cash and short-term funds	6	**1,163,630**	2,476,623	**1,161,454**	2,469,937
Deposits and placements with financial institutions	7	**-**	101,384	**-**	100,992
Financial investments at fair value through profit or loss	8	**742,297**	-	**742,297**	-
Financial investments available-for-sale	9	**-**	20,252,909	**-**	20,252,428
Financial investments at fair value through other comprehensive income	10	**22,329,782**	-	**22,329,773**	-
Financial investments held-to-maturity	11	**-**	10,437,053	**-**	10,437,053
Financial investments at amortised cost	12	**10,155,789**	-	**10,155,789**	-
Financing and advances	13	**69,003,855**	69,189,090	**69,003,855**	69,189,090
Trade receivables	14	**2,459**	1,795	**-**	-
Other assets	15	**1,132,604**	1,019,205	**1,097,380**	987,691
Inventories	16	**8,018**	9,291	**-**	-
Investment in subsidiaries	17	**-**	-	**100,744**	65,976
Property and equipment	18	**713,862**	708,374	**621,876**	649,790
Intangible assets	19	**265,294**	13,185	**252,109**	-
Investment properties	20	**1,214,812**	1,116,302	**1,005,948**	871,845
Prepaid lease payments	21	**60,708**	62,234	**60,708**	62,234
Tax recoverable		**5,780**	51,111	**3,267**	47,806
Deferred tax assets	22	**86,333**	13,446	**86,000**	13,000
Total assets		**106,885,223**	105,452,002	**106,621,200**	105,147,842

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018 (CONTINUED)

		Group		Bank	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Liabilities					
Deposits from customers	23	**82,735,900**	83,235,496	**82,735,900**	83,235,496
Deposits and placements from banks and financial institutions	24	**824,000**	-	**824,000**	-
Trade payables		**2,840**	2,681	**-**	-
Recourse obligations on financing sold to Cagamas	25	**710,335**	748,334	**710,335**	748,334
Debt securities issued	26	**3,143,366**	3,443,770	**3,143,366**	3,443,770
Other liabilities	27	**1,590,976**	1,379,579	**1,711,453**	1,490,291
Provision for taxation		**18**	574	**-**	-
Deferred tax liabilities	22	**4,064**	4,371	**-**	-
Financing from other financial institutions	28	**-**	8,844	**-**	-
Total liabilities		**89,011,499**	88,823,649	**89,125,054**	88,917,891
Shareholders' fund					
Share capital	29	**2,986,030**	2,986,030	**2,986,030**	2,986,030
Share redemption fund		**19,104**	36,440	**19,104**	36,440
Reserves	30	**14,868,590**	13,605,883	**14,491,012**	13,207,481
Total shareholders' fund		**17,873,724**	16,628,353	**17,496,146**	16,229,951
Total liabilities and shareholders' fund		**106,885,223**	105,452,002	**106,621,200**	105,147,842
Commitments and contingencies	41	**2,796,414**	2,723,371	**2,796,414**	2,723,371

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

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

		Group		Bank	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Income	31	**6,492,687**	6,336,268	**6,439,937**	6,290,020
Expenditure	32	**(3,382,670)**	(3,245,264)	**(3,328,724)**	(3,200,025)
Net income		**3,110,017**	3,091,004	**3,111,213**	3,089,995
Allowances for impairment	33	**(455,124)**	(522,979)	**(455,124)**	(522,979)
Other operating income	34	**414,637**	687,166	**445,026**	658,053
Operating expenses	35	**(1,210,351)**	(1,210,039)	**(1,226,113)**	(1,226,815)
Profit before taxation and zakat		**1,859,179**	2,045,152	**1,875,002**	1,998,254
Taxation	36	**(76,025)**	(92,545)	**(70,609)**	(83,573)
Zakat	37	**(25,533)**	(42,980)	**(24,592)**	(41,739)
Profit after taxation and zakat		**1,757,621**	1,909,627	**1,779,801**	1,872,942
Statutory appropriations	38				
Transfer to statutory reserve: 25% (2017: 25%)		**(451,098)**	(478,670)	**(451,098)**	(478,670)
Contribution to the Co-operative Education Trust Fund: 2% (2017: 2%)		**(37,500)**	(39,965)	**(37,500)**	(39,965)
Contribution to the Co-operative Development Provident Fund: 1% (2017: 1%)		**(18,750)**	(19,983)	**(18,750)**	(19,983)
Contribution to Bank Rakyat Foundation		**(14,930)**	(14,930)	**(14,930)**	(14,930)
		(522,278)	(553,548)	**(522,278)**	(553,548)
Profit for the year		**1,235,343**	1,356,079	**1,257,523**	1,319,394

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

		Group		Bank	
	Note	**2018 RM'000**	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Net gain on revaluation of financial investments available-for-sale	30(iii)	**-**	20,076	**-**	20,076
Net gain on revaluation of financial investments at fair value through other comprehensive income	30(iv)	**48,468**	-	**48,468**	-
		48,468	20,076	**48,468**	20,076
Total comprehensive income for the year		**1,283,811**	1,376,155	**1,305,991**	1,339,470
Earnings per share (RM)					
Basic	39	**0.59**	0.64	**-**	-

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 2018

	← Non-distributable		→	Distributable	
	Share capital RM'000	Share redemption fund RM'000	Other reserves RM'000	Retained profits RM'000	Total equity RM'000
Group					
At 1 January 2017	2,986,030	52,070	5,468,605	6,726,074	15,232,779
Profit after taxation and zakat	-	-	-	1,909,627	1,909,627
Transfer to statutory reserve	-	-	-	(478,670)	(478,670)
Contribution to the Co-operative Education Trust Fund	-	-	-	(39,965)	(39,965)
Contribution to the Co-operative Development Provident Fund	-	-	-	(19,983)	(19,983)
Contribution to Bank Rakyat Foundation	-	-	-	(14,930)	(14,930)
Profit for the year	-	-	-	1,356,079	1,356,079
Other comprehensive income	-	-	20,076	-	20,076
Total comprehensive income for the year	-	-	20,076	1,356,079	1,376,155
Transfer from retained profits	-	-	478,670	-	478,670
Issuance to new member	16,626	-	-	-	16,626
Share withdrawal	(32,256)	-	-	-	(32,256)
Transfer to share capital	15,630	(15,630)	-	-	-
Dividends (Note 40)	-	-	-	(443,774)	(443,774)
Overprovision in contribution to Bank Rakyat Foundation	-	-	-	153	153
At 31 December 2017	2,986,030	36,440	5,967,351	7,638,532	16,628,353
	Note 29		Note 30	Note 30	

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018 (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
Group					
At 1 January 2018					
As previously stated	**2,986,030**	**36,440**	**5,967,351**	**7,638,532**	**16,628,353**
Effect of adopting MFRS 9	**-**	**-**	**68,779**	**(71,471)**	**(2,692)**
Restated balance as 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 40)	**-**	**-**	**-**	**(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 29		Note 30	Note 30	

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018 (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 2017	2,986,030	52,070	5,469,346	6,363,616	14,871,062
Profit after taxation and zakat	-	-	-	1,872,942	1,872,942
Transfer to statutory reserve	-	-	-	(478,670)	(478,670)
Contribution to the Co-operative Education Trust Fund	-	-	-	(39,965)	(39,965)
Contribution to the Co-operative Development Provident Fund	-	-	-	(19,983)	(19,983)
Contribution to Bank Rakyat Foundation	-	-	-	(14,930)	(14,930)
Profit for the year	-	-	-	1,319,394	1,319,394
Other comprehensive income	-	-	20,076	-	20,076
Total comprehensive income for the year	-	-	20,076	1,319,394	1,339,470
Transfer from retained profits	-	-	478,670	-	478,670
Issuance to new member	16,626	-	-	-	16,626
Share withdrawal	(32,256)	-	-	-	(32,256)
Transfer to share capital	15,630	(15,630)	-	-	-
Dividends (Note 40)	-	-	-	(443,774)	(443,774)
Overprovision in contribution to Bank Rakyat Foundation	-	-	-	153	153
At 31 December 2017	2,986,030	36,440	5,968,092	7,239,389	16,229,951
	Note 29		Note 30	Note 30	

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018 (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					
As previously stated	2,986,030	36,440	5,968,092	7,239,389	16,229,951
Effect of adopting MFRS 9	-	-	68,779	(72,827)	(4,048)
Restated balance as 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 40)	-	-	-	(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 29		Note 30	Note 30	

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash flows from/(used in) operating activities				
Profit for the year	**1,235,343**	1,356,079	**1,257,523**	1,319,394
Adjustment for:				
Transfer to statutory reserve	**451,098**	478,670	**451,098**	478,670
Contribution to the Co-operative Education Trust Fund	**37,500**	39,965	**37,500**	39,965
Contribution to the Co-operative Development Provident Fund	**18,750**	19,983	**18,750**	19,983
Contribution to Bank Rakyat Foundation	**14,930**	14,930	**14,930**	14,930
Taxation	**76,025**	92,545	**70,609**	83,573
Zakat	**25,533**	42,980	**24,592**	41,739
Profit expense on debt securities issued	**156,649**	139,171	**156,649**	139,171
Allowance for impairment on financing and advances	**455,382**	519,948	**455,382**	519,948
Allowance for impairment on financial investments available-for-sale	**-**	3,031	**-**	3,031
Allowance for impairment on financial investment at fair value through other comprehensive income	**475**	-	**475**	-
Allowance for impairment on financial investments at amortised cost	**(733)**	-	**(733)**	-
Depreciation of property and equipment	**63,839**	98,055	**60,308**	95,141
Amortisation of prepaid lease payment	**1,526**	1,526	**1,526**	1,526
Amortisation of intangible assets	**22,929**	-	**22,929**	-
Property and equipment written off	**6**	9,523	**6**	9,523
Gain on disposal of property and equipment	**(244)**	(16,750)	**(1)**	(16,686)
Loss on financing written off	**15,188**	17,196	**15,188**	17,196
Allowance for doubtful debts	**398**	173	**971**	19
Gain on revaluation of investment properties	**(103,259)**	(128,605)	**(104,841)**	(99,784)
Allowance for doubtful debts no longer required	**(224)**	(57)	**-**	-
Allowance for impairment loss on financial investmnets held-to-maturity no longer required	**-**	(649)	**-**	(649)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

	Group		Bank	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Cash flows from/(used in) operating activities (continued)				
Adjustment for: (continued)				
Net gain on disposal of financial investments at fair value through profit or loss	**(9,123)**	-	**(9,123)**	-
Net gain on disposal of financial investments available-for-sale	**-**	(46,483)	**-**	(46,483)
Net gain on disposal of financial investments at fair value through other comprehensive income	**(213)**	-	**(213)**	-
Net gain on disposal of financial investments held-for-trading	**-**	(598)	**-**	(598)
Net loss on revaluation of financial investments at fair value through profit or loss	**167,745**	-	**167,745**	-
Profit expense on financing sold with recourse to Cagamas	**34,313**	42,661	**34,313**	42,661
Dividend from financial investments available-for-sale	**-**	(18,123)	**-**	(18,123)
Dividend from financial investments at fair value through profit or loss	**(12,596)**	-	**(12,596)**	-
Dividend from subsidiary	**-**	-	**(34,768)**	-
Operating profit before working capital changes	**2,651,237**	2,665,171	**2,628,219**	2,644,147
Decrease/(Increase) in assets:				
Deposits and placements with financial institutions	**101,384**	102,766	**100,992**	102,034
Financing and advances	**(297,268)**	(1,919,527)	**(297,268)**	(1,919,527)
Trade receivables	**(470)**	3,752	**-**	-
Other assets	**(114,102)**	(381,028)	**(112,351)**	(389,598)
Inventories	**1,273**	(4,364)	**-**	-
(Decrease)/Increase in liabilities:				
Deposits from customers	**(499,596)**	5,332,174	**(499,596)**	5,332,174
Deposits and placements from banks and financial institutions	**824,000**	(900,000)	**824,000**	(900,000)
Trade payables	**159**	(1,607)	**-**	-
Recourse obligations on financing sold to Cagamas	**(72,312)**	(357,114)	**(72,312)**	(357,114)
Other liabilities	**121,516**	(50,013)	**130,895**	(100,419)
Cash generated from operations	**2,715,821**	4,490,210	**2,702,579**	4,411,697
Income tax paid	**(111,522)**	(12,511)	**(106,148)**	(6,667)
Zakat paid	**(39,464)**	(31,907)	**(38,137)**	(29,621)
Net cash from operating activities	**2,564,835**	4,445,792	**2,558,294**	4,375,409

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

	Group		Bank	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Cash flows from/(used in) investing activities				
Purchases of financial investments held-for-trading	**-**	(780,000)	**-**	(780,000)
Proceeds from disposal of financial investments held-for-trading	**-**	780,598	**-**	780,598
Purchases of financial investments at fair value through profit or loss	**(2,376,463)**	-	**(2,376,463)**	-
Net proceed from disposal of financial investments at fair value through profit or loss	**2,049,873**	-	**2,049,401**	-
Purchases of financial investments available-for-sale	**-**	(9,014,723)	**-**	(9,014,723)
Proceeds from disposal of financial investments available-for-sale	**-**	3,860,749	**-**	3,860,677
Purchases of financial investments at fair value through other comprehensive income	**(4,981,000)**	-	**(4,981,000)**	-
Net proceed from disposal of financial investments at fair value through other comprehensive income	**2,394,659**	-	**2,394,659**	-
Purchases of financial investments held-to-maturity	**-**	(2,736,000)	**-**	(2,736,000)
Proceeds from disposal of financial investments held-to-maturity	**-**	3,655,062	**-**	3,655,062
Purchases of financial investments at amortised cost	**(5,408,260)**	-	**(5,408,260)**	-
Proceeds from disposal of financial investments at amortised cost	**5,690,256**	-	**5,690,256**	-
Purchase of investment properties	**(46,321)**	(156,143)	**(43,722)**	(83,840)
Purchase of property and equipment	**(81,819)**	(90,124)	**(81,416)**	(88,801)
Purchase of intangible assets	**(211,562)**	-	**(211,562)**	-
Proceeds from disposal of property and equipment	**324**	19,744	**1**	19,452
Dividend from financial investments available-for-sale	**-**	18,123	**-**	18,123
Dividend from financial investments at fair value through profit or loss	**12,596**	-	**12,596**	-
Dividend from subsidiary	**-**	-	**34,768**	-
Investment in subsidiaries	**-**	-	**(34,768)**	-
Net cash used in investing activities	**(2,957,717)**	(4,442,714)	**(2,955,510)**	(4,369,452)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash flows from/(used in) financing activities				
Proceeds from issue of shares to members	**14,168**	16,626	**14,168**	16,626
Dividend paid	**(469,774)**	(443,774)	**(469,774)**	(443,774)
Fund received from government	**1,392**	15,800	**1,392**	15,800
Proceeds from debt securities issued	**-**	1,900,000	**-**	1,900,000
Payment of profit expenses on debt securities issued	**(457,053)**	(1,414,013)	**(457,053)**	(1,414,013)
Receipt of financing from other financial institutions	**-**	7,844	**-**	-
Payment of financing from other financial institutions	**(8,844)**	(21)	**-**	-
Net cash (used in)/generated from financing activities	**(920,111)**	82,462	**(911,267)**	74,639
Net (decrease)/increase in cash and cash equivalents	**(1,312,993)**	85,540	**(1,308,483)**	80,596
Cash and cash equivalents at beginning of the year	**2,476,623**	2,391,083	**2,469,937**	2,389,341
Cash and cash equivalents at end of the year	**1,163,630**	2,476,623	**1,161,454**	2,469,937
Cash and cash equivalents comprises:				
Cash and short-term funds (Note 6)	**1,163,630**	2,476,623	**1,161,454**	2,469,937
Deposits and placements with financial institutions (Note 7)	**-**	101,384	**-**	100,992
	1,163,630	2,578,007	**1,161,454**	2,570,929
Less:				
Cash and short-term funds and deposits and placements with original maturity of more than three months	**-**	101,384	**-**	100,992
	1,163,630	2,476,623	**1,161,454**	2,469,937

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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 17.

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 2018 (2017: 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.

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 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
- 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)

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
- The 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

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

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 the Bank except as mentioned below:

MFRS 16, Leases

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 liability, thus increasing the assets and liabilities of the Group and of the Bank.

- **Lessee**
  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 MFRS117. 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.

The financial effects arising from the adoption of this standard are still being assessed by the Group.

IC Interpretation 23, Uncertainty over Income Tax Treatments

The Interpretation provides guidance on how to recognise and measure deferred and current income tax assets and liabilities in situations where there is uncertainty over whether the tax treatment applied by an entity will be accepted by the tax authority. If it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, the accounting for income taxes shall be determined consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made, by applying the most likely amount method or the expected value method.

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. Entities can choose to apply the Interpretation on full retrospective basis if possible without the use of hindsight, or retrospectively with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained profits.

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 117 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 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

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.

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.

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.

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.

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.

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.

Effective profit method

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

3.5.1 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.

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)

From 1 January 2018, 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")

Before 1 January 2018, the Group and the Bank classified its financial assets as financing and advances (amortised cost), FVTPL, held-to-maturity (amortised cost) or available-for-sale.

Included in Financial assets are the following:

(i) Financial assets at amortised cost

From 1 January 2018, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.2 Initial recognition and subsequent measurement (continued)

(i) Financial assets at amortised cost (continued)

The details of these conditions are outlined below:

(a) Business model assessment

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

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

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- 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.

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

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).

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.

From 1 January 2018, the Group and the Bank measure financing and advances at amortised cost.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.2 Initial recognition and subsequent measurement (continued)

(ii) Fair value through other comprehensive income ("FVOCI")

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

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

These instruments largely comprise assets that had previously been classified as financial investments available-for-sale under MFRS 139.

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

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

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")

Financial assets at FVTPL include financial assets held-for-trading ("HFT") 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.

Included in financial assets HFT are derivatives (including separated embedded derivatives), debt securities and equities.

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'.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.2 Initial recognition and subsequent measurement (continued)

(iv) Financial investments available-for-sale *(Policy applicable before 1 January 2018)*

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

Financial investments available-for-sale are initially recognised at fair value at the end of the reporting period. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in other reserves, with the exception of impairment losses and profit calculated using the effective profit method which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other reserves is reclassified to profit or loss.

Available-for-sale equity instruments that do not have a quoted market price in an active market whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of the reporting period.

Dividend from available-for-sale equity investments are recognised in profit or loss when the Group’s and the Bank’s right to receive the dividend is established.

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)

(v) Financial investments held-to-maturity *(Policy applicable before 1 January 2018)*

Financial investments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's and the Bank's management have the positive intent and ability to hold to maturity.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective profit method less any impairment.

Profit on financial investments held-to-maturity is included in profit or loss and reported as 'Income from financial investments'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the financial asset and recognised in profit or loss as 'Allowance for impairment on financial investments'.

(vi) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.3 Impairment of financial assets *(Policy applicable from 1 January 2018)*

The MFRS 9 impairment requirements are based on an Expected Credit Loss ("ECL") model that replaces the Incurred Loss model under MFRS 139. 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 and lease receivables under MFRS 117, Leases.

The measurement of expected credit loss 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 Performing	Stage 2 Under-performing	Stage 3 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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.3 Impairment of financial assets *(Policy applicable from 1 January 2018)* (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").

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 and loss upon derecognition of the assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.3 Impairment of financial assets *(Policy applicable from 1 January 2018)* (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:

- Gross Domestic Product ("GDP")
- House Price Indices ("HPI")
- Consumer Price Indices ("CPI")
- Overnight Pricing Rate ("OPR")

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.3 Impairment of financial assets *(Policy applicable from 1 January 2018)* (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 Impairment of financial assets *(Policy applicable before 1 January 2018)*

(i) Financing and advances

Financing and advances ("financing") of the Group and of the Bank are classified as impaired when they fulfill any of the following criteria:

- Principal or profits or both are past due for three (3) months or more;
- Where a financing is in arrears for less than three (3) months, the financing exhibits indications of credit weaknesses; or
- Where an impaired financing has been rescheduled or restructured, the financing will continue to be classified as impaired until payments based on the revised and/or restructured terms have been observed continuously for certain period of months.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.4 Impairment of financial assets *(Policy applicable before 1 January 2018)* (continued)

(i) Financing and advances (continued)

For determination of impairment on financing, the Group and the Bank assess at the end of each reporting period whether there is objective evidence that a financing or a group of financing is impaired. A financing or a group of financing is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (i.e. an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financing or a group of financing that can be reliably estimated.

The Group and the Bank first assess individually whether objective evidence of impairment exists individually for financing which are individually significant, or collectively for financing which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financing, the financing is then included in a group of financing with similar credit risk characteristics and collectively assessed for impairment. Financing that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financing’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financing’s original effective profit rate. The carrying amount of the financing is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Where appropriate, the calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.4 Impairment of financial assets *(Policy applicable before 1 January 2018)* (continued)

(i) Financing and advances (continued)

For the purposes of a collective evaluation of impairment, financing are grouped on the basis of similar credit risk characteristics. Impairment for this group is assessed based on the historical financing loss experience in terms of default rate and estimated recovery rate.

Future cash flows of the financing are evaluated depending on the availability of security for the financing. For unsecured financing, the fraction of exposure at default that will not be recovered following the default is taken in full.

For financing secured with collateral pledged to the Group and the Bank, the fraction of exposure at default would take into account value of the security discounted based on the expected period of recovery of the security using the effective profit rate.

The likelihood that the financing would fall into default is computed based on average default rates for the latest number of years using historical data of outstanding balance that flow through to the following month. Similar rate of the likelihood of default is applied to the group of financing with similar credit risk characteristics.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.4 Impairment of financial assets *(Policy applicable before 1 January 2018)* (continued)

(i) Financing and advances (continued)

In conjunction with the convergence of the FRSs in Malaysia with the IFRSs, BNM's guideline on Classification and Impairment Provisions for Loans/Financing was revised on 9 November 2011 to align the requirements on the determination of collective assessment allowance with that of the Malaysian Financial Reporting Standard 139: Financial Instruments: Recognition and Measurement ("MFRS 139"). Based on the revised guideline, the transitional arrangement on collective assessment is removed with effect from 1 January 2012. Thereafter, the Bank applies the basis for collective assessment impairment allowance by grouping of these financing with similar credit risk characteristics as explained above. On 4 February 2014, BNM issued letter requiring banking institutions to maintain, in aggregate, collective impairment provisions and regulatory reserves at minimum rate of 1.2% of total outstanding financing, net of individual impairment provisions. This move is to further strengthen buffers against potential credit losses.

When a financing is uncollectible, it is written off against the related allowance for financing impairment. Such financing are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to financing and advances to customers are classified in financing impairment charges.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.4 Impairment of financial assets *(Policy applicable before 1 January 2018)* (continued)

(ii) Financial investments available-for-sale

The Group and the Bank assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for financial investments available-for-sale, cumulative gain or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of other reserves. In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(iii) Financial investments held-to-maturity

The Group and the Bank assess at the end of each reporting period whether objective evidence of impairment of financial investments held-to-maturity exists as a result of one or more loss events and that loss event has an impact on the estimated future cash flows of the financial investment or group of financial investments that can be reliably estimated.

When there is objective evidence of impairment, an impairment loss is recognised as the difference between the acquisition cost and the present value of the estimated future cash flows, less any impairment loss previously recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.4 Impairment of financial assets *(Policy applicable before 1 January 2018)* (continued)

(iii) Financial investments held-to-maturity (continued)

If held-to-maturity investments have a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract. As a practical expedient, the Group and the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.5 Modification of financing (continued)

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 *(Policy applicable from 1 January 2018)*

From 1 January 2018 onwards, 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 2018.

3.5.1.7 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 individual or collective impairment assessment.

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 collaterised 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.

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.

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

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

(a) Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Leases (continued)

(b) Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.8 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 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.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 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 (2017: 8 to 864 years).

3.12 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).

3.13 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 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.

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.

3.15 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.

3.16 Dividend income

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Income tax

3.17.1 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.

3.17.2 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Employee benefits

3.18.1 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.

3.18.2 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.

3.19 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 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.

3.20 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.

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) Individual impairment

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.

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) Collective impairment

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

Under MFRS 139, collective allowance takes into account probability of financing turning into default (or probability of default) and estimated loss on default (or loss given default) of any particular financing.

Probability of default is the resultant of cumulative trend of default for a specified period. It is reflective of business sectors for the financing and is refined to the extent of gravity in terms of defaults shown by the financing. Derivation of the rate for probability of default takes into account risk aspect of the business sector.

Loss given default is measured by considering value of collateral to the financing and estimated recovery period from the collateral.

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.

Under MFRS 139, the Group and the the Bank review their financial investments AFS dan financial investments HTM at each reporting date to assess if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the investment.

(i) Impairment for debt securities

A debt security is impaired if there is an indication that a loss event has occurred since initial recognition. This normally has a negative impact on the estimated future cash flows in relation to the payments of the security.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.2 Impairment of financial assets portfolio (continued)

(ii) Impairment for equity securities

For equity instruments, impairment is not identified based on analysis of projected cash flows similar to debt instruments above. It arises due to establishment of the following events:

(a) significant decline in fair value of the securities below original cost (30%); or

(b) prolonged decline in fair value of the securities below original cost (9 months).

The above are considered objective evidence for provision of impairment on the equity securities.

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.

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.

5. CHANGES IN ACCOUNTING POLICIES

On 1 January 2018, 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 2018

- MFRS 9, Financial Instruments
- MFRS 15, Revenue from Contracts with Customers
- IC Interpretation 22, Foreign Currency Transactions and Advance Consideration
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 2, Share-based Payment - Classification and Measurement of Share-based Payment Transactions
- Amendments to MFRS 4, Insurance Contracts - Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts
- Amendments to MFRS 128, Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 140, Investment Property - Transfers of Investment Property

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 9 Financial Instruments

The Group and the Bank have adopted MFRS 9 to replace MFRS 139 Financial Instruments: Recognition and Measurement as issued by MASB in 2015 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group and the Bank did not early adopt any of MFRS 9 in previous periods.

The Group and the Bank does not expect to restate comparatives on initial application of MFRS 9 on 1 January 2018 but will provide detailed transitional disclosures in accordance with the amended requirements of MFRS 7.

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.1 MFRS 9 New Requirements

Details of these new requirements as well as their impact on the Group’s and the Bank's financial statements are described below.

5.1.1.1 Classification and measurement

There is no significant impact on its balance sheet or equity on applying the classification and measurement requirements of MFRS 9. The Group and the Bank expect to continue measuring at fair value all financial assets currently held at fair value. Quoted shares currently held as available-for-sale ("AFS") with gains and losses recorded in other comprehensive income ("OCI") will, instead, be measured at fair value through profit or loss, which will increase volatility in recorded profit or loss. The AFS reserve of RM52.13 million related to those securities in amount, which is currently presented as accumulated OCI, will be reclassified to retained profits. Debt securities are expected to be measured at fair value through profit or loss and OCI under MFRS 9 as the Group and the Bank expect not only to hold the assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis.

The unquoted shares are intended to be held for the foreseeable future. No impairment losses were recognised in profit or loss during prior periods for these investments. The Group and the Bank will apply the option to present fair value changes in OCI, and, therefore, the application of MFRS 9 will not have a significant impact.

Financing as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and profit. The Group and the Bank analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under MFRS 9. Therefore, reclassification for these instruments is not required.

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.1 MFRS 9 New Requirements (continued)

5.1.1.2 Impairment

The impairment requirements apply to financial assets measured at amortised cost and fair value through other comprehensive income and certain financing commitments as well as financial guarantee contracts. At initial recognition, allowance for impairment is required for expected credit losses (“ECL”). In the event of a significant increase in credit risk, allowance for impairment is required for ECL resulting from all possible default events over the expected life of the financial instrument. The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should also be considered the time value of money.

5.1.2 Classification of MFRS 9 Financial Assets

5.1.2.1 Equity instruments

The adoption of MFRS 9 resulted in the following changes to the Group's and the Bank's accounting policies. From 1 January 2018, the Group and the Bank have applied MFRS 9 and classifies its financial assets in the following measurement categories:

Investments in equity instruments are always measured at fair value. Equity instruments that are held for trading are classified at Fair Value through Profit and Loss ("FVTPL"). For non-trading equities, management has an option to make an irrevocable election to present changes in Fair Value through Other Comprehensive Income ("FVOCI") rather than profit or loss. This option is only applicable upon initial recognition and it is on an instrument-by-instrument basis. Any realised gains or losses on equity instruments that are measured at FVOCI are not recycled through the profit or loss account, i.e. it is merely a transfer from FVOCI reserve to retained profits during the financial period.

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.2 Classification of MFRS 9 Financial Assets (continued)

5.1.2.1 Equity instruments (continued)

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.

5.1.2.2 Debt instruments

Classification for investments in debt instruments is driven by the entity's business model for managing financial assets and the financial assets' contractual cash flow characteristics (i.e. the solely payment of principal and profit ("SPPP") test. MFRS 9 mandates three classification categories for debt instruments, i.e.

(i) Amortised cost

A financial asset is measured at amortised cost if the asset is held to collect its contractual cash flow and the asset's contractual cash flows represent SPPP.

(ii) FVOCI

A financial asset is measured at FVOCI if the business model is both collecting contractual cash flows and selling financial assets, and the asset's contractual cash flows represent SPPP. Fair value movements of FVOCI assets are taken through OCI, except for the recognition of impairment gains or losses, revenue and foreign exchange gains and losses which are recognised in profit or loss. Realised gains or losses on FVOCI debts assets are recycled through profit or loss.

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.2 Classification of MFRS 9 Financial Assets (continued) (continued)

5.1.2.2 Debt instruments (continued)

(iii) FVTPL

FVTPL is the residual category if they do not meet the criteria of amortised cost or FVOCI. Financial assets included within the FVTPL category are subsequently measured at fair value with all changes taken through profit or loss, i.e. transfer from FVOCI reserve to profit or loss during the financial period.

As a result, the financial instruments available-for-sale ("AFS") and held-to-maturity ("HTM") categories were removed.

5.1.3 MFRS 9 New classification requirements

5.1.3.1 Financing and advances but which fail the SPPP test

The Group and the Bank holds a portfolio of musharakah financing that failed to meet the SPPP requirement for amortised cost classification under MFRS 9.

These instruments contain provisions that the cash flow financing payment may be affected based on the customer's performance. This clause breaches the criterion that profit payment should only be consideration for credit risk and time value of money on the principal. As a result, this asset which amounted to RM41.37 million, were classified as FVTPL from the date of initial application.

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.3 MFRS 9 New classification requirements (continued)

5.1.3.2 Financial investments within the liquidity and trading portfolio

After assessing the business model for financial investments within the Group's and the Bank's liquidity portfolio, which are mostly held to collect the contractual cash flow and held to collect the contractual cash flow and sell, the Group and the Bank has identified certain financial investments which are managed separately for trading purposes. Consequently, the Group and the Bank assessed that the appropriate business model for this group of financial investments is hold to sell. These financial investments which amounted to RM573.85 million and which were previously classified as available-for-sale, were reclassified to FVTPL from the date of initial application. The remainder of the Group's and the Bank's liquidity portfolio were classified as fair value through other comprehensive income.

5.1.3.3 Investment in Unit Trust Funds

The Group and the Bank holds an investment in unit trust funds amounting to RM1.71 million which did not meet the SPPP criteria. These were accounted as debt securities where including callable option with the equity conversion feature representing an embedded derivative. Under MFRS 9, these instruments failed the SPPP test. Hence, the instruments now measured at FVTPL in their entirety.

5.1.3.4 Investment in quoted shares

The Group and the Bank holds an investment of RM572.14 million in quoted shares. These were accounted as investment in equity securities and measured at FVTPL.

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.3 MFRS 9 New classification requirements (continued)

5.1.3.5 Designation of equity instuments at FVOCI

The Group and the Bank have elected to irrevocably designate investment in the non-trading equity securities of Payments Network Malaysia Sdn. Bhd. (also known as "PayNet"; formerly known as Malaysian Electronic Payment System or "MEPS") and Raeed Holdings Sdn. Bhd., amounting to RM17.40 million and RM0.75 million respectively as FVOCI; as permitted under MFRS 9.

These securities were previously classified as available-for-sale. The changes in fair value of those securities will no longer be reclassified to profit loss when they are disposed of.

At 1 January 2018, the Group and the Bank designated certain investments shown in the following table as equity securities as at FVOCI. In 2017, these investments were classified as available-for-sale and measured at cost. The FVOCI designation was made because the investments are expected to be held for the long-term for strategic purposes.

	Fair value at 31 December 2018 RM'000	Dividend income recognised 2018 RM'000
Investment in:		
Payments Network Malaysia Sdn. Bhd. (also known as "PayNet")	**37,795**	**-**
Raeed Holdings Sdn. Bhd.	**-**	**-**
	37,795	**-**

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.4 MFRS 9 Impairment

MFRS 9 introduces expected credit losses (“ECL”) model on impairment that replaces the incurred loss model used in MFRS 139. The ECL model requires impairment to be recognised on initial recognition including expected future credit losses whilst the incurred loss impairment model only requires recognition of credit losses incurred as at reporting date. The impairment requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables and certain financing commitments as well as financial guarantee contracts, which includes financing and advances and investment securities.

MFRS 9 does not distinguish between individual assessment and collective assessment for purposes of ECL computation. For financing and advances, the Group and the Bank first assess individually whether objective evidence of impairment exists for financings which are individually significant. If it is determined that objective evidence of impairment exists, i.e.: credit impaired, for an individually assessed financing, a lifetime ECL will be recognised for impairment loss which has been incurred. Collectively, the individual assessment allowance and collective assessment allowance form the total allowance for impairment on financing and advances.

Allowance for impairment will be made based on the following three-stage approach which reflects the change in credit quality of the financial instrument since initial recognition:

(i) Stage 1: 12-month ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the ECL associated with the probability of default events occurring within next 12 months will be recognised.

(ii) Stage 2: Lifetime ECL - non-credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but that are non-credit impaired, a lifetime ECL will be recognised.

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.4 MFRS 9 Impairment (continued)

(iii) Stage 3: Lifetime ECL - credit-impaired

Financial assets are assessed as credit-impaired when one or more events that have detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that are credit-impaired, a lifetime ECL will be recognised.

The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted, and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions, and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should also take into account the time value of money.

Impact as a result of MFRS 9 adoption

The total ECL allowances computed under MFRS 9 is higher than the total allowance for impairment on financing and advances under MFRS 139 as a more forward-looking approach is adopted.

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.5 Financial impact arising from adoption of MFRS 9 Financial Instruments and restatement of comparative information

(i) Reconciliation of statement of financial position

Group	31 December 2017 RM'000	Reclassification / Remeasurement RM'000	Expected Credit Loss RM'000	1 January 2018 RM'000
Assets				
Cash and short-term funds	2,476,623	-	-	2,476,623
Deposits and placements with financial institutions	101,384	-	-	101,384
Financial investments FVTPL	-	574,339	-	574,339
Financial investments available-for-sale	20,252,909	(20,252,909)	-	-
Financial investments FVOCI	-	19,695,224	-	19,695,224
Financial investments held-to-maturity	10,437,053	(10,437,053)	-	-
Financial investments at amortised cost	-	10,437,053	-	10,437,053
Financing and advances	69,189,090	-	(11,933)	69,177,157
Trade receivables	1,795	-	(335)	1,460
Other assets	1,019,205	-	-	1,019,205
Inventories	9,291	-	-	9,291
Property and equipment	708,374	-	-	708,374
Intangible assets	13,185	-	-	13,185
Investment properties	1,116,302	-	-	1,116,302
Prepaid lease payments	62,234	-	-	62,234
Tax recoverable	51,111	12,510	(128,588)	(64,967)
Deferred tax assets	13,446	9,000	100,000	122,446
Total assets	105,452,002	38,164	(40,856)	105,449,310

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.5 Financial impact arising from adoption of MFRS 9 Financial Instruments and restatement of comparative information (continued)

(i) Reconciliation of statement of financial position (continued)

Group	31 December 2017 RM'000	Reclassification / Remeasurement RM'000	Expected Credit Loss RM'000	1 January 2018 RM'000
Liabilities				
Deposits from customers	83,235,496	-	-	83,235,496
Trade payables	2,681	-	-	2,681
Recourse obligations on financing sold to Cagamas	748,334	-	-	748,334
Debt securities issued	3,443,770	-	-	3,443,770
Other liabilities	1,379,579	-	-	1,379,579
Provision for taxation	574	-	-	574
Deferred tax liabilities	4,371	-	-	4,371
Financing from other financial institutions	8,844	-	-	8,844
Total liabilities	88,823,649	-	-	88,823,649
Shareholders' fund				
Share capital	2,986,030	-	-	2,986,030
Share redemption fund	36,440	-	-	36,440
Reserves	13,605,883	38,164	(40,856)	13,603,191
Total shareholders' fund	16,628,353	38,164	(40,856)	16,625,661
Total liabilities and shareholders' fund	105,452,002	38,164	(40,856)	105,449,310

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.5 Financial impact arising from adoption of MFRS 9 Financial Instruments and restatement of comparative information (continued)

(i) Reconciliation of statement of financial position (continued)

Bank	31 December 2017 RM'000	Reclassification / Remeasurement RM'000	Expected Credit Loss RM'000	1 January 2018 RM'000
Assets				
Cash and short-term funds	2,469,937	-	-	2,469,937
Deposits and placements with financial institutions	100,992	-	-	100,992
Financial investments FVTPL	-	573,858	-	573,858
Financial investments available-for-sale	20,252,428	(20,252,428)	-	-
Financial investments FVOCI	-	19,695,224	-	19,695,224
Financial investments held-to-maturity	10,437,053	(10,437,053)	-	-
Financial investments at amortised cost	-	10,437,053	-	10,437,053
Financing and advances	69,189,090	-	(11,933)	69,177,157
Other assets	987,691	-	(1,691)	986,000
Investment in subsidiaries	65,976	-	-	65,976
Property and equipment	649,790	-	-	649,790
Investment properties	871,845	-	-	871,845
Prepaid lease payments	62,234	-	-	62,234
Tax recoverable	47,806	12,510	(128,588)	(68,272)
Deferred tax assets	13,000	9,000	100,000	122,000
Total assets	105,147,842	38,164	(42,212)	105,143,794

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.5 Financial impact arising from adoption of MFRS 9 Financial Instruments and restatement of comparative information (continued)

(i) Reconciliation of statement of financial position (continued)

Bank	31 December 2017 RM'000	Reclassification / Remeasurement RM'000	Expected Credit Loss RM'000	1 January 2018 RM'000
Liabilities				
Deposits from customers	83,235,496	-	-	83,235,496
Recourse obligations on financing sold to Cagamas	748,334	-	-	748,334
Debt securities issued	3,443,770	-	-	3,443,770
Other liabilities	1,490,291	-	-	1,490,291
Total liabilities	88,917,891	-	-	88,917,891
Shareholders' fund				
Share capital	2,986,030	-	-	2,986,030
Share redemption fund	36,440	-	-	36,440
Reserves	13,207,481	38,164	(42,212)	13,203,433
Total shareholders' fund	16,229,951	38,164	(42,212)	16,225,903
Total liabilities and shareholders' fund	105,147,842	38,164	(42,212)	105,143,794

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.5 Financial impact arising from adoption of MFRS 9 Financial Instruments and restatement of comparative information (continued)

(ii) Classification and measurement of financial instruments on the date of initial application of MFRS 9

Group	Measurement category		Carrying amount		
	Under MFRS 139	Under MFRS 9	Under MFRS 139 RM'000	Remeasurement, Reclassification & Expected Credit Loss RM'000	Under MFRS 9 RM'000
Cash and short-term funds	Amortised cost	Amortised cost	2,476,623	-	2,476,623
Deposits and placements with financial institutions	Amortised cost	Amortised cost	101,384	-	101,384
Financial investments available-for-sale	AFS (Equity)	FVTPL	574,339	-	574,339
Financial investments available-for-sale	AFS (Equity)	FVOCI	7,583	16,654	24,237
Financial investments available-for-sale	AFS (Debt)	FVOCI	19,670,987	-	19,670,987
Financial investments held-to-maturity	Amortised cost	Amortised cost	10,437,053	-	10,437,053
Financing and advances	Amortised cost	Amortised cost	69,148,360	(11,933)	69,136,427
Financing and advances (which failed SPPP test)	Amortised cost	FVTPL	40,730	-	40,730

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.5 Financial impact arising from adoption of MFRS 9 Financial Instruments and restatement of comparative information (continued)

(ii) Classification and measurement of financial instruments on the date of initial application of MFRS 9 (continued)

Bank	Measurement category		Carrying amount		
	Under MFRS 139	Under MFRS 9	Under MFRS 139 RM'000	Remeasurement, Reclassification & Expected Credit Loss RM'000	Under MFRS 9 RM'000
Cash and short-term funds	Amortised cost	Amortised cost	2,469,937	-	2,469,937
Deposits and placements with financial institutions	Amortised cost	Amortised cost	100,992	-	100,992
Financial investments available-for-sale	AFS (Equity)	FVTPL	573,858	-	573,858
Financial investments available-for-sale	AFS (Equity)	FVOCI	7,583	16,654	24,237
Financial investments available-for-sale	AFS (Debt)	FVOCI	19,670,987	-	19,670,987
Financial investments held-to-maturity	Amortised cost	Amortised cost	10,437,053	-	10,437,053
Financing and advances	Amortised cost	Amortised cost	69,148,360	(11,933)	69,136,427
Financing and advances (which failed SPPP test)	Amortised cost	FVTPL	40,730	-	40,730

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.5 Financial impact arising from adoption of MFRS 9 Financial Instruments and restatement of comparative information (continued)

(iii) Reconciliation of financial instruments from MFRS 139 to MFRS 9

	Group RM'000	Bank RM'000
Cash and short-term funds		
Closing balance under MFRS 139 as at 31 December 2017/ Opening balance under MFRS 9 as at 1 January 2018	2,476,623	2,469,937
Deposits and placements with financial institutions		
Closing balance under MFRS 139 as at 31 December 2017/ Opening balance under MFRS 9 as at 1 January 2018	101,384	100,992
Financial investments available-for-sale		
Closing balance under MFRS 139 as at 31 December 2017	20,252,909	20,252,428
Reclassification to financial investments at FVOCI (Equity)	(7,583)	(7,583)
Reclassification to financial investments at FVOCI (Debt)	(19,670,987)	(19,670,987)
Reclassification to financial investments at FVTPL	(574,339)	(573,858)
Opening balance under MFRS 9 as at 1 January 2018	-	-
Financial investments held-to-maturity		
Closing balance under MFRS 139 as at 31 December 2017	10,437,053	10,437,053
Reclassification to financial investments at amortised cost	(10,437,053)	(10,437,053)
Opening balance under MFRS 9 as at 1 January 2018	-	-

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.5 Financial impact arising from adoption of MFRS 9 Financial Instruments and restatement of comparative information (continued)

(iii) Reconciliation of financial instruments from MFRS 139 to MFRS 9 (continued)

	Group RM'000	Bank RM'000
Financing and advances (including financing that failed SPPP test)		
Closing balance under MFRS 139 as at 31 December 2017	69,189,090	69,189,090
Recognition of expected credit loss	(11,933)	(11,933)
Opening balance under MFRS 9 as at 1 January 2018	69,177,157	69,177,157
Financial investments at FVTPL		
Closing balance under MFRS 139 as at 31 December 2017	-	-
Reclassification from financial investments available-for-sale	574,339	573,858
Opening balance under MFRS 9 as at 1 January 2018	574,339	573,858
Financial investments at FVOCI (Equity)		
Closing balance under MFRS 139 as at 31 December 2017	-	-
Reclassification from financial investments available-for-sale	7,583	7,583
Unrealised gain on financial investment	16,654	16,654
Opening balance under MFRS 9 as at 1 January 2018	24,237	24,237
Financial investments at FVOCI (Debt)		
Closing balance under MFRS 139 as at 31 December 2017	-	-
Reclassification from financial investments available-for-sale	19,670,987	19,670,987
Opening balance under MFRS 9 as at 1 January 2018	19,670,987	19,670,987
Total financial investments measured at fair value through other comprehensive income	19,695,224	19,695,224

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.5 Financial impact arising from adoption of MFRS 9 Financial Instruments and restatement of comparative information (continued)

(iii) Reconciliation of financial instruments from MFRS 139 to MFRS 9 (continued)

	Group RM'000	Bank RM'000
Financial investments at amortised cost		
Closing balance under MFRS 139 as at 31 December 2017	-	-
Reclassification from financial investments held-to-maturity	10,437,053	10,437,053
Opening balance under MFRS 9 as at 1 January 2018	10,437,053	10,437,053
Deferred tax assets		
Closing balance under MFRS 139 as at 31 December 2017	13,446	13,000
Tax impact on unrealised loss on financial investment at FVOCI	(4,000)	(4,000)
Tax impact on recognition of expected credit loss	100,000	100,000
Tax impact on unrealised loss on financial investment available-for-sale reclassified to financial investments at FVTPL	13,000	13,000
Opening balance under MFRS 9 as at 1 January 2018	122,446	122,000
Trade Receivables		
Closing balance under MFRS 139 as at 31 December 2017/	1,795	-
Recognition of expected credit loss	(335)	-
Opening balance under MFRS 9 as at 1 January 2018	1,460	-

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.5 Financial impact arising from adoption of MFRS 9 Financial Instruments and restatement of comparative information (continued)

(iii) Reconciliation of financial instruments from MFRS 139 to MFRS 9 (continued)

	Group RM'000	Bank RM'000
Other assets		
Closing balance under MFRS 139 as at 31 December 2017	1,019,205	987,691
Recognition of expected credit loss	-	(1,691)
Opening balance under MFRS 9 as at 1 January 2018	1,019,205	986,000
Inventories		
Closing balance under MFRS 139 as at 31 December 2017/ Opening balance under MFRS 9 as at 1 January 2018	9,291	-
Tax recoverable		
Closing balance under MFRS 139 as at 31 December 2017	51,111	47,806
Tax impact on unrealised loss on financial investment at FVOCI	(1)	(1)
Tax impact on recognition of expected credit loss	(128,588)	(128,588)
Tax impact on unrealised loss on financial investment available-for-sale reclassified to financial investments at FVTPL	12,511	12,511
Opening balance under MFRS 9 as at 1 January 2018	(64,967)	(68,272)
Other liabilities		
Closing balance under MFRS 139 as at 31 December 2017/ Opening balance under MFRS 9 as at 1 January 2018	1,379,579	1,490,291

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.5 Financial impact arising from adoption of MFRS 9 Financial Instruments and restatement of comparative information (continued)

(iv) Reconciliation of equity balances from MFRS 139 to MFRS 9

	Group RM'000	Bank RM'000
Retained profits		
Closing balance under MFRS 139 as at 31 December 2017	7,638,532	7,239,389
Unrealised loss on financial investments available-for-sale reclassified to financial investments at FVTPL	(52,130)	(52,130)
Unrealised loss transfer to fair value reserve	5	5
Recognition of additional allowance under ECL	(12,268)	(13,624)
Tax impact on unrealised loss on financial investment at FVOCI	(4,001)	(4,001)
Tax impact on recognition of expected credit loss	(28,588)	(28,588)
Tax impact on unrealised loss on financial investment available-for-sale reclassified to financial investments at FVTPL	25,511	25,511
Opening balance under MFRS 9 as at 1 January 2018	7,567,061	7,166,562
Regulatory reserve		
Closing balance under MFRS 139 as at 31 December 2017/ Opening balance under MFRS 9 as at 1 January 2018	329,672	329,672

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.5 Financial impact arising from adoption of MFRS 9 Financial Instruments and restatement of comparative information (continued)

(iv) Reconciliation of equity balances from MFRS 139 to MFRS 9 (continued)

	Group RM'000	Bank RM'000
Fair value reserves		
Closing balance under MFRS 139 as at 31 December 2017	(8,420)	(8,420)
Unrealised loss on financial investments available-for-sale reclassified to financial investments at FVTPL	52,130	52,130
Unrealised loss transfer from retained profits	(5)	(5)
Unrealised gain on financial investments at FVOCI	16,654	16,654
Opening balance under MFRS 9 as at 1 January 2018	60,359	60,359

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.5 Financial impact arising from adoption of MFRS 9 Financial Instruments and restatement of comparative information (continued)

(v) Reconciliation of impairment allowances balance

	Loss allowance under MFRS 139 RM'000	Remeasurement RM'000	Loss allowance under MFRS 9 RM'000
Group			
Financing and advances	1,439,768	11,933	1,451,701
Trade receivables	1,916	335	2,251
	1,441,684	12,268	1,453,952
Bank			
Financing and advances	1,439,768	11,933	1,451,701
Other assets - Amount due from subsidiaries	1,510	1,691	3,201
	1,441,278	13,624	1,454,902

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

5.1 MFRS 9 Financial Instruments (continued)

5.1.5 Financial impact arising from adoption of MFRS 9 Financial Instruments and restatement of comparative information (continued)

(vi) Impact of capital adequacy ratio

	31 December 2017 RM'000	Impact of adopting MFRS 9 RM'000	1 January 2018 RM'000
Tier I capital	15,872,259	(72,827)	15,799,432
Tier II capital	1,201,672	2,905	1,204,577
Total capital	17,007,955	(69,922)	16,938,033
Risk-weighted assets	76,382,645	(113,048)	76,269,597
Before proposed dividend			
Core capital ratio	20.78%	(0.06%)	20.72%
Risk-weighted capital adequacy ratio	22.27%	(0.06%)	22.21%
After proposed dividend			
Core capital ratio	20.11%	(0.06%)	20.05%
Risk-weighted capital adequacy ratio	21.60%	(0.06%)	21.54%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

6. CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash and balances with banks and other financial institutions	**833,602**	1,056,304	**831,426**	1,049,618
Money at call and deposit placements maturing within one month	**330,028**	1,420,319	**330,028**	1,420,319
	1,163,630	2,476,623	**1,161,454**	2,469,937

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

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash and short-term funds	**1,163,630**	2,476,623	**1,161,454**	2,469,937

7. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Licensed banks	**-**	101,384	**-**	100,992

8. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Financial investments at fair value through profit or loss		
Debt instruments at fair value through profit or loss:		
Government investment issues	**203,600**	-
Islamic redeemable convertible preference shares	**202,096**	-
	405,696	-
Equity securities at fair value through profit or loss:		
Quoted shares	**335,182**	-
Unit trust shares	**1,419**	-
	336,601	-
Total financial investments at fair value through profit or loss	**742,297**	-

9. FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
At fair value				
Islamic debt securities	**-**	3,798,824	**-**	3,798,824
Government investment issues	**-**	9,178,953	**-**	9,178,953
Government sukuk	**-**	4,922,276	**-**	4,922,276
Khazanah sukuk	**-**	208,347	**-**	208,347
Cagamas sukuk	**-**	1,562,587	**-**	1,562,587
Quoted shares		572,144	**-**	572,144
Unit trust shares	**-**	1,714	**-**	1,714
At cost, net of impairment loss				
Unquoted shares	**-**	8,064	**-**	7,583
Net carrying amount	**-**	20,252,909	**-**	20,252,428

10. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Bank	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Debt instruments at fair value through other comprehensive income:				
Islamic debt securities	**4,766,558**	-	**4,766,558**	-
Government investment issues	**9,218,783**	-	**9,218,783**	-
Government sukuk	**5,637,781**	-	**5,637,781**	-
Khazanah sukuk	**217,208**	-	**217,208**	-
Cagamas sukuk	**2,451,645**	-	**2,451,645**	-
	22,291,975	-	**22,291,975**	-
Equity securities at fair value through other comprehensive income:				
Unquoted shares	**37,807**	-	**37,798**	-
	37,807	-	**37,798**	-
Total financial investments at fair value through other comprehensive income	**22,329,782**	-	**22,329,773**	-

Movement of accumulated impairment losses for debt instruments at fair value through other comprehensive income is as follows:

	12-month ECL Stage 1 RM'000
At 1 January 2018	**-**
Changes in credit risk (Note 33(ii))	**475**
At 31 December 2018	**475**

11. FINANCIAL INVESTMENTS HELD-TO-MATURITY

	Group and Bank	
	2018	2017
	RM'000	RM'000
At amortised cost		
Islamic debt securities	-	642,412
Government investment issues	-	6,352,971
Government sukuk	-	2,248,815
Khazanah sukuk	-	341,911
Cagamas sukuk	-	475,271
Negotiable Islamic debt certificates	-	398,630
	-	10,460,010
Less: Accumulated impairment losses		
Islamic debt securities	-	(22,957)
Net carrying amount	-	10,437,053

Movement of accumulated impairment losses is as follows:

	Group and Bank	
	2018	2017
	RM'000	RM'000
As of 1 January	-	23,606
Charge to profit or loss, net (Note 34(ii))	-	(649)
As of 31 December	-	22,957

The maturity structure of the instruments is as follows:

	Group and Bank	
	2018	2017
	RM'000	RM'000
Maturity within one year	-	2,464,394
More than one year to five years	-	6,514,401
More than five years	-	1,481,215
	-	10,460,010

12. FINANCIAL INVESTMENTS AT AMORTISED COST

	Group and Bank 2018 RM'000	2017 RM'000
At amortised cost		
Islamic debt securities	**701,498**	-
Government investment issues	**5,912,370**	-
Government sukuk	**2,312,408**	-
Khazanah sukuk	**340,579**	-
Cagamas sukuk	**698,173**	-
Negotiable Islamic debt certificates	**148,698**	
Islamic commercial papers	**64,287**	-
	10,178,013	-
Less: Accumulated impairment losses		
Islamic debt securities	**(22,224)**	-
	10,155,789	-

Movement of accumulated impairment losses is as follows:

	12-month ECL Stage 1 RM'000	Lifetime ECL Credit Impaired Stage 3 RM'000	Total RM'000
At 1 January 2018	**-**	**22,957**	**22,957**
Changes in credit risk (Note 33(ii))	**55**	**(788)**	**(733)**
At 31 December 2018	**55**	**22,169**	**22,224**

The maturity structure of the instruments is as follows:

	Group and Bank 2018 RM'000	2017 RM'000
Maturity within one year	**2,658,104**	-
More than one year to five years	**5,527,070**	-
More than five years	**1,992,839**	-
	10,178,013	-

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

13. FINANCING AND ADVANCES

(i) Financing and advances analysed by type and concept

Group and 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	Musharakah 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**
	23,952,270	**1,623,497**	**1,728,090**	**24**	**4,485,062**	**1,573,671**	**-**	**37,038,250**	**70,400,864**
Allowance for impairment on financing and advances:									
Collective assessment allowance - 12 months expected credit loss (ECL)									**(428,090)**
Collective assessment allowance - lifetime ECL									**(591,287)**
Individual assessment allowance - lifetime ECL									**(377,632)**
Net financing and advances									**69,003,855**

13. FINANCING AND ADVANCES (CONTINUED)

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

Group and Bank 2017	**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**	**Musharakah RM'000**	**Tawarruq RM'000**	**Total RM'000**
At amortised cost									
Term financing									
- Personal financing	26,929,050	-	-	-	-	-	-	29,063,183	55,992,233
- House financing	-	1,362,782	-	-	347,463	-	-	3,539,510	5,249,755
- Hire-purchase receivables	-	-	-	-	-	1,470,205	-	1,072	1,471,277
- Syndicated financing	-	-	-	-	243,420	-	41,369	-	284,789
- Bridging financing	-	-	-	-	223,957	-	-	-	223,957
- Other term financing	96,812	11,846	-	27	3,152,988	-	-	1,278,541	4,540,214
Pawn broking	-	-	1,665,450	-	-	-	-	-	1,665,450
Revolving credit	14	-	-	-	357,020	-	-	-	357,034
Credit card	-	-	-	-	-	-	-	456,451	456,451
Staff financing	-	116,461	-	-	-	-	-	271,237	387,698
	27,025,876	1,491,089	1,665,450	27	4,324,848	1,470,205	41,369	34,609,994	70,628,858
Allowance for impairment on financing and advances:									
Individual assessment impairment									(448,749)
Collective assessment impairment									(991,019)
Net financing and advances									69,189,090

13. FINANCING AND ADVANCES (CONTINUED)

(ii) Financing and advances analysed by geographical distribution

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Central Region	**28,249,446**	28,590,050
Southern Region	**10,264,927**	10,238,346
Eastern Region	**10,838,776**	10,889,266
Northern Region	**8,170,372**	8,223,197
East Malaysia Region	**12,877,343**	12,687,999
	70,400,864	70,628,858

(iii) Financing and advances analysed by economic sector

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Purchase of securities	**186,904**	48,491
Purchase of non-residential property	**45,169**	152,817
Consumption credit	**65,951,587**	66,246,482
Agriculture	**100,667**	231,671
Manufacturing	**120,681**	173,473
Electricity, gas and water	**182**	100,549
Construction	**906,823**	853,112
Wholesale and retail trade	**167,938**	149,243
Transportation and communication	**80,817**	168,367
Financial, takaful and business services	**2,560,520**	2,400,420
Community, social and personal services	**279,576**	104,233
	70,400,864	70,628,858

(iv) Financing and advances analysed by remaining contractual maturity

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Maturity within one year	**2,893,708**	3,029,477
More than one year to three years	**1,595,693**	1,562,900
More than three years to five years	**3,564,192**	3,057,046
More than five years	**62,347,271**	62,979,435
	70,400,864	70,628,858

13. FINANCING AND ADVANCES (CONTINUED)

(v) Financing and advances analysed by customer type

	Group and Bank	
	2018	2017
	RM'000	RM'000
Individuals	**66,148,042**	66,342,851
Business enterprises	**1,928,258**	2,252,027
Non-bank financial institutions - Co-operatives	**2,224,996**	1,963,303
Foreign entities	**1,489**	1,254
Other entities	**98,079**	69,423
	70,400,864	70,628,858

(vi) Financing and advances analysed by profit rate sensitivity

	Group and Bank	
	2018	2017
	RM'000	RM'000
Fixed rate		
Personal financing	**26,808,792**	30,669,840
House financing	**969,214**	1,099,440
Others	**5,689,323**	5,568,230
Floating rate		
Personal financing	**28,068,321**	25,322,392
House financing	**4,953,109**	3,802,852
Others	**3,912,105**	4,166,104
	70,400,864	70,628,858

13. FINANCING AND ADVANCES (CONTINUED)

(vii) Impaired financing and advances analysed by geographical distribution

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Central Region	**1,216,919**	1,361,350
Southern Region	**67,541**	58,812
Eastern Region	**68,085**	57,338
Northern Region	**51,818**	44,182
East Malaysia Region	**86,387**	53,343
	1,490,750	1,575,025

(viii) Impaired financing and advances analysed by economic sector

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Purchase of securities	**65**	87
Purchase of non-residential property	**111,397**	104,485
Consumption credit	**568,030**	488,318
Agriculture	**-**	99,549
Manufacturing	**83,723**	79,670
Construction	**361,126**	429,631
Wholesale and retail trade	**-**	15
Transportation and communication	**11,149**	-
Financial, takaful and business services	**354,982**	372,846
Community, social and personal services	**278**	424
	1,490,750	1,575,025

13. FINANCING AND ADVANCES (CONTINUED)

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

	Group and Bank 2018 RM'000	Group and Bank 2017 RM'000
As of 1 January	**1,575,025**	1,378,626
Classified as impaired during the year	**1,360,789**	1,394,525
Amount written back in respect of recoveries	**(972,603)**	(763,569)
Amount written off during the year	**(472,461)**	(434,557)
	(84,275)	196,399
As of 31 December	**1,490,750**	1,575,025
Gross impaired financing and advances as a percentage of gross financing and advances	**2.12%**	2.23%

(x) Movements in allowance for individual assessment impairment losses on financing and advances are as follows:

	Group and Bank 2018 RM'000	Group and Bank 2017 RM'000
Individual assessment impairment		
As of 1 January		
as previously stated	**448,749**	455,390
effect of adopting MFRS 9	**12,238**	-
Restated balance as of 1 January	**460,987**	455,390
(Write back)/charge to profit or loss, net (Note 33(i))	**(71,668)**	10,330
Amount written off during the year	**(11,687)**	(16,971)
As of 31 December	**377,632**	448,749

13. FINANCING AND ADVANCES (CONTINUED)

(xi) Movements in allowance for collective assessment impairment on financing and advances are as follows:

	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
Collective assessment impairment				
As of 1 January 2018 as previously stated				**991,019**
effect of adopting MFRS 9				**(305)**
Restated balance as of 1 January 2018	**398,815**	**176,090**	**415,809**	**990,714**
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**	**8,651**	**144,775**
Changes in credit risk	**(51,150)**	**(86,619)**	**30,910**	**(106,859)**
Financial assets derecognised	**(40,645)**	**(12,201)**	**(85,298)**	**(138,144)**
Amount written off	**-**	**-**	**(460,774)**	**(460,774)**
At 31 December 2018	**428,090**	**118,761**	**472,526**	**1,019,377**

13. FINANCING AND ADVANCES (CONTINUED)

(xi) Movements in allowance for collective assessment impairment on financing and advances are as follows: (continued)

Overall, the total allowance for impairment in financing and advances increased by RM28.7 million due to the followings:

a) 12 month ECL (Stage 1) - increase by RM29.3 million mainly due to:
- financing and advances that were newly originated;
- partially offset by improvement in credit quality.

b) Lifetime ECL (Stage 2) - decrease by RM57.3 million mainly due to:
- financing and advances that improved in credit quality.

c) Lifetime ECL (Stage 3) - increase by RM56.7 million mainly due to:
- financing and advances that migrated into stage 3 due to deterioration in credit quality;
- partially offset by amount written off.

	Group and Bank RM'000
Collective assessment impairment	
As of 1 January 2017	917,676
Allowance made during the year (Note 33(i))	1,800,444
Amount written back in respect of recoveries (Note 33(i))	(1,313,068)
	487,376
Amount written off during the year	(414,033)
	73,343
As of 31 December 2017	991,019

	Group and Bank	
	2018	**2017**
Collective impairment (inclusive of regulatory reserve) as a percentage of gross financing and advances after deduction of individual assessment impairment	**1.93%**	1.88%

14. TRADE RECEIVABLES

	Group 2018 RM'000	Group 2017 RM'000
At amortised cost		
Trade receivables	**4,134**	3,711
Less: Allowance for expected credit loss	**(1,675)**	(1,916)
	2,459	1,795

Trade receivables are classified as amortised cost and are therefore measured at amortised cost. The credit period granted for sale of goods is 30 days (2017: 30 days). No profit is charged on trade receivables. In 2018, RM1,675,000 was recognised as provision for expected credit loss on trade receivables.

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

	Group 2018 RM'000	Group 2017 RM'000
Neither past due nor impaired		
1 day to less than 1 month	**982**	93
Past due but not impaired		
1 month to less than 2 months	**832**	-
2 months to less than 3 months	**83**	1,240
3 months to less than 4 months	**253**	168
4 months and above	**759**	294
	1,927	1,702
Past due and impaired	**1,225**	1,916
	4,134	3,711

14. TRADE RECEIVABLES (CONTINUED)

Movements in the allowance for expected credit loss are as follows

	Group	
	2018	**2017**
	RM'000	**RM'000**
As of 1 January		
as previously stated	**1,916**	1,819
effect of adopting MFRS 9	**335**	-
Restated balance as of 1 January	**2,251**	1,819
Impairment losses recognised during the year (Note 35(ii))	**30**	154
Amount recovered during the year (Note 34(ii))	**(224)**	(57)
Amount written off during the year	**(382)**	-
As of 31 December	**1,675**	1,916

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.

15. OTHER ASSETS

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Amount due from subsidiaries (i)	**-**	-	**18,492**	19,668
Other receivables, deposits and prepayments (ii)	**1,132,604**	1,019,205	**1,078,888**	968,023
	1,132,604	1,019,205	**1,097,380**	987,691

15. OTHER ASSETS (CONTINUED)

(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	
	2018	**2017**
	RM'000	**RM'000**
Outstanding balances	**22,657**	21,178
Less: Allowance for doubtful debts	**(4,165)**	(1,510)
	18,492	19,668

Movements in the allowance for doubtful debts are as follows:

	Bank	
	2018	**2017**
	RM'000	**RM'000**
As of 1 January		
as previously stated	**1,510**	1,510
effect of adopting MFRS 9	**1,691**	-
Restated balance as of 1 January 2018	**3,201**	1,510
Impairment losses recognised during the year (Note 35(ii))	**964**	-
As of 31 December	**4,165**	1,510

(ii) Other receivables, deposits and prepayments

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Other receivables	**725,311**	734,974	**721,511**	737,689
Allowance for doubtful debts *	**(15,730)**	(15,369)	**(15,258)**	(15,258)
	709,581	719,605	**706,253**	722,431
Refundable deposits	**54,991**	53,908	**10,004**	10,134
Prepayments	**168,032**	45,692	**162,631**	35,458
Contribution to Central Liquidity Monetary Fund **	**200,000**	200,000	**200,000**	200,000
	1,132,604	1,019,205	**1,078,888**	968,023

15. OTHER ASSETS (CONTINUED)

(ii) Other receivables, deposits and prepayments (continued)

* Movements in the allowance for doubtful debts are as follows:

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
As of 1 January	**15,369**	16,109	**15,258**	15,998
Impairment losses recognised during the year (Note 35(ii))	**368**	19	**7**	19
Amount written off during the year	**(7)**	(759)	**(7)**	(759)
As of 31 December	**15,730**	15,369	**15,258**	15,258

** 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.

16. INVENTORIES

Inventories consist of the following:

	Group	
	2018 RM'000	2017 RM'000
Trading inventories, at cost	**8,018**	9,291

17. INVESTMENT IN SUBSIDIARIES

	Bank	
	2018 RM'000	2017 RM'000
Unquoted shares, at cost	**100,744**	65,976

During the year, Rakyat Asset Management Sdn Bhd, Rakyat Niaga Sdn Bhd, Rakyat Facility Sdn Bhd and Rakyat Hartanah Sdn Bhd ordinary shares were transferred from Rakyat Holdings Sdn Bhd to the Bank by dividend-in-specie amounting to RM34,769,000. Subsequent to that, the investment in subsidiaries recorded at cost amounting to RM100,744,000.

17. INVESTMENT IN SUBSIDIARIES (CONTINUED)

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

Name	Proportion of ownership interest and voting power held by the Group 2018 %	2017 %	Principal activities
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	-	Property development and project management
Rakyat Asset Management Sdn Bhd *	100	-	Management services and co-operative administrator
Rakyat Facility Management Sdn Bhd *	100	-	Building management and maintenance
Rakyat Niaga Sdn Bhd *	100	-	Trading and supply of goods
Indirectly owned through Rakyat Holdings Sdn Bhd			
Rakyat Hartanah Sdn Bhd *	-	100	Property development and project management
Rakyat Asset Management Sdn Bhd *	-	100	Management services and co-operative administrator
Rakyat Facility Management Sdn Bhd *	-	100	Building management and maintenance
Rakyat Niaga Sdn Bhd *	-	100	Trading and supply of goods
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.

17. 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	
		2018	2017	2018	2017
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	-	-
		7	3	1	5

18. 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									
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 20)	-	(15,085)	-	-	-	-	-	-	(15,085)
Transfer from investment properties (Note 20)	-	64,797	-	-	-	-	-	-	64,797
Transfer to intangible assets (Note 19)	-	-	-	-	-	-	(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

18. 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 20)	-	(1,358)	-	-	-	-	-	-	(1,358)
Transfer to intangible assets (Note 19)	-	-	-	-	-	-	(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

18. 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)									
2017									
At cost									
At 1 January	40,661	370,796	107,539	928	116	280,683	620,040	9,885	1,430,648
Additions	-	-	-	-	36,515	4,353	48,667	589	90,124
Disposals	-	(3,648)	-	-	-	-	(227)	(925)	(4,800)
Write-offs	-	-	-	-	-	(9,657)	(1,583)	-	(11,240)
Reclassifications	-	-	-	-	(127)	52	-	75	-
Transfer to investment properties (Note 20)	(132)	(822)	-	-	-	-	-	-	(954)
Transfer from investment properties (Note 20)	-	14,500	5,700	-	-	-	-	-	20,200
At 31 December	40,529	380,826	113,239	928	36,504	275,431	666,897	9,624	1,523,978

18. 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)									
2017									
Accumulated depreciation									
At 1 January	-	27,847	18,901	353	-	205,827	462,054	6,273	721,255
Charge for the year	-	7,714	2,116	185	-	24,730	62,195	1,115	98,055
Disposals	-	(882)	-	-	-	-	(227)	(697)	(1,806)
Write-offs	-	-	-	-	-	(141)	(1,576)	-	(1,717)
Transfer to investment properties (Note 20)	-	(183)	-	-	-	-	-	-	(183)
At 31 December	-	34,496	21,017	538	-	230,416	522,446	6,691	815,604
Net book value									
At 31 December	40,529	346,330	92,222	390	36,504	45,015	144,451	2,933	708,374

18. 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									
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 20)	**-**	**(15,085)**	**-**	**-**	**-**	**-**	**-**	**-**	**(15,085)**
Transfer from investment properties (Note 20)	**-**	**28,187**	**-**	**-**	**-**	**-**	**-**	**-**	**28,187**
Transfer to intangible assets (Note 19)	**-**	**-**	**-**	**-**	**-**	**-**	**(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 2018

18. 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 20)	-	(1,358)	-	-	-	-	-	-	(1,358)
Transfer to intangible assets (Note 19)	-	-	-	-	-	-	(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

18. 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)									
2017									
At cost									
At 1 January	39,141	364,369	78,863	928	116	278,096	615,857	2,790	1,380,160
Additions	-	-	-	-	36,515	3,989	48,297	-	88,801
Disposals	-	(3,648)	-	-	-	-	(195)	-	(3,843)
Write-offs	-	-	-	-	-	(9,657)	(1,583)	-	(11,240)
Reclassifications	-	-	-	-	(127)	52	-	75	-
At 31 December	39,141	360,721	78,863	928	36,504	272,480	662,376	2,865	1,453,878

18. 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)									
2017									
Accumulated depreciation									
At 1 January	-	27,285	17,583	353	-	204,897	460,020	1,603	711,741
Charge for the year	-	7,159	1,341	185	-	24,442	61,617	397	95,141
Disposals	-	(882)	-	-	-	-	(195)	-	(1,077)
Write-offs	-	-	-	-	-	(141)	(1,576)	-	(1,717)
At 31 December	-	33,562	18,924	538	-	229,198	519,866	2,000	804,088
Net book value									
At 31 December	39,141	327,159	59,939	390	36,504	43,282	142,510	865	649,790

18. PROPERTY AND EQUIPMENT (CONTINUED)

Land titles of certain freehold land of the Bank with carrying amount of RM3,164,088 (2017: RM3,244,502) have not yet been issued by the relevant authorities.

19. INTANGIBLE ASSETS

	Goodwill RM'000	Computer software RM'000	Software in deve-lopment RM'000	Total RM'000
Group				
2018				
At cost				
At 1 January	**13,185**	**-**	**-**	**13,185**
Transfer from property and equipment (Note 18)	**-**	**260,714**	**-**	**260,714**
Additions	**-**	**21,706**	**189,856**	**211,562**
Write-offs	**-**	**(10)**	**-**	**(10)**
At 31 December	**13,185**	**282,410**	**189,856**	**485,451**
Accumulated amortisation				
At 1 January	**-**	**-**	**-**	**-**
Transfer from property and equipment (Note 18)	**-**	**197,238**	**-**	**197,238**
Charge for the year	**-**	**22,929**	**-**	**22,929**
Write-offs	**-**	**(10)**	**-**	**(10)**
At 31 December	-	**220,157**	**-**	**220,157**
Net book value				
At 31 December	**13,185**	**62,253**	**189,856**	**265,294**
2017				
At cost / Net book value				
At 1 January / 31 December	13,185	-	-	13,185

19. INTANGIBLE ASSETS (CONTINUED)

	Computer software RM'000	Software in deve-lopment RM'000	Total RM'000
Bank			
2018			
At cost			
At 1 January	-	-	-
Transfer from property and equipment (Note 18)	260,714	-	260,714
Additions	21,706	189,856	211,562
Write-offs	(10)	-	(10)
At 31 December	282,410	189,856	472,266
Accumulated amortisation			
At 1 January	-	-	-
Transfer from property and equipment (Note 18)	197,238	-	197,238
Charge for the year	22,929	-	22,929
Write-offs	(10)	-	(10)
At 31 December	220,157	-	220,157
Net book value			
At 31 December	62,253	189,856	252,109

20. INVESTMENT PROPERTIES

	Group		Bank	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
At fair value				
As of 1 January	**1,116,302**	850,983	**871,845**	688,221
Additions	**46,321**	156,143	**43,722**	83,840
Gain on revaluation (Note 34(ii))	**103,259**	128,605	**104,841**	99,784
Transfer from property and equipment (Note 18)	**13,727**	771	**13,727**	-
Transfer to property and equipment (Note 18)	**(64,797)**	(20,200)	**(28,187)**	-
As of 31 December	**1,214,812**	1,116,302	**1,005,948**	871,845

Investment properties include the following:

	Group		Bank	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Freehold land	**145,132**	144,072	**145,100**	144,050
Buildings	**752,816**	689,703	**558,308**	459,075
Long-term leasehold land	**316,864**	282,527	**302,540**	268,720
	1,214,812	1,116,302	**1,005,948**	871,845

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 2018 and 31 December 2017 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 by using a variety of approaches such as comparison and investment method.

20. 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 2018	**1,214,812**	**1,214,812**	**-**	**-**	**1,214,812**
As at 31 December 2017	1,116,302	1,116,302	-	-	1,116,302
Bank					
As at 31 December 2018	**1,005,948**	**1,005,948**	**-**	**-**	**1,005,948**
As at 31 December 2017	871,845	871,845	-	-	871,845

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 2017	3,460	605,528	241,995	850,983
Additions	79,826	71,972	4,345	156,143
Remeasurement recognised in profit or loss	60,654	26,064	41,887	128,605
Transfer from property and equipment	132	639	-	771
Transfer to property and equipment	-	(14,500)	(5,700)	(20,200)
As at 31 December 2017 / 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	**145,132**	**752,816**	**316,864**	**1,214,812**

20. INVESTMENT PROPERTIES (CONTINUED)

Bank	Freehold land RM'000	Buildings RM'000	Long-term leasehold land RM'000	Total RM'000
As at 1 January 2017	3,570	459,841	224,810	688,221
Additions	79,826	-	4,014	83,840
Remeasurement recognised in profit or loss	60,654	(766)	39,896	99,784
As at 31 December 2017 / 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	**145,100**	**558,308**	**302,540**	**1,005,948**

Land titles for certain freehold land and leasehold land of the Group and the Bank with fair value amounting to RM41,150,000 (2017: RM950,000) and RM41,150,000 (2017: RM950,000) 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 RM28,252,000 (2017: RM26,405,000) and RM26,447,000 (2017: RM25,360,000) has been earned during the year.

21. PREPAID LEASE PAYMENTS

	Group and Bank 2018 RM'000	2017 RM'000
Cost		
As of 1 January / 31 December	**76,680**	76,680
Accumulated amortisation		
As of 1 January	**14,446**	12,920
Charge for the year (Note 35(ii))	**1,526**	1,526
As of 31 December	**15,972**	14,446
	60,708	62,234

21. PREPAID LEASE PAYMENTS (CONTINUED)

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Prepaid lease payments include:		
Long-term leasehold land	**53,158**	54,499
Short-term leasehold land	**7,550**	7,735
	60,708	62,234

The remaining period of the leasehold land of the Group and of the Bank ranges from 7 to 863 years (2017: 8 to 864 years).

The land titles of certain leasehold land of the Group and of the Bank amounting to RM8,005,970 (2017: RM10,115,423) have not yet been issued to the Bank by the relevant authorities.

22. DEFERRED TAX ASSETS/(LIABILITIES)

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
As of 1 January				
as previously stated	**9,075**	9,622	**13,000**	10,000
effect of adopting MFRS 9	**109,000**	-	**109,000**	-
Restated balance as of 1 January	**118,075**	9,622	**122,000**	10,000
Recognised in profit or loss (net) (Note 36)				
- relating to origination and reversal of temporary differences	**(36,046)**	1,698	**(36,000)**	3,000
- over/(under) provision of net deferred tax liabilities	**240**	(2,245)	**-**	-
As of 31 December	**82,269**	9,075	**86,000**	13,000

Defered tax assets and liabiities 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	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Deferred tax assets, net	**86,333**	13,446	**86,000**	13,000
Deferred tax liabilities, net	**(4,064)**	(4,371)	**-**	-
	82,269	9,075	**86,000**	13,000

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

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

	Group		Bank	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets	**191,910**	81,076	**191,000**	80,000
Deferred tax liabilities	**(109,641)**	(72,001)	**(105,000)**	(67,000)
	82,269	9,075	**86,000**	13,000

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

Group	Financing loss and allowances RM'000	Provision of liabilities RM'000	Other temporary differences * RM'000	Total RM'000
Deferred tax assets				
As of 1 January 2017	36,000	41,014	4,302	81,316
Recognised in profit or loss (Note 36)				
- relating to origination and reversal of temporary differences	(4,000)	3,860	(100)	(240)
As of 31 December 2017, as previously stated	**32,000**	**44,874**	**4,202**	**81,076**
effect of adopting MFRS 9	**100,000**	**-**	**-**	**100,000**
Restated balance as of 1 January 2018	**132,000**	**44,874**	**4,202**	**181,076**
Recognised in profit or loss (Note 36)				
- relating to origination and reversal of temporary differences	**(11,000)**	**21,877**	**(43)**	**10,834**
As of 31 December 2018	**121,000**	**66,751**	**4,159**	**191,910**

* Mainly consist of temporary differences in respect of allowance for doubtful debt

22. 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 2017	-	71,694	71,694
Recognised in profit or loss (Note 36)			
- relating to origination and reversal of temporary differences	-	2,552	2,552
- underprovision	-	(2,245)	(2,245)
As of 31 December 2017, as previously stated	**-**	**72,001**	**72,001**
effect of adopting MFRS 9	**(9,000)**	**-**	**(9,000)**
Restated balance as of 1 January 2018	**(9,000)**	**72,001**	**63,001**
Recognised in profit or loss (Note 36)			
- relating to origination and reversal of temporary differences	**35,000**	**11,400**	**46,400**
- overprovision	**-**	**240**	**240**
As of 31 December 2018	**26,000**	**83,641**	**109,641**

^ Mainly consist of temporary differences in respect of property and equipment and investment in properties

22. 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 loss and allowances RM'000	Provision of liabilities RM'000	Other temporary differences * RM'000	Total RM'000
Deferred tax assets				
As of 1 January 2017	36,000	41,000	4,000	81,000
Recognised in profit or loss (Note 36)				
- relating to origination and reversal of temporary differences	(4,000)	3,000	-	(1,000)
As of 31 December 2017, as previously stated	**32,000**	**44,000**	**4,000**	**80,000**
effect of adopting MFRS 9	**100,000**	**-**	**-**	**100,000**
Restated balance as of 1 January 2018	**132,000**	**44,000**	**4,000**	**180,000**
Recognised in profit or loss (Note 36)				
- relating to origination and reversal of temporary differences	**(11,000)**	**22,000**	-	**11,000**
As of 31 December 2018	**121,000**	**66,000**	**4,000**	**191,000**

* Mainly consist of temporary differences in respect of allowance for doubtful debt

22. 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 2017	-	71,000	71,000
Recognised in profit or loss (Note 36)			
- relating to origination and reversal of temporary differences	-	(4,000)	(4,000)
As of 31 December 2017, as previously stated	**-**	**67,000**	**67,000**
effect of adopting MFRS 9	**(9,000)**	**-**	**(9,000)**
Restated balance as of 1 January 2018	**(9,000)**	**67,000**	**58,000**
Recognised in profit or loss (Note 36)			
- relating to origination and reversal of temporary differences	**35,000**	**12,000**	**47,000**
As of 31 December 2018	**26,000**	**79,000**	**105,000**

^ Mainly consist of temporary differences in respect of property and equipment and investment in properties

23. DEPOSITS FROM CUSTOMERS

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Savings deposits		
Qard	**5,733,537**	5,006,012
Term deposits		
Tawarruq	**68,929,351**	69,749,467
General investment deposits		
Mudarabah	**12**	17
Negotiable Islamic debt certificates	**8,073,000**	8,480,000
	82,735,900	83,235,496

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

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Government	**35,013,502**	34,471,917
Business enterprises	**31,067,164**	33,453,286
Co-operatives	**1,947,233**	1,808,285
Individuals	**12,627,150**	11,014,365
Others	**2,080,851**	2,487,643
	82,735,900	83,235,496

Maturity structure of deposits from customers is as follows:

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Maturity within six months	**67,062,381**	70,579,539
More than six months to one year	**11,142,683**	9,114,398
More than one year to five years	**4,530,836**	3,541,559
	82,735,900	83,235,496

24. DEPOSITS AND PLACEMENTS FROM BANKS AND FINANCIAL INSTITUTIONS

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Licensed Islamic banks	**824,000**	-

25. RECOURSE OBLIGATIONS ON FINANCING SOLD TO CAGAMAS

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

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

26. DEBT SECURITIES ISSUED

		Group and Bank	
	Note	**2018**	**2017**
		RM'000	**RM'000**
Issued under the RM9.0 billion Senior IMTN Programme:			
Second tranche:			
RM300 million IMTN due in 2018	(i)(a)	**-**	300,414
Fourth tranche:			
RM425 million IMTN due in 2019	(i)(b)	**430,099**	430,057
Fifth tranche:			
RM150 million IMTN due in 2019	(i)(c)	**150,579**	150,576
Sixth tranche:			
RM350 million IMTN due in 2021	(i)(c)	**351,361**	351,367
Seventh tranche:			
RM350 million IMTN due in 2020	(i)(d)	**351,374**	351,356
Eighth tranche:			
RM850 million IMTN due in 2022	(i)(d)	**853,338**	853,350
Ninth tranche:			
RM270 million IMTN due in 2020	(i)(e)	**272,462**	272,434
Tenth tranche:			
RM430 million IMTN due in 2022	(i)(e)	**433,843**	433,952
Issued under the RM5.0 billion Tier II Subordinated Programme:			
First tranche:			
RM300 million Tier II due in 2026	(ii)(a)	**300,310**	300,264
		3,143,366	3,443,770

26. DEBT SECURITIES ISSUED (CONTINUED)

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

(a) On 20 December 2013, the Bank issued the second tranches of the Senior IMTNs of RM300 million. The second tranche has a tenor of 5 years with profit distribution rate at 4.45% and was fully redeemed on 20 December 2018.

(b) On 24 March 2014, the Bank issued the fourth tranches of RM425 million of the Senior IMTNs. The fourth tranche has a tenor of 5 years with profit distribution rate at 4.60% maturing on 22 March 2019. The profit is payable semi-annually each year commencing 24 September 2014.

(c) 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.

(d) 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% and matures 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.

(e) 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% and matures 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 provisions 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.

26. DEBT SECURITIES ISSUED (CONTINUED)

(a) On 20 June 2016, the Bank issued the first tranche of RM300 million in nominal value of 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 maturity date at 19 June 2026. The profit is payable semi-annually each year commencing 20 December 2016.

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

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

27. OTHER LIABILITIES

	Group		**Bank**	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Amount due to subsidiaries (i)	**-**	-	**129,703**	124,267
Sundry creditors	**265,305**	149,763	**272,765**	152,257
Income payable	**676,657**	605,548	**676,657**	605,548
Other liabilities and accruals	**417,904**	366,293	**402,265**	351,677
Government fund	**190,511**	203,445	**190,511**	203,445
Zakat payable	**40,599**	54,530	**39,552**	53,097
	1,590,976	1,379,579	**1,711,453**	1,490,291

(i) Amount due to subsidiaries

	Bank	
	2018	**2017**
	RM'000	**RM'000**
Term deposits	**107,717**	100,759
Savings deposits	**21,986**	23,508
	129,703	124,267

The amount due to subsidiaries of RM129,703,000 (2017: RM124,267,000) represents deposits placed with the Bank. The average profit rate paid/payable to subsidiaries is 3.87% (2017: 3.59%) per annum.

28. FINANCING FROM OTHER FINANCIAL INSTITUTIONS

	Group	
	2018	**2017**
	RM'000	**RM'000**
Secured		
Term financing	**-**	8,844

One of the subsidiaries has a Tawarruq Business Financing-i of RM9,154,000 from a local licensed bank, which has been fully redeemed as of 31 May 2018. The facilities bear profit at 4.65% - 4.85% per annum and secured by way of fixed charge over the investment properties of the subsidiary.

29. SHARE CAPITAL

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Authorised		
3,000,000,000 ordinary shares of RM1 each	**3,000,000**	3,000,000
Issued and fully paid - Ordinary shares of RM1 each		
As of 1 January	**2,986,030**	2,986,030
Net issuance during the year	**14,168**	16,626
Share withdrawal	**(31,504)**	(32,256)
Transfer from share redemption fund *	**17,336**	15,630
As of 31 December	**2,986,030**	2,986,030

Membership as of 31 December is as follows:

	Group and Bank	
	2018	**2017**
Individual	**852,618**	872,199
Co-operative	**2,237**	2,178
	854,855	874,377

* 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.

30. RESERVES

	Non-distributable						Distributable	
	Capital reserve RM'000	Statutory reserve RM'000	AFS 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								
At 1 January 2018								
as previously stated	14,617	5,631,482	(8,420)	-	329,672	5,967,351	7,638,532	13,605,883
effect of adopting MFRS 9	-	-	8,420	60,359	-	68,779	(71,471)	(2,692)
Restated balance as 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 40)	-	-	-	-	-	-	(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

30. RESERVES (CONTINUED)

	Non-distributable					Distributable	
	Capital reserve RM'000	Statutory reserve RM'000	AFS reserve RM'000	Regulatory reserve RM'000	Total other reserve RM'000	Retained profits RM'000	Total RM'000
Group (continued)							
At 1 January 2017	14,617	5,152,812	(28,496)	329,672	5,468,605	6,726,074	12,194,679
Profit after taxation and zakat	-	-	-	-	-	1,909,627	1,909,627
Transfer from retained profits	-	478,670	-	-	478,670	(478,670)	-
Contribution to the Co-operative Education Trust Fund	-	-	-	-	-	(39,965)	(39,965)
Contribution to the Co-operative Development Provident Fund	-	-	-	-	-	(19,983)	(19,983)
Contribution to Bank Rakyat Foundation	-	-	-	-	-	(14,777)	(14,777)
Unrealised net gain on revaluation of financial investments available-for-sale	-	-	20,076	-	20,076	-	20,076
Dividends (Note 40)	-	-	-	-	-	(443,774)	(443,774)
At 31 December 2017	14,617	5,631,482	(8,420)	329,672	5,967,351	7,638,532	13,605,883

30. RESERVES (CONTINUED)

	← Non-distributable					→	Distributable	
	Capital reserve RM'000	Statutory reserve RM'000	AFS 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 2018 as previously stated	15,358	5,631,482	(8,420)	-	329,672	5,968,092	7,239,389	13,207,481
effect of adopting MFRS 9	-	-	8,420	60,359	-	68,779	(72,827)	(4,048)
Restated balance as 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 40)	-	-	-	-	-	-	(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

30. RESERVES (CONTINUED)

	Non-distributable					Distributable	
	Capital reserve RM'000	Statutory reserve RM'000	AFS reserve RM'000	Regulatory reserve RM'000	Total other reserve RM'000	Retained profits RM'000	Total RM'000
Bank (continued)							
At 1 January 2017	15,358	5,152,812	(28,496)	329,672	5,469,346	6,363,616	11,832,962
Profit after taxation and zakat	-	-	-	-	-	1,872,942	1,872,942
Transfer from retained profits	-	478,670	-	-	478,670	(478,670)	-
Contribution to the Co-operative Education Trust Fund	-	-	-	-	-	(39,965)	(39,965)
Contribution to the Co-operative Development Provident Fund	-	-	-	-	-	(19,983)	(19,983)
Contribution to Bank Rakyat Foundation	-	-	-	-	-	(14,777)	(14,777)
Unrealised net gain on revaluation of financial investments available-for-sale	-	-	20,076	-	20,076	-	20,076
Dividends (Note 40)	-	-	-	-	-	(443,774)	(443,774)
At 31 December 2017	15,358	5,631,482	(8,420)	329,672	5,968,092	7,239,389	13,207,481

30. RESERVES (CONTINUED)

(i) Statutory reserve

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

(ii) Capital reserve

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

(iii) Available-for-sale reserve

This reserve relates to unrealised fair value gains and losses on financial investments available-for-sale.

(iv) Fair value reserve of financial investments at FVOCI

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

(v) Regulatory reserve

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

(vi) Retained profits

Included in retained profits is an amount of RM1,340,000,000 (2017: RM1,340,000,000) earmarked to improve the Rate of Return Risk (ROR) exposure as part of asset and liability management strategies.

31. INCOME

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Income derived from investment of depositors' fund (i)	**5,099,910**	5,013,745	**5,099,910**	5,013,745
Income derived from investment of shareholders' fund (ii)	**1,340,027**	1,276,275	**1,340,027**	1,276,275
Income generated by subsidiary companies (iii)	**52,750**	46,248	**-**	-
	6,492,687	6,336,268	**6,439,937**	6,290,020

31. INCOME (CONTINUED)

(i) Income derived from investment of depositors' fund

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Income from financing and advances *	**4,055,593**	4,070,683	**4,055,593**	4,070,683
Income from deposits and placements with banks and financial institutions	**14,640**	39,108	**14,640**	39,108
Income from financial investments	**1,029,677**	903,954	**1,029,677**	903,954
	5,099,910	5,013,745	**5,099,910**	5,013,745

(ii) Income derived from investment of shareholders' fund

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Income from financing and advances *	**1,065,628**	1,036,214	**1,065,628**	1,036,214
Income from deposits and placements with banks and financial institutions	**3,846**	9,955	**3,846**	9,955
Income from financial investments	**270,553**	230,106	**270,553**	230,106
	1,340,027	1,276,275	**1,340,027**	1,276,275

* Included in income from financing and advances for the current year is profit accrued on impaired financing of RM83,031,216 (2017: RM89,055,191).

(iii) Income generated by subsidiaries

	Group	
	2018	**2017**
	RM'000	**RM'000**
Agency income	**4,668**	5,696
Pawning income	**37,339**	28,176
Rental income	**3,272**	2,572
Management fee	**7,149**	8,700
Sale of goods	**42**	673
Other charges	**280**	431
	52,750	46,248

32. EXPENDITURE

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Income attributable to depositors (i)	**3,134,023**	3,013,154	**3,137,762**	3,018,193
Profit expense on financing sold with recourse to Cagamas	**34,313**	42,661	**34,313**	42,661
Profit expense on debt securities issued	**156,649**	139,171	**156,649**	139,171
Cost of sales	**57,685**	50,278	**-**	-
	3,382,670	3,245,264	**3,328,724**	3,200,025

(i) Income attributable to depositors

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Deposits from customers				
Non-Mudarabah	**3,121,405**	3,004,245	**3,125,144**	3,009,284
Deposits and placements from banks and other financial institutions				
Non-Mudarabah	**12,618**	8,909	**12,618**	8,909
	3,134,023	3,013,154	**3,137,762**	3,018,193

33. ALLOWANCES FOR IMPAIRMENT

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Allowance for impairment on financing and advances (i)	**455,382**	519,948
Allowance for impairment on financial investments (ii)	**(258)**	3,031
	455,124	522,979

33. ALLOWANCES FOR IMPAIRMENT (CONTINUED)

(i) Allowance for impairment on financing and advances

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Individual impairment (Note 13(x))	**(71,668)**	10,330
Individual impairment on rescheduled financing *	**37,613**	22,242
Collective impairment (Note 13(xi))	**489,437**	487,376
	455,382	519,948

* This refers to individual impairment on rescheduled accounts during the year that was adjusted against balance of financing and advances.

(ii) Allowance for impairment on financial investments

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Financial investments available-for-sale	**-**	3,031
Financial investments at fair value through other comprehensive income (Note 10)	**475**	-
Financial investments at amortised cost (Note 12)	**(733)**	-
	(258)	3,031

34. OTHER OPERATING INCOME

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Fees and commission (i)	**82,222**	70,255	**82,222**	70,255
Other income (ii)	**332,415**	616,911	**362,804**	587,798
	414,637	687,166	**445,026**	658,053

34. OTHER OPERATING INCOME (CONTINUED)

(i) Fees and commission

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Takaful commission	**26,298**	19,693	**26,298**	19,693
ATM service fees	**16,277**	18,054	**16,277**	18,054
Wasiat commission	**1,945**	1,071	**1,945**	1,071
Other commission	**23,136**	17,210	**23,136**	17,210
Processing fees	**2,007**	797	**2,007**	797
MEPS fees	**10,001**	9,794	**10,001**	9,794
Guarantee fees	**-**	485	**-**	485
Other fees	**2,558**	3,151	**2,558**	3,151
	82,222	70,255	**82,222**	70,255

(ii) Other income

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Other income from financial instruments				
Dividend from financial investments available-for-sale	**-**	18,123	**-**	18,123
Dividend from financial investments at fair value through profit or loss	**12,596**	-	**12,596**	-
Net gain on disposal of financial investments held-for-trading	**-**	598	**-**	598
Net gain on disposal of financial investments at fair value through profit or loss	**9,123**	-	**9,123**	-
Net gain on disposal of financial investments at fair value through other comprehensive income	**213**	-	**213**	-
Net gain on disposal of financial investments available-for-sale	**-**	46,483	**-**	46,483
Net loss on revaluation of financial investments at fair value through profit or loss	**(167,745)**	-	**(167,745)**	-

34. OTHER OPERATING INCOME (CONTINUED)

(ii) Other income (continued)

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Others				
Rental income	**24,980**	23,833	**26,447**	25,373
Compensation for late payment	**5,058**	3,469	**5,058**	3,469
Charges from credit card services	**12,027**	13,631	**12,027**	13,631
Other service charges	**11,681**	13,378	**11,681**	13,378
Recoveries from financing written off	**261,112**	293,123	**261,112**	293,123
Recoveries from financial investments written-off	**-**	453	**-**	453
Allowance for doubtful debts no longer required Trade receivables (Note 14)	**224**	57	**-**	-
Allowance for impairment loss on financial investments held-to-maturity no longer required (Note 11)	**-**	649	**-**	649
Gain on disposal of property and equipment	**244**	16,750	**1**	16,686
Other income	**59,643**	57,759	**52,682**	56,048
Gain on revaluation of investment properties (Note 20)	**103,259**	128,605	**104,841**	99,784
Dividend from subsidiary	**-**	-	**34,768**	-
	332,415	616,911	**362,804**	587,798

35. OPERATING EXPENSES

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Personnel expenses (i)	**708,048**	609,573	**691,078**	592,028
Other overheads and expenditure (ii)	**502,303**	600,466	**535,035**	634,787
	1,210,351	1,210,039	**1,226,113**	1,226,815

(i) Personnel expenses

	Group 2018 RM'000	Group 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
Salaries and wages	**351,006**	322,779	**339,498**	311,831
Allowances, compensation and bonuses	**212,631**	148,746	**209,620**	144,634
Defined contribution plan - EPF	**85,351**	83,570	**83,809**	81,935
Social security contributions - SOCSO	**4,573**	4,039	**4,339**	3,831
Other staff related costs	**54,487**	50,439	**53,812**	49,797
	708,048	609,573	**691,078**	592,028

Total number of staff (excluding the Board of Directors) for the Group is 5,399 (2017: 5,180) and for the Bank is 5,236 (2017: 5,008).

(ii) Other overheads and expenditure

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Establishment				
Rental	**20,301**	24,095	**27,431**	31,661
Depreciation of property and equipment (Note 18)	**63,839**	98,055	**60,308**	95,141
Amortisation of prepaid lease payments (Note 21)	**1,526**	1,526	**1,526**	1,526
Amortisation of intangible assets (Note 19)	**22,929**	-	**22,929**	-
Repair and maintenance	**80,459**	95,762	**80,210**	95,570
Takaful	**6,172**	5,644	**6,030**	5,493
	195,226	225,082	**198,434**	229,391

35. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

	Group		Bank	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Promotion				
Advertisement and publicity	**28,704**	43,406	**28,182**	42,770
General expenses				
Legal and professional fees	**11,818**	11,529	**11,076**	9,588
Auditors' remuneration	**3,413**	1,126	**3,099**	900
Communication expenses	**28,823**	31,131	**28,569**	30,876
Utilities expenses	**18,311**	30,111	**18,163**	29,958
Printing and stationery	**21,655**	39,818	**21,329**	39,493
Postage and courier	**10,046**	15,214	**10,010**	15,139
Security expenses	**28,351**	28,661	**28,312**	28,611
Service charges	**25,732**	25,472	**52,858**	56,518
Loss on financing written off	**15,188**	17,196	**15,188**	17,196
Property and equipment written off	**6**	9,523	**6**	9,523
Commission expenses	**64,854**	62,852	**64,854**	62,852
Travelling and transportation	**11,220**	12,322	**16,461**	17,594
Others	**38,956**	47,023	**38,494**	44,378
	278,373	331,978	**308,419**	362,626
	502,303	600,466	**535,035**	634,787

35. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

The above expenditure includes the following statutory disclosures:

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Impairment losses on:				
Trade receivables (Note 14)	**30**	154	**-**	-
Amount due from subsidiaries (Note 15(i))	**-**	-	**964**	-
Other receivables, deposits and prepayments (Note 15(ii))	**368**	19	**7**	19
Auditors' remuneration:				
Current year:				
Statutory audit fees	**2,115**	1,118	**1,800**	892
Other services	**1,299**	15	**1,299**	8
Overprovision in prior year	**(1)**	(6)	**-**	-
Amortisation of prepaid lease payment (Note 21)	**1,526**	1,526	**1,526**	1,526
Depreciation of property and equipment (Note 18)	**63,839**	98,055	**60,308**	95,141
Amortisation of intangible assets (Note 19)	**22,929**	-	**22,929**	-
Property and equipment written off	**6**	9,523	**6**	9,523
Finance cost on financing from other financial institutions	**204**	314	**-**	-
Rental of premises	**13,276**	16,540	**20,536**	24,188
Rental of equipment	**7,025**	7,555	**6,895**	7,473

Included in general expenses are the following Directors' remuneration

	Group		Bank	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Executive Director				
Salary and other remuneration	**1,200**	893	**1,200**	893
Bonuses	**3,232**	269	**3,232**	269
EPF contributions	**842**	221	**842**	221
Other emoluments	**73**	43	**73**	43
	5,347	1,426	**5,347**	1,426
Non-Executive Directors				
Fees	**1,811**	2,886	**1,452**	2,252
Other emoluments	**17**	42	**17**	42
	1,828	2,928	**1,469**	2,294
	7,175	4,354	**6,816**	3,720

35. 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
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

35. 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

35. 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
2017								
Executive Director								
Dato' Zulkiflee Abbas Abdul Hamid	1,383	-	43	1,426	-	-	-	1,426
Non-Executive Directors								
Tan Sri Shukry Mohd Salleh	-	319	7	326	-	-	-	326
Dato’ Sri Jamil Salleh	-	198	-	198	110	-	110	308
Dato' Siti Zauyah Md. Desa	-	209	5	214	83	-	83	297
Dato' Sri Alias Hj. Ahmad	-	154	-	154	97	-	97	251
Datuk Hj. Abdul Rahman Kasim	-	269	-	269	38	-	38	307
Razalee Amin	-	426	-	426	115	-	115	541
Datin Dr. Nik Sarina Lugman Hashim	-	254	-	254	70	-	70	324
Wan Zamri Wan Zain	-	52	-	52	-	-	-	52
	-	1,881	12	1,893	513	-	513	2,406

35. 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
2017 (continued)								
Former Non-Executive Directors								
General Tan Sri Dato' Sri Abdul Aziz Hj. Zainal (R)	-	14	-	14	-	-	-	14
Dato' Hj. Abdullah Hj. Abas	-	10	10	20	35	-	35	55
Dato' Hj. Ismail Nordin	-	139	10	149	37	-	37	186
Datuk Hj. Mohd Idris Hj. Mohd Isa	-	208	10	218	49	-	49	267
	-	371	30	401	121	-	121	522
	-	2,252	42	2,294	634	-	634	2,928
	1,383	2,252	85	3,720	634	-	634	4,354

36. TAXATION

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Malaysian income tax				
Current year	**29,550**	67,725	**23,684**	61,783
Underprovision in prior years	**10,669**	24,273	**10,925**	24,790
	40,219	91,998	**34,609**	86,573
Deferred tax (Note 22)				
Current year	**36,046**	(1,698)	**36,000**	(3,000)
(Over)/Underprovision in prior years	**(240)**	2,245	**-**	-
	35,806	547	**36,000**	(3,000)
Total	**76,025**	92,545	**70,609**	83,573

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	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Profit before taxation and zakat	**1,859,179**	2,045,152	**1,875,002**	1,998,254
Tax expense at statutory tax rate of 24% (2017: 24%)	**446,203**	490,837	**449,961**	479,541
Non-taxable income	**(120,361)**	(129,192)	**(129,279)**	(123,754)
Non-deductible expenses	**167,186**	102,724	**166,434**	101,338
Tax exempt under Section 65(A) of the Income Tax Act 1967	**(416,953)**	(398,342)	**(416,953)**	(398,342)
Tax implication on adoption of MFRS 9	**(10,479)**	-	**(10,479)**	-
Under/(Over)provision in prior years:				
Current tax	**10,669**	24,273	**10,925**	24,790
Deferred tax	**(240)**	2,245	**-**	-
	76,025	92,545	**70,609**	83,573

37. 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	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Provision for current year	**27,943**	44,322	**27,000**	43,081
Overprovision in prior years	**(2,410)**	(1,342)	**(2,408)**	(1,342)
	25,533	42,980	**24,592**	41,739

38. STATUTORY APPROPRIATIONS

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

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

39. EARNINGS PER SHARE

Basic earnings per ordinary share have been calculated based on the Group's profit after taxation and zakat of RM1,757,621,000 (2017: RM1,909,627,000) divided by the weighted average number of ordinary shares of 2,960,691,000 (2017: 2,974,490,000) of RM1 each in issue during the financial year.

40. DIVIDENDS

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Cash dividend of 16% for the year ended 31 December 2017 (2016: 15%)	**469,774**	443,774

40. DIVIDENDS (CONTINUED)

During the financial year ended 31 December 2018, the Bank paid a cash dividend of 16% amounting to RM470 million in regards to the previous financial year ended 31 December 2017.

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

41. COMMITMENTS AND CONTINGENCIES

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

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Contingent liabilities		
Bank guarantee given in respect of banking facilities granted to customers	**479,730**	523,783
Claims for damages from litigation taken against the Bank	**131,885**	113,302
Commitments		
Undrawn financing	**2,184,799**	2,086,286
	2,796,414	2,723,371

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 1 July 2019. 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.

42. CAPITAL COMMITMENTS

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

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Capital expenditure				
Approved and contracted for	**665,529**	328,758	**338,279**	-

43. OPERATING LEASES

The Bank leases a number of premises under operating leases. None of the leases include contingent rentals. Total future minimum lease payments under these non-cancellable operating leases are as follows:

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Within one year	**375**	690
Between one and two years	**210**	211
Between two to three years	**175**	-
	760	901

44. 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:

44.1 Subsidiaries

Details of the subsidiaries are shown in Note 17.

44.2 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**	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Short-term employee benefits				
Fees	**1,811**	2,886	**1,452**	2,252
Salary	**4,728**	4,036	**4,124**	3,381
Allowances	**514**	468	**514**	468
EPF contribution	**1,914**	1,091	**1,776**	911
Bonuses	**4,891**	1,722	**4,739**	1,252
Other emoluments	**188**	198	**90**	85
	14,046	10,401	**12,695**	8,349

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

	Group		**Bank**	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Directors' remuneration				
From the Bank	**6,816**	3,720	**6,816**	3,720
From subsidiaries	**359**	634	**-**	-
	7,175	4,354	**6,816**	3,720

44. RELATED PARTY TRANSACTIONS (CONTINUED)

44.3 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	
	2018	**2017**
	RM'000	**RM'000**
Income earned		
Rental income	**(1,482)**	(1,554)
Expenditure incurred		
Profit expenses	**3,738**	5,038
Management fee expenses	**26,444**	29,984
Rental expenses	**6,145**	6,173
Purchase of goods and services	**2,078**	1,543
Travelling and transportation	**5,616**	5,569
	42,539	46,753

45. FINANCING FACILITIES WITH CONNECTED PARTIES

	Group and Bank	
	2018	**2017**
	RM'000	**RM'000**
Outstanding exposures with connected parties	**2,347,292**	640,290
% of outstanding exposures to connected parties as a proportion of total exposure	**2.25%**	0.62%
% of outstanding exposures financing exposures with connected parties which is non-performing or in default	**0.00%**	0.04%

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.

46. FINANCIAL RISK MANAGEMENT

46.1 Overview

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

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

46.2 Risk management framework

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

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

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

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.2 Risk management framework (continued)

The Bank's Risk Appetite Statement is as follows:

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

46.2.1 Risk governance

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

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

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

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

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

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

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

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

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.2 Risk management framework (continued)

46.2.1 Risk governance (continued)

Roles and responsibilities of the oversight Committee:

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

(a) The BRC shall be responsible to review and recommend risk management strategies, policies, appetite and tolerance for Board's approval.

(b) The BRC with the recommendation of Management Risk Committee periodically reviews the Risk Management Framework.

(c) The BRC shall be responsible to assess the adequacy of risk management policies, processes and infrastructure to manage various types of risks is comprehensive and recommend to the Board for approval.

(d) Review management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

Roles and responsibilities of Management Risk Committee:

(a) Assess whether the Bank's corporate objectives are supported by a sound risk strategy and an effective risk management framework that is appropriate to the nature, scale and complexity of its activities.

(b) Establish, review and implement Board approved risk management framework and policies.

(c) Communicate approved policies to employees and monitor as well as enforce compliance with these policies.

(d) Periodically review Risk Management Framework and recommend to Management Risk Committee for escalation to BRC and Board.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.2 Risk management framework (continued)

46.2.1 Risk governance (continued)

Roles and responsibilities of the oversight Committee: (continued)

Roles and responsibilities of Operational Risk Management Committee:

(a) Review and recommend operational risk management strategies, policies, guidelines and procedures.

(b) Review and assess 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.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk

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

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

46.3.1 Management of credit risk

The Bank's credit risk management includes 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.

46.3.2 Financing to retail customers

Financing granted to retail customers is individually underwritten by assessing historical payment track record and payment capacity of the customer. This process is governed by Retail Credit Risk Policy, Product Policies and assessed using credit scorecard. Both Retail Credit Risk Policy and credit scorecard are developed by Risk Management while Product Policies are developed by Product Division within Retail Banking and are independently reviewed by Risk Management.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.2 Financing to retail customers (continued)

The credit approving authority and credit approving officers have the responsibility to ensure that credit risk is properly assessed and all crucial credit information of the customer is included in the financing application.

Risk Management is also responsible to assess new/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.

46.3.3 Financing to corporate customers

Granting of credit to corporate customers is individually underwritten as guided by the Bank's risk appetite and policies. In its oversight role, Risk Management conducts independent assessment on all credit proposals to corporate customers prior to approval.

46.3.4 Purchase of investment securities

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

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

46.3.5 Impaired financing and investment securities

Individually impaired financing and investment securities are financing and advances and investment securities (other than those carried at fair value through profit or loss) for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and profits due according to the contractual terms of the financing/investment security agreement(s).

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.6 Neither past due nor impaired financing and investment securities

These are financing and investment securities from which contractual payment of profit or principal have not defaulted and therefore are not impaired since there is no objective evidence of impairment.

46.3.7 Past due but not impaired financing and investment securities

Past due but not impaired financing and investment securities, other than those carried at fair value through profit or loss, are those for which contractual profits or principal payments are past due, more than 1 day but less than three (3) months.

46.3.8 Financing with renegotiated terms

Financing with renegotiated terms are financing that have been restructured due to deterioration in the customer's financial position. Once the financing is restructured it remains in this category independent of satisfactory performance after restructuring.

46.3.9 Allowances for impairment

The Bank establishes an allowance for impairment loss on assets carried at amortised cost and fair value through other comprehensive income, which represents an estimation of expected losses in the financing and investment security portfolio.

The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective financing loss allowance established for groups of homogenous assets. Both components of allowance incorporates historical, current, and forecasted information in estimating the expected losses.

Assets carried at fair value through profit or loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.10 Write-off policy

The Bank writes-off a financing or an investment security, and any related allowances for impairment losses, when the Bank determines that the financing or investment security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the customer's/issuer's financial position such that the customer/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

46.3.11 Collateral on financing and advances

In mitigating credit risk on financing and advances granted to customers, collaterals are obtained as follows:

(i) House financing - charges over residential properties.

(ii) Commercial property financing - charges over the properties being financed.

(iii) Vehicle financing - ownership claims over the vehicles being financed.

(iv) Other financing and advances - charges over business assets such as premises, trade receivables or deposits.

46.3.12 Credit grading for investment securities

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

At the end of the reporting period, instruments rated with "Grade D" are those that have defaulted beyond their maturity period.

46.3.13 Maximum exposure to credit risk

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

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 granter to customers.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.13 Maximum exposure to credit risk (continued)

	Group		Bank	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Assets				
Cash and short-term funds	**1,163,630**	2,476,623	**1,161,454**	2,469,937
Deposits and placements with financial institutions	**-**	101,384	**-**	100,992
Financial investments at fair value through profit or loss	**742,297**	-	**742,297**	-
Financial investments available-for-sale	**-**	20,252,909	**-**	20,252,428
Financial investments at fair value through other comprehensive income	**22,329,782**	-	**22,329,773**	-
Financial investments held-to-maturity	**-**	10,437,053	**-**	10,437,053
Financial investments at amortised cost	**10,155,789**	-	**10,155,789**	-
Financing and advances	**69,003,855**	69,189,090	**69,003,855**	69,189,090
Trade receivables	**2,459**	1,795	**-**	-
Other receivables	**709,581**	719,605	**724,745**	742,099
	104,107,393	103,178,459	**104,117,913**	103,191,599
Commitments				
Undrawn financing	**2,184,799**	2,086,286	**2,184,799**	2,086,286
Total maximum exposure to credit risk	**106,292,192**	105,264,745	**106,302,712**	105,277,885

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.14 Credit risk exposure on financing and advances

	Group and Bank 2018 RM'000	Group and Bank 2017 RM'000
At amortised cost		
Neither past due nor impaired		
0 month	**64,956,424**	65,326,881
Past due but not impaired		
1 month	**2,670,707**	2,531,801
2 months	**881,237**	842,044
3 months	**401,746**	353,107
	3,953,690	3,726,952
Past due and impaired		
Less than 4 months	**224,230**	326,456
4 months to 6 months	**279,687**	554,426
7 months to 9 months	**233,644**	167,875
More than 9 months	**753,189**	526,268
	1,490,750	1,575,025
Gross financing and advances	**70,400,864**	70,628,858
Less: Individual assessment impairment	**-**	(448,749)
Collective assessment impairment	**-**	(991,019)
Collective assessment allowance - 12 months ECL	**(428,090)**	-
Collective assessment allowance - lifetime ECL	**(591,287)**	-
Individual assessment allowance - lifetime ECL	**(377,632)**	-
Net financing and advances	**69,003,855**	69,189,090

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.15 Credit risk exposure on investment securities

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

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.15 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

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.15 Credit risk exposure on investment securities (continued)

Group 2017	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Total RM'000
Rated securities			
Islamic debt securities			
Grade AAA	2,745,496	379,719	3,125,215
Grade AA+	79,754	111,498	191,252
Grade AA	91,985	40,503	132,488
Grade AA-	44,632	-	44,632
Grade AA1	601,996	50,831	652,827
Grade AA2	173,019	-	173,019
Grade AA3	61,942	36,904	98,846
	3,798,824	619,455	4,418,279
Cagamas sukuk			
Grade AAA	1,562,587	475,271	2,037,858
Negotiable Islamic debt certificates			
Grade AA1	-	398,630	398,630
	5,361,411	1,493,356	6,854,767
Unrated securities			
Government investment issues	9,178,953	6,352,971	15,531,924
Government sukuk	4,922,276	2,248,815	7,171,091
Khazanah sukuk	208,347	341,911	550,258
	14,309,576	8,943,697	23,253,273
Shares			
Quoted and unit trust shares	573,858	-	573,858
Unquoted shares	8,064	-	8,064
	581,922	-	581,922
	20,252,909	10,437,053	30,689,962

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.15 Credit risk exposure on investment securities (continued)

Bank 2017	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Total RM'000
Rated securities			
Islamic debt securities			
Grade AAA	2,745,496	379,719	3,125,215
Grade AA+	79,754	111,498	191,252
Grade AA	91,985	40,503	132,488
Grade AA-	44,632	-	44,632
Grade AA1	601,996	50,831	652,827
Grade AA2	173,019	-	173,019
Grade AA3	61,942	36,904	98,846
	3,798,824	619,455	4,418,279
Cagamas sukuk			
Grade AAA	1,562,587	475,271	2,037,858
Negotiable Islamic debt certificates			
Grade AA1	-	398,630	398,630
	5,361,411	1,493,356	6,854,767
Unrated securities			
Government investment issues	9,178,953	6,352,971	15,531,924
Government sukuk	4,922,276	2,248,815	7,171,091
Khazanah sukuk	208,347	341,911	550,258
	14,309,576	8,943,697	23,253,273
Shares			
Quoted and unit trust shares	573,858	-	573,858
Unquoted shares	7,583	-	7,583
	581,441	-	581,441
	20,252,428	10,437,053	30,689,481

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.16 Maximum exposure to credit risk

The following analysis represents the Group's maximum exposure to credit risk of on-balance sheet financial assets and off-balance sheet exposure, excluding any collateral held or other credit enhancements. For on-balance sheet financial assets, the exposure to credit risk equals their carrying amount. For off-balance sheet exposure, the maximum exposure to credit risk is the maximum amount that the Group would have to pay if obligations of the instruments issued are called upon and/or the full amount of the undrawn credit facilities granted to customers.

	2018 RM'000	2017 RM'000
Group		
Credit exposure for on-balance sheet financial assets:		
Cash and short-term funds	**1,163,630**	2,476,623
Deposits and placements with financial institutions	**-**	101,384
Financial investments portfolio *	**32,876,158**	30,130,996
Financing and advances	**60,007,394**	60,620,837
Trade receivables	**2,459**	1,795
Other assets	**1,132,604**	1,019,205
Credit exposure for off-balance sheet financial assets:		
Undrawn financing	**2,184,799**	2,086,286
Total maximum credit risk exposure	**97,367,044**	96,437,126

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.3 Credit risk (continued)

46.3.16 Maximum exposure to credit risk (continued)

	2018 RM'000	2017 RM'000
Bank		
Credit exposure for on-balance sheet financial assets:		
Cash and short-term funds	**1,161,454**	2,469,937
Deposits and placements with financial institutions	**-**	100,992
Financial investments portfolio *	**32,876,158**	30,130,996
Financing and advances	**60,007,394**	60,620,837
Other assets	**1,097,380**	987,691
Credit exposure for off-balance sheet financial assets:		
Undrawn financing	**2,184,799**	2,086,286
Total maximum credit risk exposure	**97,327,185**	96,396,739

* Financial investment portfolio consists of financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments at amortised costs, excluding equity investments.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk

Liquidity risk arises from mismatches in the timing of cash flows due to the inability to meet maturing or regulatory obligations and customers' demands for funds when required, which may adversely affect daily operations, Bank's reputation and incur unacceptable losses.

46.4.1 Management of liquidity risk

The management of liquidity risk is subject to Bank Negara Malaysia's Liquidity Framework and Liquidity Coverage Ratio requirements as well as the Bank's liquidity risk management framework.

The Bank adopts various liquidity risk measurement tools in managing the cash flows for daily movement as well as medium and long-term positions to ensure sufficient funding sources to meet obligations.

It is important for the Bank to maintain diversification strategy of funding sources and providers to ensure 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.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.2 Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

For this purpose, net liquid assets are considered as including cash and cash equivalents and investment grade securities for which there is an active and liquid market.

Details of the reported Bank ratio of net liquid assets to deposits from customers at the end of the reporting period and during the year were as follows:

	Bank	
	2018	**2017**
At 31 December	**33.99%**	33.90%
Average for the year	**34.42%**	33.44%
Maximum for the year	**34.94%**	34.19%
Minimum for the year	**33.79%**	32.20%

46.4.3 Liquidity risk of assets and liabilities

The main thrust of liquidity management is the projection of up to one year of the maturity profile of the Bank's assets, liabilities and off-balance sheet commitments from a given position.

The focus is on the ability of the Bank to match its short-term liquidity requirement arising from maturing obligations with maturing assets, followed by a medium-term assessment of liquidity up to one year.

The primary basis for determining the appropriate time bands is the contractual maturity, which is when the cash flows crystallise.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities

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
	1,508,202	1,120,477	3,226,664	4,437,268	8,624,301	85,298,946	2,669,365	106,885,223

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

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

Group 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)**	**-**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.4 Liquidity risk of contingent liabilities and commitment by remaining contractual maturities

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
	2,664,529	-	-	-	-	131,885	-	2,796,414

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

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

Group 2017	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	2,476,623	101,384	-	-	-	-	-	2,578,007
Investment securities	-	140,629	641,134	683,740	3,147,348	25,495,190	581,921	30,689,962
Financing and advances	259,373	1,061,387	2,329,132	3,588,031	5,290,907	58,100,028	(1,439,768)	69,189,090
Trade receivables	-	-	-	-	-	-	1,795	1,795
Other assets	-	-	-	-	-	-	2,993,148	2,993,148
	2,735,996	1,303,400	2,970,266	4,271,771	8,438,255	83,595,218	2,137,096	105,452,002

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

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

Group 2017	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	12,309,801	23,089,018	21,965,758	13,195,966	9,093,538	3,581,415	-	83,235,496
Recourse obligations on financing sold to Cagamas	-	3,329	6,621	10,069	20,641	707,674	-	748,334
Debt securities issued	-	-	5,057	13,713	300,000	3,125,000	-	3,443,770
Trade payables	-	-	-	-	-	-	2,681	2,681
Financing from other financial institutions	-	20	40	60	121	8,603	-	8,844
Other liabilities	-	-	-	-	-	-	1,384,524	1,384,524
	12,309,801	23,092,367	21,977,476	13,219,808	9,414,300	7,422,692	1,387,205	88,823,649
Shareholders' fund	-	-	-	-	-	-	16,628,353	16,628,353
Net maturity mismatch	(9,573,805)	(21,788,967)	(19,007,210)	(8,948,037)	(976,045)	76,172,526	(15,878,462)	-

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.4 Liquidity risk of contingent liabilities and commitment by remaining contractual maturities (continued)

Group 2017	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	523,783	-	-	-	-	-	-	523,783
Claims for damages from litigation taken against the Bank	-	-	-	-	-	113,302	-	113,302
Undrawn financing	2,086,286	-	-	-	-	-	-	2,086,286
	2,610,069	-	-	-	-	113,302	-	2,723,371

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

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

Bank 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
	1,506,026	1,120,477	3,226,664	4,437,268	8,624,301	85,298,946	2,407,518	106,621,200

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

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

Bank 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
	14,438,969	18,208,246	20,418,598	14,625,484	12,131,436	7,590,868	1,711,453	89,125,054
Shareholders' fund	-	-	-	-	-	-	17,496,146	17,496,146
Net maturity mismatch	(12,932,943)	(17,087,769)	(17,191,934)	(10,188,216)	(3,507,135)	77,708,078	(16,800,081)	-

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.4 Liquidity risk of contingent liabilities and commitment 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**
	2,664,529	**-**	**-**	**-**	**-**	**131,885**	**-**	**2,796,414**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

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

Bank 2017	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	2,469,937	100,992	-	-	-	-	-	2,570,929
Investment securities	-	140,629	641,134	683,740	3,147,348	25,495,190	581,440	30,689,481
Financing and advances	259,373	1,061,387	2,329,132	3,588,031	5,290,907	58,100,028	(1,439,768)	69,189,090
Other assets	-	-	-	-	-	-	2,698,342	2,698,342
	2,729,310	1,303,008	2,970,266	4,271,771	8,438,255	83,595,218	1,840,014	105,147,842

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

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

Bank 2017	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	12,309,801	23,089,018	21,965,758	13,195,966	9,093,538	3,581,415	-	83,235,496
Recourse obligations on financing sold to Cagamas	-	3,329	6,621	10,069	20,641	707,674	-	748,334
Debt securities issued	-	-	5,057	13,713	300,000	3,125,000	-	3,443,770
Other liabilities	-	-	-	-	-	-	1,490,291	1,490,291
	12,309,801	23,092,347	21,977,436	13,219,748	9,414,179	7,414,089	1,490,291	88,917,891
Shareholders' fund	-	-	-	-	-	-	16,229,951	16,229,951
Net maturity mismatch	(9,580,491)	(21,789,339)	(19,007,170)	(8,947,977)	(975,924)	76,181,129	(15,880,228)	-

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.4 Liquidity risk of contingent liabilities and commitment by remaining contractual maturities (continued)

Bank 2017	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	523,783	-	-	-	-	-	-	523,783
Claims for damages from litigation taken against the Bank	-	-	-	-	-	113,302	-	113,302
Undrawn financing	2,086,286	-	-	-	-	-	-	2,086,286
	2,610,069	-	-	-	-	113,302	-	2,723,371

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.5 Contractual maturity of financial liabilities on an undiscounted basis

The tables below present the cash flows payable by the Group and the Bank under financial liabilities by remaining contractual maturities as at 31 December 2018 and 31 December 2017. 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 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**
	14,513,142	**18,419,903**	**20,722,393**	**14,888,459**	**12,460,135**	**9,669,547**	**1,593,816**	**92,267,395**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

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

Group 2017	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	12,330,392	23,108,553	22,102,779	13,272,783	9,347,973	4,597,313	-	84,759,793
Recourse obligations on financing sold to Cagamas	-	-	6,256	12,528	18,832	37,815	787,409	862,840
Debt securities issued	-	-	9,748	68,315	378,991	3,563,621	-	4,020,675
Trade payables	-	-	-	-	-	-	2,681	2,681
Financing from other financial institutions	-	20	40	60	121	7,818	-	8,059
Other liabilities	-	-	-	-	-	-	1,384,524	1,384,524
	12,330,392	23,108,573	22,118,823	13,353,686	9,745,917	8,206,567	2,174,614	91,038,572

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

46.4.5 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
	14,513,142	18,419,903	20,722,393	14,888,459	12,460,135	9,669,547	1,711,453	92,385,032

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.4 Liquidity risk (continued)

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

Bank 2017	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	12,330,392	23,108,553	22,102,779	13,272,783	9,347,973	4,597,313	-	84,759,793
Recourse obligations on financing sold to Cagamas	-	-	6,256	12,528	18,832	37,815	787,409	862,840
Debt securities issued	-	-	9,748	68,315	378,991	3,563,621	-	4,020,675
Other liabilities	-	-	-	-	-	-	1,490,291	1,490,291
	12,330,392	23,108,553	22,118,783	13,353,626	9,745,796	8,198,749	2,277,700	91,133,599

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk

Market risk is defined as the risk of financial loss due to changes in equity prices, benchmark rates, credit spreads, foreign-exchange rates, commodity prices, and other indicators whose values are set in a public market. Changes in market rates can affect the Bank’s net earnings and also the economic value of Bank’s equity.

The function of Market Risk and Asset Liability Management ("ALM") is to manage and control market risk exposure in order to optimize return on risk while maintaining a market profile consistent with the Bank’s strategic plan.

The Bank has established the market risk policy, strategy and processes which are periodically reviewed and updated to take into account changes in activities and market structure to ensure effective implementation of risk management policies.

46.5.1 Management of market risk

The Bank manages market risk by segregating exposure to market risk between trading and non-trading portfolios. Trading portfolios are held by treasury department which consist of financial assets that are managed on fair value basis.

The risk measurement techniques employed by the Bank to measure and quantify the market value changes and the level of market risk comprise of Value-at-Risk ("VaR"), Modified Duration and Present Value of One Basis Point ("PV01").

Exposure of the Bank to the foreign exchange rates is minimal since operation of foreign currency unit is limited to remittance services only.

46.5.2 Profit rate risk

Investment in debt securities and financing are exposed to risk of change in profit rates that would result in changes in cash flows. On the other hand, investment in equity securities and other short-term receivables and payables are not significantly exposed to profit rate risk.

Among other efforts in mitigating this risk is by diversifying investment mainly in fixed-income securities with different duration. The Bank has not engaged in hedging through derivative instruments during the year.

The sensitivity of the Bank's financial assets and liabilities to the profit rate risk is measured and monitored proactively using multiple measurement techniques such as Gap Analysis, Duration and Simulation Model.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

46.5.2 Profit rate risk (continued)

The following shows the Bank's sensitivity to an increase or decrease in market profit rates, assuming no asymmetrical movement in yield curves and 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				
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**
2017				
Year ended 31 December	(787,199)	774,030	(393,614)	393,642
Average for the year	(266,197)	242,150	(132,595)	130,433
Maximum for the year	(787,199)	774,030	(393,614)	393,642
Minimum for the year	(190,016)	173,005	(95,096)	98,281

46.5.3 Exposure to profit rate

Among other controls to ensure that market risk exposures remain within tolerable levels include stress testing, new product approval procedures and listing of permissible instruments that can be traded.

Periodic stress testing and control assessment are conducted to address the plausible market events relating to the threat of market failure that could disrupt the Bank's profitability and capital adequacy in ensuring its resiliency.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

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

	Non-trading book							
Group 2018	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	Trading book RM'000	Total 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

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

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

Group (continued) 2018	Non-trading book 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	Trading book RM'000	Total 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
	27,506,915	21,966,190	26,624,463	9,173,252	2,142,781	1,597,898	-	89,011,499

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

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

	Non-trading book							
Group (continued) 2018	**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**	**Trading book RM'000**	**Total 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**	**-**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

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

Group (continued) 2017	Non-trading book 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	Trading book RM'000	Total RM'000
Assets								
Cash, deposits and placements with financial institutions	678,199	1,420,319	50,586	-	-	428,903	-	2,578,007
Financial investments available-for-sale	5,092	253,859	1,851,139	10,520,876	4,063,406	-	3,558,537	20,252,909
Financial investments held-to-maturity	235,475	386,715	1,819,248	6,514,401	1,481,214	-	-	10,437,053
Financing and advances								
- Non-impaired	32,151,148	2,855	92,078	2,507,026	32,648,556	1,652,170	-	69,053,833
- Impaired, net of allowances	-	-	-	-	-	135,257	-	135,257
Other non-profit sensitive balances	-	-	-	-	-	2,994,943	-	2,994,943
	33,069,914	2,063,748	3,813,051	19,542,303	38,193,176	5,211,273	3,558,537	105,452,002

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

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

Group (continued) 2017	Non-trading book 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	Trading book RM'000	Total RM'000
Liabilities								
Deposits from customers	31,240,812	20,616,838	24,482,259	5,758,587	1,137,000	-	-	83,235,496
Recourse obligations on financing sold to Cagamas	-	-	-	748,334	-	-	-	748,334
Debt securities issued	-	-	300,414	2,843,092	300,264	-	-	3,443,770
Other non-profit sensitive balances	-	-	-	-	-	1,396,049	-	1,396,049
	31,240,812	20,616,838	24,782,673	9,350,013	1,437,264	1,396,049	-	88,823,649

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

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

	Non-trading book							
Group (continued) 2017	**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**	**Trading book RM'000**	**Total RM'000**
Shareholders' fund	-	-	-	-	-	16,628,353	-	16,628,353
On-balance sheet profit sensitivity gap	1,829,102	(18,553,090)	(20,969,622)	10,192,290	36,755,912	(12,813,129)	3,558,537	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-
Total profit sensitivity gap	1,829,102	(18,553,090)	(20,969,622)	10,192,290	36,755,912	(12,813,129)	3,558,537	-

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

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

Bank 2018	Non-trading book 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	Trading book RM'000	Total 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

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

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

	Non-trading book							
Bank (continued)	**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**	**Trading book**	**Total**
2018	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**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

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

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

Bank (continued) 2018	Non-trading book: 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	Trading book RM'000	Total 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**	**-**

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

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

Bank (continued) 2017	Non-trading book 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	Trading book RM'000	Total RM'000
Assets								
Cash, deposits and placements with financial institutions	678,199	1,420,319	50,586	-	-	421,825	-	2,570,929
Financial investments available-for-sale	5,092	253,859	1,851,139	10,520,876	4,063,406	-	3,558,056	20,252,428
Financial investments held-to-maturity	235,475	386,715	1,819,248	6,514,401	1,481,214	-	-	10,437,053
Financing and advances								
- Non-impaired	32,151,148	2,855	92,078	2,507,026	32,648,556	1,652,170	-	69,053,833
- Impaired, net of allowances	-	-	-	-	-	135,257	-	135,257
Other non-profit sensitive balances	-	-	-	-	-	2,698,342	-	2,698,342
	33,069,914	2,063,748	3,813,051	19,542,303	38,193,176	4,907,594	3,558,056	105,147,842

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

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

Bank (continued) 2017	Non-trading book: 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	Trading book RM'000	Total RM'000
Liabilities								
Deposits from customers	31,240,812	20,616,838	24,482,259	5,758,587	1,137,000	-	-	83,235,496
Recourse obligations on financing sold to Cagamas	-	-	-	748,334	-	-	-	748,334
Debt securities issued	-	-	300,414	2,843,092	300,264	-	-	3,443,770
Other non-profit sensitive balances	-	-	-	-	-	1,490,291	-	1,490,291
	31,240,812	20,616,838	24,782,673	9,350,013	1,437,264	1,490,291	-	88,917,891

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.5 Market risk (continued)

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

Bank (continued) 2017	Non-trading book 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	Trading book RM'000	Total RM'000
Shareholders' fund	-	-	-	-	-	16,229,951	-	16,229,951
On-balance sheet profit sensitivity gap	1,829,102	(18,553,090)	(20,969,622)	10,192,290	36,755,912	(12,812,648)	3,558,056	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-
Total profit sensitivity gap	1,829,102	(18,553,090)	(20,969,622)	10,192,290	36,755,912	(12,812,648)	3,558,056	-

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.6 Operational risk

The Bank defines operational risk as the risk of loss or non-achievement of business objectives due to inadequate or failed internal processes, people and 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.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.6 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.

46.7 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.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.7 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.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.7 Capital management (continued)

46.7.1 Capital adequacy ratio

The Bank is required to comply with the core capital ratio and risk-weighted capital adequacy ratio prescribed by Bank Negara Malaysia. The Bank was in compliance with all prescribed capital ratios throughout the period.

	Bank	
	2018	**2017**
Before proposed dividend		
Core capital ratio	**21.87%**	20.78%
Risk-weighted capital adequacy ratio	**23.25%**	22.27%
After proposed dividend		
Core capital ratio	**21.33%**	20.11%
Risk-weighted capital adequacy ratio	**22.72%**	21.60%

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	
	2018	**2017**
	RM'000	**RM'000**
Tier I capital		
Paid-up share capital	**2,986,030**	2,986,030
Retained profits	**7,954,575**	7,239,389
Other reserves	**6,097,938**	5,646,840
Total Tier I capital (core)	**17,038,543**	15,872,259
Tier II capital		
Subordinated sukuk	**300,000**	300,000
Collective impairment *	**546,851**	572,000
Regulatory reserve	**329,672**	329,672
Total Tier II capital	**1,176,523**	1,201,672
Total capital	**18,215,066**	17,073,931
Less: Investment in subsidiaries	**(100,744)**	(65,976)
Total capital base	**18,114,322**	17,007,955

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

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

46.7 Capital management (continued)

46.7.1 Capital adequacy ratio (continued)

Assets in various categories are risk-weighted as follows:

	Bank	
	2018	**2017**
	RM'000	**RM'000**
Total assets assigned 20% risk-weighted	**725,709**	791,560
Total assets assigned 50% risk-weighted	**2,890,810**	2,566,393
Total assets assigned 100% risk-weighted	**72,926,532**	71,675,391
Off-Balance Sheet claims assigned 100% risk-weighted	**1,353,289**	1,349,301
	77,896,340	76,382,645

47. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. Fair value is the amount at which the financial asset could be exchanged or a financial liability could be settled, between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the best estimates of fair values as at the end of the reporting period.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on appropriate methodologies and assumptions on risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

Fair value information for non-financial assets and liabilities is excluded as they do not fall within the scope of MFRS 132, Financial Instruments: Disclosure and Presentation which requires the fair value information to be disclosed.

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.1 Valuation of financial instruments

The Group and the Bank measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

(i) Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

(ii) Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

(iii) Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices. For all other financial instruments, the Group and the Bank determine fair values using valuation techniques.

There were no financial liabilities of the Group and the Bank at the end of the reporting period that were measured at fair value.

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.2 Valuation of financial instruments at fair value

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group					
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**	**-**
	742,297	**742,297**	**335,182**	**407,115**	**-**
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**
	22,329,782	**22,329,782**	**-**	**22,291,975**	**37,807**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.2 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
Group					
2017					
Financial investments available-for-sale					
Islamic debt securities	3,798,824	3,798,824	-	3,798,824	-
Government investment issues	9,178,953	9,178,953	-	9,178,953	-
Government sukuk	4,922,276	4,922,276	-	4,922,276	-
Khazanah sukuk	208,347	208,347	-	208,347	-
Cagamas sukuk	1,562,587	1,562,587	-	1,562,587	-
Quoted shares	572,144	572,144	572,144	-	-
Unit trust shares	1,714	1,714	-	1,714	-
Unquoted shares	8,064	8,064	-	-	8,064
	20,252,909	20,252,909	572,144	19,672,701	8,064

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.2 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	-
	742,297	742,297	335,182	407,115	-
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
	22,329,773	22,329,773	-	22,291,975	37,798

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

47.2 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					
2017					
Financial investments available-for-sale					
Islamic debt securities	3,798,824	3,798,824	-	3,798,824	-
Government investment issues	9,178,953	9,178,953	-	9,178,953	-
Government sukuk	4,922,276	4,922,276	-	4,922,276	-
Khazanah sukuk	208,347	208,347	-	208,347	-
Cagamas sukuk	1,562,587	1,562,587	-	1,562,587	-
Quoted shares	572,144	572,144	572,144	-	-
Unit trust shares	1,714	1,714	-	1,714	-
Unquoted shares	7,583	7,583	-	-	7,583
	20,252,428	20,252,428	572,144	19,672,701	7,583

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Set out below is a comparison of the carrying amount and fair value of financial instruments that are not measured at fair value in the financial statements.

	Carrying amount 2018 RM'000	**Fair value 2018 RM'000**	**Carrying amount 2017 RM'000**	**Fair value 2017 RM'000**
Group				
Financial assets				
Cash and short-term funds	**1,163,630**	**1,163,630**	2,476,623	2,476,623
Deposits and placements with financial institutions	**-**	**-**	101,384	101,384
Financial investments held-to-maturity	**-**	**-**	10,437,053	10,349,190
Financial investments at amortised cost	**10,155,789**	**10,072,444**	-	-
Financing and advances	**69,003,855**	**73,479,723**	69,189,090	74,663,760
Trade receivables	**2,459**	**2,459**	1,795	1,795
Other receivables and deposits	**964,572**	**964,572**	973,513	973,513
Financial liabilities				
Deposits from customers	**82,735,900**	**82,905,425**	83,235,496	83,386,758
Deposits and placements from banks and financial institutions	**824,000**	**824,000**	-	-
Recourse obligations on financing sold to Cagamas	**710,335**	**702,741**	748,334	740,290
Debt securities issued	**3,143,366**	**3,140,978**	3,443,770	3,434,050
Financing from other financial institutions	**-**	**-**	8,844	8,844
Trade payables	**2,840**	**2,840**	2,681	2,681
Other liabilities	**1,409,003**	**1,409,003**	1,249,997	1,249,997

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	Carrying amount 2018 RM'000	Fair value 2018 RM'000	Carrying amount 2017 RM'000	Fair value 2017 RM'000
Bank				
Financial assets				
Cash and short-term funds	**1,161,454**	**1,161,454**	2,469,937	2,469,937
Deposits and placements with financial institutions	**-**	**-**	100,992	100,992
Financial investments held-to-maturity	**-**	**-**	10,437,053	10,349,190
Financial investments at amortised cost	**10,155,789**	**10,072,444**	-	-
Financing and advances	**69,003,855**	**73,479,723**	69,189,090	74,663,760
Other receivables and deposits	**916,257**	**916,257**	932,565	932,565
Financial liabilities				
Deposits from customers	**82,735,900**	**82,905,425**	83,235,496	83,386,758
Deposits and placements from banks and financial institutions	**824,000**	**824,000**	-	-
Recourse obligations on financing sold to Cagamas	**710,335**	**702,741**	748,334	740,290
Debt securities issued	**3,143,366**	**3,140,978**	3,443,770	3,434,050
Other liabilities	**1,531,376**	**1,531,376**	1,364,260	1,364,260

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group					
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**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group (continued)					
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**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group					
2017					
Financial assets					
Cash and short-term funds	2,476,623	2,476,623	-	-	2,476,623
Deposits and placements with financial institutions	101,384	101,384	-	-	101,384
Financial investments held-to-maturity:					
Government sukuk	2,248,815	2,223,513	-	2,223,513	-
Government investment issues	6,352,971	6,299,619	-	6,299,619	-
Islamic debt securities	619,455	611,976	-	611,976	-
Khazanah sukuk	341,911	344,269	-	344,269	-
Cagamas sukuk	475,271	471,183	-	471,183	-
Negotiable Islamic debt certificates	398,630	398,630	-	-	398,630
Financing and advances	69,189,090	74,663,760	-	-	74,663,760
Trade receivables	1,795	1,795	-	-	1,795
Other receivables and deposits	973,513	973,513	-	-	973,513
	83,179,458	88,566,265	-	9,950,560	78,615,705

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group (continued)					
2017					
Financial liabilities					
Deposits from customers	83,235,496	83,386,758	-	-	83,386,758
Recourse obligations on financing sold to Cagamas	748,334	740,290	-	-	740,290
Debt securities issued	3,443,770	3,434,050	-	3,434,050	-
Financing from other financial institutions	8,844	8,844	-	-	8,844
Trade payables	2,681	2,681	-	-	2,681
Other liabilities	1,249,997	1,249,997	-	-	1,249,997
	88,689,122	88,822,620	-	3,434,050	85,388,570

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Bank					
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**
	81,237,355	**85,629,878**	**-**	**9,923,746**	**75,706,132**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Bank (continued)					
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**

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Bank					
2017					
Financial assets					
Cash and short-term funds	2,469,937	2,469,937	-	-	2,469,937
Deposits and placements with financial institutions	100,992	100,992	-	-	100,992
Financial investments held-to-maturity:					
Government sukuk	2,248,815	2,223,513	-	2,223,513	-
Government investment issues	6,352,971	6,299,619	-	6,299,619	-
Islamic debt securities	619,455	611,976	-	611,976	-
Khazanah sukuk	341,911	344,269	-	344,269	-
Cagamas sukuk	475,271	471,183	-	471,183	-
Negotiable Islamic debt certificates	398,630	398,630	-	-	398,630
Financing and advances	69,189,090	74,663,760	-	-	74,663,760
Other receivables and deposits	932,565	932,565	-	-	932,565
	83,129,637	88,516,444	-	9,950,560	78,565,884

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Bank (continued)					
2017					
Financial liabilities					
Deposits from customers	83,235,496	83,386,758	-	-	83,386,758
Recourse obligations on financing sold to Cagamas	748,334	740,290	-	-	740,290
Debt securities issued	3,443,770	3,434,050	-	3,434,050	-
Other liabilities	1,364,260	1,364,260	-	-	1,364,260
	88,791,860	88,925,358	-	3,434,050	85,491,308

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

47.3.1 Cash and short-term funds

The carrying amounts of cash and short-term funds approximate fair values due to the relatively short maturity of the financial instruments. This is similar to deposits and placements with financial institutions maturing within one month that have relatively short maturity period.

47.3.2 Deposits and placements with financial institutions

The fair values of deposits and placements with financial institutions are not materially sensitive to changes in market profit rate because of their limited term to maturity.

47.3.3 Financial investments at amortised cost

Financial investments at amortised are carried at amortised cost at the end of the reporting period. Fair values for these financial instruments are estimated based on broker quotes from Bond Pricing Agency.

47.3.4 Financing and advances

Financing and advances are carried at amortised cost at the end of the reporting period. Fair valuation of these financial instruments are estimated based on discounted payment to be received in the future using effective profit rate offered for similar financing at the reporting date.

47.3.5 Trade and other receivables

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

47. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

47.3.6 Deposits from customers

The fair values of deposits payable on demand (demand and savings deposits), or deposits with remaining maturity of less than one year are estimated to approximate their carrying amounts.

The fair values of deposits with remaining maturities of more than one year are estimated using discounted cash flows based on effective profit rates for similar deposits from customers at the reporting date.

However, since all deposits received can be classified as Islamic deposits, their fair values are deemed to approximate their carrying amounts as profit rates are determined at the end of the maturity period based on the sharing of profits generated from investments of the deposits.

47.3.7 Deposits and placements from banks and financial institutions

The fair values of these financial instruments with remaining maturity of less than one year approximate their carrying amounts due to the relatively short maturity of the financial instruments.

47.3.8 Recourse obligations on financing sold to Cagamas

The fair values for recourse obligations sold to Cagamas that have remaining maturity of less than one year are estimated to approximate their carrying amounts. For remaining maturity of more than one year, they are estimated using discounted cash flows based on prevailing Cagamas rates at the reporting date.

47.3.9 Debt securities issued

Debt securities issued are measured at amortised cost at the end of the reporting period. The fair value of the securities are derived by referring to the present value of the expected amount due in the future by applying the effective profit rate for the debt securities at the reporting date.

47.3.10 Trade and other liabilities

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