



**REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
BANK KERJASAMA RAKYAT MALAYSIA BERHAD
FOR THE YEAR ENDED 31 DISEMBER 2017**

**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 2017**

Report on 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 2017 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 169.

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 2017 and of their financial performance and cash flows for the year then ended in accordance with the approved financial reporting standards in Malaysia, 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

I conducted the audit 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 Auditors' 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 Auditors' 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 auditors' 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 approved financial reporting standards in Malaysia, 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditors' 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 Group's internal control.
- c. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- d. Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Bank Kerjasama Rakyat Malaysia Berhad or the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I have to draw attention in my auditors' 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 auditors' 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.

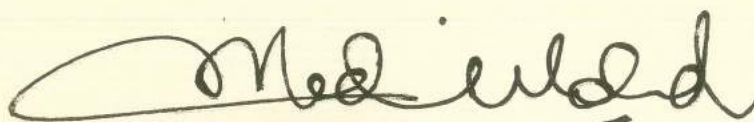
Report on Other Legal and Regulatory Requirements

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 auditors 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 13 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.



(TAN SRI DR. MADINAH BINTI MOHAMAD)
AUDITOR GENERAL
MALAYSIA

PUTRAJAYA
8 FEBRUARY 2018




STATEMENT BY DIRECTORS

We, **TAN SRI SHUKRY MOHD SALLEH** 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 2017 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,


TAN SRI SHUKRY MOHD SALLEH
Chairman


DATO' ZULKIFLEE ABBAS ABDUL HAMID
Managing Director/President

Kuala Lumpur
Date: 07 FEB 2018



Annual Report of Shariah Committee of Bank Rakyat 2017



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 2017.

The Management of Bank Rakyat is responsible for ensuring that 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 2017, 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 empower and delegate 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 quarterly basis for review and confirmation.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that 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 introduced by Bank Rakyat in a year of 2017 as below :
 - i. Implementation of Trade Finance products based on concept of *Tawarruq, Ijarah Khadamat, Wakalah bil Ujrah, Kafalah bil Ujrah, Murabahah lil Aamir bi Al-Syira'* launched on 19 April 2017 :
 - a. Letter of Credit-i (LC-i)
 - b. Shipping Guarantee-i (SG-i)
 - c. Inwards Bill Collection-i (IBC-i)
 - d. Export Letter of Credit Advising-i (ELC-i)
 - e. Export Letter of Credit Confirmation-i (ELCC-i)
 - f. Outward Bills Collection-i (OBC-i)
 - g. Murabahah Working Capital Financing (MWCF)
 - h. Tawarruq Trade Financing (TTF)
 - i. Credit Bills Financing-i (CBF-i)
 - j. Outward Bills Financing-i (OBF-i)
 - k. Bank Guarantee-i (BG-i)
 - ii. Implementation of Card Debit-i (MyDebit-i) launched on 6th June 2017.
 - iii. Implementation of Saving Account-i (Tabung Qurban) based on concept of *Wadi`ah Yad Dhamanah* launched on 1st August 2017.
 - iv. Implementation of Saving Account-i (Umrah Savers) based on concept of *Wadi`ah Yad Dhamanah* launched on 30th October 2017.
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 documents, Product 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 level of branches, related departments and Bank's subsidiaries which involve review on legal documents executed and *akad* sequence.



- v. Shariah review on system application related to banking products.
- vi. Shariah review on bank activities including rental activities of Bank Rakyat and its subsidiaries' assets to third parties and sponsorship.
- 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 Shariah Compliance to the bank's stakeholders 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, 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 banking documentation, screening business banking financing application, 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 2017, 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 20 Rakyat Xcess and 43 Ar-Rahnu Exchange
- c. Shariah Review Report on 63 business banking and cooperative financing application
- d. Shariah Review Report on 6 subsidiaries of Bank Rakyat
- e. Shariah Review Report : Recovery Department 1 & 2
- f. Shariah Review Report : Treasury Marketing Department
- g. Shariah Review Report : Capital Management Department
- h. Shariah Review Report : Business Rehabilitation Department
- i. Shariah Review Report : Rehabilitation Department 1 & 2
- j. Shariah Review Report : Rakyat Management Services (RMS)
- k. Shariah Review Report : Trade Finance Department
- l. Shariah Review Report : Investment Department
- m. Shariah Review Report : Fix Income Department
- n. Shariah Review Report : Payroll and Benefit Administration Department

Shariah Audit

- a) Shariah Audit Report : Small Medium Enterprise Department
- b) Shariah Audit Report : Business Financing Department
- c) Shariah Audit Report : Corporate Banking Operation Department (Operation)
- d) Shariah Audit Report : Access Banking Department
- e) Shariah Audit Report : Rakyat Niaga Sdn Bhd
- f) Shariah Audit Report : Rakyat Travel Sdn Bhd
- g) Shariah Audit Report : Property Department
- h) Shariah Audit Report : Collection Centre Department
- i) Shariah Audit Report : Validation on Risk Assessment for Foreign Exchange Forward Contract / *kontrak Pertukaran Kehadapan Matawang Asing*
- j) Shariah Audit Report: Validation on Risk Assessment for New Product Mikro-i (MUk) Mentee
- k) Shariah Audit Report : Retail Recovery 1 Department
- l) Shariah Audit Report : Early Monitoring Department
- m) Shariah Audit Report : Retail Rehabilitation Department
- n) Shariah Audit Report : Pusat ATM
- o) Shariah Audit Report : Savings Account-i
- p) Shariah Audit Report : Personal Financing-i
- q) Shariah Audit Report : Pawn-Broking-i



Shariah Training and Awareness

1. During 2017, thirty seven (37) Shariah training and briefing sessions were conducted within Bank's internal employees covering more than 800 participants throughout the nation.
2. Bank Rakyat has also committed to elevate the knowledge and understanding of Shariah as well as Islamic Banking of its employees by engaging Islamic Banking and Finance Institute Malaysia (IBFIM) for in-house certification programme. Twenty (20) Shariah officers were certified by IBFIM with Certified Shariah in Islamic Finance (CSIF), which are newly introduced in Islamic Banking industry. In addition, the module prepared for this certification has obtained Full Accreditation (FFA) 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.
3. To increase the awareness on Shariah compliance culture, Bank Rakyat has conducted a special compliance program which covers Shariah Governance, Anti-Money Laundering (AML), Internal Audit, and etc, which involved Management representative of each branch nationwide. Shariah Officers who conducted Shariah Review at all 147 branches were required to conduct a briefing session with branch employees in regards to Shariah compliance. Those programs aim to provide updates to Business Support & Unit (BSU) on the occurrence of Shariah non-compliance events and new Shariah rulings issued by Bank Rakyat and regulators.

Shariah Non Compliance Issue

1. For the financial year ended 31st December 2017, the Shariah non-compliance issues deliberated by us were as follows :
 - a) Imposition of Late Payment Charges (LPC) after expiry date on the Property-i Financing account more than the prevailing daily overnight Islamic Interbank rate (IIMM) on the outstanding balance. The overcharged amount is due to the failure to update and enter the IIMM rate in the IBS system and leads the Bank to accidentally over charged the customers.
 - b) Overcharged safekeeping fees in the process of Gold Auction between branch and Rakyat Management Services Sdn Bhd (RMS) due to the late in closing customers account.
 - c) Subscription of conventional insurance premium for Vehicle Financing-i accounts financed by the bank involving 113 accounts from 22 branches for the period of 5th September 2005 until 22nd May 2016 including 3 finding on the same issue for the year of 2017.



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 2017, the Bank received Shariah non-compliant income amounting to **RM 57,133.17**. The amount is 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 2017, we confirm 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 confirm 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 approved 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 2017 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 2017 have been conducted in conformity with the Shariah principles.

Annual Report of Shariah Committee of Bank Rakyat 2017


- Expiry of service -


.....
**PROF. MADYA DR. SITI SALWANI
RAZALI**

Member of Shariah Committee


.....
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


.....
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 **07 FEB 2018**


NOR HAIMEE ZAKARIA

Before me:



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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

DIRECTORS' REPORT

The Directors of Bank Kerjasama Rakyat Malaysia Berhad ("the Bank") have pleasure in submitting their report and the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2017.

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 13 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	2,045,152	1,998,254
Taxation	(92,545)	(83,573)
Zakat	(42,980)	(41,739)
Profit after taxation and zakat	1,909,627	1,872,942
Statutory appropriations	(553,548)	(553,548)
Profit for the year after statutory appropriations	1,356,079	1,319,394
Other comprehensive income	20,076	20,076
Total comprehensive income for the year	1,376,155	1,339,470
Total comprehensive income for the year attributable to: Equity holders of the Bank	1,376,155	1,339,470

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

RESERVES AND PROVISION

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

DIVIDENDS

During the financial year, the Bank paid a final cash dividend of 15% amounting to RM444 million in respect of the previous financial year.

In respect of the current financial year, the Board of Directors has proposed a cash dividend up to 17% amounting to RM510 million. The proposed dividend will be recognised in the subsequent financial period 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 169 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 2017 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 36 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.



Tan Sri Shukry Mohd Salleh

Kuala Lumpur, Malaysia



Dato' Zulkiflee Abbas Abdul Hamid

07 FEB 2018

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

		Group		Bank	
	Note	2017	2016	2017	2016
		RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short-term funds	5	2,476,623	2,391,083	2,469,937	2,389,341
Deposits and placements with financial institutions	6	101,384	204,150	100,992	203,026
Financial assets available-for-sale	7	20,252,909	15,035,407	20,252,428	15,034,854
Financial assets held-to-maturity	8	10,437,053	11,355,466	10,437,053	11,355,466
Financing and advances	9	69,189,090	67,806,707	69,189,090	67,806,707
Trade receivables	10	1,795	5,644	-	-
Other assets	11	1,019,205	638,196	987,691	598,112
Inventories	12	9,291	4,927	-	-
Investment in subsidiaries	13	-	-	65,976	65,976
Property and equipment	14	708,374	709,393	649,790	668,419
Goodwill on consolidation		13,185	13,185	-	-
Investment properties	15	1,116,302	850,983	871,845	688,221
Prepaid lease payments	16	62,234	63,760	62,234	63,760
Tax recoverable		51,111	130,200	47,806	127,712
Deferred tax assets	17	13,446	10,098	13,000	10,000
Total assets		105,452,002	99,219,199	105,147,842	99,011,594

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017 (CONTINUED)**

	Note	Group 2017 RM'000	2016 RM'000	Bank 2017 RM'000	2016 RM'000
Liabilities					
Deposits from customers	18	83,235,496	77,903,322	83,235,496	77,903,322
Deposits and placements from banks and financial institutions	19	-	900,000	-	900,000
Trade payables		2,681	4,288	-	-
Recourse obligations on financing sold to Cagamas	20	748,334	1,062,787	748,334	1,062,787
Debt securities issued	21	3,443,770	2,818,612	3,443,770	2,818,612
Other liabilities	22	1,379,579	1,295,738	1,490,291	1,455,811
Provision for taxation		574	176	-	-
Deferred tax liabilities	17	4,371	476	-	-
Financing from other financial institutions	23	8,844	1,021	-	-
Total liabilities		88,823,649	83,986,420	88,917,891	84,140,532
Shareholders' fund					
Share capital	24	2,986,030	2,986,030	2,986,030	2,986,030
Share redemption fund		36,440	52,070	36,440	52,070
Reserves	25	13,605,883	12,194,679	13,207,481	11,832,962
Total shareholders' fund		16,628,353	15,232,779	16,229,951	14,871,062
Total liabilities and shareholders' fund		105,452,002	99,219,199	105,147,842	99,011,594
Commitments and contingencies	36	2,723,371	2,400,611	2,723,371	2,400,611

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

		Group		Bank	
	Note	2017	2016	2017	2016
		RM'000	RM'000	RM'000	RM'000
Income	26	6,336,268	6,003,341	6,290,020	5,959,396
Expenditure	27	(3,245,264)	(3,187,511)	(3,200,025)	(3,142,778)
Net income		3,091,004	2,815,830	3,089,995	2,816,618
Allowances for impairment	28	(522,979)	(531,863)	(522,979)	(531,863)
Other operating income	29	687,166	654,686	658,053	639,560
Operating expenses	30	(1,210,039)	(1,200,543)	(1,226,815)	(1,223,985)
Profit before taxation and zakat		2,045,152	1,738,110	1,998,254	1,700,330
Taxation	31	(92,545)	(65,998)	(83,573)	(60,389)
Zakat	32	(42,980)	(39,084)	(41,739)	(37,849)
Profit after taxation and zakat		1,909,627	1,633,028	1,872,942	1,602,092
Statutory appropriations	33				
Transfer to statutory reserve: 25% (2016: 25%)		(478,670)	(409,985)	(478,670)	(409,985)
Contribution to the Co-operative Education Trust Fund: 2% (2016: 2%)		(39,965)	(34,007)	(39,965)	(34,007)
Contribution to the Co-operative Development Provident Fund: 1% (2016: 1%)		(19,983)	(17,003)	(19,983)	(17,003)
Contribution to Bank Rakyat Foundation		(14,930)	(14,930)	(14,930)	(14,930)
		(553,548)	(475,925)	(553,548)	(475,925)
Profit for the year		1,356,079	1,157,103	1,319,394	1,126,167

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

	Note	Group 2017 RM'000	2016 RM'000	Bank 2017 RM'000	2016 RM'000
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Net gain on revaluation of financial assets available-for-sale	25(iii)	20,076	35,215	20,076	35,215
Item that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plan	11(iii)	-	(6,637)	-	(6,637)
		20,076	28,578	20,076	28,578
Total comprehensive income for the year		1,376,155	1,185,681	1,339,470	1,154,745
Earnings per share (RM)					
Basic	34	0.64	0.55	-	-

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 2017**

Group	← Non-distributable →			Distributable	
	Share capital RM'000	Share redemption fund RM'000	Other reserves RM'000	Retained profits RM'000	Total equity RM'000
At 1 January 2016	2,983,923	53,671	4,952,386	6,031,307	14,021,287
Profit after taxation and zakat	-	-	-	1,633,028	1,633,028
Transfer to statutory reserve	-	-	-	(409,985)	(409,985)
Contribution to the Co-operative Education Trust Fund	-	-	-	(34,007)	(34,007)
Contribution to the Co-operative Development Provident Fund	-	-	-	(17,003)	(17,003)
Contribution to Bank Rakyat Foundation	-	-	-	(14,930)	(14,930)
Profit for the year	-	-	-	1,157,103	1,157,103
Other comprehensive income	-	-	35,215	(6,637)	28,578
Total comprehensive income for the year	-	-	35,215	1,150,466	1,185,681
Transfer from retained profits	-	-	409,985	-	409,985
Issuance to new members	30,705	-	-	-	30,705
Share withdrawal	(30,199)	-	-	-	(30,199)
Transfer to share capital	1,601	(1,601)	-	-	-
Transfer to regulatory reserve	-	-	71,019	(71,019)	-
Dividends (Note 35)	-	-	-	(384,822)	(384,822)
Overprovision in contribution to Bank Rakyat Foundation	-	-	-	142	142
At 31 December 2016	2,986,030	52,070	5,468,605	6,726,074	15,232,779
	Note 24		Note 25	Note 25	

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

Group	← Non-distributable →			Distributable	
	Share capital RM'000	Share redemption fund RM'000	Other reserves RM'000	Retained profits RM'000	Total equity RM'000
At 1 January 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 members	16,626	-	-	-	16,626
Share withdrawal	(32,256)	-	-	-	(32,256)
Transfer to share capital	15,630	(15,630)	-	-	-
Dividends (Note 35)	-	-	-	(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 24		Note 25	Note 25	

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

	← Non-distributable →			Distributable	
	Share capital	Share redemption fund	Other reserves	Retained profits	Total equity
	RM'000	RM'000	RM'000	RM'000	RM'000
Bank					
At 1 January 2016	2,983,923	53,671	4,953,127	5,699,785	13,690,506
Profit after taxation and zakat	-	-	-	1,602,092	1,602,092
Transfer to statutory reserve	-	-	-	(409,985)	(409,985)
Contribution to the Co-operative Education Trust Fund	-	-	-	(34,007)	(34,007)
Contribution to the Co-operative Development Provident Fund	-	-	-	(17,003)	(17,003)
Contribution to Bank Rakyat Foundation	-	-	-	(14,930)	(14,930)
Profit for the year	-	-	-	1,126,167	1,126,167
Other comprehensive income	-	-	35,215	(6,637)	28,578
Total comprehensive income for the year	-	-	35,215	1,119,530	1,154,745
Transfer from retained profits	-	-	409,985	-	409,985
Issuance to new members	30,705	-	-	-	30,705
Share withdrawal	(30,199)	-	-	-	(30,199)
Transfer to share capital	1,601	(1,601)	-	-	-
Transfer to regulatory reserve	-	-	71,019	(71,019)	-
Dividends (Note 35)	-	-	-	(384,822)	(384,822)
Overprovision in contribution to Bank Rakyat Foundation	-	-	-	142	142
At 31 December 2016	2,986,030	52,070	5,469,346	6,363,616	14,871,062
	Note 24		Note 25	Note 25	

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

	← Non-distributable →			Distributable	
	Share capital	Share redemption fund	Other reserves	Retained profits	Total equity
	RM'000	RM'000	RM'000	RM'000	RM'000
Bank					
At 1 January 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 members	16,626	-	-	-	16,626
Share withdrawal	(32,256)	-	-	-	(32,256)
Transfer to share capital	15,630	(15,630)	-	-	-
Dividends (Note 35)	-	-	-	(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 24		Note 25	Note 25	

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Cash flows from/(used in) operating activities				
Profit for the year	1,356,079	1,157,103	1,319,394	1,126,167
Adjustment for:				
Transfer to statutory reserve	478,670	409,985	478,670	409,985
Contribution to the Co-operative Education Trust Fund	39,965	34,007	39,965	34,007
Contribution to the Co-operative Development Provident Fund	19,983	17,003	19,983	17,003
Contribution to Bank Rakyat Foundation	14,930	14,930	14,930	14,930
Taxation	92,545	65,998	83,573	60,389
Zakat	42,980	39,084	41,739	37,849
Profit expense on debt securities issued	139,171	125,610	139,171	125,610
Allowance for impairment on financing and advances	519,948	522,281	519,948	522,281
Allowance for impairment on financial assets available-for-sale	3,031	9,582	3,031	9,582
Depreciation of property and equipment	98,055	98,927	95,141	96,563
Amortisation of prepaid lease payment	1,526	1,498	1,526	1,498
Property and equipment written off	9,523	1,054	9,523	1,054
Gain on disposal of property and equipment	(16,750)	(1,707)	(16,686)	(1,232)
Loss on financing written off	17,196	21,198	17,196	21,198
Provision for defined benefit plan	-	41,029	-	41,029
Allowance for doubtful debts	173	944	19	765
Gain on revaluation of investment properties	(128,605)	(20,320)	(99,784)	(3,076)
Allowance for doubtful debts no longer required	(57)	(455)	-	(1)
Allowance for impairment loss on financial assets held-to-maturity no longer required	(649)	(654)	(649)	(654)

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

	Group		Bank	
	2017	2016	2017	2016
	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 assets available-for-sale	(46,483)	(20,745)	(46,483)	(20,745)
Net gain on disposal of financial assets held for trading	(598)	(1,375)	(598)	(1,375)
Profit expense on financing sold with recourse to Cagamas	42,661	58,445	42,661	58,445
Dividend from financial assets available-for-sale	(18,123)	(11,535)	(18,123)	(11,535)
Dividend from subsidiary	-	-	-	(4,000)
Operating profit before working capital changes	2,665,171	2,561,887	2,644,147	2,535,737
(Increase)/Decrease in assets:				
Deposits and placements with financial institutions	102,766	729,136	102,034	705,724
Financing and advances	(1,919,527)	(5,213,002)	(1,919,527)	(5,213,002)
Trade receivables	3,752	3,044	-	-
Other assets	(381,028)	11,671	(389,598)	15,154
Inventories	(4,364)	19	-	-
Increase/(Decrease) in liabilities:				
Deposits from customers	5,332,174	6,921,550	5,332,174	6,921,550
Deposits and placements from banks and financial institutions	(900,000)	(1,040,000)	(900,000)	(1,040,000)
Trade payables	(1,607)	706	-	-
Recourse obligations on financing sold to Cagamas	(357,114)	(474,317)	(357,114)	(474,317)
Other liabilities	(50,013)	(70,690)	(100,419)	(134,978)
Cash generated from operations	4,490,210	3,430,004	4,411,697	3,315,868
Income tax paid	(12,511)	(41,566)	(6,667)	(34,476)
Zakat paid	(31,907)	(37,982)	(29,621)	(37,177)
Net cash from operating activities	4,445,792	3,350,456	4,375,409	3,244,215

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Cash flows from/(used in) investing activities				
Purchases of financial assets held-for-trading	(780,000)	(3,435,000)	(780,000)	(3,435,000)
Proceeds from disposal of financial assets held-for-trading	780,598	3,436,375	780,598	3,436,375
Purchases of financial assets available-for-sale	(9,014,723)	(8,183,090)	(9,014,723)	(8,183,090)
Proceeds from disposal of financial assets available-for-sale	3,860,749	6,491,034	3,860,677	6,490,433
Purchases of financial assets held-to-maturity	(2,736,000)	(2,730,000)	(2,736,000)	(2,730,000)
Proceeds from disposal of financial assets held-to-maturity	3,655,062	2,094,031	3,655,062	2,094,031
Purchase of investment properties	(156,143)	(10,580)	(83,840)	-
Purchase of property and equipment	(90,124)	(173,454)	(88,801)	(77,240)
Proceeds from disposal of property and equipment	19,744	2,616	19,452	2,092
Investment in subsidiaries	-	-	-	(4,000)
Dividend from financial assets available-for-sale	18,123	11,535	18,123	11,535
Dividend from subsidiary	-	-	-	4,000
Net cash used in investing activities	(4,442,714)	(2,496,533)	(4,369,452)	(2,390,864)

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Cash flows from/(used in) financing activities				
Proceeds from issue of shares to members	16,626	30,705	16,626	30,705
Dividend paid	(443,774)	(384,822)	(443,774)	(384,822)
Fund received from government	15,800	18,000	15,800	18,000
Proceeds from debt securities issued	1,900,000	300,000	1,900,000	300,000
Payment of profit expenses on debt securities issued	(1,414,013)	(325,869)	(1,414,013)	(325,869)
Receipt of financing from other financial institutions	7,844	-	-	-
Payment of financing from other financial institutions	(21)	-	-	-
Net cash from/(used in) financing activities	82,462	(361,986)	74,639	(361,986)
Net increase in cash and cash equivalents	85,540	491,937	80,596	491,365
Cash and cash equivalents at beginning of year	2,391,083	1,899,146	2,389,341	1,897,976
Cash and cash equivalents at end of year	2,476,623	2,391,083	2,469,937	2,389,341
Cash and cash equivalents comprises:				
Cash and short-term funds (Note 5)	2,476,623	2,391,083	2,469,937	2,389,341
Deposits and placements with financial institutions (Note 6)	101,384	204,150	100,992	203,026
	2,578,007	2,595,233	2,570,929	2,592,367
Less:				
Cash and short-term funds and deposits and placements with original maturity of more than three months	101,384	204,150	100,992	203,026
	2,476,623	2,391,083	2,469,937	2,389,341

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 13.

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 2017 (2016: 147).

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 2018

- MFRS 9, Financial Instruments
- MFRS 15, Revenue from Contracts with Customers
- Clarifications to 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

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 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 2021

- MFRS 17, Insurance Contracts

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

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

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

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Group and the Bank except as mentioned below:

MFRS 9, Financial Instruments

In November 2014, MASB issued the final version of MFRS 9 Financial Instruments that replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group expects an increase in the loss allowance resulting in a negative impact on equity as discussed below:

(i) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of MFRS 9. It expects 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 earnings. Debt securities are expected to be measured at fair value through OCI under MFRS 9 as the Group expects 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 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 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

(ii) 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 take into account the time value of money.

MFRS 15, Revenue from Contracts with Customers

MFRS 15 establishes principles that an entity shall apply to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with customers. The core principle of MFRS 15 is that an entity recognises revenue in a manner which reflects the consideration an entity expects to be entitled in exchange for goods or services.

The adoption of MFRS 15 is not expected to have any material impact on the financial statements of the Group and of the Bank.

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.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Subsidiaries and basis of consolidation

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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 139, and when applicable, the cost on initial recognition of an investment in an associate or joint venture.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Business combinations

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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 that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with MFRS 139, Financial Instruments: Recognition and Measurement or MFRS 137, Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Business combinations (continued)

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

3.4 Goodwill on consolidation

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' or financial assets 'held-for-trading', 'held-to-maturity' investments, 'available-for-sale' financial assets and 'financing and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.1 Financial assets held-for-trading or at fair value through profit or loss

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

Financial instruments included in this category are recognised initially at fair value; transaction costs are recognised in profit or loss. Gains and losses arising from changes in fair value are recognised in profit or loss and are reported as 'Gains/(losses) on revaluation of financial assets held-for-trading'. Profit income on financial assets held-for-trading are included in 'Income from financial assets'.

3.5.1.2 Available-for-sale financial assets

Available-for-sale financial assets 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, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.2 Available-for-sale financial assets (continued)

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.

3.5.1.3 Held-to-maturity investments

Held-to-maturity investments 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 assets held-to-maturity is included in profit or loss and reported as 'Income from financial assets'. 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 assets'.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.1 Financial assets (continued)

3.5.1.4 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.

3.5.2 Impairment of financial assets

3.5.2.1 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:

- (i) Principal or profits or both are past due for three (3) months or more;
- (ii) Where a financing is in arrears for less than three (3) months, the financing exhibits indications of credit weaknesses; or
- (iii) 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.2 Impairment of financial assets (continued)

3.5.2.1 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.2 Impairment of financial assets (continued)

3.5.2.1 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.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.2 Impairment of financial assets (continued)

3.5.2.1 Financing and advances (continued)

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.

3.5.2.2 Available-for-sale financial assets

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 available-for-sale financial assets, 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.2 Impairment of financial assets (continued)

3.5.2.3 Held-to-maturity investments

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.

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.

3.5.2.4 Rescheduled and restructured financing

Where a financing shows evidence of credit weaknesses, the Group and the Bank may seek to renegotiate the financing rather than to take possession of collateral. This may involve an extension of the payment arrangements via rescheduling or the renegotiation of new financing terms and conditions via restructuring. Management monitors the renegotiated financing to ensure that all the revised terms are met and that the payments are made promptly for a continuous period. Where an impaired financing is renegotiated, the borrower 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.3 Derecognition of financial assets

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

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

3.5.4 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.

3.5.5 Equity instruments

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.6 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.

3.5.7 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.

3.5.8 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (continued)

3.5.8 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.

In cases when the fair value of unquoted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 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 8 to 864 years (2016: 9 to 865 years).

3.11 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).

3.12 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Profit income and expense

For all financial instruments measured at amortised cost and profit-bearing financial assets classified as held-for-trading and available-for-sale, 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.

3.14 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 goods and services 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Dividend income

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

3.16 Income tax

3.16.1 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.

3.16.2 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.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Income tax (continued)

3.16.2 Deferred income tax (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities 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.

3.17 Employee benefits

3.17.1 Defined benefit plan

A defined benefit plan is a post-employment plan that defines an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The Bank provides lump sum benefit at retirement for its employees who have completed at least 10 years of service. The retirement benefit payable is based on last drawn salary and years of service.

The Bank established a trust fund to provide such benefits to its eligible members. The trust fund is managed by Amanah Raya Berhad.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contribution.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Employee benefits (continued)

3.17.1 Defined benefit plan (continued)

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit actuarial cost method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding profit), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained profits and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net profit expense or income is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the then net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements)
- net profit expense or income; and
- remeasurement.

The Group and the Bank present the first two components of defined benefit costs in profit or loss in the line item of personnel expenses. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit asset recognised in the consolidated statement of financial position represents value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Employee benefits (continued)

3.17.1 Defined benefit plan (continued)

The plan exposes the Bank to actuarial risks as follows:

(i) Investment

Present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate sukuk yields. If the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively steady return from investment in fixed deposits.

(ii) Profit

A decrease in the sukuk profit rate will increase the plan liability. This is partially offset since return on the plan asset in fixed deposits is relatively stable.

(iii) Longevity

Present value of the defined benefit plan liability is calculated by reference to the best estimate of mortality of the plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

(iv) Salary

Present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The Bank wound up the defined benefit plan effective 31 July 2016. The accrued retirement benefit was calculated using employees' service and salaries as at the wind up date. The calculated accrued retirement benefit was paid directly by the Bank to all eligible employees.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Employee benefits (continued)

3.17.2 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.

3.17.3 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.

3.18 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.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Impairment of non-financial assets (continued)

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.

3.19 Zakat

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

Collective impairment is applicable to a group of financing with similar credit risk characteristics, and which is not classified under individual impairment as described above.

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.

4.2 Impairment of financial assets available-for-sale

At the end of each reporting period, management will 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.2 Impairment of financial assets available-for-sale (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 Financial assets held-to-maturity

The Group and the Bank classify some non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement.

In making this judgement, the Group and the Bank evaluate their intention and ability to hold such investments to maturity. If the Group and the Bank were to fail to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - the Group and the Bank are required to reclassify the entire category as available-for-sale. Accordingly, the investments would be measured at fair value instead of amortised cost.

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.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

5. CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	1,056,304	786,965	1,049,618	785,223
Money at call and deposit placements maturing within one month	1,420,319	1,604,118	1,420,319	1,604,118
	<u>2,476,623</u>	<u>2,391,083</u>	<u>2,469,937</u>	<u>2,389,341</u>

6. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Licensed banks	<u>101,384</u>	<u>204,150</u>	<u>100,992</u>	<u>203,026</u>

7. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
At fair value				
Islamic debt securities	3,798,824	3,016,285	3,798,824	3,016,285
Government investment issues	9,178,953	7,492,530	9,178,953	7,492,530
Government sukuk	4,922,276	3,018,291	4,922,276	3,018,291
Khazanah sukuk	208,347	71,965	208,347	71,965
Cagamas sukuk	1,562,587	867,454	1,562,587	867,454
Quoted shares	572,144	559,170	572,144	559,170
Unit trust shares	1,714	1,576	1,714	1,576
At cost, net of impairment loss				
Unquoted shares	8,064	8,136	7,583	7,583
Net carrying amount	<u>20,252,909</u>	<u>15,035,407</u>	<u>20,252,428</u>	<u>15,034,854</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

8. FINANCIAL ASSETS HELD-TO-MATURITY

	Group and Bank	
	2017	2016
	RM'000	RM'000
At amortised cost		
Islamic debt securities	642,412	759,283
Government investment issues	6,352,971	7,772,769
Government sukuk	2,248,815	1,857,907
Khazanah sukuk	341,911	510,015
Cagamas sukuk	475,271	279,840
Negotiable Islamic debt certificates	398,630	199,258
	<u>10,460,010</u>	<u>11,379,072</u>
Less: Accumulated impairment losses		
- Islamic debt securities	(22,957)	(23,606)
Net carrying amount	<u>10,437,053</u>	<u>11,355,466</u>

Movement of accumulated impairment losses for financial assets held-to-maturity is as follows:

	Group and Bank	
	2017	2016
	RM'000	RM'000
As of 1 January	23,606	24,260
Recoveries of impairment loss during the year (Note 29(ii))	(649)	(654)
As of 31 December	<u>22,957</u>	<u>23,606</u>

The maturity structure of the instruments is as follows:

	Group and Bank	
	2017	2016
	RM'000	RM'000
Maturity within one year	2,464,394	2,190,555
More than one year to five years	6,514,401	6,786,522
More than five years	1,481,215	2,401,995
	<u>10,460,010</u>	<u>11,379,072</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

9. FINANCING AND ADVANCES

(i) Financing and advances analysed by type and concept

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

9. FINANCING AND ADVANCES (CONTINUED)

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

Group and Bank 2016	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	30,233,521	-	-	-	-	-	-	25,418,808	55,652,329
- House financing	-	1,544,343	-	-	197,061	-	-	2,142,923	3,884,327
- Hire-purchase receivables	-	-	-	-	-	1,322,351	-	11,189	1,333,540
- Syndicated financing	-	-	-	-	249,008	-	45,667	-	294,675
- Bridging financing	-	-	-	-	254,879	-	-	-	254,879
- Other term financing	117,798	32,198	-	29	3,455,202	-	-	1,147,788	4,753,015
Pawn broking	-	-	1,637,851	-	-	-	-	-	1,637,851
Revolving credit	15	-	-	-	542,720	-	-	-	542,735
Credit card	-	-	-	-	-	-	-	479,350	479,350
Staff financing	-	153,653	-	-	-	-	-	193,419	347,072
	<u>30,351,334</u>	<u>1,730,194</u>	<u>1,637,851</u>	<u>29</u>	<u>4,698,870</u>	<u>1,322,351</u>	<u>45,667</u>	<u>29,393,477</u>	<u>69,179,773</u>
Allowance for impairment on financing and advances:									
Individual assessment impairment									(455,390)
Collective assessment impairment									(917,676)
Net financing and advances									<u>67,806,707</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****9. FINANCING AND ADVANCES (CONTINUED)**

(ii) Financing and advances analysed by geographical distribution

	Group and Bank	
	2017	2016
	RM'000	RM'000
Central Region	28,590,050	28,393,838
Southern Region	10,238,346	9,959,271
Eastern Region	10,889,266	10,544,856
Northern Region	8,223,197	8,143,005
East Malaysia Region	12,687,999	12,138,803
	<u>70,628,858</u>	<u>69,179,773</u>

(iii) Financing and advances analysed by economic sector

	Group and Bank	
	2017	2016
	RM'000	RM'000
Purchase of securities	48,491	52,529
Purchase of non-residential property	152,817	145,060
Consumption credit	66,246,482	64,471,008
Agriculture	231,671	347,125
Manufacturing	173,473	137,875
Electricity, gas and water	100,549	100,310
Construction	853,112	1,312,201
Wholesale and retail trade	149,243	126,760
Transportation and communication	168,367	267,624
Financial, takaful and business services	2,400,420	2,187,859
Community, social and personal services	104,233	31,422
	<u>70,628,858</u>	<u>69,179,773</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

9. FINANCING AND ADVANCES (CONTINUED)

(iv) Financing and advances analysed by remaining contractual maturity

	Group and Bank	
	2017	2016
	RM'000	RM'000
Maturity within one year	3,029,477	2,649,463
More than one year to three years	1,562,900	2,142,818
More than three years to five years	3,057,046	3,437,263
More than five years	62,979,435	60,950,229
	<u>70,628,858</u>	<u>69,179,773</u>

(v) Financing and advances analysed by customer type

	Group and Bank	
	2017	2016
	RM'000	RM'000
Individuals	66,342,851	64,463,394
Business enterprises	2,252,027	2,820,532
Non-bank financial institutions - Co-operatives	1,963,303	1,829,530
Foreign entities	1,254	1,431
Other entities	69,423	64,886
	<u>70,628,858</u>	<u>69,179,773</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

9. FINANCING AND ADVANCES (CONTINUED)

(vi) Financing and advances analysed by profit rate sensitivity

	Group and Bank	
	2017	2016
	RM'000	RM'000
Fixed rate		
Personal financing	30,669,840	34,834,303
House financing	1,099,440	1,238,970
Others	5,568,230	5,095,645
Floating rate		
Personal financing	25,322,392	20,818,021
House financing	3,802,852	2,645,357
Others	4,166,104	4,547,477
	<u>70,628,858</u>	<u>69,179,773</u>

(vii) Impaired financing and advances analysed by geographical distribution

	Group and Bank	
	2017	2016
	RM'000	RM'000
Central Region	1,361,350	1,183,254
Southern Region	58,812	57,816
Eastern Region	57,338	50,079
Northern Region	44,182	44,879
East Malaysia Region	53,343	42,598
	<u>1,575,025</u>	<u>1,378,626</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

9. FINANCING AND ADVANCES (CONTINUED)

(viii) Impaired financing and advances analysed by economic sector

	Group and Bank	
	2017	2016
	RM'000	RM'000
Purchase of securities	87	7
Purchase of non-residential property	104,485	93,582
Consumption credit	488,318	325,826
Agriculture	99,549	133,853
Manufacturing	79,670	17,261
Construction	429,631	659,457
Wholesale and retail trade	15	-
Financial, takaful and business services	372,846	148,640
Community, social and personal services	424	-
	1,575,025	1,378,626

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

	Group and Bank	
	2017	2016
	RM'000	RM'000
As of 1 January	1,378,626	1,217,885
Classified as impaired during the year	1,394,525	1,531,032
Amount written back in respect of recoveries	(763,569)	(901,461)
Amount written off during the year	(434,557)	(468,830)
	196,399	160,741
As of 31 December	1,575,025	1,378,626
Gross impaired financing and advances as a percentage of gross financing and advances	2.23%	1.99%

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

9. FINANCING AND ADVANCES (CONTINUED)

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

	Group and Bank	
	2017	2016
	RM'000	RM'000
Individual assessment impairment		
As of 1 January	<u>455,390</u>	<u>316,652</u>
Allowance made during the year (Note 28(ii))	207,068	280,592
Amount written back in respect of recoveries (Note 28(i))	<u>(196,738)</u>	<u>(141,854)</u>
	10,330	138,738
Amount written off during the year	<u>(16,971)</u>	<u>-</u>
	(6,641)	138,738
As of 31 December	<u>448,749</u>	<u>455,390</u>

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

	Group and Bank	
	2017	2016
	RM'000	RM'000
Collective assessment impairment		
As of 1 January	<u>917,676</u>	<u>1,009,815</u>
Allowance made during the year (Note 28(ii))	1,800,444	1,493,268
Amount written back in respect of recoveries (Note 28(i))	<u>(1,313,068)</u>	<u>(1,118,286)</u>
	487,376	374,982
Amount written off during the year	<u>(414,033)</u>	<u>(467,121)</u>
	73,343	(92,139)
As of 31 December	<u>991,019</u>	<u>917,676</u>
Collective impairment (inclusive of regulatory reserve) as a percentage of gross financing and advances after deduction of individual assessment impairment	<u>1.88%</u>	<u>1.82%</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

10. TRADE RECEIVABLES

	Group	
	2017	2016
	RM'000	RM'000
At amortised cost		
Trade receivables	3,711	7,463
Less: Allowance for doubtful debts	(1,916)	(1,819)
	<u>1,795</u>	<u>5,644</u>

Trade receivables are classified as financing and receivables and are therefore measured at amortised cost. The credit period granted for sale of goods is 30 days (2016: 30 days). No profit is charged on trade receivables. Allowance for doubtful debts is recognised against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

The Group has trade receivables totalling RM1,702,000 (2016: RM4,269,000) that are past due at the end of the reporting period for which the Group has not recognised allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

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

	Group	
	2017	2016
	RM'000	RM'000
Neither past due nor impaired		
1 day to less than 1 month	<u>93</u>	<u>1,375</u>
Past due but not impaired		
2 months to less than 3 months	1,240	1,208
3 months to less than 4 months	168	2,783
4 months and above	294	278
	<u>1,702</u>	<u>4,269</u>
Past due and impaired	<u>1,916</u>	<u>1,819</u>
	<u>3,711</u>	<u>7,463</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

10. TRADE RECEIVABLES (CONTINUED)

Movements in the allowance for doubtful debts are as follows

	Group	
	2017	2016
	RM'000	RM'000
As of 1 January	1,819	2,091
Impairment losses recognised during the year (Note 30 (ii))	154	182
Amount recovered during the year (Note 29(ii))	(57)	(454)
As of 31 December	1,916	1,819

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.

11. OTHER ASSETS

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Amount due from subsidiaries (i)	-	-	19,668	11,641
Other receivables, deposits and prepayments (ii)	1,019,205	638,196	968,023	586,471
	1,019,205	638,196	987,691	598,112

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

11. 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 repayment.

	Bank	
	2017	2016
	RM'000	RM'000
Outstanding balances	21,178	13,151
Less: Allowance for doubtful debts	(1,510)	(1,510)
	19,668	11,641

Movements in the allowance for doubtful debts are as follows:

	Bank	
	2017	2016
	RM'000	RM'000
As of 1 January	1,510	1,507
Impairment losses recognised during the year (Note 30(ii))	-	3
As of 31 December	1,510	1,510

(ii) Other receivables, deposits and prepayments

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Other receivables	734,974	344,261	737,689	331,217
Allowance for doubtful debts *	(15,369)	(16,109)	(15,258)	(15,998)
Refundable deposits	53,908	78,937	10,134	42,879
Prepayments	45,692	31,107	35,458	28,373
Contribution to Central Liquidity Monetary Fund **	200,000	200,000	200,000	200,000
	1,019,205	638,196	968,023	586,471

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

11. OTHER ASSETS (CONTINUED)

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

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

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
As of 1 January	16,109	15,399	15,998	15,288
Impairment losses recognised during the year (Note 30(ii))	19	762	19	762
Amount recovered during the year (Note 29(ii))	-	(1)	-	(1)
Amount written off during the year	(759)	(51)	(759)	(51)
As of 31 December	15,369	16,109	15,258	15,998

** 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.

(iii) Defined benefit plan

The Bank sponsors a funded defined benefit plan for all of its qualifying employees. The defined benefit plan is administrated by a separate Fund that is legally separated from the Bank. Under the Fund, the eligible employees are entitled to compensation based on last drawn salary and years of service with the Bank upon their retirement.

The principal assumptions used for the purposes of the actuarial valuation are as follows:

	Group and Bank	
	2017	2016
Normal retirement age: Male and Female (years)	-	-
Discount rate	-	-
Rate of salary increases	-	-

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****11. OTHER ASSETS (CONTINUED)****(iii) Defined benefit plan (continued)**

Amounts recognised in comprehensive income in respect of these defined benefit plans are as follows:

	Group and Bank	
	2017	2016
	RM'000	RM'000
Service cost:		
Current service cost	-	21,279
Loss on settlement	-	29,302
Net profit income	-	(9,552)
Components of defined benefit costs recognised in profit or loss (Note 30(i))	-	41,029
Remeasurement on the net defined benefit liability:		
Actuarial loss arising from changes in experience adjustments	-	(4,964)
Net return on plan assets	-	11,601
Components of defined benefit costs recognised in other comprehensive income	-	6,637
Total	-	47,666

Amount recognised in the statements of financial position arising from the Bank's obligation in respect of its defined benefit plan is as follows:

	Group and Bank	
	2017	2016
	RM'000	RM'000
Present value of funded obligations	-	-
Fair value of plan assets	-	-
Net assets	-	-

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****11. OTHER ASSETS (CONTINUED)****(iii) Defined benefit plan (continued)**

Movements in the present value of funded obligations are as follows:

	Group and Bank	
	2017	2016
	RM'000	RM'000
As of 1 January	-	513,023
Current service cost	-	21,279
Loss on settlement	-	29,302
Finance cost	-	17,109
Benefits paid	-	(6,990)
Settlement payments	-	(568,759)
Actuarial loss arising from changes in experience adjustments	-	(4,964)
As of 31 December	-	-

Movements in the fair value of plan assets are as follows:

	Group and Bank	
	2017	2016
	RM'000	RM'000
As of 1 January	-	797,843
Profit income	-	26,661
Proceeds from realisation of the plan assets	-	(805,913)
Benefits paid from defined benefit plan	-	(6,990)
Net return on plan assets	-	(11,601)
As of 31 December	-	-

The fair value of the plan assets at the end of the reporting period is as follows:

	Group and Bank	
	2017	2016
	RM'000	RM'000
Term deposits	-	-

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

11. OTHER ASSETS (CONTINUED)

(iii) Defined benefit plan (continued)

The actual return on plan assets was NIL (2016: RM15,060,000).

The Bank wound up the defined benefit plan effective 31 July 2016. The accrued retirement benefit was calculated using employees' service and salaries as at the wind up date. The calculated accrued retirement benefit was paid directly by the Bank to all eligible employees.

12. INVENTORIES

Inventories consist of the following:

	Group	
	2017	2016
	RM'000	RM'000
Trading inventories, at cost	9,291	4,338
Completed property units	-	589
	9,291	4,927

13. INVESTMENT IN SUBSIDIARIES

	Bank	
	2017	2016
	RM'000	RM'000
Unquoted shares, at cost	65,976	65,976

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****13. 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		Principal activities
	2017 %	2016 %	
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
Indirectly owned through Rakyat Holdings Sdn Bhd			
Rakyat Hartanah Sdn Bhd *	100	100	Property development and project management
Rakyat Asset Management Sdn Bhd *	100	100	Management services and co-operative administrator
Rakyat Facility Management Sdn Bhd *	100	100	Building management and maintenance
Rakyat Travel Sdn Bhd *	100	100	Transportation and travelling services
Rakyat Niaga Sdn Bhd *	100	100	Trading and supply of goods

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****13. 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	
		2017	2016	2017	2016
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
Transportation and travelling services	Malaysia	-	-	1	1
Trading and supply of goods	Malaysia	-	-	1	1
Dormant	Malaysia	1	1	-	-
		<u>3</u>	<u>3</u>	<u>5</u>	<u>5</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

14. 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									
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 15)	(132)	(822)	-	-	-	-	-	-	(954)
Transfer from investment properties (Note 15)	-	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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

14. 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 15)	-	(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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

14. 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)									
2016									
At cost									
At 1 January	41,521	377,508	107,539	928	16,326	257,549	565,727	9,179	1,376,277
Additions	-	-	-	-	99,814	13,276	59,991	373	173,454
Disposals	(860)	-	-	-	-	-	(44)	(355)	(1,259)
Write-offs	-	(541)	-	-	(3)	(1,174)	(5,634)	-	(7,352)
Reclassifications	-	(6,171)	-	-	(5,549)	11,032	-	688	-
Transfer to investment properties (Note 15)	-	-	-	-	(110,472)	-	-	-	(110,472)
At 31 December	40,661	370,796	107,539	928	116	280,683	620,040	9,885	1,430,648

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

14. 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)									
2016									
Accumulated depreciation									
At 1 January	-	20,628	14,835	341	-	182,177	405,401	5,594	628,976
Charge for the year	-	7,219	4,066	12	-	24,699	61,946	985	98,927
Disposals	-	-	-	-	-	-	(44)	(306)	(350)
Write-offs	-	-	-	-	-	(1,049)	(5,249)	-	(6,298)
At 31 December	-	27,847	18,901	353	-	205,827	462,054	6,273	721,255
Net book value									
At 31 December	40,661	342,949	88,638	575	116	74,856	157,986	3,612	709,393

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

14. 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									
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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

14. 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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

14. 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)									
2016									
At cost									
At 1 January	40,001	364,910	78,863	928	7,326	255,177	562,242	1,729	1,311,176
Additions	-	-	-	-	4,513	13,061	59,293	373	77,240
Disposals	(860)	-	-	-	-	-	(44)	-	(904)
Write-offs	-	(541)	-	-	(3)	(1,174)	(5,634)	-	(7,352)
Reclassifications	-	-	-	-	(11,720)	11,032	-	688	-
At 31 December	39,141	364,369	78,863	928	116	278,096	615,857	2,790	1,380,160

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

14. 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)									
2016									
Accumulated depreciation									
At 1 January	-	20,347	14,177	341	-	181,530	403,753	1,372	621,520
Charge for the year	-	6,938	3,406	12	-	24,416	61,560	231	96,563
Disposals	-	-	-	-	-	-	(44)	-	(44)
Write-offs	-	-	-	-	-	(1,049)	(5,249)	-	(6,298)
At 31 December	-	27,285	17,583	353	-	204,897	460,020	1,603	711,741
Net book value									
At 31 December	39,141	337,084	61,280	575	116	73,199	155,837	1,187	668,419

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

14. PROPERTY AND EQUIPMENT (CONTINUED)

Land titles of certain freehold land of the Bank with carrying amount of RM3,244,502 (2016: RM3,324,916) have not yet been issued by the relevant authorities.

15. INVESTMENT PROPERTIES

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
At fair value				
As of 1 January	850,983	708,590	688,221	685,145
Additions	156,143	11,601	83,840	-
Gain on revaluation (Note 29(ii))	128,605	20,320	99,784	3,076
Transfer from property and equipment (Note 14)	771	110,472	-	-
Transfer to property and equipment (Note 14)	(20,200)	-	-	-
As of 31 December	1,116,302	850,983	871,845	688,221

Investment properties include the following:

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Freehold land	144,072	3,460	144,050	3,570
Buildings	689,703	605,528	459,075	459,841
Long-term leasehold land	282,527	241,995	268,720	224,810
	1,116,302	850,983	871,845	688,221

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

15. INVESTMENT PROPERTIES (CONTINUED)

The fair values of the Group's and of the Bank's investment properties as at 31 December 2017 and 31 December 2016 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.

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 2017	1,116,302	1,116,302	-	-	1,116,302
As at 31 December 2016	850,983	850,983	-	-	850,983
Bank					
As at 31 December 2017	871,845	871,845	-	-	871,845
As at 31 December 2016	688,221	688,221	-	-	688,221

Reconciliation of fair value:

	Freehold land RM'000	Buildings RM'000	Long-term leasehold land RM'000
Group			
As at 1 January 2016	3,675	468,455	236,460
Purchases	-	9,116	2,485
Remeasurement recognised in profit or loss	(215)	26,366	(5,831)
Transfer from property and equipment	-	101,591	8,881
As at 31 December 2016	3,460	605,528	241,995
Purchases	79,826	71,972	4,345
Remeasurement recognised in profit or loss	60,654	26,064	41,887
Transfer from property and equipment	132	639	-
Transfer to property and equipment	-	(14,500)	(5,700)
As at 31 December 2017	144,072	689,703	282,527

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

15. INVESTMENT PROPERTIES (CONTINUED)

Bank	Freehold land RM'000	Buildings RM'000	Long-term leasehold land RM'000
As at 1 January 2016	3,795	459,725	221,625
Purchases	-	-	-
Remeasurement recognised in profit or loss	(225)	116	3,185
As at 31 December 2016	3,570	459,841	224,810
Purchases	79,826	-	4,014
Remeasurement recognised in profit or loss	60,654	(766)	39,896
As at 31 December 2017	144,050	459,075	268,720

Land titles for certain freehold land and leasehold land of the Group and the Bank with fair value amounting to RM950,000 (2016: RM18,025,000) and RM950,000 (2016: 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 RM26,405,000 (2016: RM22,483,000) and RM25,360,000 (2016: RM21,900,000) has been earned during the year.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

16. PREPAID LEASE PAYMENTS

	Group and Bank	
	2017	2016
	RM'000	RM'000
Cost		
As of 1 January / 31 December	<u>76,680</u>	<u>76,680</u>
Accumulated amortisation		
As of 1 January	12,920	11,422
Charge for the year (Note 30 (ii))	<u>1,526</u>	<u>1,498</u>
As of 31 December	<u>14,446</u>	<u>12,920</u>
	<u>62,234</u>	<u>63,760</u>
 Prepaid lease payments include:		
Long-term leasehold land	54,499	55,840
Short-term leasehold land	<u>7,735</u>	<u>7,920</u>
	<u>62,234</u>	<u>63,760</u>

The remaining period of the leasehold land of the Group and of the Bank ranges from 8 to 864 years (2016: 9 to 865 years).

The land titles of certain leasehold land of the Group and of the Bank amounting to RM10,115,423 (2016: RM14,204,924) have not yet been issued to the Bank by the relevant authorities.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

17. DEFERRED TAX ASSETS/(LIABILITIES)

Deferred tax assets/(liabilities) presented in the statements of financial position are in respect of the tax effects of the following:

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets				
Temporary differences arising from:				
Financing and advances	32,000	36,000	32,000	36,000
Provisions	48,874	45,014	48,000	45,000
Trade receivables	202	302	-	-
	<u>81,076</u>	<u>81,316</u>	<u>80,000</u>	<u>81,000</u>
Offsetting	(67,630)	(71,218)	(67,000)	(71,000)
Deferred tax assets (after offsetting)	<u>13,446</u>	<u>10,098</u>	<u>13,000</u>	<u>10,000</u>
Deferred tax liabilities				
Temporary differences arising from:				
Property and equipment	(67,994)	(71,694)	(67,000)	(71,000)
Investment properties	(4,007)	-	-	-
Offsetting	67,630	71,218	67,000	71,000
Deferred tax liabilities (after offsetting)	<u>(4,371)</u>	<u>(476)</u>	<u>-</u>	<u>-</u>
Net	<u>9,075</u>	<u>9,622</u>	<u>13,000</u>	<u>10,000</u>

Movement in temporary differences during the year:

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
As of 1 January	<u>9,622</u>	<u>54,598</u>	<u>10,000</u>	<u>55,000</u>
Transfer (from)/to profit or loss (Note 31)				
Property and equipment	3,700	(4,930)	4,000	(5,000)
Investment properties	(4,007)	-	-	-
Financing and advances	(4,000)	(30,000)	(4,000)	(30,000)
Provision for retirement benefits	-	(11,000)	-	(11,000)
Other payables	3,860	1,014	3,000	1,000
Trade receivables	(100)	(60)	-	-
	<u>(547)</u>	<u>(44,976)</u>	<u>3,000</u>	<u>(45,000)</u>
As of 31 December	<u>9,075</u>	<u>9,622</u>	<u>13,000</u>	<u>10,000</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

18. DEPOSITS FROM CUSTOMERS

	Group and Bank	
	2017	2016
	RM'000	RM'000
Savings deposits		
Wadiah	5,006,012	4,124,178
Term deposits		
Tawarruq	69,749,467	64,901,919
General investment deposits		
Mudarabah	17	25
Negotiable Islamic debt certificates	8,480,000	8,877,200
	83,235,496	77,903,322

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

	Group and Bank	
	2017	2016
	RM'000	RM'000
Government	34,471,917	36,391,751
Business enterprises	33,453,286	25,265,336
Co-operatives	1,808,285	1,191,572
Individuals	11,014,365	12,032,141
Others	2,487,643	3,022,522
	83,235,496	77,903,322

Maturity structure of deposits from customers is as follows:

	Group and Bank	
	2017	2016
	RM'000	RM'000
Maturity within six months	70,579,539	63,893,599
More than six months to one year	9,114,398	9,626,602
More than one year to five years	3,541,559	4,383,121
	83,235,496	77,903,322

19. DEPOSITS AND PLACEMENTS FROM BANKS AND FINANCIAL INSTITUTIONS

	Group and Bank	
	2017	2016
	RM'000	RM'000
Licensed Islamic banks	-	900,000

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

20. 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.

21. DEBT SECURITIES ISSUED

	Note	Group and Bank	
		2017 RM'000	2016 RM'000
Issued under the RM1.0 billion Senior Islamic Medium Term Notes ("IMTN") Programme:			
Second tranche:			
RM700 million IMTN due in 2017	(i)	-	704,711
Issued under the RM9.0 billion Senior IMTN Programme:			
Second tranche:			
RM300 million IMTN due in 2018	(ii)(a)	300,414	300,399
Third tranche:			
RM575 million IMTN due in 2017	(ii)(b)	-	581,443
Fourth tranche:			
RM425 million IMTN due in 2019	(ii)(b)	430,057	430,014
Fifth tranche:			
RM150 million IMTN due in 2019	(ii)(c)	150,576	150,538
Sixth tranche:			
RM350 million IMTN due in 2021	(ii)(c)	351,367	351,287
Seventh tranche:			
RM350 million IMTN due in 2020	(ii)(d)	351,356	-
Eighth tranche:			
RM850 million IMTN due in 2022	(ii)(d)	853,350	-
Ninth tranche:			
RM270 million IMTN due in 2020	(ii)(e)	272,434	-
Tenth tranche:			
RM430 million IMTN due in 2022	(ii)(e)	433,952	-
Issued under the RM5.0 billion Tier II Subordinated Programme:			
First tranche:			
RM300 million Tier II due in 2026	(iii)(a)	300,264	300,220
		3,443,770	2,818,612

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

21. DEBT SECURITIES ISSUED (CONTINUED)

- (i) On 26 September 2012, the Bank obtained the approval from the Securities Commission for the establishment of a Senior Islamic Medium Term Notes (IMTNs) Programme to issue a Sukuk Musharakah of up to RM1.0 billion with a programme tenor of 10 years. The issuance was made via a Special Purpose Vehicle (SPV), Imtiaz Sukuk Berhad.

On 23 November 2012, the Bank issued its inaugural RM1.0 billion Sukuk Musharakah made in two tranches. The first tranche of RM300 million in nominal value of Senior IMTNs for a tenor of 3 years with profit distribution rate at 3.88% and was fully redeemed on 23 November 2015. The second tranche of RM700 million in nominal value of Senior IMTN for a tenor of 5 years with profit distribution rate at 4.08% and was fully redeemed on 23 November 2017.

- (ii) 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 first and second tranches of the Senior IMTNs of RM200 million and RM300 million respectively. The first tranche has a tenor of 3 years with profit distribution rate at 4.30%, matured and fully redeemed on 23 December 2016. The second tranche has a tenor of 5 years with profit distribution rate at 4.45% maturing on 23 December 2018. The profit is payable semi-annually each year commencing 20 June 2014.
- (b) On 24 March 2014, the Bank issued the third and fourth tranches of RM575 million and RM425 million of the Senior IMTNs. The third tranche has a tenor of 3 years with profit distribution rate at 4.30%, matured and fully redeemed on 24 March 2017. 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 with 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.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

21. DEBT SECURITIES ISSUED (CONTINUED)

- (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.

- (iii) On 8 March 2016, the Bank obtained approval from the Securities Commission for the establishment of a Subordinated Sukuk Programme to issue a Basel III compliant Tier II Subordinated Sukuk Murabahah of up to RM5.0 billion in nominal value. The issuance was made via a SPV, Mumtaz Rakyat Sukuk Berhad. The Subordinated Sukuk Programme has a tenor of up to 20 years from the date of the first issuance and shall be issued with a maturity for at least 5 years and up to 20 years.

- (a) On 20 June 2016, the Bank issued the first tranche of RM300 million 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.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

22. OTHER LIABILITIES

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Amount due to subsidiaries (i)	-	-	124,267	184,738
Sundry creditors	149,763	192,953	152,257	167,371
Income payable	605,548	565,118	605,548	565,118
Other liabilities and accruals	366,293	308,937	351,677	312,332
Government fund	203,445	185,273	203,445	185,273
Zakat payable	54,530	43,457	53,097	40,979
	<u>1,379,579</u>	<u>1,295,738</u>	<u>1,490,291</u>	<u>1,455,811</u>

(i) Amount due to subsidiaries

	Bank	
	2017	2016
	RM'000	RM'000
Term deposits	100,759	164,859
Savings deposits	23,508	19,879
	<u>124,267</u>	<u>184,738</u>

The amount due to subsidiaries of RM124,267,000 (2016: RM184,738,000) represents deposits placed with the Bank. The average profit rate paid/payable to subsidiaries is 3.59% (2016: 3.65%) per annum.

23. FINANCING FROM OTHER FINANCIAL INSTITUTIONS

	Group	
	2017	2016
	RM'000	RM'000
Secured		
Term financing	<u>8,844</u>	<u>1,021</u>

As of 31 December 2017, one of the subsidiaries had a Tawarruq Business Financing-i of RM9,154,000 from a local licensed bank, of which RM288,583 has yet to be utilised as of 31 December 2017. 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.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

24. SHARE CAPITAL

	Group and Bank	
	2017	2016
	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	2,983,923
Net issuance during the year	16,626	30,705
Share withdrawal	(32,256)	(30,199)
Transfer from share redemption fund *	15,630	1,601
As of 31 December	2,986,030	2,986,030

Membership as of 31 December is as follows:

	Group and Bank	
	2017	2016
Individual	872,199	890,314
Co-operative	2,178	2,154
	874,377	892,468

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

25. RESERVES

	Non-distributable					Distributable	Total
	Capital reserve RM'000	Statutory reserve RM'000	Fair value reserve RM'000	Regulatory reserve RM'000	Total other reserve RM'000	Retained profits RM'000	
Group							
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 assets available-for-sale	-	-	20,076	-	20,076	-	20,076
Dividends (Note 35)	-	-	-	-	-	(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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

25. RESERVES (CONTINUED)

	Non-distributable					Distributable	
	Capital reserve RM'000	Statutory reserve RM'000	Fair value reserve RM'000	Regulatory reserve RM'000	Total other reserve RM'000	Retained profits RM'000	Total RM'000
Group (continued)							
At 1 January 2016	14,617	4,742,827	(63,711)	258,653	4,952,386	6,031,307	10,983,693
Profit after taxation and zakat	-	-	-	-	-	1,633,028	1,633,028
Transfer from retained profits	-	409,985	-	71,019	481,004	(481,004)	-
Contribution to the Co-operative Education Trust Fund	-	-	-	-	-	(34,007)	(34,007)
Contribution to the Co-operative Development Provident Fund	-	-	-	-	-	(17,003)	(17,003)
Contribution to Bank Rakyat Foundation	-	-	-	-	-	(14,788)	(14,788)
Remeasurement of defined benefit plan	-	-	-	-	-	(6,637)	(6,637)
Unrealised net gain on revaluation of financial assets available-for-sale	-	-	35,215	-	35,215	-	35,215
Dividends (Note 35)	-	-	-	-	-	(384,822)	(384,822)
At 31 December 2016	14,617	5,152,812	(28,496)	329,672	5,468,605	6,726,074	12,194,679

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

25. RESERVES (CONTINUED)

	Non-distributable					Distributable	
	Capital reserve RM'000	Statutory reserve RM'000	Fair value reserve RM'000	Regulatory reserve RM'000	Total other reserve RM'000	Retained profits RM'000	Total RM'000
Bank							
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 assets available-for-sale	-	-	20,076	-	20,076	-	20,076
Dividends (Note 35)	-	-	-	-	-	(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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

25. RESERVES (CONTINUED)

	Non-distributable					Distributable	
	Capital reserve RM'000	Statutory reserve RM'000	Fair value reserve RM'000	Regulatory reserve RM'000	Total other reserve RM'000	Retained profits RM'000	Total RM'000
Bank (continued)							
At 1 January 2016	15,358	4,742,827	(63,711)	258,653	4,953,127	5,699,785	10,652,912
Profit after taxation and zakat	-	-	-	-	-	1,602,092	1,602,092
Transfer from retained profits	-	409,985	-	71,019	481,004	(481,004)	-
Contribution to the Co-operative Education Trust Fund	-	-	-	-	-	(34,007)	(34,007)
Contribution to the Co-operative Development Provident Fund	-	-	-	-	-	(17,003)	(17,003)
Contribution to Bank Rakyat Foundation	-	-	-	-	-	(14,788)	(14,788)
Remeasurement of defined benefit plan	-	-	-	-	-	(6,637)	(6,637)
Unrealised net gain on revaluation of financial assets available-for-sale	-	-	35,215	-	35,215	-	35,215
Dividends (Note 35)	-	-	-	-	-	(384,822)	(384,822)
At 31 December 2016	15,358	5,152,812	(28,496)	329,672	5,469,346	6,363,616	11,832,962

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

25. RESERVES (CONTINUED)

(i) Statutory reserve

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

(ii) Capital reserve

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

(iii) Fair value reserve

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

(iv) Regulatory reserve

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

(v) Retained profits

Included in retained profits is an amount of RM1,340,000,000 (2016: RM1,340,000,000) earmarked to improve the Rate of Return Risk (ROR) exposure as part of asset and liability management strategies.

26. INCOME

	Group		Bank	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Income derived from investment of depositors' fund (i)	5,013,745	4,740,919	5,013,745	4,740,919
Income derived from investment of shareholders' fund (ii)	1,276,275	1,218,477	1,276,275	1,218,477
Income generated by subsidiary companies (iii)	46,248	43,945	-	-
	<u>6,336,268</u>	<u>6,003,341</u>	<u>6,290,020</u>	<u>5,959,396</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

26. INCOME (CONTINUED)

(i) Income derived from investment of depositors' fund

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Income from financing and advances *	4,070,683	3,900,456	4,070,683	3,900,456
Income from deposits and placements with banks and financial institutions	39,108	70,558	39,108	70,558
Income from financial assets	903,954	769,905	903,954	769,905
	<u>5,013,745</u>	<u>4,740,919</u>	<u>5,013,745</u>	<u>4,740,919</u>

(ii) Income derived from investment of shareholders' fund

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Income from financing and advances *	1,036,214	1,002,468	1,036,214	1,002,468
Income from deposits and placements with banks and financial institutions	9,955	18,134	9,955	18,134
Income from financial assets	230,106	197,875	230,106	197,875
	<u>1,276,275</u>	<u>1,218,477</u>	<u>1,276,275</u>	<u>1,218,477</u>

* Included in income from financing and advances for the current year is profit accrued on impaired financing of RM89,055,191 (2016: RM77,573,480).

(iii) Income generated by subsidiaries

	Group	
	2017	2016
	RM'000	RM'000
Agency income	5,696	9,222
Pawning income	28,176	24,385
Rental income	2,572	2,100
Management fee	8,700	7,692
Sale of goods	673	246
Other charges	431	300
	<u>46,248</u>	<u>43,945</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

27. EXPENDITURE

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Income attributable to depositors (i)	3,013,154	2,951,292	3,018,193	2,958,723
Profit expense on financing sold with recourse to Cagamas	42,661	58,445	42,661	58,445
Profit expense on debt securities issued	139,171	125,610	139,171	125,610
Cost of sales	50,278	52,164	-	-
	<u>3,245,264</u>	<u>3,187,511</u>	<u>3,200,025</u>	<u>3,142,778</u>

(i) Income attributable to depositors

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Deposits from customers				
Mudarabah	-	4,401	-	4,401
Non-Mudarabah	3,004,245	2,929,428	3,009,284	2,936,859
Deposits and placements from banks and other financial institutions				
Non-Mudarabah	8,909	17,463	8,909	17,463
	<u>3,013,154</u>	<u>2,951,292</u>	<u>3,018,193</u>	<u>2,958,723</u>

28. ALLOWANCES FOR IMPAIRMENT

	Group and Bank	
	2017	2016
	RM'000	RM'000
Allowance for impairment on financing and advances (i)	519,948	522,281
Allowance for impairment on financial assets (ii)	3,031	9,582
	<u>522,979</u>	<u>531,863</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

28. ALLOWANCES FOR IMPAIRMENT (CONTINUED)

(i) Allowance for impairment on financing and advances

	Group and Bank	
	2017	2016
	RM'000	RM'000
Individual impairment (Note 9(x))	10,330	138,738
Individual impairment on rescheduled financing *	22,242	8,561
Collective impairment (Note 9(xi))	487,376	374,982
	<u>519,948</u>	<u>522,281</u>

* 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 assets

	Group and Bank	
	2017	2016
	RM'000	RM'000
Financial assets available-for-sale	<u>3,031</u>	<u>9,582</u>

29. OTHER OPERATING INCOME

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Fees and commission (i)	70,255	70,483	70,255	70,483
Other income (ii)	616,911	584,203	587,798	569,077
	<u>687,166</u>	<u>654,686</u>	<u>658,053</u>	<u>639,560</u>

(i) Fees and commission

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Takaful commission	19,693	22,955	19,693	22,955
ATM service fees	18,054	12,983	18,054	12,983
Wasiat commission	1,071	1,568	1,071	1,568
Other commission	17,210	13,936	17,210	13,936
Processing fees	797	2,547	797	2,547
MEPS fees	9,794	10,784	9,794	10,784
Guarantee fees	485	3,217	485	3,217
Other fees	3,151	2,493	3,151	2,493
	<u>70,255</u>	<u>70,483</u>	<u>70,255</u>	<u>70,483</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

29. OTHER OPERATING INCOME (CONTINUED)

(ii) Other income

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Other income from financial instruments				
Dividend from financial assets available-for-sale	18,123	11,535	18,123	11,535
Net gain on disposal of financial assets held-for-trading	598	1,375	598	1,375
Net gain on disposal of financial assets available-for-sale	46,483	20,745	46,483	20,745
Others				
Rental income	23,833	20,383	25,373	21,900
Compensation for late payment	3,469	3,492	3,469	3,492
Charges from credit card services	13,631	14,693	13,631	14,693
Other service charges	13,378	8,293	13,378	8,293
Recoveries from financing written off	293,123	404,048	293,123	404,048
Recoveries from financial assets written-off	453	4,233	453	4,233
Allowance for doubtful debts no longer required				
Trade receivables (Note 10)	57	454	-	-
Other receivables (Note 11(ii))	-	1	-	1
Allowance for impairment loss on financial assets held-to-maturity no longer required (Note 8)	649	654	649	654
Gain on disposal of property and equipment	16,750	1,707	16,686	1,232
Other income	57,759	72,270	56,048	69,800
Gain on revaluation of investment properties (Note 15)	128,605	20,320	99,784	3,076
Dividend from subsidiary	-	-	-	4,000
	616,911	584,203	587,798	569,077

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

30. OPERATING EXPENSES

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Personnel expenses (i)	609,573	614,827	592,028	599,026
Other overheads and expenditure (ii)	600,466	585,716	634,787	624,959
	<u>1,210,039</u>	<u>1,200,543</u>	<u>1,226,815</u>	<u>1,223,985</u>
(i) Personnel expenses				
Salaries and wages	322,779	298,374	311,831	288,202
Allowances, compensation and bonuses	148,746	149,932	144,634	146,882
Defined benefit plan (Note 11(iii))	-	41,029	-	41,029
Defined contribution plan - EPF	83,570	76,665	81,935	75,267
Social security contributions - SOCSO	4,039	3,612	3,831	3,444
Other staff related costs	50,439	45,215	49,797	44,202
	<u>609,573</u>	<u>614,827</u>	<u>592,028</u>	<u>599,026</u>

Total number of staff (excluding the Board of Directors) for the Group is 5,180 (2016: 5,441) and for the Bank is 5,008 (2016: 5,043).

(ii) Other overheads and expenditure

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Establishment				
Rental	24,095	20,845	31,661	27,714
Depreciation of property and equipment	98,055	98,927	95,141	96,563
Amortisation of prepaid lease payments (Note 16)	1,526	1,498	1,526	1,498
Repair and maintenance	95,762	88,015	95,570	87,865
Takaful	5,644	6,603	5,493	6,507
	<u>225,082</u>	<u>215,888</u>	<u>229,391</u>	<u>220,147</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

30. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Promotion				
Advertisement and publicity	43,406	72,821	42,770	72,151
General expenses				
Legal and professional fees	11,529	17,516	9,588	17,758
Auditors' remuneration	1,126	1,454	900	1,246
Communication expenses	31,131	26,729	30,876	26,423
Utilities expenses	30,111	22,135	29,958	21,986
Printing and stationery	39,818	21,697	39,493	21,298
Postage and courier	15,214	14,559	15,139	14,497
Security expenses	28,661	24,291	28,611	24,244
Service charges	25,472	23,537	56,518	56,659
Loss on financing written off	17,196	21,198	17,196	21,198
Property and equipment written off	9,523	1,054	9,523	1,054
Commission expenses	62,852	73,330	62,852	73,330
Travelling and transportation	12,322	13,946	17,594	17,282
Others	47,023	35,561	44,378	35,686
	331,978	297,007	362,626	332,661
	600,466	585,716	634,787	624,959

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

30. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

The above expenditure includes the following statutory disclosures:

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Impairment losses on:				
Trade receivables (Note 10)	154	182	-	-
Amount due from subsidiaries (Note 11(i))	-	-	-	3
Other receivables, deposits and prepayments (Note 11(ii))	19	762	19	762
Auditors' remuneration:				
Current year:				
Statutory audit fees	1,118	1,413	892	1,200
Other services	15	68	8	46
Overprovision in prior year	(6)	(27)	-	-
Amortisation of prepaid lease payment (Note 16)	1,526	1,498	1,526	1,498
Depreciation of property and equipment (Note 14)	98,055	98,927	95,141	96,563
Property and equipment written off	9,523	1,054	9,523	1,054
Finance cost on financing from other financial institutions	314	19	-	-
Rental of premises	24,013	20,777	31,661	27,714
Rental of equipment	82	68	-	-

Included in general expenses are the following Directors' remuneration

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Executive Director				
Salary and other remuneration	893	1,101	893	1,101
Bonuses	269	713	269	713
EPF contributions	221	319	221	319
Other emoluments	43	7	43	7
	1,426	2,140	1,426	2,140
Non-Executive Directors				
Fees	2,886	2,605	2,252	1,903
Other emoluments	42	144	42	144
	2,928	2,749	2,294	2,047
	4,354	4,889	3,720	4,187

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

30. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (continued)

Total remuneration of the Directors is as follows:

	Salary and bonus RM'000	Remuneration received from Bank			Remuneration received from Subsidiary Companies			Group
		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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

30. 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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

30. 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
2016								
Executive Director								
Dato' Mustafha Hj. Abd. Razak	2,133	-	7	2,140	67	-	67	2,207
Non-Executive Directors								
Dato' Sri Alias Hj. Ahmad	-	234	-	234	49	-	49	283
Datuk Hj. Abdul Rahman Kasim	-	195	1	196	35	-	35	231
Datuk Hj. Mohd Idris Hj. Mohd Isa	-	211	-	211	71	-	71	282
Dato' Siti Zauyah Md. Desa	-	182	-	182	28	-	28	210
Dato' Hj. Ismail Nordin	-	177	1	178	54	-	54	232
Razalee Amin	-	199	2	201	59	-	59	260
Dato' Sri Jamil Salleh	-	45	-	45	13	-	13	58
Datin Dr. Nik Sarina Lugman Hashim	-	106	-	106	16	-	16	122
	-	1,349	4	1,353	325	-	325	1,678

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

30. 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
2016 (continued)								
Former Non-Executive Directors								
General Tan Sri Dato' Sri Abdul Aziz Hj. Zainal (R)	-	234	19	253	150	-	150	403
Dato' Dr. Roselan Baki	-	56	2	58	26	-	26	84
Dato' Abdul Mutalib Alias	-	-	118	118	-	-	-	118
Tan Sri Dr. Alies Anor Abdul	-	106	1	107	55	-	55	162
Dato' Hj. Abdullah Hj. Abas	-	158	-	158	79	-	79	237
	-	554	140	694	310	-	310	1,004
	-	1,903	144	2,047	635	-	635	2,682
	2,133	1,903	151	4,187	702	-	702	4,889

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

31. TAXATION

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax				
Current year	67,725	39,397	61,783	33,190
Under/(Over)provision in prior years	24,273	(18,375)	24,790	(17,801)
	91,998	21,022	86,573	15,389
Deferred tax (Note 17)				
Current year	(1,698)	44,993	(3,000)	45,000
Under/(Over)provision in prior years	2,245	(17)	-	-
	547	44,976	(3,000)	45,000
Total	92,545	65,998	83,573	60,389

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	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Profit before taxation and zakat	2,045,152	1,738,110	1,998,254	1,700,330
Tax expense at statutory tax rate of 24% (2016: 24%)	490,837	417,146	479,541	408,039
Non-taxable income	(129,192)	(126,016)	(123,754)	(122,239)
Non-deductible expenses	102,724	153,069	101,338	152,199
Tax exempt under Section 65(A) of the Income Tax Act 1967	(398,342)	(359,809)	(398,342)	(359,809)
Under/(Over)provision in prior years:				
Current tax	24,273	(18,375)	24,790	(17,801)
Deferred tax	2,245	(17)	-	-
	92,545	65,998	83,573	60,389

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

32. 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	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Provision for current year	44,322	39,235	43,081	38,000
Overprovision in prior years	(1,342)	(151)	(1,342)	(151)
	<u>42,980</u>	<u>39,084</u>	<u>41,739</u>	<u>37,849</u>

33. 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.

34. EARNINGS PER SHARE

Basic earnings per ordinary share have been calculated based on the Group's profit after taxation and zakat of RM1,909,627,000 (2016: RM1,633,028,000) divided by the weighted average number of ordinary shares of 2,974,490,000 (2016: 2,985,110,000) of RM1 each in issue during the financial year.

35. DIVIDENDS

	Group and Bank	
	2017	2016
	RM'000	RM'000
Cash dividend of 15% for the year ended 31 December 2016 (2015: 13%)	<u>443,774</u>	<u>384,822</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

35. DIVIDENDS (CONTINUED)

During the financial year, the Bank paid a final cash dividend of 15% amounting to RM444 million in respect of the financial year ended 31 December 2016 on 5 May 2017.

In respect of the current financial year, the Board of Directors has proposed a cash dividend up to 17% amounting to RM510 million. The proposed dividend will be recognised in the subsequent financial period upon approval by the relevant authorities outside the Bank.

36. 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	
	2017	2016
	RM'000	RM'000
Contingent liabilities		
Bank guarantee given in respect of banking facilities granted to customers	523,783	644,403
Claims for damages from litigation taken against the Bank	113,302	1,225
Commitments		
Undrawn financing	2,086,286	1,754,983
	2,723,371	2,400,611

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

36. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

The Bank had terminated financing facility and filed a claim against a customer and its corporate guarantors to recover the outstanding financing of approximately RM24 million. The main contractor, the customer and its corporate guarantors had also filed claims against the Bank respectively. The High Court on 24 January 2018 had dismissed the main contractor's claim against the Bank and other defendants. However, the counter claim by the Bank against the customer and its corporate guarantors was dismissed by the Court. Meanwhile, the customer's counter claim against the Bank was allowed but no sum has been determined by the Court and is subject to further assessment. The corporate guarantors' counter claim against the Bank was allowed but it was a non monetary claim. The Bank has decided to appeal to the Court of Appeal / Federal Court. The Bank's solicitors are of the view that the Bank has a better than even chance of succeeding in the appeal and similarly against the damages claim.

37. CAPITAL COMMITMENTS

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

	Group	
	2017	2016
	RM'000	RM'000
Capital expenditure		
Approved and contracted for	328,758	399,716

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

38. 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:

	Bank	
	2017	2016
	RM'000	RM'000
Within one year	690	734
Between one and two years	211	675
Between two to three years	-	195
	901	1,604

39. 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:

39.1 Subsidiaries

Details of the subsidiaries are shown in Note 13.

39.2 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.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

39. RELATED PARTY TRANSACTIONS (CONTINUED)

39.2 Key Management Personnel (continued)

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

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Short-term employee benefits				
Fees	2,886	2,605	2,252	1,903
Salary	4,036	3,864	3,381	3,129
Allowances	468	349	468	349
EPF contribution	1,091	1,149	911	1,020
Bonuses	1,722	4,378	1,252	3,968
Other emoluments	198	241	85	151
	<u>10,401</u>	<u>12,586</u>	<u>8,349</u>	<u>10,520</u>

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

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Directors' remuneration				
From the Bank	3,720	4,187	3,720	4,187
From subsidiaries	634	702	-	-
	<u>4,354</u>	<u>4,889</u>	<u>3,720</u>	<u>4,187</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****39. RELATED PARTY TRANSACTIONS (CONTINUED)****39.3 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	
	2017	2016
	RM'000	RM'000
Income earned		
Rental income	(1,554)	(1,531)
Expenditure incurred		
Profit expenses	5,038	7,431
Management fee expenses	29,984	29,615
Rental expenses	6,173	5,538
Purchase of goods and services	1,543	3,165
Travelling and transportation	5,569	2,931
	46,753	47,149

40. FINANCING FACILITIES WITH CONNECTED PARTIES

	Group and Bank	
	2017	2016
	RM'000	RM'000
Outstanding exposures with connected parties	640,290	553,817
% of outstanding exposures to connected parties as a proportion of total exposure	0.62%	0.80%
% of outstanding exposures financing exposures with connected parties which is non-performing or in default	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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT

41.1 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

41.2 Risk management framework

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 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."

41.2.1 Risk governance

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

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

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 Risk management framework (continued)

41.2.1 Risk governance (continued)

Roles and responsibilities of the oversight Committee:

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

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

Roles and responsibilities of Management Risk Committee:

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.2 Risk management framework (continued)

41.2.1 Risk governance (continued)

Roles and responsibilities of the oversight Committee: (continued)

Roles and responsibilities of Operational Risk Management Committee:

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

Roles and responsibilities of Financing Review Committee:

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 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.

41.3.1 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.

41.3.2 Financing to retail customers

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 Credit risk (continued)

41.3.2 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.

41.3.3 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.

41.3.4 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.

41.3.5 Impaired financing and investment securities

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 Credit risk (continued)

41.3.6 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.

41.3.7 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.

41.3.8 Financing with renegotiated terms

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

41.3.9 Allowances for impairment

The Bank establishes an allowance for impairment losses on assets carried at amortised cost that represents estimate of incurred losses in its 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 the group of homogeneous assets as well as for individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 Credit risk (continued)

41.3.10 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 borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

41.3.11 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.

41.3.12 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.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****41. FINANCIAL RISK MANAGEMENT (CONTINUED)****41.3 Credit risk (continued)****41.3.13 Maximum exposure to credit risk**

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

For on-balance sheet assets, the exposure to credit risk equals the carrying amount.

For credit commitments, maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

	Group		Bank	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Assets				
Cash and short-term funds	2,476,623	2,391,083	2,469,937	2,389,341
Deposits and placements with financial institutions	101,384	204,150	100,992	203,026
Financial assets available-for-sale	20,252,909	15,035,407	20,252,428	15,034,854
Financial assets held-to-maturity	10,437,053	11,355,466	10,437,053	11,355,466
Financing and advances	69,189,090	67,806,707	69,189,090	67,806,707
Trade receivables	1,795	5,644	-	-
Other receivables	719,605	328,152	742,099	326,860
	<u>103,178,459</u>	<u>97,126,609</u>	<u>103,191,599</u>	<u>97,116,254</u>
Commitments				
Undrawn financing	<u>2,086,286</u>	<u>1,754,983</u>	<u>2,086,286</u>	<u>1,754,983</u>
Total maximum exposure to credit risk	<u>105,264,745</u>	<u>98,881,592</u>	<u>105,277,885</u>	<u>98,871,237</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 Credit risk (continued)

41.3.14 Credit risk exposure on financing and advances

	Group and Bank	
	2017	2016
	RM'000	RM'000
At amortised cost		
Neither past due nor impaired		
0 month	65,326,881	64,549,455
Past due but not impaired		
1 month	2,531,801	2,212,441
2 months	842,044	729,303
3 months	353,107	309,948
	3,726,952	3,251,692
Past due and impaired		
Less than 4 months	326,456	313,131
4 months to 6 months	554,426	397,703
7 months to 9 months	167,875	184,364
More than 9 months	526,268	483,428
	1,575,025	1,378,626
Gross financing and advances	70,628,858	69,179,773
Less: Individual assessment impairment	(448,749)	(455,390)
Collective assessment impairment	(991,019)	(917,676)
Net financing and advances	69,189,090	67,806,707

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 Credit risk (continued)

41.3.15 Credit risk exposure on investment securities

Group	Financial assets available- for-sale RM'000	Financial assets held-to- maturity RM'000	Total RM'000
2017			
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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 Credit risk (continued)

41.3.15 Credit risk exposure on investment securities (continued)

	Financial assets available- for-sale RM'000	Financial assets held-to- maturity RM'000	Total RM'000
Bank			
2017			
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
	<u>3,798,824</u>	<u>619,455</u>	<u>4,418,279</u>
Cagamas sukuk			
Grade AAA	1,562,587	475,271	2,037,858
Negotiable Islamic debt certificates			
Grade AA1	-	398,630	398,630
	<u>5,361,411</u>	<u>1,493,356</u>	<u>6,854,767</u>
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
	<u>14,309,576</u>	<u>8,943,697</u>	<u>23,253,273</u>
Shares			
Quoted and unit trust shares	573,858	-	573,858
Unquoted shares	7,583	-	7,583
	<u>581,441</u>	<u>-</u>	<u>581,441</u>
	<u>20,252,428</u>	<u>10,437,053</u>	<u>30,689,481</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 Credit risk (continued)

41.3.15 Credit risk exposure on investment securities (continued)

Group	Financial assets available- for-sale RM'000	Financial assets held-to- maturity RM'000	Total RM'000
2016			
Rated securities			
Islamic debt securities			
Grade AAA	2,466,660	481,204	2,947,864
Grade AA+	30,319	85,949	116,268
Grade AA	76,343	45,758	122,101
Grade AA1	363,349	50,932	414,281
Grade AA2	55,625	5,044	60,669
Grade AA3	23,989	66,790	90,779
	<u>3,016,285</u>	<u>735,677</u>	<u>3,751,962</u>
Cagamas sukuk			
Grade AAA	867,454	279,840	1,147,294
Negotiable Islamic debt certificates			
Grade AA1	-	199,258	199,258
	<u>3,883,739</u>	<u>1,214,775</u>	<u>5,098,514</u>
Unrated securities			
Government investment issues	7,492,530	7,772,769	15,265,299
Government sukuk	3,018,291	1,857,907	4,876,198
Khazanah sukuk	71,965	510,015	581,980
	<u>10,582,786</u>	<u>10,140,691</u>	<u>20,723,477</u>
Shares			
Quoted and unit trust shares	560,746	-	560,746
Unquoted shares	8,136	-	8,136
	<u>568,882</u>	<u>-</u>	<u>568,882</u>
	<u>15,035,407</u>	<u>11,355,466</u>	<u>26,390,873</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.3 Credit risk (continued)

41.3.15 Credit risk exposure on investment securities (continued)

	Financial assets available- for-sale RM'000	Financial assets held-to- maturity RM'000	Total RM'000
Bank			
2016			
Rated securities			
Islamic debt securities			
Grade AAA	2,466,660	481,204	2,947,864
Grade AA+	30,319	85,949	116,268
Grade AA	76,343	45,758	122,101
Grade AA1	363,349	50,932	414,281
Grade AA2	55,625	5,044	60,669
Grade AA3	23,989	66,790	90,779
	<u>3,016,285</u>	<u>735,677</u>	<u>3,751,962</u>
Cagamas sukuk			
Grade AAA	867,454	279,840	1,147,294
Negotiable Islamic debt certificates			
Grade AA1	-	199,258	199,258
	<u>3,883,739</u>	<u>1,214,775</u>	<u>5,098,514</u>
Unrated securities			
Government investment issues	7,492,530	7,772,769	15,265,299
Government sukuk	3,018,291	1,857,907	4,876,198
Khazanah sukuk	71,965	510,015	581,980
	<u>10,582,786</u>	<u>10,140,691</u>	<u>20,723,477</u>
Shares			
Quoted and unit trust shares	560,746	-	560,746
Unquoted shares	7,583	-	7,583
	<u>568,329</u>	<u>-</u>	<u>568,329</u>
	<u>15,034,854</u>	<u>11,355,466</u>	<u>26,390,320</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 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.

41.4.1 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.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Liquidity risk (continued)

41.4.2 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	
	2017	2016
	RM'000	RM'000
At 31 December	33.90%	31.58%
Average for the year	33.44%	32.98%
Maximum for the year	34.19%	34.17%
Minimum for the year	32.20%	31.36%

41.4.3 Liquidity risk of assets and liabilities

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

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

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Liquidity risk (continued)

41.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

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

41.4 Liquidity risk (continued)

41.4.4 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)	-

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Liquidity risk (continued)

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

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

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

41.4 Liquidity risk (continued)

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

Group 2016	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	2,141,026	251,181	203,026	-	-	-	-	2,595,233
Investment securities	-	10,181	199,258	808,021	1,920,312	23,453,101	-	26,390,873
Financing and advances	174,448	1,021,516	2,263,275	3,446,023	5,093,507	57,181,004	(1,373,066)	67,806,707
Trade receivables	-	-	-	-	-	-	5,644	5,644
Other assets	-	-	-	-	-	-	2,420,742	2,420,742
	<u>2,315,474</u>	<u>1,282,878</u>	<u>2,665,559</u>	<u>4,254,044</u>	<u>7,013,819</u>	<u>80,634,105</u>	<u>1,053,320</u>	<u>99,219,199</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Liquidity risk (continued)

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

Group 2016	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	9,732,979	20,175,700	19,623,078	14,361,842	9,626,602	4,383,121	-	77,903,322
Deposits and placements from banks and financial institutions	400,000	500,000	-	-	-	-	-	900,000
Recourse obligations on financing sold to Cagamas	-	7,049	14,250	21,762	271,396	748,330	-	1,062,787
Debt securities issued	-	-	586,457	7,155	700,000	1,525,000	-	2,818,612
Trade payables	-	-	-	-	-	-	4,288	4,288
Financing from other financial institutions	-	-	-	-	22	999	-	1,021
Other liabilities	-	-	-	-	-	-	1,296,390	1,296,390
	<u>10,132,979</u>	<u>20,682,749</u>	<u>20,223,785</u>	<u>14,390,759</u>	<u>10,598,020</u>	<u>6,657,450</u>	<u>1,300,678</u>	<u>83,986,420</u>
Shareholders' fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,232,779</u>	<u>15,232,779</u>
Net maturity mismatch	<u>(7,817,505)</u>	<u>(19,399,871)</u>	<u>(17,558,226)</u>	<u>(10,136,715)</u>	<u>(3,584,201)</u>	<u>73,976,655</u>	<u>(15,480,137)</u>	<u>-</u>

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

41.4 Liquidity risk (continued)

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

Group 2016	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	644,403	-	-	-	-	-	-	644,403
Claims for damages from litigation taken against the Bank	-	-	-	-	-	1,225	-	1,225
Undrawn financing	1,754,983	-	-	-	-	-	-	1,754,983
	2,399,386	-	-	-	-	1,225	-	2,400,611

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Liquidity risk (continued)

41.4.4 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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Liquidity risk (continued)

41.4.4 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)	-

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

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

41.4 Liquidity risk (continued)

41.4.4 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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Liquidity risk (continued)

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

Bank 2016	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	2,139,284	250,057	203,026	-	-	-	-	2,592,367
Investment securities	-	10,181	199,258	808,021	1,920,312	23,452,548	-	26,390,320
Financing and advances	174,448	1,021,516	2,263,275	3,446,023	5,093,507	57,181,004	(1,373,066)	67,806,707
Other assets	-	-	-	-	-	-	2,222,200	2,222,200
	<u>2,313,732</u>	<u>1,281,754</u>	<u>2,665,559</u>	<u>4,254,044</u>	<u>7,013,819</u>	<u>80,633,552</u>	<u>849,134</u>	<u>99,011,594</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Liquidity risk (continued)

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

Bank 2016	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	9,732,979	20,175,700	19,623,078	14,361,842	9,626,602	4,383,121	-	77,903,322
Deposits and placements from banks and financial institutions	400,000	500,000	-	-	-	-	-	900,000
Recourse obligations on financing sold to Cagamas	-	7,049	14,250	21,762	271,396	748,330	-	1,062,787
Debt securities issued	-	-	586,457	7,155	700,000	1,525,000	-	2,818,612
Other liabilities	-	-	-	-	-	-	1,455,811	1,455,811
	10,132,979	20,682,749	20,223,785	14,390,759	10,597,998	6,656,451	1,455,811	84,140,532
Shareholders' fund	-	-	-	-	-	-	14,871,062	14,871,062
Net maturity mismatch	(7,819,247)	(19,400,995)	(17,558,226)	(10,136,715)	(3,584,179)	73,977,101	(15,477,739)	-

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Liquidity risk (continued)

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

Bank 2016	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	644,403	-	-	-	-	-	-	644,403
Claims for damages from litigation taken against the Bank	-	-	-	-	-	1,225	-	1,225
Undrawn financing	1,754,983	-	-	-	-	-	-	1,754,983
	2,399,386	-	-	-	-	1,225	-	2,400,611

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Liquidity risk (continued)

41.4.5 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 2017 and 31 December 2016. 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 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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Liquidity risk (continued)

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

Group 2016	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	9,734,855	20,214,431	19,855,793	14,435,056	9,967,965	5,114,171	-	79,322,271
Deposits and placements from banks and financial institutions	400,266	500,794	-	-	-	-	-	901,060
Recourse obligations on financing sold to Cagamas	-	-	11,103	22,279	33,618	294,405	935,994	1,297,399
Debt securities issued	-	-	596,713	39,642	750,052	1,772,287	-	3,158,694
Trade payables	-	-	-	-	-	-	4,288	4,288
Financing from other financial institutions	-	-	-	-	22	999	-	1,021
Other liabilities	-	-	-	-	-	-	1,296,390	1,296,390
	10,135,121	20,715,225	20,463,609	14,496,977	10,751,657	7,181,862	2,236,672	85,981,123

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Liquidity risk (continued)

41.4.5 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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.4 Liquidity risk (continued)

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

Bank 2016	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	9,734,855	20,214,431	19,855,793	14,435,056	9,967,965	5,114,171	-	79,322,271
Deposits and placements from banks and financial institutions	400,266	500,794	-	-	-	-	-	901,060
Recourse obligations on financing sold to Cagamas	-	-	11,103	22,279	33,618	294,405	935,994	1,297,399
Debt securities issued	-	-	596,713	39,642	750,052	1,772,287	-	3,158,694
Other liabilities	-	-	-	-	-	-	1,455,811	1,455,811
	10,135,121	20,715,225	20,463,609	14,496,977	10,751,635	7,180,863	2,391,805	86,135,235

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

41.5 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.

41.5.1 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.

41.5.2 Profit rate risk

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

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

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****41. FINANCIAL RISK MANAGEMENT (CONTINUED)****41.5 Market risk (continued)****41.5.2 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				
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
2016				
Year ended				
31 December	(222,492)	198,027	(111,258)	107,535
Average for the year	(259,277)	216,284	(127,215)	110,330
Maximum for the year	(323,266)	321,007	(161,651)	161,686
Minimum for the year	(188,855)	165,679	(84,879)	82,842

41.5.3 Exposure to profit rate

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

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.5 Market risk (continued)

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

	Non-trading book						Trading book	Total
	Up to 1 month	More than 1 month- 3 months	More than 3 months- 1 year	More than 1 year- 5 years	More than 5 years	Non-profit sensitive		
Bank	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017								
Assets								
Cash, deposits and placements with financial institutions	678,199	1,420,319	50,586	-	-	421,825	-	2,570,929
Financial assets available-for-sale	5,092	253,859	1,851,139	10,520,876	4,063,406	-	3,558,056	20,252,428
Financial assets 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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.5 Market risk (continued)

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

	Non-trading book						Trading book	Total
	Up to 1 month	More than 1 month- 3 months	More than 3 months- 1 year	More than 1 year- 5 years	More than 5 years	Non-profit sensitive		
Bank (continued)	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017								
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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.5 Market risk (continued)

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

	Non-trading book						Trading book	Total
	Up to 1 month	More than 1 month- 3 months	More than 3 months- 1 year	More than 1 year- 5 years	More than 5 years	Non-profit sensitive		
Bank (continued)	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017								
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	-

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.5 Market risk (continued)

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

	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 1 year RM'000	More than 1 year- 5 years RM'000	More than 5 years RM'000	Non-profit sensitive RM'000		
Bank								
2016								
Assets								
Cash, deposits and placements with financial institutions	1,942,901	203,026	-	-	-	446,440	-	2,592,367
Financial assets available-for-sale	10,181	-	761,627	9,008,897	2,082,752	-	3,171,397	15,034,854
Financial assets held-to-maturity	-	199,258	1,967,692	6,816,744	2,371,772	-	-	11,355,466
Financing and advances								
- Non-impaired	26,798,053	4,063	107,529	2,886,382	36,376,150	1,628,970	-	67,801,147
- Impaired, net of allowances	-	-	-	-	-	5,560	-	5,560
Other non-profit sensitive balances	-	-	-	-	-	2,222,200	-	2,222,200
	28,751,135	406,347	2,836,848	18,712,023	40,830,674	4,303,170	3,171,397	99,011,594

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.5 Market risk (continued)

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

	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	More than 1 month- 3 months RM'000	More than 3 months- 1 year RM'000	More than 1 year- 5 years RM'000	More than 5 years RM'000	Non-profit sensitive RM'000		
Bank (continued)								
2016								
Liabilities								
Deposits from customers	27,130,137	19,741,874	23,928,777	6,345,604	756,930	-	-	77,903,322
Deposits and placements from banks and financial institutions	900,000	-	-	-	-	-	-	900,000
Recourse obligations on financing sold to Cagamas	-	-	277,392	367,489	417,906	-	-	1,062,787
Debt securities issued	-	581,443	704,711	1,232,238	300,220	-	-	2,818,612
Other non-profit sensitive balances	-	-	-	-	-	1,455,811	-	1,455,811
	28,030,137	20,323,317	24,910,880	7,945,331	1,475,056	1,455,811	-	84,140,532

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.5 Market risk (continued)

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

	Non-trading book						Trading book	Total
	Up to 1 month	More than 1 month- 3 months	More than 3 months- 1 year	More than 1 year- 5 years	More than 5 years	Non-profit sensitive		
Bank (continued)	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2016								
Shareholders' fund	-	-	-	-	-	14,871,062	-	14,871,062
On-balance sheet profit sensitivity gap	720,998	(19,916,970)	(22,074,032)	10,766,692	39,355,618	(12,023,703)	3,171,397	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-
Total profit sensitivity gap	720,998	(19,916,970)	(22,074,032)	10,766,692	39,355,618	(12,023,703)	3,171,397	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.6 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.6 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.

41.7 Capital management

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.7 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.

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.7 Capital management (continued)

41.7.1 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 2017	2016 Restated
Before proposed dividend		
Core capital ratio	20.78%	19.74%
Risk-weighted capital adequacy ratio	22.27%	21.26%
After proposed dividend		
Core capital ratio	20.11%	19.14%
Risk-weighted capital adequacy ratio	21.60%	20.66%

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 2017 RM'000	2016 RM'000
Tier I capital		
Paid-up share capital	2,986,030	2,986,030
Retained profits	7,239,389	6,363,616
Other reserves	5,646,840	5,168,170
Total Tier I capital (core)	15,872,259	14,517,816
Tier II capital		
Subordinated sukuk	300,000	300,000
Collective impairment *	572,000	555,503
Regulatory reserve	329,672	329,672
Total Tier II capital	1,201,672	1,185,175
Total capital	17,073,931	15,702,991
Less: Investment in subsidiaries	(65,976)	(65,976)
Total capital base	17,007,955	15,637,015

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

41.7 Capital management (continued)

41.7.1 Capital adequacy ratio (continued)

Assets in various categories are risk-weighted as follows:

	Bank	
	2017	2016
	RM'000	RM'000
Total assets assigned 20% risk-weighted	791,560	630,739
Total assets assigned 50% risk-weighted	2,566,393	2,049,690
Total assets assigned 100% risk-weighted	71,675,391	70,183,842
Off-Balance Sheet claims assigned 100% risk-weighted	1,349,301	677,134
	<u>76,382,645</u>	<u>73,541,405</u>

42. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.1 Valuation of financial instruments

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

- (i) Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- (ii) Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- (iii) Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

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

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

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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.2 Valuation of financial instruments at fair value

Group	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
2017					
Financial assets 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
2016					
Financial assets available-for-sale					
Islamic debt securities	3,016,285	3,016,285	-	3,016,285	-
Government investment issues	7,492,530	7,492,530	-	7,492,530	-
Government sukuk	3,018,291	3,018,291	-	3,018,291	-
Khazanah sukuk	71,965	71,965	-	71,965	-
Cagamas sukuk	867,454	867,454	-	867,454	-
Quoted shares	559,170	559,170	559,170	-	-
Unit trust shares	1,576	1,576	-	1,576	-
Unquoted shares	8,136	8,136	-	-	8,136
	15,035,407	15,035,407	559,170	14,468,101	8,136

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.2 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 assets 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
2016					
Financial assets available-for-sale					
Islamic debt securities	3,016,285	3,016,285	-	3,016,285	-
Government investment issues	7,492,530	7,492,530	-	7,492,530	-
Government sukuk	3,018,291	3,018,291	-	3,018,291	-
Khazanah sukuk	71,965	71,965	-	71,965	-
Cagamas sukuk	867,454	867,454	-	867,454	-
Quoted shares	559,170	559,170	559,170	-	-
Unit trust shares	1,576	1,576	-	1,576	-
Unquoted shares	7,583	7,583	-	-	7,583
	15,034,854	15,034,854	559,170	14,468,101	7,583

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 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 2017 RM'000	Fair value 2017 RM'000	Carrying amount 2016 RM'000	Fair value 2016 RM'000
Group				
Financial assets				
Cash and short-term funds	2,476,623	2,476,623	2,391,083	2,391,083
Deposits and placements with financial institutions	101,384	101,384	204,150	204,150
Financial assets held-to-maturity	10,437,053	10,349,190	11,355,466	11,206,739
Financing and advances	69,189,090	74,663,760	67,806,707	74,283,496
Trade receivables	1,795	1,795	5,644	5,644
Other receivables and deposits	973,513	973,513	607,089	607,089
Financial liabilities				
Deposits from customers	83,235,496	83,386,758	77,903,322	78,110,591
Deposits and placements from banks and financial institutions	-	-	900,000	900,000
Recourse obligations on financing sold to Cagamas	748,334	633,197	1,062,787	901,283
Debt securities issued	3,443,770	2,888,184	2,818,612	2,485,612
Financing from other financial institutions	8,844	8,844	1,021	1,021
Trade payables	2,681	2,681	4,288	4,288
Other liabilities	1,249,997	1,249,997	1,165,571	1,165,571

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	Carrying amount 2017 RM'000	Fair value 2017 RM'000	Carrying amount 2016 RM'000	Fair value 2016 RM'000
Bank				
Financial assets				
Cash and short-term funds	2,469,937	2,469,937	2,389,341	2,389,341
Deposits and placements with financial institutions	100,992	100,992	203,026	203,026
Financial assets held-to-maturity	10,437,053	10,349,190	11,355,466	11,206,739
Financing and advances	69,189,090	74,663,760	67,806,707	74,283,496
Other receivables and deposits	932,565	932,565	558,098	558,098
Financial liabilities				
Deposits from customers	83,235,496	83,386,758	77,903,322	78,110,591
Deposits and placements from banks and financial institutions	-	-	900,000	900,000
Recourse obligations on financing sold to Cagamas	748,334	633,197	1,062,787	901,283
Debt securities issued	3,443,770	2,888,184	2,818,612	2,485,612
Other liabilities	1,364,260	1,364,260	1,328,262	1,328,262

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 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 assets 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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 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	633,197	-	-	633,197
Debt securities issued	3,443,770	2,888,184	-	-	2,888,184
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	88,169,661	-	-	88,169,661

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 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					
2016					
Financial assets					
Cash and short-term funds	2,391,083	2,391,083	-	-	2,391,083
Deposits and placements with financial institutions	204,150	204,150	-	-	204,150
Financial assets held-to-maturity:					
Government sukuk	1,857,907	1,827,227	-	1,827,227	-
Government investment issues	7,772,769	7,666,820	-	7,666,820	-
Islamic debt securities	735,677	725,244	-	725,244	-
Khazanah sukuk	510,015	510,679	-	510,679	-
Cagamas sukuk	279,840	277,511	-	277,511	-
Negotiable Islamic debt certificates	199,258	199,258	-	-	199,258
Financing and advances	67,806,707	74,283,496	-	-	74,283,496
Trade receivables	5,644	5,644	-	-	5,644
Other receivables and deposits	607,089	607,089	-	-	607,089
	<u>82,370,139</u>	<u>88,698,201</u>	<u>-</u>	<u>11,007,481</u>	<u>77,690,720</u>

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 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)					
2016					
Financial liabilities					
Deposits from customers	77,903,322	78,110,591	-	-	78,110,591
Deposits and placements from banks and financial Institutions	900,000	900,000	-	-	900,000
Recourse obligations on financing sold to Cagamas	1,062,787	901,283	-	-	901,283
Debt securities issued	2,818,612	2,485,612	-	-	2,485,612
Financing from other financial institutions	1,021	1,021	-	-	1,021
Trade payables	4,288	4,288	-	-	4,288
Other liabilities	1,165,571	1,165,571	-	-	1,165,571
	83,855,601	83,568,366	-	-	83,568,366

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 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 assets 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

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 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	633,197	-	-	633,197
Debt securities issued	3,443,770	2,888,184	-	-	2,888,184
Other liabilities	1,364,260	1,364,260	-	-	1,364,260
	88,791,860	88,272,399	-	-	88,272,399

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 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					
2016					
Financial assets					
Cash and short-term funds	2,389,341	2,389,341	-	-	2,389,341
Deposits and placements with financial institutions	203,026	203,026	-	-	203,026
Financial assets held-to-maturity:					
Government sukuk	1,857,907	1,827,227	-	1,827,227	-
Government investment issues	7,772,769	7,666,820	-	7,666,820	-
Islamic debt securities	735,677	725,244	-	725,244	-
Khazanah sukuk	510,015	510,679	-	510,679	-
Cagamas sukuk	279,840	277,511	-	277,511	-
Negotiable Islamic debt certificates	199,258	199,258	-	-	199,258
Financing and advances	67,806,707	74,283,496	-	-	74,283,496
Other receivables and deposits	558,098	558,098	-	-	558,098
	82,312,638	88,640,700	-	11,007,481	77,633,219

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 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)					
2016					
Financial liabilities					
Deposits from customers	77,903,322	78,110,591	-	-	78,110,591
Deposits and placements from banks and financial Institutions	900,000	900,000	-	-	900,000
Recourse obligations on financing sold to Cagamas	1,062,787	901,283	-	-	901,283
Debt securities issued	2,818,612	2,485,612	-	-	2,485,612
Other liabilities	1,328,262	1,328,262	-	-	1,328,262
	<u>84,012,983</u>	<u>83,725,748</u>	<u>-</u>	<u>-</u>	<u>83,725,748</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

42.3 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:

42.3.1 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.

42.3.2 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.

42.3.3 Financial assets held-to-maturity

Financial assets held-to-maturity 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.

42.3.4 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.

42.3.5 Trade and other receivables

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

42.3.6 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.

42.3.7 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.

42.3.8 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.

42.3.9 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.

42.3.10 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.