REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
BANK KERJASAMA RAKYAT MALAYSIA BERHAD
FOR THE YEAR ENDED 31 DECEMBER 2014

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 2014

Report on the Financial Statements

The financial statements of Bank Kerjasama Rakyat Malaysia Berhad and the Group for the year ended 31 December 2014 have been audited by my representative which comprise the Statements of Financial Position as at 31 December 2014 and the Statements of Profit or Loss and Other Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the year then ended, a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with approved financial reporting standards in Malaysia, guidelines issued by Bank Negara Malaysia, the requirements of the 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 the management determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit. The audit has been carried out in accordance with the Audit Act 1957 and in conformity with approved standards on auditing in Malaysia. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence that I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements give a true and fair view of the financial position of Bank Kerjasama Rakyat Malaysia Berhad and the Group as at 31 December 2014 and their financial performance as well as cash flows for the year then ended in accordance with approved financial reporting standards in Malaysia.

I have considered the financial statements and the auditors' reports of the subsidiary companies of which I have not acted as auditor as indicated in the notes to the financial statements. I am satisfied that the financial statements of the subsidiary companies that have been consolidated with Bank Kerjasama Rakyat Malaysia Berhad's financial statements are in appropriate form and content for the purpose in the preparation of the financial statements. I have received satisfactory information and explanations required for those purposes. The auditors' reports on the financial statements of the subsidiary companies were not subjected to any observations that could affect the financial statements.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Cooperative Societies Act 1993 (Act 502) in Malaysia, I also report that in our opinion:

i. The accounting and other records have been properly kept in accordance with Section 58 of the Act;

ii. The receipt, expenditure and investment of monies and the acquisition and disposal of assets by the Bank Kerjasama Rakyat Malaysia Berhad during the year ended 31 December 2014 are in accordance with the Act, the provision of Bank Kerjasama

Rakyat Malaysia Berhad (Special Provisions) Act 1978 (Act 202) and the by-laws of Bank Kerjasama Rakyat Malaysia Berhad; and

iii. The assets and liabilities, in all material respects, are fairly stated in accordance with the accounting policies.

(TAN SRI DATO' ~~SETIA~~ HAJI AMBRIN BIN BUANG)
KETUA AUDIT NEGARA
MALAYSIA

PUTRAJAYA
26 FEBRUARY 2015

STATEMENT BY DIRECTORS

We, DATO' MAT NOOR NAWI and DATUK MUSTAFHA ABD. RAZAK, 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 Bank Kerjasama Rakyat Malaysia Berhad (Special Provisions) Act 1978 (Act 202), the Cooperative Societies Act 1993 (Act 502), Development Financial Institutions Act 2002 (Act 618) and the applicable Malaysian Financial Reporting Standards ("MFRS") with modifications based on guidelines issued by Bank Negara Malaysia ("BNM") and in compliance with the Principles of Shariah as well as International Financial Reporting Standards ("IFRS");

(ii) The financial statements of the subsidiary companies of the Bank have been prepared in accordance with MFRS, IFRS and provisions of the Companies Act, 1965 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 2014 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,

DATO' MAT NOOR NAWI
Chairman

DATUK MUSTAFHA ABD. RAZAK
Managing Director/President

Kuala Lumpur
Date: 24 FEB 2015

Report of Shariah Committee

بِسْمِ ٱللَّهِ ٱلرَّحْمَٰنِ ٱلرَّحِيمِ

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 31^{st} December 2014.

1. We have reviewed the principles and the contracts relating to the following products introduced by Bank Rakyat :

   i. Micro-i Financing (Bazar Ramadhan) based on *Qard, Wakalah* and *Ujrah* launched on 9^{th} June 2014.
   ii. Variation Vehicle-i Financing : Superbikes based on *Al-Ijarah Thumma Al-Bai`* launched on 16^{th} June 2014.
   iii. Cash Advance Term Deposit-i based on *Tawarruq* launched on 30^{th} September 2014.
   iv. Rakyat CARE Services based on *Wakalah bil Ujrah* launched on 1^{st} December 2014.

2. We have reviewed the transactions, applications and dealings entered into by Bank Rakyat through the following processes :

   i. Shariah review on product and departmental policies and procedures.
   ii. Shariah review on Product Disclosure Sheet (PDS), legal documents, 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 subscription of Islamic government securities and Islamic Private Debt Securities (IPDS).
   v. Shariah review on product operations at the level of branches and departments which involve review on legal documents executed and *akad* sequence.
   vi. Shariah risk assessment on the new products or enhancement to the existing products, processes and procedures, business activities and operations.
   vii. Shariah audit on the operation, documentation and application of IT systems of departments, branches and subsidiaries of Bank Rakyat.

3. 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 the operations of Bank Rakyat and to report to you.

4. We have assessed the work carried out by Shariah Review Department and Shariah Audit Department which included examining on a sample basis, each type of transaction, the relevant documentations and procedures adopted by Bank Rakyat.

5. 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.

In our opinion:

1. the principles and the contracts implemented on products listed 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.

2. the transactions, applications and dealings entered into by Bank Rakyat that we have reviewed 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. all confirmed Shariah Non-Compliant events have been rectified accordingly.

4. the transactions, applications and dealings which are subjected to further investigation and rectification will be carried out on an on-going basis.

5. the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles.

6. all earnings that have been realized from sources or by means prohibited with the Shariah principles have been considered for disposal to charitable causes.

7. the calculation of zakat is in compliance with Shariah principles. The distributed amount of Bank Rakyat zakat on business within 2014 is RM 43,182,767.00.

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 2014 have been conducted in conformity with the Shariah principles.

<u>Annual Report of Bank Rakyat Shariah Committee 2014</u>

.... **Dato' Setia Mohd Tamyes Bin Abd Wahid** Chairman, Shariah Committee of Bank Rakyat	
.... **Datuk Abu Hasan Bin L. Din Al Hafiz** Shariah Committee Member	.... **Prof Madya Dr Siti Salwani Binti Razali** Shariah Committee Member
.... **Ustaz Wan Rumaizi Bin Wan Husin** Shariah Committee Member	.... **Ustaz Md Yunus Bin Abd Aziz** Shariah Committee Member
.... **Ustaz Abdullaah Bin Jalil** Shariah Committee Member	

2 4 FEB 2015

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 2 4 FEB 2015

NOR HAIMEE ZAKARIA

Before me:

PESURUHJAYA SUMPAH
No: W465
Nama: KAPT. JASNI BIN YUSOFF
(BERSARA)
MALAYSIA

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

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 2014.

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 14 to the financial statements.

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

RESULTS OF OPERATIONS

	Group RM'000	Bank RM'000
Profit before taxation and zakat	2,185,033	2,160,185
Taxation	(169,478)	(163,480)
Zakat	(39,710)	(39,000)
Profit after taxation and zakat	1,975,845	1,957,705
Statutory appropriations	(573,229)	(573,229)
Profit for the year after statutory appropriations	1,402,616	1,384,476
Other comprehensive income	(280,985)	(280,985)
Total comprehensive income for the year	1,121,631	1,103,491
Profit for the year attributable to:		
Equity holders of the Bank	1,121,631	1,103,491

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 transfer to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

DIVIDENDS

During the financial year, the Bank paid a final cash dividend of 15% amounting to RM441.05 million in respect of the previous financial year.

In respect of the current financial year, the Board of Directors has proposed a cash dividend of 15% amounting to RM450.00 million. The proposed dividends are subject to the approval by the relevant authorities and have not been included as liabilities in the financial statements.

OTHER STATUTORY INFORMATION

In the opinion of the Directors, the financial statements set out on pages 4 to 140 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 2014 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 for impaired financing and allowance 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.

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 38 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,

DATO' MAT NOOR NAWI

DATUK MUSTAFHA ABD. RAZAK

Kuala Lumpur
Date: 24 FEB 2015

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

		Group		Bank	
		2014	2013	**2014**	2013
	Note	**RM'000**	RM'000	**RM'000**	RM'000
ASSETS					
Cash and short-term funds	5	**3,080,554**	1,907,843	**3,078,779**	1,905,665
Deposits and placements with financial institutions	6	**185,838**	947,386	**160,099**	942,295
Financial assets available-for-sale	7	**11,962,018**	10,463,097	**11,958,602**	10,457,907
Financial assets held-to-maturity	8	**11,131,717**	10,141,449	**11,131,717**	10,141,449
Financing and advances	9	**60,482,549**	57,304,177	**60,482,549**	57,304,177
Trade receivables	10	**6,484**	9,048	**-**	-
Other assets	11	**908,730**	775,879	**851,118**	725,904
Inventories	12	**9,484**	12,368	**-**	-
Asset classified as held-for-sale	13	**-**	80,432	**-**	-
Investment in subsidiaries	14	**-**	-	**43,500**	43,500
Property and equipment	15	**765,413**	903,652	**739,321**	874,882
Goodwill on consolidation		**13,185**	13,185	**-**	-
Investment properties	16	**539,288**	160,474	**524,179**	148,448
Prepaid lease payments	17	**80,674**	79,782	**66,790**	69,372
Deferred tax assets	18	**139,221**	265,032	**140,000**	266,000
TOTAL ASSETS		**89,305,155**	83,063,804	**89,176,654**	82,879,599

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014 (CONTINUED)

		Group		Bank	
		2014	2013	**2014**	2013
	Note	**RM'000**	RM'000	**RM'000**	RM'000
LIABILITIES					
Deposits from customers	19	**68,522,973**	65,297,767	**68,522,973**	65,297,767
Deposits and placements from banks and financial institutions	20	**1,800,000**	1,620,000	**1,800,000**	1,620,000
Trade payables		**3,348**	6,900	**-**	-
Recourse obligations on financing sold to Cagamas	21	**1,777,618**	1,528,696	**1,777,618**	1,528,696
Debt securities issued	22	**3,020,571**	1,507,088	**3,020,571**	1,507,088
Other liabilities	23	**1,431,012**	1,359,301	**1,592,597**	1,490,679
Provision for taxation		**1,073**	1,556	**-**	-
Profit equalisation reserve (Investor)	24	**18,776**	152,145	**18,776**	152,145
Financing from other financial institutions	25	**-**	39,602	**-**	-
TOTAL LIABILITIES		**76,575,371**	71,513,055	**76,732,535**	71,596,375
SHAREHOLDERS' FUND					
Share capital	26	**2,973,677**	2,973,677	**2,973,677**	2,973,677
Share redemption fund		**52,800**	53,671	**52,800**	53,671
Reserves	27	**9,673,442**	8,268,907	**9,387,777**	8,001,382
Profit equalisation reserve (Bank)	24	**29,865**	254,494	**29,865**	254,494
TOTAL SHAREHOLDERS' FUND		**12,729,784**	11,550,749	**12,444,119**	11,283,224
TOTAL LIABILITIES AND SHAREHOLDERS' FUND		**89,305,155**	83,063,804	**89,176,654**	82,879,599
COMMITMENTS AND CONTINGENCIES	38	**2,633,804**	3,140,252	**2,633,804**	3,140,252

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

		Group		Bank	
		2014	2013	**2014**	2013
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Income	28	**5,486,299**	5,604,170	**5,409,643**	5,549,714
Expenditure	29	**(2,222,911)**	(2,243,350)	**(2,151,521)**	(2,209,887)
Net income		**3,263,388**	3,360,820	**3,258,122**	3,339,827
Allowances for impairment	30	**(708,907)**	(749,128)	**(708,907)**	(749,128)
Other operating income	31	**577,152**	506,513	**571,562**	522,263
Operating expenses	32	**(946,600)**	(973,540)	**(960,592)**	(987,544)
Profit before taxation and zakat		**2,185,033**	2,144,665	**2,160,185**	2,125,418
Taxation	33	**(169,478)**	(190,781)	**(163,480)**	(184,974)
Zakat	34	**(39,710)**	(34,304)	**(39,000)**	(34,000)
Profit after taxation and zakat		**1,975,845**	1,919,580	**1,957,705**	1,906,444

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

		Group		Bank	
		2014	2013	**2014**	2013
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Statutory appropriations	35				
Transfer to statutory reserve: 25% (2013: 25%)		**(499,177)**	(485,111)	**(499,177)**	(485,111)
Contribution to the Co-operative Education Trust Fund: 2% (2013: 2%)		**(43,204)**	(42,508)	**(43,204)**	(42,508)
Contribution to the Co-operative Development Provident Fund: 1% (2013: 1%)		**(21,602)**	(21,254)	**(21,602)**	(21,254)
Contribution to Bank Rakyat Foundation		**(9,246)**	(9,435)	**(9,246)**	(9,435)
		(573,229)	(558,308)	**(573,229)**	(558,308)
Profit for the year		**1,402,616**	1,361,272	**1,384,476**	1,348,136
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Net loss on revaluation of financial assets available-for-sale	27	**(55,565)**	(200,132)	**(55,565)**	(200,132)
Utilisation of profit equalisation reserve (Bank)		**(224,629)**	(109,609)	**(224,629)**	(109,609)
Item that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plan	11(iii)	**(791)**	3,668	**(791)**	3,668
		(280,985)	(306,073)	**(280,985)**	(306,073)
Total comprehensive income for the year		**1,121,631**	1,055,199	**1,103,491**	1,042,063
Earnings per share (RM)					
Basic	36	**0.66**	0.65		

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

Group	Note	Non-distributable Share capital RM'000	Share redemption fund RM'000	Profit equalisation reserve (Bank) RM'000	Other reserves RM'000	Distributable Retained profits RM'000	Total RM'000
At 1 January 2013		2,865,004	53,671	364,103	3,497,352	3,616,495	10,396,625
Profit after taxation and zakat		-	-	-	-	1,919,580	1,919,580
Transfer to statutory reserve		-	-	-	-	(485,111)	(485,111)
Contribution to the Co-operative Education Trust Fund		-	-	-	-	(42,508)	(42,508)
Contribution to the Co-operative Development Provident Fund		-	-	-	-	(21,254)	(21,254)
Contribution to Bank Rakyat Foundation		-	-	-	-	(9,435)	(9,435)
Profit for the year		-	-	-	-	1,361,272	1,361,272
Other comprehensive income		-	-	(109,609)	(200,132)	3,668	(306,073)
Total comprehensive income for the year		-	-	(109,609)	(200,132)	1,364,940	1,055,199
Issuance to new members		54,355	-	-	-	-	54,355
Transfer from retained profits		-	-	-	485,111	-	485,111
Dividends	37	54,318	-	-	-	(495,058)	(440,740)
Overprovision in contribution to Bank Rakyat Foundation		-	-	-	-	199	199
At 31 December 2013		2,973,677	53,671	254,494	3,782,331	4,486,576	11,550,749
		Note 26		Note 24	Note 27	Note 27	

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

Group	Note	Share capital RM'000	Share redemption fund RM'000	Profit equalisation reserve (Bank) RM'000	Other reserves RM'000	Retained profits RM'000	Total RM'000
		← Non-distributable			→	Distributable	
At 1 January 2014		**2,973,677**	**53,671**	**254,494**	**3,782,331**	**4,486,576**	**11,550,749**
Profit after taxation and zakat		-	-	-	-	1,975,845	1,975,845
Transfer to statutory reserve		-	-	-	-	(499,177)	(499,177)
Contribution to the Co-operative Education Trust Fund		-	-	-	-	(43,204)	(43,204)
Contribution to the Co-operative Development Provident Fund		-	-	-	-	(21,602)	(21,602)
Contribution to Bank Rakyat Foundation		-	-	-	-	(9,246)	(9,246)
Profit for the year		-	-	-	-	1,402,616	1,402,616
Other comprehensive income		-	-	(224,629)	(55,565)	(791)	(280,985)
Total comprehensive income for the year		-	-	(224,629)	(55,565)	1,401,825	1,121,631
Transfer from retained profits		-	-	-	499,177	-	499,177
Issuance to new members		4,581	-	-	-	-	4,581
Transfer to other liabilities		(5,452)	-	-	-	-	(5,452)
Transfer to share capital		871	(871)	-	-	-	-
Transfer to regulatory reserve		-	-	-	245,566	(245,566)	-
Dividends	37	-	-	-	-	(441,053)	(441,053)
Overprovision in contribution to Bank Rakyat Foundation		-	-	-	-	151	151
At 31 December 2014		**2,973,677**	**52,800**	**29,865**	**4,471,509**	**5,201,933**	**12,729,784**
		Note 26		Note 24	Note 27	Note 27	

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

Bank	Note	← Non-distributable			→	Distributable	
		Share capital RM'000	Share redemption fund RM'000	Profit equalisation reserve (Bank) RM'000	Other reserves RM'000	Retained profits RM'000	Total RM'000
At 1 January 2013		2,865,004	53,671	364,103	3,498,093	3,361,365	10,142,236
Profit after taxation and zakat		-	-	-	-	1,906,444	1,906,444
Transfer to statutory reserve		-	-	-	-	(485,111)	(485,111)
Contribution to the Co-operative Education Trust Fund		-	-	-	-	(42,508)	(42,508)
Contribution to the Co-operative Development Provident Fund		-	-	-	-	(21,254)	(21,254)
Contribution to Bank Rakyat Foundation		-	-	-	-	(9,435)	(9,435)
Profit for the year		-	-	-	-	1,348,136	1,348,136
Other comprehensive income		-	-	(109,609)	(200,132)	3,668	(306,073)
Total comprehensive income for the year		-	-	(109,609)	(200,132)	1,351,804	1,042,063
Issuance to new members		54,355	-	-	-	-	54,355
Transfer from retained profits		-	-	-	485,111	-	485,111
Dividends	37	54,318	-	-	-	(495,058)	(440,740)
Overprovision in contribution to Bank Rakyat Foundation		-	-	-	-	199	199
At 31 December 2013		2,973,677	53,671	254,494	3,783,072	4,218,310	11,283,224
		Note 26		Note 24	Note 27	Note 27	

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

Bank	Note	Share capital RM'000	Share redemption fund RM'000	Profit equalisation reserve (Bank) RM'000	Other reserves RM'000	Retained profits RM'000	Total RM'000
		← Non-distributable			→	Distributable	
At 1 January 2014		**2,973,677**	**53,671**	**254,494**	**3,783,072**	**4,218,310**	**11,283,224**
Profit after taxation and zakat		-	-	-	-	1,957,705	1,957,705
Transfer to statutory reserve		-	-	-	-	(499,177)	(499,177)
Contribution to the Co-operative Education Trust Fund		-	-	-	-	(43,204)	(43,204)
Contribution to the Co-operative Development Provident Fund		-	-	-	-	(21,602)	(21,602)
Contribution to Bank Rakyat Foundation		-	-	-	-	(9,246)	(9,246)
Profit for the year		-	-	-	-	1,384,476	1,384,476
Other comprehensive income		-	-	(224,629)	(55,565)	(791)	(280,985)
Total comprehensive income for the year		-	-	(224,629)	(55,565)	1,383,685	1,103,491
Transfer from retained profits		-	-	-	499,177	-	499,177
Issuance to new members		4,581	-	-	-	-	4,581
Transfer to other liabilities		(5,452)	-	-	-	-	(5,452)
Transfer to share capital		871	(871)	-	-	-	-
Transfer to regulatory reserve		-	-	-	245,566	(245,566)	-
Dividends	37	-	-	-	-	(441,053)	(441,053)
Overprovision in contribution to Bank Rakyat Foundation		-	-	-	-	151	151
At 31 December 2014		**2,973,677**	**52,800**	**29,865**	**4,472,250**	**4,915,527**	**12,444,119**
		Note 26		Note 24	Note 27	Note 27	

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES				
Profit for the year	**1,402,616**	1,361,272	**1,384,476**	1,348,136
Adjustments for:				
Transfer to statutory reserve	**499,177**	485,111	**499,177**	485,111
Contribution to the Co-operative Education Trust Fund	**43,204**	42,508	**43,204**	42,508
Contribution to the Co-operative Development Provident Fund	**21,602**	21,254	**21,602**	21,254
Contribution to Bank Rakyat Foundation	**9,246**	9,435	**9,246**	9,435
Taxation	**169,478**	190,781	**163,480**	184,974
Zakat	**39,710**	34,304	**39,000**	34,000
Profit expense on debt securities issued	**98,663**	40,918	**98,663**	40,918
Allowance for impairment on financing and advances	**698,875**	747,982	**698,875**	747,982
Allowance for impairment on financial assets available-for-sale	**10,032**	1,146	**10,032**	1,146
Depreciation of property and equipment	**84,064**	77,133	**82,516**	75,597
Amortisation of prepaid lease payment	**1,994**	1,673	**1,662**	1,655
Property and equipment written off	**525**	2,732	**525**	2,732
Gain on disposal of property and equipment	**(39)**	(59)	**(1)**	(9)
Gain on disposal of asset classified as held-for-sale	**(4,568)**	-	**-**	-
Loss on financing written off	**9,212**	12,357	**9,212**	12,357
Provision for defined benefit plan	**24,270**	44,715	**24,270**	44,715
Allowance for doubtful debts	**5,219**	-	**5,228**	-
Finance cost	**839**	2,275	**-**	-
(Gain)/Loss on revaluation of investment properties	**(186,741)**	157	**(187,077)**	(1,564)
Allowance for doubtful debts no longer required	**(106)**	(15,581)	**(106)**	(15,513)
Allowance for impairment loss on financial assets held-to-maturity no longer required	**(4,388)**	(109,511)	**(4,388)**	(109,511)
Net gain on disposal of financial assets available-for-sale	**(20,210)**	(20,196)	**(20,210)**	(20,485)
Net gain on disposal of financial assets held for trading	**(139)**	(141)	**(139)**	(141)
Net gain on redemption of financial assets held-to-maturity	**-**	(792)	**-**	(792)
Transfer to profit equalisation reserve	**(357,998)**	(178,002)	**(357,998)**	(178,002)
Profit expense on financing sold with recourse to Cagamas	**62,526**	104,159	**62,526**	104,159
Operating profit before working capital changes	**2,607,063**	2,855,630	**2,583,775**	2,830,662

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
(Increase)/Decrease in assets:				
Deposits and placements with financial institutions	**761,548**	(688,406)	**782,196**	(688,422)
Financing and advances	**(3,886,459)**	(2,831,240)	**(3,886,459)**	(2,831,240)
Trade receivables	**1,186**	(545)	**-**	-
Other assets	**4,488**	61,468	**10,613**	61,376
Inventories	**2,884**	(7,573)	**-**	-
Increase/(Decrease) in liabilities:				
Deposits from customers	**3,225,206**	2,631,763	**3,225,206**	2,631,763
Deposits and placements from banks and financial institutions	**180,000**	1,420,000	**180,000**	1,420,000
Trade payables	**(3,552)**	166	**-**	-
Recourse obligations on financing sold to Cagamas	**186,396**	(1,747,764)	**186,396**	(1,747,764)
Other liabilities	**(162,917)**	(244,071)	**(132,574)**	(243,106)
Cash generated from operations	**2,915,843**	1,449,428	**2,949,153**	1,433,269
Income tax paid	**(104,122)**	(202,965)	**(97,220)**	(197,215)
Tax refunded	**107**	10,000	**-**	10,000
Zakat paid	**(41,685)**	(41,592)	**(41,111)**	(41,410)
Payment for retirement benefits	**(106,270)**	(105,693)	**(106,270)**	(105,693)
Net cash from operating activities	**2,663,873**	1,109,178	**2,704,552**	1,098,951
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES				
Purchases of financial assets held-for-trading	**(225,000)**	(380,000)	**(225,000)**	(380,000)
Proceeds from disposal of financial assets held for trading	**225,139**	380,141	**225,139**	380,141
Purchases of financial assets available-for-sale	**(2,697,000)**	(1,933,745)	**(2,697,000)**	(1,933,430)
Proceeds from disposal of financial assets available-for-sale	**1,152,692**	1,092,047	**1,150,918**	1,092,047
Purchases of financial assets held-to-maturity	**(1,640,640)**	(2,756,870)	**(1,640,640)**	(2,756,870)
Proceeds from disposal of financial assets held-to-maturity	**654,760**	946,680	**654,760**	946,680
Purchase of investment properties	**(51)**	(40)	**-**	-
Purchase of property and equipment	**(141,743)**	(315,385)	**(135,477)**	(307,059)
Proceeds from disposal of property and equipment	**524**	458	**264**	274
Proceeds from disposal of asset classified as held-for-sale	**85,000**	-	**-**	-
Net cash used in investing activities	**(2,586,319)**	(2,966,714)	**(2,667,036)**	(2,958,217)

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

		Group		Bank	
		2014	2013	**2014**	2013
	Note	**RM'000**	RM'000	**RM'000**	RM'000
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES					
Proceeds from issue of shares to members		**4,581**	54,355	**4,581**	54,355
Dividend paid		**(441,053)**	(440,740)	**(441,053)**	(440,740)
Fund received from government		**157,250**	97,868	**157,250**	97,868
Proceeds from debt securities issued		**1,500,000**	500,000	**1,500,000**	500,000
Payment of profit expenses on debt securities issued		**(85,180)**	(40,488)	**(85,180)**	(40,488)
Repayment of financing from other financial institutions		**(34,746)**	(6,165)	**-**	-
Net cash from financing activities		**1,100,852**	164,830	**1,135,598**	170,995
Net increase/(decrease) in cash and cash equivalents		**1,178,406**	(1,692,706)	**1,173,114**	(1,688,271)
Cash and cash equivalents at beginning of year		**1,902,148**	3,594,854	**1,905,665**	3,593,936
Cash and cash equivalents at end of year	5	**3,080,554**	1,902,148	**3,078,779**	1,905,665

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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 14.

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

The Bank has a total of 147 branches as of 31 December 2014 (2013: 145)

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 the applicable Malaysian Financial Reporting Standards ("MFRS") with modifications based on guidelines issued by Bank Negara Malaysia ("BNM") and in compliance with the principles of Shariah as well as International Financial Reporting Standards ("IFRS").

The financial statements of the subsidiary companies of the Bank have been prepared in accordance with MFRS, IFRS and the provisions of the Companies Act, 1965 in Malaysia.

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

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

Amendments to MFRSs and the new Interpretation that are mandatorily effective for the current year

In current year, the Group and the Bank have applied a number of amendments to MFRSs and a new Interpretation issued by the Malaysian Accounting Standards Board (MASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2014.

Amendments to MFRS 10, MFRS 12 and MFRS 127 Investment Entities

The Group and the Bank have applied the amendments to MFRS 10, MFRS 12, and MFRS 127 *Investment Entities* for the first time in the current year. The amendments to MFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have also been made to MFRS 12 and MFRS 127 to introduce new disclosure requirements for investment entities.

As the Bank is not an investment entity (assessed based on the criteria set out in MFRS 10 as at 1 January 2014), the application of these amendments has had no impact on the disclosures on the amounts recognised in the Group's consolidated financial statements.

Amendments to MFRS 132 Offsetting Financial Assets and Financial Liabilities

The Group and the Bank have applied the amendments to MFRS 132 *Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to MFRS 132 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

As the Group does not have any financial assets and financial liabilities that qualify for offset, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

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

Amendments to MFRSs and the new Interpretation that are mandatorily effective for the current year (cont'd)

Amendments to MFRS 136 Recoverable Amount Disclosures for Non-Financial Assets

The Group and the Bank have applied the amendments to MFRS 136 *Recoverable Amount Disclosures for Non-Financial Assets* for the first time in the current year. The amendments to MFRS 136 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements which is applicable when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosures required by MFRS 13 *Fair Value Measurements*.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

Amendments to MFRS 139 Novation of Derivatives and Continuation of Hedge Accounting

The Group and the Bank have applied the amendments to MFRS 139 *Novation of Derivatives and Continuation of Hedge Accounting* for the first time in the current year. The amendments to MFRS 139 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

IC Interpretations 21 Levies

The Group and the Bank have applied IC Interpretations 21 *Levies* for the first time in the current year. IC Interpretations 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

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

New and revised standards in issue but not yet effective

The Directors anticipate that the following Standards will be adopted in the annual financial statements of the Group and of the Bank when they become mandatorily effective for adoption. The adoption of these Standards is not expected to have a material impact on the financial statements of the Group and of the Bank except as further discussed below.

- MFRS 9: Financial Instruments (IFRS 9 issued by IASB in July 2014)[5]
- MFRS 15: Revenue from Contracts with Customers[4]
- Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception[3]
- Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
- Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations[3]
- Amendments to MFRS 101: Disclosure Initiative[3]
- Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation[3]
- Amendments to MFRS 119: Defined Benefit Plans: Employee Contributions[1]
- Amendments to MFRS 127: Equity Method in Separate Financial Statements[3]
- Amendments to MFRSs: Annual Improvements to MFRSs 2010-2012 Cycle[2]
- Amendments to MFRSs: Annual Improvements to MFRSs 2011-2013 Cycle[1]
- Amendments to MFRSs: Annual Improvements to MFRSs 2012-2014 Cycle[3]

[1] Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

[2] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.

[3] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

[4] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

[5] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

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

New and revised standards in issue but not yet effective (cont'd)

MFRS 9 Financial Instruments

MFRS 9 (IFRS 9 issued by International Accounting Standards Board ("IASB") in November 2009) introduced new requirements for the classification and measurement of financial assets. MFRS 9 (IFRS 9 issued by IASB in October 2010) include requirements for the classification and measurement of financial liabilities and for derecognition, and in February 2014, the new requirements for general hedge accounting was issued by MASB. Another revised version of MFRS 9 was issued by MASB - MFRS 9 (IFRS 9 issued by IASB in July 2014) mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments.

Key requirements of MFRS 9:

- all recognised financial assets that are within the scope of MFRS 139 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and profit on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under MFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, MFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under MFRS 139, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, MFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under MFRS 139. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at the end of each reporting period to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

New and revised standards in issue but not yet effective (cont'd)

MFRS 9 Financial Instruments (cont'd)

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in MFRS 139. Under MFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors of the Group and of the Bank anticipate that the application of MFRS 9 in the future may have a material impact on amounts reported in respect of the Group's and the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of MFRS 9 until the Group completes a detailed review.

Amendments to MFRS 10, MFRS 12 and MFRS 128 Investment Entities: Applying the Consolidation Exception

The amendments to MFRS 10, MFRS 12 and MFRS 128 address issues that have arisen in the context of applying the consolidation exception for investment entities. The amendments make changes aimed at clarifying the following aspects:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.

- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.

- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.

- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by MFRS 12.

As the Group and the Bank are not an investment entity (assessed based on the criteria set out in MFRS 10) and not an investor in an investment entity, the application of these amendments is not expected to have any impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

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

New and revised standards in issue but not yet effective (cont'd)

Amendments to MFRS 11 Accounting for Acquisitions of Interest in Joint Operations

The amendments to MFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in MFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in MFRS 3 and other standards (e.g. MFRS 136 *Impairment of Assets* regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has be allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by MFRS 3 and other standards for business combinations.

The amendments to MFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The Directors do not anticipate that the application of these amendments to MFRS 11 will have a material impact on the Group's consolidated financial statements.

Amendments to MFRS 101 Disclosure Initiative

The amendments to MFRS 101 aim at clarifying MFRS 101 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The amendments make the following changes:

- They clarify that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply.

- They introduce a clarification that the list of line items to be presented in the statement of financial position and the statement of profit or loss and other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and clarify that an entity's share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

- They add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful.

The Directors do not anticipate that the application of these amendments to MFRS 101 will have a material impact on the Group's consolidated financial statements as these amendments deal with the presentation of financial statements.

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

New and revised standards in issue but not yet effective (cont'd)

Amendments to MFRS 116 and MFRS 138 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to MFRS 116 prohibit entities from using a revenue-based depreciation method for items of property and equipment. The amendments to MFRS 138 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a. when the intangible asset is expressed as a measure of revenue; or

b. when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively. The Directors believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the Directors do not anticipate that the application of these amendments to MFRS 116 and MFRS 138 will have a material impact on the Group's consolidated financial statements.

Amendments to MFRS 119 Defined Benefit Plans: Employee Contributions

The amendments to MFRS 119 clarify how an entity should account for contributions made by employees or third parties to defined plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The Directors do not anticipate that the application of these amendments to MFRS 119 will have a significant impact on the Group's consolidated financial statements.

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

New and revised standards in issue but not yet effective (cont'd)

Annual Improvements to MFRSs 2010-2012 Cycle

The Annual Improvements to MFRSs 2010-2012 Cycle include a number of amendments to various MFRSs, which are summarised below.

The amendments to MFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to MFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to MFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at the end of each reporting period, irrespective of whether the contingent consideration is a financial instrument within the scope of MFRS 9 or MFRS 139 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustment) should be recognised in profit and loss. The amendments to MFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to MFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of MFRS 13 clarify that the issue of MFRS 13 and consequential amendments to MFRS 139 and MFRS 9 did not remove the ability to measure short-term receivables and payables with no stated profit rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to MFRS 116 and MFRS 138 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to MFRS 124 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The Directors do not anticipate that the application of these amendments will have a significant impact on the Group's consolidated financial statements.

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

New and revised standards in issue but not yet effective (cont'd)

Annual Improvements to MFRSs 2011-2013 Cycle

The Annual Improvements to MFRSs 2011-2013 Cycle include a number of amendments to various MFRSs, which are summarised below.

The amendments to MFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to MFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, MFRS 139 or MFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within MFRS 132.

The amendments to MFRS 140 clarify that MFRS 140 and MFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

a. the property meets the definition of investment property in terms of MFRS 140; and
b. the transaction meets the definition of a business combination under MFRS 3.

The Directors do not anticipate that the application of these amendments will have a significant impact on the Group's consolidated financial statements.

Annual Improvements to MFRSs 2012-2014 Cycle

The Annual Improvements to MFRSs 2012-2014 Cycle include a number of amendments to various MFRSs, which are summarised below.

The amendments to MFRS 5 *Non-current Assets Held for Sale and Discontinued Operation* adds specific guidance in MFRS 5 for cases in which an entity reclassifies an asset from held-for-sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

The amendments to MFRS 7 *Financial Instruments: Disclosures* clarify the applicability of the amendments to MFRS 7 on offsetting disclosures to condensed interim financial statements.

The amendments to MFRS 119 *Employee Benefits* clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

The amendments to MFRS 134 *Interim Financial Reporting* clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.

The Directors do not anticipate that the application of these amendments will have a significant impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of MFRS 2, leasing transactions that are within the scope of MFRS 117 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in MFRS 102 or value-in-use in MFRS 136.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

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

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

The principal accounting policies are set out below.

3.2 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 subsidiary. 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 its 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Subsidiaries and basis of consolidation (cont'd)

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

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

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Subsidiaries and basis of consolidation (cont'd)

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

3.3 Business combinations

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

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

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with MFRS 112 *Income Taxes* and MFRS 119 *Employee Benefits* respectively;

- liabilities or equity instruments related to the share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with MFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held-for-sale in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Business combinations (cont'd)

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.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Goodwill on consolidation

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

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

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

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

3.5 Financial instruments

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

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

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (cont'd)

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.

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. They are recognised in the statements of financial position as 'Financial assets held-for-trading'.

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 the other reserves is classified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (cont'd)

3.5.1 Financial assets

3.5.1.2 Available-for-sale financial assets

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 been 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'.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (cont'd)

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 fulfil 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 repayments based on the revised and/or restructured terms have been observed continuously for certain period of months.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (cont'd)

3.5.2 Impairment of financial assets (cont'd)

3.5.2.1 Financing and advances (cont'd)

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.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (cont'd)

3.5.2 Impairment of financial assets (cont'd)

3.5.2.1 Financing and advances (cont'd)

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (cont'd)

3.5.2 Impairment of financial assets (cont'd)

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 classified 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.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (cont'd)

3.5.2 Impairment of financial assets (cont'd)

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 repayments are made promptly for a continuous period. Where an impaired financing is renegotiated, the borrower must adhere to the revised and/or restructured repayment terms for a continuous period of six months before the financing is classified as non-impaired. These financing continue to be subjected to individual or collective impairment assessment.

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 it transfers 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 continues to control the transferred asset, the Group and the Bank recognise their retained profit in the asset and an associated liability for amounts it may have to pay. If the Group and the Bank retain substantially all the risks and rewards of ownership of a transferred financial asset, the Group and the Bank continue to recognise the financial asset and also recognise a collaterised borrowing for the proceeds received.

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

3.5.4 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 instruments.

3.5.5 Equity instruments

An equity instrument is any contract that evidences a residual profit 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 a direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (cont'd)

3.5.5 Equity instruments (cont'd)

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

3.5.6 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 obligation 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Financial instruments (cont'd)

3.5.8 Determination of fair value (cont'd)

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 cash equivalents, which comprise cash and balances with banks and other financial institutions and money at call and deposit placements maturing within one month, are short term, highly liquid investments with maturities of one month or less from the date of acquisition and are readily convertible to cash with insignificant risks of changes in value.

3.7 Leases

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

a) Group as lessor

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Leases (cont'd)

b) Group as lessee

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

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

3.8 Investment properties

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Property and equipment

Land and buildings comprise mainly branches and offices. All property and equipment used by the Group and the Bank are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 is not depreciated as this asset is also not available for 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	2%
Leasehold land and buildings	2%
Renovation	2% - 20%
Furniture, fittings and office equipment	20%
Motor vehicles	20%

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 estimate 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 assets. Any gains and losses arising on disposals are determined as the difference between sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.10 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 17 to 95 years (2013: 18 to 96 years).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Assets classified as held-for-sale

Assets are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal groups) is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Any differences are included in profit or loss.

3.12 Provisions

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

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

3.13 Inventories

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

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

3.14 Property development

Property development costs comprise costs associated with the acquisition of land and all costs that are directly attributable to development activities or that can be allocated on a reasonable basis to such activities.

Property development costs not recognised as an expense is recognised as an asset and is stated at the lower of cost and net realisable value.

The Group considers the portion of land and development expenditure on which development work has commenced and is expected to be completed within the normal operating cycle as current assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 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 instruments 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.

3.16 Fee and commission income

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

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

3.17 Dividend income

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Income tax

3.18.1 Current income tax

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

3.18.2 Deferred income tax

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group and the Bank intend to settle its current tax assets and liabilities on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Employee benefits

3.19.1 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 services. 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.

The Bank has a policy to contribute up to 5% of its annual profit before taxation and zakat to the trust fund. The trust fund is, however, not an Inland Revenue Board approved fund.

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

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 is calculated by applying the discount rate at the beginning of the period to the 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 presents 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 obligation recognised in the consolidated statement of financial position represent 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 restricting costs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Employee benefits (cont'd)

3.19.1 Defined benefit plan (cont'd)

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 bond 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 bond profit rate will increase the plan liability. This is not 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.

3.19.2 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.

3.19.3 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Impairment of non-financial assets

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

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

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

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

3.21 Profit equalisation reserve (PER)

PER is a mechanism to enable the Bank to mitigate the downside risk of income reduction and to maintain competitive rates of returns or deposit rates. This is in line with “Guidelines on Profit Equalisation Reserve” as prescribed by Bank Negara Malaysia.

PER is created by setting aside an amount out of total gross income before distribution to depositors and the Bank.

PER is segregated between the portion belonging to the depositors and the Bank based on the contractual profit sharing ratio at the point of creation. PER for depositors is classified as other liability and PER for the Bank is classified as a separate reserve in equity.

Utilisation of PER shall be appropriated from both the depositors’ and the Bank’s portion based on the contractual profit sharing ratio at the point of utilisation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Profit equalisation reserve (PER) (cont'd)

In line with the transition plan for implementation of classification of Islamic deposits and investment accounts under Islamic Financial Services Act 2013 (IFSA 2013), banks are required to replace all deposit products applying Shariah concepts of which non-principal contract is guaranteed, for example Mudarabah and Wakalah, with products that comply with the new requirements under IFSA.

In this respect, the Bank has taken steps by offering term deposits under concept Tawarruq which is in line with the requirements of the transition plan. In effect, deposit products under Mudarabah contract has declined resulting in the reduction of PER through its utilisation in accordance with guidelines on PER.

3.22 Zakat

In computing for zakat, the Group and the Bank have been applying the working capital method based on the rate of 2.5%. This method applies the rate on asset, net of liabilities 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 principal and being extended through Islamic Religious Council of the respective states and other rightful beneficiaries or asnaf.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's and the Bank's financial statements and financial results are influenced by accounting policies, assumptions, estimates and management judgement, 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 standard.

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. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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.

(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, whereas loss given default is measured by considering value of collateral to the financing and estimated recovery period from the collateral.

Probability of default 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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 repayment of the securities.

(ii) Impairment for equity securities

For equity instrument, impairment is not identified based on analysis of projected cash flows similar to debt instrument 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 is 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 assets

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

5. CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Cash and balances with banks and other financial institutions	**956,994**	746,196	**955,219**	744,018
Money at call and deposit placements maturing within one month	**2,123,560**	1,161,647	**2,123,560**	1,161,647
	3,080,554	1,907,843	**3,078,779**	1,905,665

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

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Cash and short-term funds	**3,080,554**	1,907,843	**3,078,779**	1,905,665
Bank overdrafts (Note 25)	**-**	(5,695)	**-**	-
	3,080,554	1,902,148	**3,078,779**	1,905,665

6. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Licensed banks	**185,838**	947,386	**160,099**	942,295

7. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
At fair value				
Islamic debt securities	**2,652,177**	2,287,255	**2,652,177**	2,287,255
Government investment issues	**6,793,223**	6,209,785	**6,793,223**	6,209,785
Government bonds	**2,162,419**	1,747,170	**2,162,419**	1,747,170
Khazanah bonds	**85,259**	22,500	**85,259**	22,500
Cagamas bonds	**53,627**	-	**53,627**	-
Quoted shares	**203,347**	183,245	**203,347**	182,472
Unit trust shares	**1,717**	1,892	**1,717**	1,892
At cost, net of impairment loss				
Unquoted shares	**10,249**	11,250	**6,833**	6,833
Net carrying amount	**11,962,018**	10,463,097	**11,958,602**	10,457,907

8. FINANCIAL ASSETS HELD-TO-MATURITY

	Group and Bank	
	2014	2013
	RM'000	RM'000
At amortised cost		
Islamic debt securities	**767,814**	565,505
Government investment issues	**8,673,072**	8,574,372
Government bonds	**1,078,786**	903,555
Khazanah bonds	**449,742**	306,684
Cagamas bonds	**122,835**	-
Negotiable Islamic debt certificates	**248,719**	-
Islamic commercial papers	**57,036**	62,008
	11,398,004	10,412,124
Less: accumulated impairment losses		
Islamic debt securities	**(209,251)**	(213,639)
Islamic commercial papers	**(57,036)**	(57,036)
	(266,287)	(270,675)
Net carrying amount	**11,131,717**	10,141,449

8. FINANCIAL ASSETS HELD-TO-MATURITY (CONTINUED)

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

	Group and Bank	
	2014	2013
	RM'000	RM'000
As of 1 January	**270,675**	380,186
Recoveries of impairment loss during the year (Note 31(ii))	**(4,388)**	(109,511)
As of 31 December	**266,287**	270,675

The maturity structures of the instruments are as follows:

	Group and Bank	
	2014	2013
	RM'000	RM'000
Maturity within one year	**1,005,642**	598,590
More than one year to five years	**6,846,551**	4,682,099
More than five years	**3,545,811**	5,131,435
	11,398,004	10,412,124

9. FINANCING AND ADVANCES

(i) Financing and advances analysed by type

	Group and Bank	
	2014	2013
	RM'000	RM'000
At amortised cost		
Term financing	**4,739,780**	5,284,458
Personal financing	**50,551,046**	46,937,581
Revolving credit	**525,226**	465,430
House financing	**2,637,902**	2,569,422
Hire-purchase receivables	**536,556**	361,859
Pawn broking	**1,662,191**	1,762,602
Bridging	**557,446**	595,183
Syndicated financing	**134,526**	106,222
Credit card	**468,833**	452,991
Staff financing	**286,115**	273,207
Gross financing and advances, net of unearned income	**62,099,621**	58,808,955
Allowance for impairment on financing and advances:		
Individual assessment impairment	**(492,436)**	(212,222)
Collective assessment impairment	**(1,124,636)**	(1,292,556)
	(1,617,072)	(1,504,778)
Net financing and advances	**60,482,549**	57,304,177

(ii) Financing and advances analysed by concept

	Group and Bank	
	2014	2013
	RM'000	RM'000
Bai` `Inah	**38,617,340**	43,503,470
Bai` Bithaman Ajil	**2,957,581**	3,137,380
Ar-Rahn	**1,662,191**	1,762,602
Qard	**221**	416
Ijarah Thumma Al-Bai`	**536,563**	355,359
Murabahah	**5,341,542**	5,886,027
Musharakah	**51,351**	72,027
Tawarruq	**12,932,832**	4,091,674
	62,099,621	58,808,955

9. FINANCING AND ADVANCES (CONTINUED)

(iii) Financing and advances analysed by geographical distribution

	Group and Bank	
	2014	2013
	RM'000	RM'000
Central Region	**26,151,058**	25,779,235
Southern Region	**8,772,193**	8,227,957
Eastern Region	**8,958,123**	8,242,686
Northern Region	**7,857,861**	7,070,647
East Malaysia Region	**10,360,386**	9,488,430
	62,099,621	58,808,955

(iv) Financing and advances analysed by economic sector

	Group and Bank	
	2014	2013
	RM'000	RM'000
Purchase of securities	**67,180**	96,140
Purchase of property	**2,370,866**	2,348,971
Consumption credit	**54,339,439**	50,468,948
Agriculture	**437,215**	444,941
Mining and quarrying	**87,259**	88,420
Manufacturing	**598,011**	761,932
Electricity, gas and water	**100,074**	82
Construction	**1,399,162**	1,589,424
Wholesale and retail trade	**165,101**	111,241
Transportation and communication	**297,254**	328,488
Financial, insurance and business services	**2,197,824**	2,519,567
Community, social and personal services	**40,236**	50,801
	62,099,621	58,808,955

(v) Financing and advances analysed by remaining contractual maturity

	Group and Bank	
	2014	2013
	RM'000	RM'000
Maturity within one year	**3,135,719**	3,512,768
More than one year to three years	**1,958,391**	2,424,576
More than three years to five years	**4,370,862**	3,490,441
More than five years	**52,634,649**	49,381,170
	62,099,621	58,808,955

9. FINANCING AND ADVANCES (CONTINUED)

(vi) Financing and advances analysed by customer type

	Group and Bank	
	2014	2013
	RM'000	RM'000
Individuals	**56,724,284**	52,869,164
Business enterprises	**3,366,931**	3,779,153
Non-bank financial institutions:		
Co-operatives	**1,869,353**	1,819,046
Others	**51,279**	54,927
Foreign entities	**36,566**	267,869
Other entities	**51,174**	18,740
Banking institutions	**34**	56
	62,099,621	58,808,955

(vii) Financing and advances analysed by profit rate sensitivity

	Group and Bank	
	2014	2013
	RM’000	RM'000
Fixed rate		
Personal financing	**39,286,310**	43,766,471
House financing	**1,620,286**	2,314,941
Others	**4,296,655**	4,236,154
Floating rate		
Personal financing	**11,264,736**	3,171,108
House financing	**1,017,616**	254,466
Others	**4,614,018**	5,065,815
	62,099,621	58,808,955

(viii) Impaired financing and advances analysed by geographical distribution

	Group and Bank	
	2014	2013
	RM’000	RM'000
Central Region	**1,034,558**	939,346
Southern Region	**70,459**	119,323
Eastern Region	**50,756**	84,055
Northern Region	**74,865**	101,975
East Malaysia Region	**36,669**	60,420
	1,267,307	1,305,119

9. FINANCING AND ADVANCES (CONTINUED)

(ix) Impaired financing and advances analysed by economic sector

	Group and Bank	
	2014	2013
	RM'000	RM'000
Purchase of securities	**345**	1,346
Purchase of property	**127,240**	188,545
Consumption credit	**344,204**	559,145
Agriculture	**71,532**	69,046
Mining and quarrying	**87,259**	-
Manufacturing	**137,078**	30,952
Electricity, gas and water	**9**	-
Construction	**348,588**	213,592
Wholesale and retail trade	**37,858**	38,714
Transportation and communication	**322**	276
Financial, insurance, property and business services	**109,676**	200,038
Community, social and personal services	**3,196**	3,465
	1,267,307	1,305,119

(x) Movement in impaired financing and advances are as follows:

	Group and Bank	
	2014	2013
	RM'000	RM'000
As of 1 January	**1,305,119**	1,431,737
Classified as impaired during the year	**1,794,281**	2,086,386
Amount written back in respect of recoveries	**(1,256,871)**	(1,457,955)
Amount written off during the year	**(575,222)**	(755,049)
	(37,812)	(126,618)
As of 31 December	**1,267,307**	1,305,119
Gross impaired financing and advances as a percentage of gross financing and advances	**2.04%**	2.22%

9. FINANCING AND ADVANCES (CONTINUED)

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

	Group and Bank	
	2014	2013
	RM'000	RM'000
Individual assessment impairment		
As of 1 January	**212,222**	285,543
Allowance made during the year (Note 30(i))	**497,265**	623,034
Amount written back in respect of recoveries (Note 30(i))	**(210,463)**	(259,516)
Amount written off during the year	**(6,588)**	(436,839)
	280,214	(73,321)
As of 31 December	**492,436**	212,222

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

	Group and Bank	
	2014	2013
	RM'000	RM'000
Collective assessment impairment		
As of 1 January	**1,292,556**	1,237,668
Allowance made during the year (Note 30(i))	**1,316,981**	1,511,284
Amount written back in respect of recoveries (Note 30(i))	**(920,416)**	(1,138,225)
Amount written off during the year	**(564,485)**	(318,171)
	(167,920)	54,888
As of 31 December	**1,124,636**	1,292,556
Collective impairment (inclusive of regulatory reserve) as a percentage of gross financing and advances after deduction of individual assessment impairment	**2.22%**	2.21%

10. TRADE RECEIVABLES

	Group	
	2014	2013
	RM'000	RM'000
At amortised cost		
Trade receivables	**7,983**	9,169
Less: Allowance for doubtful debts	**(1,499)**	(121)
	6,484	9,048

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 (2013: 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 RM4,348,000 (2013: RM7,741,000) 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	
	2014	2013
	RM'000	RM'000
Neither past due nor impaired		
1 day to less than 1 month	**2,136**	1,307
Past due but not impaired		
2 months to less than 3 months	**1,558**	2,032
3 months to less than 4 months	**699**	1,980
4 months and above	**2,091**	3,729
	4,348	7,741
Past due and impaired	**1,499**	121
	7,983	9,169

10. TRADE RECEIVABLES (CONTINUED)

Movement in the allowance for doubtful debts are as follows:

	Group	
	2014	2013
	RM'000	RM'000
As of 1 January	**121**	190
Impairment losses recognised during the year (Note 32(ii))	**1,378**	-
Amount recovered during the year (Note 31(ii))	**-**	(68)
Amount written off during the year	**-**	(1)
As of 31 December	**1,499**	121

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivables 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	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Amount due from subsidiaries (i)	**-**	-	**1,325**	2,688
Other receivables, deposits and prepayments (ii)	**475,034**	483,257	**416,350**	430,722
Defined benefit plan (iii)	**274,146**	192,937	**274,146**	192,937
Tax recoverable	**159,550**	99,685	**159,297**	99,557
	908,730	775,879	**851,118**	725,904

(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	
	2014	2013
	RM'000	RM'000
Outstanding balances	**21,308**	21,284
Less: Allowance for doubtful debts	**(19,983)**	(18,596)
	1,325	2,688

11. OTHER ASSETS (CONTINUED)

(i) Amount due from subsidiaries (cont'd)

Movement in the allowance for doubtful debts are as follows:

	Bank	
	2014	2013
	RM'000	RM'000
As of 1 January	**18,596**	18,596
Impairment losses recognised during the year (Note 32(ii))	**1,387**	-
As of 31 December	**19,983**	18,596

(ii) Other receivables, deposits and prepayments

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Other receivables	**206,213**	216,719	**201,514**	213,407
Allowance for doubtful debts *	**(15,371)**	(17,688)	**(15,260)**	(17,577)
Refundable deposits	**59,389**	57,889	**9,344**	8,902
Prepayments	**24,803**	26,337	**20,752**	25,990
Contribution to Central Liquidity Monetary Fund **	**200,000**	200,000	**200,000**	200,000
	475,034	483,257	**416,350**	430,722

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

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
As of 1 January	**17,688**	33,201	**17,577**	33,090
Impairment losses recognised during the year (Note 32(ii))	**3,841**	-	**3,841**	-
Amount recovered during the year (Note 31(ii))	**(106)**	(15,513)	**(106)**	(15,513)
Amount written off during the year	**(6,052)**	-	**(6,052)**	-
As of 31 December	**15,371**	17,688	**15,260**	17,577

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

11. OTHER ASSETS (CONTINUED)

(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	
	2014	2013
Normal retirement age: Male and Female (years)	**60**	60
Discount rate	**5.75%**	5.50%
Rate of salary increases	**8-9%**	8-10%

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

	Group and Bank	
	2014	2013
	RM'000	RM'000
Service cost:		
Current service cost	**34,881**	31,485
Past service cost	**-**	20,286
Net profit income	**(10,611)**	(7,056)
Components of defined benefit costs recognised in profit or loss (Note 32(i))	**24,270**	44,715
Remeasurement on the net defined benefit liability:		
Actuarial gain/(loss) arising from changes in financial assumptions	**1,245**	(20,695)
Actuarial (loss)/gain arising from changes in experience adjustments	**(6,937)**	6,544
Net return on plan assets	**6,483**	10,483
Components of defined benefit costs recognised in other comprehensive income	**791**	(3,668)
Total	**25,061**	41,047

11. OTHER ASSETS (CONTINUED)

(iii) Defined benefit plan (cont'd)

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	
	2014	2013
	RM'000	RM'000
Present value of funded obligations	**(501,195)**	(454,879)
Fair value of plan assets	**775,341**	647,816
Net assets	**274,146**	192,937

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

	Group and Bank	
	2014	2013
	RM'000	RM'000
As of 1 January	**454,879**	402,777
Current service cost	**34,881**	31,485
Past service cost	**-**	20,286
Finance cost	**24,896**	21,980
Actuarial gain/(loss) arising from changes in financial assumptions	**1,245**	(20,695)
Actuarial (loss)/gain arising from changes in experience adjustments	**(6,937)**	6,544
Benefits paid	**(7,769)**	(7,498)
As of 31 December	**501,195**	454,879

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

	Group and Bank	
	2014	2013
	RM'000	RM'000
As of 1 January	**647,816**	531,068
Profit income	**35,507**	29,036
Contributions paid during the year	**106,270**	105,693
Benefits paid from defined benefit plan	**(7,769)**	(7,498)
Net return on plan assets	**(6,483)**	(10,483)
As of 31 December	**775,341**	647,816

11. OTHER ASSETS (CONTINUED)

(iii) Defined benefit plan (cont'd)

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

	Group and Bank	
	2014	2013
	RM'000	RM'000
Term deposits	**775,341**	647,816
	775,341	647,816

The actual return on plan assets was RM29,024,000 (2013: RM18,553,000).

Sensitivity analysis on defined benefit plan

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analysis below have been determined based on reasonably possible changes of the respective assumptions occuring at the end of the reporting period, while holding all other assumptions constant.

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- If the discount rate reduces (increases) by 1%, the defined benefit obligation would increase by 14% (decrease by 12%);
- If the expected salary growth rate increases (decreases) by 1%, the defined benefit obligation would increase by 14% (decrease by 12%);

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statements of financial position.

12. INVENTORIES

Inventories consist of the following:

	Group	
	2014	2013
	RM'000	RM'000
Trading inventories, at cost	**5,140**	8,105
Property development cost *	**-**	4,263
Completed property units	**4,344**	-
	9,484	12,368

* Movement for property development is as follows:

	Group	
	2014	2013
	RM'000	RM'000
Freehold land, at cost		
As of 1 January	**453**	1,424
Charged to profit or loss	**-**	(23)
Reclassification to development cost	**-**	(948)
Completed property units	**(453)**	-
As of 31 December	**-**	453
Development cost		
As of 1 January	**3,810**	2,758
Cost incurred during the year	**81**	499
Charged to profit or loss	**-**	(395)
Reclassification from freehold land	**-**	948
Completed property units	**(3,891)**	-
As of 31 December	**-**	3,810
Total	**-**	4,263

13. ASSET CLASSIFIED AS HELD-FOR-SALE

	Group	
	2014	2013
	RM'000	RM'000
As of 1 January	**80,432**	-
Transfer from investment properties (Note 16)	**-**	80,432
Disposal	**(80,432)**	-
As of 31 December	**-**	80,432

On 3 December 2013, a subsidiary entered into a sale and purchase agreement with a third party for the disposal of a freehold hotel land and building for a cash consideration of RM85,000,000. Accordingly, the said freehold hotel land and building was classified as asset held-for-sale as of 31 December 2013. The said disposal was completed during the year upon the surrender of vacant possession to the purchaser. The gain arising from the said disposal is disclosed in Note 31(ii).

14. INVESTMENT IN SUBSIDIARIES

	Bank	
	2014	2013
	RM'000	RM'000
Unquoted shares, at cost	**43,500**	43,500

14. INVESTMENT IN SUBSIDIARIES (CONTINUED)

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

Name	Equity interest 2014 %	Equity interest 2013 %	Principal activities
Directly owned			
Rakyat Holdings Sdn Bhd *	100	100	Investment and property management
Indirectly owned through Rakyat Holdings Sdn Bhd			
Rakyat Hartanah Sdn Bhd *	100	100	Property development and project management
Rakyat Management Services Sdn Bhd *	100	100	Management of Ar-Rahnu business and franchise
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 Nominees Sdn Bhd *	100	100	Dormant
Rakyat Niaga Sdn Bhd *	100	100	Trading and supply of goods

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

14. 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 subsidiary		Number of indirectly owned subsidiaries	
		2014	2013	2014	2013
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
		1	1	7	7

15. PROPERTY AND EQUIPMENT

Group 2014	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
At cost									
At 1 January	50,553	60,631	124,176	868	497,941	198,651	433,676	7,990	1,374,486
Additions	-	-	-	-	68,632	8,037	63,900	1,174	141,743
Disposals	-	-	-	-	-	-	(250)	(662)	(912)
Write-offs	-	(510)	-	-	-	-	(2,004)	-	(2,514)
Reclassifications	-	360,129	1,405	-	(378,493)	13,052	3,907	-	-
Transfer to prepaid lease payments (Note 17)	-	-	(8,343)	-	-	-	-	-	(8,343)
Transfer to investment properties (Note 16)	-	-	(22,848)	-	(182,995)	-	-	-	(205,843)
Transfer from investment properties (Note 16)	1,388	-	3,325	-	-	-	-	-	4,713
At 31 December	51,941	420,250	97,715	868	5,085	219,740	499,229	8,502	1,303,330
Accumulated depreciation									
At 1 January	-	10,292	24,844	286	-	129,070	302,510	3,832	470,834
Charge for the year	-	4,764	2,262	16	-	24,395	51,695	932	84,064
Disposals	-	-	-	-	-	-	(247)	(180)	(427)
Write-offs	-	(19)	-	-	-	-	(1,970)	-	(1,989)
Transfer to prepaid lease payments (Note 17)	-	-	(77)	-	-	-	-	-	(77)
Transfer to investment properties (Note 16)	-	-	(14,488)	-	-	-	-	-	(14,488)
At 31 December	-	15,037	12,541	302	-	153,465	351,988	4,584	537,917
Net book value									
At 31 December	51,941	405,213	85,174	566	5,085	66,275	147,241	3,918	765,413

15. PROPERTY AND EQUIPMENT (CONTINUED)

Group 2013	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
At cost									
At 1 January	50,553	58,291	106,869	868	280,107	185,958	396,847	7,383	1,086,876
Additions	-	-	5,712	-	242,390	6,023	59,960	1,300	315,385
Disposals	-	-	-	-	-	-	(24)	(693)	(717)
Write-offs	-	-	-	-	-	(1,910)	(23,107)	-	(25,017)
Reclassifications	-	3,840	12,136	-	(24,556)	8,580	-	-	-
Transfer to prepaid lease payments (Note 17)	-	-	(37)	-	-	-	-	-	(37)
Transfer to investment properties (Note 16)	-	(1,500)	(504)	-	-	-	-	-	(2,004)
At 31 December	50,553	60,631	124,176	868	497,941	198,651	433,676	7,990	1,374,486
Accumulated depreciation									
At 1 January	-	8,334	22,534	254	-	108,411	273,507	3,179	416,219
Charge for the year	-	1,958	2,225	32	-	22,479	49,492	947	77,133
Disposals	-	-	-	-	-	-	(24)	(294)	(318)
Write-offs	-	-	-	-	-	(1,820)	(20,465)	-	(22,285)
Transfer to prepaid lease payments (Note 17)	-	-	(1)	-	-	-	-	-	(1)
Transfer to investment properties (Note 16)	-	-	86	-	-	-	-	-	86
At 31 December	-	10,292	24,844	286	-	129,070	302,510	3,832	470,834
Net book value									
At 31 December	50,553	50,339	99,332	582	497,941	69,581	131,166	4,158	903,652

15. PROPERTY AND EQUIPMENT (CONTINUED)

Bank 2014	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
At cost									
At 1 January	50,421	60,631	96,679	868	500,003	196,523	430,429	1,729	1,337,283
Additions	-	-	-	-	63,602	7,925	63,690	260	135,477
Disposals	-	-	-	-	-	-	(250)	(260)	(510)
Write-offs	-	(510)	-	-	-	-	(2,004)	-	(2,514)
Reclassifications	-	360,129	-	-	(377,088)	13,052	3,907	-	-
Transfer to prepaid lease payments (Note 17)	-	-	(1,680)	-	-	-	-	-	(1,680)
Transfer to investment properties (Note 16)	-	-	(21,223)		(178,886)	-	-	-	(200,109)
At 31 December	50,421	420,250	73,776	868	7,631	217,500	495,772	1,729	1,267,947
Accumulated depreciation									
At 1 January	-	10,292	22,776	286	-	127,842	300,200	1,005	462,401
Charge for the year	-	4,764	1,866	16	-	24,230	51,457	183	82,516
Disposals	-	-	-	-	-	-	(247)	-	(247)
Write-offs	-	(19)	-	-	-	-	(1,970)	-	(1,989)
Transfer to investment properties (Note 16)	-	-	(14,055)	-	-	-	-	-	(14,055)
At 31 December	-	15,037	10,587	302	-	152,072	349,440	1,188	528,626
Net book value									
At 31 December	50,421	405,213	63,189	566	7,631	65,428	146,332	541	739,321

15. PROPERTY AND EQUIPMENT (CONTINUED)

Bank 2013	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
At cost									
At 1 January	50,421	58,291	96,716	868	271,793	183,830	393,794	1,413	1,057,126
Additions	-	-	-	-	240,630	6,023	59,766	640	307,059
Disposals	-	-	-	-	-	-	(24)	(324)	(348)
Write-offs	-	-	-	-	-	(1,910)	(23,107)	-	(25,017)
Reclassifications	-	3,840	-	-	(12,420)	8,580	-	-	-
Transfer to prepaid lease payments (Note 17)	-	-	(37)	-	-	-	-	-	(37)
Transfer to investment properties (Note 16)	-	(1,500)	-	-	-	-	-	-	(1,500)
At 31 December	50,421	60,631	96,679	868	500,003	196,523	430,429	1,729	1,337,283
Accumulated depreciation									
At 1 January	-	8,334	20,888	254	-	107,383	271,449	865	409,173
Charge for the year	-	1,958	1,889	32	-	22,279	49,240	199	75,597
Disposals	-	-	-	-	-	-	(24)	(59)	(83)
Write-offs	-	-	-	-	-	(1,820)	(20,465)	-	(22,285)
Transfer to prepaid lease payments (Note 17)	-	-	(1)	-	-	-	-	-	(1)
At 31 December	-	10,292	22,776	286	-	127,842	300,200	1,005	462,401
Net book value									
At 31 December	50,421	50,339	73,903	582	500,003	68,681	130,229	724	874,882

15. PROPERTY AND EQUIPMENT (CONTINUED)

Land titles of certain freehold land of the Bank with carrying amount of RM3,611,933 (2013: RM7,017,267) have not been issued by the relevant authorities.

16. INVESTMENT PROPERTIES

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
At fair value				
As of 1 January	**160,474**	236,581	**148,448**	145,384
Additions	**51**	40	**-**	-
Gain/(Loss) on revaluation (Note 31(ii), Note 32(ii))	**186,741**	(157)	**187,077**	1,564
Transfer from property and equipment (Note 15)	**191,355**	1,918	**186,054**	1,500
Transfer from prepaid lease payments (Note 17)	**5,380**	2,524	**2,600**	-
Transfer to property and equipment (Note 15)	**(4,713)**	-	**-**	-
Transfer to asset classified as held-for-sale (Note 13)	**-**	(80,432)	**-**	-
As of 31 December	**539,288**	160,474	**524,179**	148,448

Investment properties include the following:

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Freehold land	**5,539**	4,779	**6,845**	4,697
Buildings	**305,880**	19,022	**291,844**	8,942
Leasehold land and buildings	**227,869**	136,673	**225,490**	134,809
	539,288	160,474	**524,179**	148,448

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

The fair values of the Group's and of the Bank's investment properties as at 31 December 2014 and 31 December 2013 have been arrived at on the basis of a valuation carried out by independent valuers who have appropriate qualification and recent experience in the valuation of properties in the relevant locations. The fair value was arrived at by reference to current prices in an active market for similar properties in the same location and condition. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

16. INVESTMENT PROPERTIES (CONTINUED)

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

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group					
As of 31 December 2014	**539,288**	**539,288**	**-**	**539,288**	**-**
As of 31 December 2013	160,474	160,474	-	160,474	-
Bank					
As of 31 December 2014	**524,179**	**524,179**	**-**	**524,179**	**-**
As of 31 December 2013	148,448	148,448	-	148,448	-

Land titles for certain freehold land and leasehold land of the Bank with fair value amounting to RM950,000 (2013: RM890,000) have not been issued to the Bank by the relevant authorities.

The investment properties held by the Bank are let under operating leases to third parties, from which rental income of RM6,993,431 (2013: RM6,213,684) has been earned during the year.

17. PREPAID LEASE PAYMENTS

	Group		Bank	
	2014 RM'000	2013 RM'000	**2014 RM'000**	2013 RM'000
Cost				
As of 1 January	**96,772**	99,259	**82,642**	82,605
Transfer from property and equipment (Note 15)	**8,343**	37	**1,680**	37
Transfer to investment properties (Note 16)	**(11,433)**	(2,524)	**(7,642)**	-
As of 31 December	**93,682**	96,772	**76,680**	82,642
Accumulated amortisation				
As of 1 January	**16,990**	15,316	**13,270**	11,614
Transfer from property and equipment (Note 15)	**77**	1	**-**	1
Transfer to investment properties (Note 16)	**(6,053)**	-	**(5,042)**	-
Charge for the year (Note 32 (ii))	**1,994**	1,673	**1,662**	1,655
As of 31 December	**13,008**	16,990	**9,890**	13,270
	80,674	79,782	**66,790**	69,372

17. PREPAID LEASE PAYMENTS (CONTINUED)

Prepaid lease payments include:

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Long-term leasehold land	**58,500**	60,896	**58,500**	60,896
Short-term leasehold land	**22,174**	18,886	**8,290**	8,476
	80,674	79,782	**66,790**	69,372

The remaining period of the leasehold land of the Group and of the Bank ranges from 17 to 95 years (2013: 18 to 96 years) and 19 to 92 years (2013: 20 to 93 years) respectively.

The land titles of certain leasehold land of the Bank amounting to RM16,926,226 (2013: RM14,843,434) have not been issued to the Bank by the relevant authorities.

18. DEFERRED TAX ASSETS

Deferred tax assets of the Group and of the Bank are as follows:

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
As of 1 January	**265,032**	408,494	**266,000**	410,000
Transfer to/(from) profit or loss (Note 33)				
Property and equipment	**(2,027)**	(8,462)	**(2,000)**	(9,000)
Financing and advances	**(6,000)**	(164,000)	**(6,000)**	(164,000)
Provision for retirement benefits	**3,000**	8,000	**3,000**	8,000
Other payables	**(31,000)**	71,000	**(31,000)**	71,000
Profit equalisation reserve	**(90,000)**	(50,000)	**(90,000)**	(50,000)
Trade receivables	**216**	-	**-**	-
	(125,811)	(143,462)	**(126,000)**	(144,000)
As of 31 December	**139,221**	265,032	**140,000**	266,000

18. DEFERRED TAX ASSETS (CONTINUED)

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

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Deferred tax assets				
Temporary differences arising from:				
Financing and advances	**118,000**	124,000	**118,000**	124,000
Provision for retirement benefits	**18,000**	15,000	**18,000**	15,000
Other payables	**73,000**	104,000	**73,000**	104,000
Profit equalisation reserve	**12,000**	102,000	**12,000**	102,000
Trade receivables	**216**	-	**-**	-
	221,216	345,000	**221,000**	345,000
Offsetting	**(81,995)**	(79,968)	**(81,000)**	(79,000)
Deferred tax assets (after offsetting)	**139,221**	265,032	**140,000**	266,000
Deferred tax liabilities				
Temporary differences arising from:				
Property and equipment	**81,995**	79,968	**81,000**	79,000
Offsetting	**(81,995)**	(79,968)	**(81,000)**	(79,000)
Deferred tax liabilities (after offsetting)	**-**	-	**-**	-

19. DEPOSITS FROM CUSTOMERS

	Group and Bank	
	2014	2013
	RM'000	RM'000
Non-Mudarabah		
Term deposits	**52,494,140**	38,691,634
Savings deposits	**3,585,232**	683,594
Negotiable Islamic debt certificate	**10,633,679**	5,992,899
	66,713,051	45,368,127
Mudarabah		
Savings deposits	**-**	2,582,332
General investment deposits	**1,627,722**	17,188,608
Special investment deposits	**182,200**	158,700
	1,809,922	19,929,640
	68,522,973	65,297,767

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

	Group and Bank	
	2014	2013
	RM'000	RM'000
Government	**30,692,105**	29,523,382
Business enterprises	**24,086,611**	23,229,490
Co-operatives	**1,220,504**	1,202,751
Individuals	**11,290,827**	10,181,934
Others	**1,232,926**	1,160,210
	68,522,973	65,297,767

Maturity structure of deposits from customers is as follows:

	Group and Bank	
	2014	2013
	RM'000	RM'000
Maturity within six months	**56,791,442**	55,199,677
More than six months to one year	**8,765,853**	7,387,793
More than one year to five years	**2,965,678**	2,710,297
	68,522,973	65,297,767

20. DEPOSITS AND PLACEMENTS FROM BANKS AND FINANCIAL INSTITUTIONS

	Group and Bank	
	2014	2013
	RM'000	RM'000
Licensed Islamic banks	**1,800,000**	1,620,000
	1,800,000	1,620,000

21. 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.

22. DEBT SECURITIES ISSUED

		Group and Bank	
		2014	2013
		RM'000	RM'000
Issued under the RM1.0 billion IMTN Programme:			
First tranche:			
RM300 million IMTN due in 2015	(i)	**301,896**	301,864
Second tranche:			
RM700 million IMTN due in 2017	(i)	**704,683**	704,590
Issued under the RM9.0 billion IMTN Programme:			
First tranche:			
RM200 million IMTN due in 2016	(ii)(a)	**200,220**	200,248
Second tranche:			
RM300 million IMTN due in 2018	(ii)(a)	**300,330**	300,386
Third tranche:			
RM575 million IMTN due in 2017	(ii)(b)	**581,589**	-
Fourth tranche:			
RM425 million IMTN due in 2019	(ii)(b)	**430,188**	-
Fifth tranche:			
RM150 million IMTN due in 2019	(ii)(c)	**150,484**	-
Sixth tranche:			
RM350 million IMTN due in 2021	(ii)(c)	**351,181**	-
		3,020,571	1,507,088

(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. The issuance was made via a Special Purpose Vehicle (SPV), Imtiaz Sukuk Berhad. The Senior IMTNs Programme has a tenor of up to 10 years from the date of the first issuance and shall be issued for a maturity of up to 10 years provided that the Senior IMTNs mature prior to the expiry of the Senior IMTNs Programme.

On 23 November 2012, the Bank issued RM1.0 billion Sukuk Musharakah under the RM1.0 billion Senior IMTNs Programme 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 maturity date at 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 maturity date at 23 November 2017. The profit is payable semi-annually each year commencing 23 May 2013.

22. DEBT SECURITIES ISSUED (CONTINUED)

(ii) On 25 October 2013, the Bank obtained the approval from the Securities Commission for the establishment of a Senior IMTNs Programme to issue a Sukuk Musharakah of up to RM9.0 billion via Imtiaz Sukuk (II) Berhad. The Senior IMTNs Programme has a tenor of up to 10 years from the date of the first issuance and shall be issued for a maturity of up to 10 years as the Issuer may select provided that the Senior IMTNs mature prior to the expiry of the Senior IMTNs Programme.

The Bank has issued the Sukuk Musharakah under the RM9.0 billion Senior IMTNs Programme which consists of following tranches:

(a) On 20 December 2013, the Bank issued the first tranche and second tranche of RM200 million in nominal value and RM300 million in nominal value of the Senior IMTNs. The first tranche has a tenor of 3 years with profit distribution rate at 4.30% and maturity date on 20 December 2016 and the second tranche has a tenor of 5 years with profit distribution rate at 4.45% and maturity date on 20 December 2018. The profit is payable semi-annually each year commencing 20 June 2013.

(b) On 24 March 2014, the Bank issued the third tranche and forth tranche of RM575 million in nominal value and RM425 million in nominal value of the Senior IMTNs. The third tranche has a tenor of 3 years with profit distribution rate at 4.30% and maturity date on 24 March 2017 and the fourth tranche has a tenor of 5 years with profit distribution rate at 4.60% and maturity date on 22 March 2019. The profit is payable semi-annually each year commencing 24 September 2013.

(c) On 24 November 2014, the Bank issued the fifth tranche and the sixth tranche of RM150 million in nominal value and RM350 million in nominal value of Senior IMTNs. The fifth tranche has a tenor of 5 years with profit distribution rate at 4.50% and maturity date on 22 November 2019 and the sixth tranche has a tenor of 7 years with profit distribution rate at 4.65% and maturity date on 24 November 2021. The profit is payable semi-annually each year commencing 25 May 2015.

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

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.

23. OTHER LIABILITIES

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Amount due to subsidiaries (i)	**-**	-	**194,846**	170,731
Sundry creditors	**243,138**	219,692	**217,804**	187,619
Income payable	**421,314**	426,854	**421,314**	426,854
Other liabilities and accruals	**520,576**	584,270	**513,275**	577,480
Government fund	**200,803**	81,329	**200,803**	81,329
Zakat payable	**45,181**	47,156	**44,555**	46,666
	1,431,012	1,359,301	**1,592,597**	1,490,679

(i) Amount due to subsidiaries

	Bank	
	2014	2013
	RM'000	RM'000
Term deposits	**189,410**	167,458
Savings deposits	**5,436**	3,273
	194,846	170,731

The amount due to subsidiaries of RM194,846,000 (2013: RM170,731,000) represents deposits placed with the Bank. The average profit rate paid/payable to subsidiaries is 3.49% (2013: 3.18%) per annum.

24. PROFIT EQUALISATION RESERVE

	Group and Bank	
	2014	2013
	RM'000	RM'000
As of 1 January	**406,639**	584,641
Net utilisation during the year (Note 29)	**(357,998)**	(178,002)
As of 31 December	**48,641**	406,639
Apportioned between:		
Investor	**18,776**	152,145
Bank	**29,865**	254,494
	48,641	406,639

25. FINANCING FROM OTHER FINANCIAL INSTITUTIONS

	Group	
	2014	2013
	RM'000	RM'000
Secured		
Term financing	**-**	33,907
Bank overdraft (Note 5)	**-**	5,695
	-	39,602

As of 31 December 2013, one of the subsidiaries had a term financing and other unutilised credit facilities totalling RM61,000,000 obtained from certain local bank, which bore profit at a rate of 4.80% per annum.

The term financing and other credit facilities of the subsidiary were secured by:

(i) First party pledge of fixed return investment Account-I Certificate with a principal amount of not less than RM3.6 million;

(ii) First party legal charge over the investment properties of the subsidiary.

26. SHARE CAPITAL

	Group and Bank	
	2014	2013
	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	**2,973,677**	2,865,004
Net issuance during the year	**4,581**	54,355
Bonus issues during the year	**-**	54,318
Transfer to other liabilities	**(5,452)**	-
Transfer from share redemption fund	**871**	-
As of 31 December	**2,973,677**	2,973,677

Membership as of 31 December is as follows:

	Group and Bank	
	2014	2013
Individual	**922,452**	941,383
Co-operative	**2,099**	2,081
	924,551	943,464

27. RESERVES

Group	Non-distributable Capital reserve RM'000	Statutory reserve RM'000	Fair value reserve RM'000	Regulatory reserve RM'000	Total other reserves RM'000	Distributable Retained profits RM'000	Total RM'000
At 1 January 2013	14,617	3,304,452	178,283	-	3,497,352	3,616,495	7,113,847
Profit after taxation and zakat	-	-	-	-	-	1,919,580	1,919,580
Transfer from retained profits	-	485,111	-	-	485,111	(485,111)	-
Contribution to the Co-operative Education Trust Fund	-	-	-	-	-	(42,508)	(42,508)
Contribution to the Co-operative Development Provident Fund	-	-	-	-	-	(21,254)	(21,254)
Contribution to Bank Rakyat Foundation	-	-	-	-	-	(9,236)	(9,236)
Remeasurement of defined benefit plan	-	-	-	-	-	3,668	3,668
Unrealised net loss on revaluation of financial assets available-for-sale	-	-	(200,132)	-	(200,132)	-	(200,132)
Dividends	-	-	-	-	-	(495,058)	(495,058)
At 31 December 2013	14,617	3,789,563	(21,849)	-	3,782,331	4,486,576	8,268,907
At 1 January 2014	**14,617**	**3,789,563**	**(21,849)**	**-**	**3,782,331**	**4,486,576**	**8,268,907**
Profit after taxation and zakat	**-**	**-**	**-**	**-**	**-**	**1,975,845**	**1,975,845**
Transfer from retained profits	**-**	**499,177**	**-**	**245,566**	**744,743**	**(744,743)**	**-**
Contribution to the Co-operative Education Trust Fund	**-**	**-**	**-**	**-**	**-**	**(43,204)**	**(43,204)**
Contribution to the Co-operative Development Provident Fund	**-**	**-**	**-**	**-**	**-**	**(21,602)**	**(21,602)**
Contribution to Bank Rakyat Foundation	**-**	**-**	**-**	**-**	**-**	**(9,095)**	**(9,095)**
Remeasurement of defined benefit plan	**-**	**-**	**-**	**-**	**-**	**(791)**	**(791)**
Unrealised net loss on revaluation of financial assets available-for-sale	**-**	**-**	**(55,565)**	**-**	**(55,565)**	**-**	**(55,565)**
Dividends	**-**	**-**	**-**	**-**	**-**	**(441,053)**	**(441,053)**
At 31 December 2014	**14,617**	**4,288,740**	**(77,414)**	**245,566**	**4,471,509**	**5,201,933**	**9,673,442**

27. RESERVES (CONTINUED)

Bank	Non-distributable Capital reserve RM'000	Non-distributable Statutory reserve RM'000	Non-distributable Fair value reserve RM'000	Non-distributable Regulatory reserve RM'000	Non-distributable Total other reserves RM'000	Distributable Retained profits RM'000	Total RM'000
At 1 January 2013	15,358	3,304,452	178,283	-	3,498,093	3,361,365	6,859,458
Profit after taxation and zakat	-	-	-	-	-	1,906,444	1,906,444
Transfer from retained profits	-	485,111	-	-	485,111	(485,111)	-
Contribution to the Co-operative Education Trust Fund	-	-	-	-	-	(42,508)	(42,508)
Contribution to the Co-operative Development Provident Fund	-	-	-	-	-	(21,254)	(21,254)
Contribution to Bank Rakyat Foundation	-	-	-	-	-	(9,236)	(9,236)
Remeasurement of defined benefit plan	-	-	-	-	-	3,668	3,668
Unrealised net loss on revaluation of financial assets available-for-sale	-	-	(200,132)	-	(200,132)	-	(200,132)
Dividends	-	-	-	-	-	(495,058)	(495,058)
At 31 December 2013	15,358	3,789,563	(21,849)	-	3,783,072	4,218,310	8,001,382
At 1 January 2014	**15,358**	**3,789,563**	**(21,849)**	**-**	**3,783,072**	**4,218,310**	**8,001,382**
Profit after taxation and zakat	**-**	**-**	**-**	**-**	**-**	**1,957,705**	**1,957,705**
Transfer from retained profits	**-**	**499,177**	**-**	**245,566**	**744,743**	**(744,743)**	**-**
Contribution to the Co-operative Education Trust Fund	**-**	**-**	**-**	**-**	**-**	**(43,204)**	**(43,204)**
Contribution to the Co-operative Development Provident Fund	**-**	**-**	**-**	**-**	**-**	**(21,602)**	**(21,602)**
Contribution to Bank Rakyat Foundation	**-**	**-**	**-**	**-**	**-**	**(9,095)**	**(9,095)**
Remeasurement of defined benefit plan	**-**	**-**	**-**	**-**	**-**	**(791)**	**(791)**
Unrealised net loss on revaluation of financial assets available-for-sale	**-**	**-**	**(55,565)**	**-**	**(55,565)**	**-**	**(55,565)**
Dividends	**-**	**-**	**-**	**-**	**-**	**(441,053)**	**(441,053)**
At 31 December 2014	**15,358**	**4,288,740**	**(77,414)**	**245,566**	**4,472,250**	**4,915,527**	**9,387,777**

27. 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 RM400,000,000 earmarked to improve the Rate of Return Risk (ROR) exposure as part of asset and liability management strategies.

28. INCOME

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Income derived from investment of depositors' fund (i)	**4,308,216**	4,478,978	**4,308,216**	4,478,978
Income derived from investment of shareholders' fund (ii)	**1,101,427**	1,070,736	**1,101,427**	1,070,736
Income generated by subsidiary companies (iii)	**76,656**	54,456	**-**	-
	5,486,299	5,604,170	**5,409,643**	5,549,714

(i) Income derived from investment of depositors' fund

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Income from financing and advances *	**3,611,173**	3,776,899	**3,611,173**	3,776,899
Income from deposits and placements with banks and financial institutions	**49,226**	97,163	**49,226**	97,163
Income from financial assets	**647,817**	604,916	**647,817**	604,916
	4,308,216	4,478,978	**4,308,216**	4,478,978

(ii) Income derived from investment of shareholders' fund

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Income from financing and advances *	**923,223**	902,899	**923,223**	902,899
Income from deposits and placements with banks and other financial institutions	**12,585**	23,227	**12,585**	23,227
Income from financial assets	**165,619**	144,610	**165,619**	144,610
	1,101,427	1,070,736	**1,101,427**	1,070,736

* Included in income from financing and advances for the current year is profit accrued on impaired financing of RM67,307,561 (2013: RM72,927,365)

28. INCOME (CONTINUED)

(iii) Income generated by subsidiary companies

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Agency income	**14,812**	15,993	**-**	-
Pawning income	**45,474**	15,104	**-**	-
Rental income	**6,377**	9,684	**-**	-
Management fee	**9,993**	11,286	**-**	-
Sale of goods	**-**	558	**-**	-
Other charges	**-**	1,831	**-**	-
	76,656	54,456	**-**	-

29. EXPENDITURE

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Income attributable to depositors (i)	**2,342,563**	2,237,204	**2,348,330**	2,242,812
Profit expense on financing sold with recourse to Cagamas	**62,526**	104,159	**62,526**	104,159
Transfer from profit equalisation reserve (Note 24)	**(357,998)**	(178,002)	**(357,998)**	(178,002)
Profit expense on debt securities issued	**98,663**	40,918	**98,663**	40,918
Cost of sales	**77,157**	39,071	**-**	-
	2,222,911	2,243,350	**2,151,521**	2,209,887

29. EXPENDITURE (CONTINUED)

(i) Income attributable to depositors

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Deposits from customers				
Mudarabah	**372,238**	1,070,725	**378,005**	1,076,333
Non-Mudarabah	**1,920,119**	1,144,541	**1,920,119**	1,144,541
Deposits and placements from banks and other financial institutions				
Mudarabah	**50,022**	21,921	**50,022**	21,921
Non-Mudarabah	**184**	17	**184**	17
	2,342,563	2,237,204	**2,348,330**	2,242,812

30. ALLOWANCES FOR IMPAIRMENT

	Group and Bank	
	2014	2013
	RM'000	RM'000
Allowance for impairment on financing and advances (i)	**698,875**	747,982
Allowance for impairment on financial assets (ii)	**10,032**	1,146
	708,907	749,128

(i) Allowance for impairment on financing and advances

	Group and Bank	
	2014	2013
	RM'000	RM'000
Individual impairment (Note 9(xi))	**286,802**	363,518
Individual impairment on rescheduled financing *	**15,508**	11,405
Collective impairment (Note 9(xii))	**396,565**	373,059
	698,875	747,982

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

30. ALLOWANCES FOR IMPAIRMENT (CONTINUED)

(ii) Allowance for impairment on financial assets

	Group and Bank	
	2014	2013
	RM'000	RM'000
Financial assets available-for-sale	**10,032**	1,146
	10,032	1,146

31. OTHER OPERATING INCOME

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Fees and commission (i)	**63,036**	82,243	**63,036**	82,243
Other income (ii)	**514,116**	424,270	**508,526**	440,020
	577,152	506,513	**571,562**	522,263

(i) Fees and commission

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Takaful commission	**14,789**	37,985	**14,789**	37,985
ATM service fees	**11,474**	11,053	**11,474**	11,053
Wasiat commission	**5,366**	5,942	**5,366**	5,942
Other commission	**12,634**	10,336	**12,634**	10,336
Processing fees	**937**	2,863	**937**	2,863
MEPS fees	**8,439**	5,827	**8,439**	5,827
Guarantee fees	**5,753**	4,576	**5,753**	4,576
Other fees	**3,644**	3,661	**3,644**	3,661
	63,036	82,243	**63,036**	82,243

31. OTHER OPERATING INCOME (CONTINUED)

(ii) Other income

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Other income from financial instruments				
Dividend from financial assets available-for-sale	**8,481**	8,145	**8,481**	8,145
Net gain on disposal of financial assets held-for-trading	**139**	141	**139**	141
Net gain on disposal of financial assets available-for-sale	**20,210**	20,196	**20,210**	20,485
Net gain on redemption of financial assets held-to-maturity	**-**	792	**-**	792
Others				
Rental income				
Investment properties	**7,007**	6,214	**6,994**	6,214
Other properties	**-**	125	**-**	107
Compensation for late payment	**6,810**	7,546	**6,810**	7,546
Charges from credit card services	**18,035**	16,194	**18,035**	16,194
Other service charges	**10,789**	8,034	**10,789**	8,034
Recoveries on financing written off	**205,916**	206,477	**205,916**	206,477
Allowance for doubtful debts no longer required				
Trade receivables (Note 10)	**-**	68	**-**	-
Other receivables (Note 11(ii))	**106**	15,513	**106**	15,513
Allowance for impairment loss on financial assets held-to-maturity no longer required (Note 8)	**4,388**	109,511	**4,388**	109,511
Gain on disposal of property and equipment	**39**	59	**1**	9
Gain on disposal of asset classified as held-for-sale	**4,568**	-	**-**	-
Other income	**40,887**	25,255	**39,580**	39,288
Gain on revaluation of investment properties (Note 16)	**186,741**	-	**187,077**	1,564
	514,116	424,270	**508,526**	440,020

32. OPERATING EXPENSES

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Personnel expenses (i)	**483,681**	531,462	**474,980**	523,762
Other overheads and expenditure (ii)	**462,919**	442,078	**485,612**	463,782
	946,600	973,540	**960,592**	987,544

(i) Personnel expenses

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Salaries and wages	**235,504**	210,241	**229,813**	205,909
Allowances and bonuses	**107,281**	154,892	**105,558**	152,648
Defined benefit plan (Note 11(iii))	**24,270**	44,715	**24,270**	44,715
Defined contribution plan - EPF	**65,429**	63,968	**64,711**	63,400
Social security contributions - SOCSO	**2,725**	2,555	**2,666**	2,500
Other staff related costs	**48,472**	55,091	**47,962**	54,590
	483,681	531,462	**474,980**	523,762

Total number of staffs (excluding the Board of Directors) for the Group is 4,790 persons (2013: 4,826) and for the Bank is 4,640 persons (2013: 4,695).

(ii) Other overheads and expenditure

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Establishment				
Rental	**20,458**	18,529	**24,346**	21,111
Depreciation of property and equipment and amortisation of prepaid lease payments	**86,058**	78,806	**84,178**	77,252
Repair and maintenance	**85,293**	70,889	**85,098**	70,655
Takaful	**8,149**	8,436	**7,981**	8,328
	199,958	176,660	**201,603**	177,346

32. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (cont'd)

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Promotion				
Advertisement and publicity	**40,098**	51,538	**38,537**	51,343
	40,098	51,538	**38,537**	51,343
General expenses				
Legal and professional fees	**6,506**	4,243	**6,341**	8,617
Auditors' remuneration	**606**	1,366	**421**	1,216
Communication expenses	**26,116**	22,831	**25,884**	22,633
Utilities expenses	**24,962**	9,234	**24,788**	9,089
Printing and stationery	**15,207**	18,025	**15,001**	17,839
Postage and courier	**14,383**	11,855	**14,348**	11,793
Security expenses	**20,258**	14,612	**20,158**	14,516
Service charges	**38,746**	32,142	**50,195**	47,674
Loss on financing written off	**9,212**	12,357	**9,212**	12,357
Property and equipment written off	**525**	2,732	**525**	2,732
Commission expenses	**40,681**	51,965	**40,681**	51,965
Travelling and transportation	**4,460**	13,817	**14,340**	13,633
Others	**21,201**	18,701	**23,578**	21,029
	222,863	213,880	**245,472**	235,093
	462,919	442,078	**485,612**	463,782

32. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (cont'd)

The above expenditure includes the following statutory disclosures:

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Impairment losses on:				
Trade receivables (Note 10)	**1,378**	-	**-**	-
Amount due from subsidiaries (Note 11(i))	**-**	-	**1,387**	-
Other receivables, deposits and prepayments (Note 11(ii))	**3,841**	-	**3,841**	-
Auditors' remuneration:				
Current year:				
Statutory audit fees	**820**	750	**660**	600
Other services	**366**	616	**341**	616
Overprovision in prior year	**(580)**	-	**(580)**	-
Amortisation of prepaid lease payment (Note 17)	**1,994**	1,673	**1,662**	1,655
Depreciation of property and equipment (Note 15)	**84,064**	77,133	**82,516**	75,597
Property and equipment written off	**525**	2,732	**525**	2,732
Loss on revaluation of investment properties (Note 16)	**-**	157	**-**	-
Finance cost on financing from other financial institutions	**839**	2,275	**-**	-
Rental of premises	**20,432**	18,111	**24,346**	21,111
Rental of equipment	**26**	5	**-**	-

32. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (cont'd)

Included in general expenses are the following Directors' remuneration:

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Executive Director				
Salary and other remuneration	**926**	771	**926**	771
Bonuses	**682**	729	**682**	729
EPF contributions	**274**	257	**274**	257
Other emoluments	**7**	9	**7**	9
	1,889	1,766	**1,889**	1,766
Non-Executive Directors				
Fees	**1,060**	1,173	**808**	745
Other emoluments	**217**	600	**217**	600
	1,277	1,773	**1,025**	1,345
	3,166	3,539	**2,914**	3,111

32. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (cont'd)

Total remuneration of the Directors is as follows:

	Remuneration received from Bank				Remuneration received from Subsidiary Companies			Group
2014	Salary and Bonus RM'000	Fees RM'000	Other Emolu-ments RM'000	Total RM'000	Fees RM'000	Other Emolu-ments RM'000	Total RM'000	Total RM'000
Executive Director								
Datuk Mustafha Abd Razak	1,882	-	7	1,889	47	-	-	1,936
	1,882	-	7	1,889	47	-	-	1,936
Non-Executive Directors								
Dato' Mat Noor Nawi	-	154	9	163	41	-	-	204
Dato' Abdul Mutalib Alias	-	71	9	80	-	-	-	80
Dato' Mangsor Saad	-	124	52	176	42	-	-	218
Datuk Seri Saripuddin Kasim	-	108	27	135	-	-	-	135
Dr Roselan Baki	-	70	9	79	10	-	-	89
Hj. Abdul Rahman Kasim	-	75	10	85	21	-	-	106
Datuk Seri Alies Anor Abdul	-	41	2	43	-	-	-	43
Datuk Mohd. Idris Mohd. Isa	-	22	2	24	-	-	-	24
Dato' Abdullah Abas	-	16	11	27	3	-	-	30
	-	681	131	812	117	-	-	929
Former Non-Executive Directors								
Tan Sri Dato' Sabbaruddin Chik	-	45	15	60	68	-	-	128
Dato' Zuraidah Atan	-	82	21	103	20	-	-	123
Dato' Amirul Rahman Abdul Rahim	-	-	50	50	-	-	-	50
	-	127	86	213	88	-	-	301
	1,882	808	224	2,914	252	-	-	3,166

32. OPERATING EXPENSES (CONTINUED)

(ii) Other overheads and expenditure (cont'd)

	Remuneration received from Bank				Remuneration received from Subsidiary Companies			Group
2013	**Salary and Bonus RM'000**	**Fees RM'000**	**Other Emolu-ments RM'000**	**Total RM'000**	**Fees RM'000**	**Other Emolu-ments RM'000**	**Total RM'000**	**Total RM'000**
Executive Director								
Datuk Mustafha Abd Razak	632	-	7	639	54	-	54	693
	632	-	7	639	54	-	54	693
Non-Executive Directors								
Tan Sri Sabbaruddin Chik	-	171	17	188	179	-	179	367
Dato' Abdul Mutalib Alias	-	95	70	165	-	-	-	165
Dato' Mangsor Saad	-	112	38	150	52	-	52	202
Dato' Zuraidah Atan	-	104	10	114	19	-	19	133
Datuk Seri Saripuddin Kasim	-	98	77	175	10	-	10	185
Dato' Mat Noor Nawi	-	53	3	56	-	-	-	56
	-	633	215	848	260	-	260	1,108
Former Executive Director								
Datuk Yusof Abdul Rahman	1,125	-	2	1,127	18	-	18	1,145
	1,125	-	2	1,127	18	-	18	1,145
Former Non-Executive Directors								
Dato' Dr. Syed Hussain Syed Husman	-	63	21	84	48	-	48	132
Dato' Amirul Rahman Abdul Rahim	-	49	26	75	48	-	48	123
Dato' Mohd Aini Taib	-	-	338	338	-	-	-	338
	-	112	385	497	96	-	96	593
	1,757	745	609	3,111	428	-	428	3,539

33. TAXATION

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Malaysian income tax				
Current year	**63,782**	176,214	**57,468**	170,352
Overprovision in prior years	**(20,115)**	(128,895)	**(19,988)**	(129,378)
	43,667	47,319	**37,480**	40,974
Deferred tax (Note 18)				
Current year	**115,841**	75,904	**116,000**	76,000
Underprovision in prior years	**9,970**	67,558	**10,000**	68,000
	125,811	143,462	**126,000**	144,000
Total	**169,478**	190,781	**163,480**	184,974

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	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Profit before taxation and zakat	**2,185,033**	2,144,665	**2,160,185**	2,125,418
Tax expense at statutory tax rate of 25% (2013: 25%)	**546,258**	536,166	**540,046**	531,354
Non-taxable income	**(57,127)**	(13,311)	**(55,747)**	(13,239)
Non-deductible expenses	**30,948**	56,703	**29,625**	55,677
Tax exempt under Section 65(A)	**(340,456)**	(327,440)	**(340,456)**	(327,440)
(Over)/Underprovision in prior years:				
Current tax	**(20,115)**	(128,895)	**(19,988)**	(129,378)
Deferred tax	**9,970**	67,558	**10,000**	68,000
	169,478	190,781	**163,480**	184,974

34. ZAKAT

In computing for zakat, the Group and the Bank have been applying the working capital method based on the rate of 2.5%. This method applies the rate on asset, net of liabilities and subjected to allowable adjustments.

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Provision for current year	**41,626**	43,190	**41,000**	43,684
Overprovision in prior years	**(1,916)**	(8,886)	**(2,000)**	(9,684)
	39,710	34,304	**39,000**	34,000

35. STATUTORY APPROPRIATIONS

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

36. EARNINGS PER SHARE

Basic earnings per ordinary share have been calculated based on the Group's profit after taxation and zakat of RM1,975,845,000 (2013: RM1,919,580,000) divided by the weighted average number of ordinary shares of 2,974,681,000 (2013: 2,956,390,000) of RM1 each in issue during the financial year.

37. DIVIDENDS

	Group and Bank	
	2014	2013
	RM'000	RM'000
Cash dividend of 15% for the year ended 31 December 2013 (2012: 16%)	**441,053**	440,740
Bonus dividend of 0% for the year ended 31 December 2013 (2012: 2%)	**-**	54,318
	441,053	495,058

During the financial year, the Bank paid a final cash dividend of 15% amounting to RM441.05 million in respect of the previous financial year.

In respect of the current financial year, the Board of Directors has proposed a cash dividend of 15% amounting to RM450.00 million. The proposed dividends are subject to the approval by the relevant authorities and have not been included as liabilities in the financial statements.

38. 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	
	2014	2013
	RM'000	RM'000
Contingent liabilities		
Bank guarantee given in respect of banking facilities granted to customers	**509,375**	541,630
Claims for damages from litigation taken against the Bank	**7,594**	3,362
Commitments		
Undrawn financing	**2,116,835**	2,595,260
	2,633,804	3,140,252

39. CAPITAL COMMITMENTS

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

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Capital expenditure				
- approved and contracted for	**13,337**	4,876	**467**	4,876
- approved but not contracted for	**30,372**	-	**-**	-
	43,709	4,876	**467**	4,876

40. 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	
	2014	2013
	RM'000	RM'000
Within one year	**684**	1,051
Between one and two years	**153**	670
Between two to three years	**-**	153
More than three years	**-**	1
	837	1,875

41. RELATED PARTY TRANSACTIONS

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

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

41.1 Subsidiary Companies

Details of the subsidiary companies are shown in Note 14.

41.2 Key Management Personnel

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

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

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Short-term employee benefits				
Fees	**1,153**	1,162	**808**	745
Salary	**3,393**	3,180	**2,935**	3,180
Allowances	**300**	246	**300**	246
EPF contribution	**943**	971	**868**	971
Bonuses	**2,211**	2,318	**1,860**	2,318
Other emoluments	**289**	827	**224**	600
	8,289	8,704	**6,995**	8,060

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

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Directors' remuneration				
Bank's directors	**2,914**	3,111	**2,914**	3,111
Subsidiary companies' directors	**252**	428	**-**	-
	3,166	3,539	**2,914**	3,111

41. RELATED PARTY TRANSACTIONS (CONTINUED)

41.3 Transactions with subsidiaries

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

	Bank	
	2014	2013
	RM'000	RM'000
Expenditure incurred		
Profit expenses	**5,767**	5,605
Management fee expenses	**9,467**	5,394
Rental expenses	**4,293**	3,054
Purchase of goods and services	**8,261**	9,679
Travelling and transportation	**9,287**	12,075
	37,075	35,807

42. FINANCIAL RISK MANAGEMENT

42.1 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

42.2 Risk management framework

The Risk Management Committee (RMC) was established by the Board of Directors to oversee the management of risks associated with the Bank's operations and activities. The RMC has both executive and non-executive members and report regularly to the Board of Directors on their activities. The RMC is responsible to implement sound risk management policies, strategies and procedures.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

42. FINANCIAL RISK MANAGEMENT

42.2 Risk management framework (cont'd)

The Bank's Audit and Examination Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit and Examination Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Examination Committee.

42.3 Credit risk

Credit risk is the risk of financial loss due to failure by customers or counterparties to financial instruments to meet their contractual obligations. The Bank's exposure to credit risk arises principally from financing granted to customers and trading and investment of funds with other counterparties.

42.3.1 Risk governance

RMC reviews the Bank's credit risk framework and policies, aligns credit risk management with business strategies and planning, reviews credit profile of credit portfolios and recommends necessary actions to ensure that credit risk remains within established risk tolerance level.

42.3.2 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.

These policies also outline discretionary power for financing approval which is allocated to divisional heads, whereas large facilities require approval by the Board of Directors, together with guidelines for rehabilitation and restructuring of problematic and delinquent financing accounts.

All credit approving officers are guided by credit policies, guidelines and procedures that are periodically reviewed to ensure their continued relevance.

There is a section within Risk Management Department that has functional responsibility for credit risk management which includes formulating and reviewing the Bank's risk policies, guidelines and procedures, as well as managing credit portfolios and ensuring the risk policies are implemented and complied with.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.3 Credit risk (cont'd)

42.3.2 Management of credit risk (cont'd)

Independent credit reviews are performed regularly to complement risk identification as well as to evaluate quality of credit appraisals and the competency of credit personnel. Internal risk management reports are presented to RMC, containing information on quality of credit portfolios, results of independent credit review, results of credit profiling, significant credit exposures to related parties and credit concentration by economic sectors and by large single customers.

With these information, RMC would be able to identify adverse credit trends, take corrective actions and formulate business strategies accordingly.

42.3.3 Financing to retail customers and Small and Medium Enterprises (SMEs)

Financing granted to retail customers and SMEs are individually underwritten by assessing historical repayment track record and current repayment capacity of the customer. This process is assisted by internal credit rating score sheets.

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.

42.3.4 Financing to corporate customers

Granting of credit to corporate customers is individually underwritten. The credit approving authority would identify and assess the credit risks of large corporate customers, or customer groups, by taking into consideration their financial and business profiles, industry and economic factors, collateral, or other credit support such as bank or corporate guarantees. These factors would influence the risk level of any financing to these customers.

42.3.5 Credit risk from trading and investment activities

Credit risk in relation to trading or investing of the Bank's surplus funds is managed by setting an issuer's credit limits which are specifically approved by the RMC. Moreover, the Bank's investment policies also stipulates minimum investment grade for debt securities, types of permissible transactions and the maximum tenure. This investment policy is subjected to regular review.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.3 Credit risk (cont'd)

42.3.6 Impaired financing and investment debt 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).

42.3.7 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.

42.3.8 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, but it is believed that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

42.3.9 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.

42.3.10 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.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.3 Credit risk (cont'd)

42.3.11 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.

42.3.12 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

42.3.13 Credit grading for investment securities

Credit quality 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.

42.3.14 Maximum exposure to credit risk

The following table presents the Bank's maximum exposure to credit risk 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.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.3 Credit risk (cont'd)

42.3.14 Maximum exposure to credit risk (cont'd)

	Group		Bank	
	2014	2013	**2014**	2013
	RM'000	RM'000	**RM'000**	RM'000
Assets				
Cash and short-term funds	**3,080,554**	1,907,843	**3,078,779**	1,905,665
Deposits and placements with financial institutions	**185,838**	947,386	**160,099**	942,295
Financial assets available-for-sale	**11,962,018**	10,463,097	**11,958,602**	10,457,907
Financial assets held-to-maturity	**11,131,717**	10,141,449	**11,131,717**	10,141,449
Financing and advances	**60,482,549**	57,304,177	**60,482,549**	57,304,177
Trade receivables	**6,484**	9,048	**-**	-
Other receivables	**190,842**	199,031	**187,579**	198,518
	87,040,002	80,972,031	**86,999,325**	80,950,011
Commitments				
Undrawn financing	**2,116,835**	2,595,260	**2,116,835**	2,595,260
Total maximum exposure to credit risk	**89,156,837**	83,567,291	**89,116,160**	83,545,271

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.3 Credit risk (cont'd)

42.3.15 Credit risk exposure on financing and advances

	Group and Bank	
	2014	2013
	RM'000	RM'000
At amortised cost		
Neither past due nor impaired		
0 month	**57,646,752**	53,704,255
	57,646,752	53,704,255
Past due but not impaired		
1 month	**2,086,642**	2,611,576
2 months	**667,764**	767,691
3 months	**430,193**	417,733
More than 3 months	**963**	2,581
	3,185,562	3,799,581
Past due and impaired		
Less than 4 months	**190,414**	219,144
4 months to 6 months	**324,076**	341,090
7 months to 9 months	**300,995**	196,012
More than 9 months	**451,822**	548,873
	1,267,307	1,305,119
Gross financing and advances	**62,099,621**	58,808,955

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.3 Credit risk (cont'd)

42.3.16 Credit risk exposure on investment securities

Group 2014	Financial assets available-for-sale RM'000	Financial assets held-to-maturity RM'000	Total RM'000
Rated securities			
Islamic debt securities			
Grade AA	-	-	-
Grade AA+	-	-	-
Grade AAA	2,292,341	456,444	2,748,785
Grade AA1	299,387	30,743	330,130
Grade AA2	35,424	-	35,424
Grade AA3	25,025	71,376	96,401
	2,652,177	558,563	3,210,740
Cagamas bonds			
Grade AAA	53,627	122,835	176,462
Negotiable Islamic debt certificates			
Grade AA1	-	248,719	248,719
	2,705,804	930,117	3,635,921
Unrated securities			
Government investment issues	6,793,223	8,673,072	15,466,295
Government bonds	2,162,419	1,078,786	3,241,205
Khazanah bonds	85,259	449,742	535,001
	9,040,901	10,201,600	19,242,501
Shares			
Quoted and unit trust shares	205,064	-	205,064
Unquoted shares	10,249	-	10,249
	215,313	-	215,313
	11,962,018	11,131,717	23,093,735

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.3 Credit risk (cont'd)

42.3.16 Credit risk exposure on investment securities (cont'd)

Bank 2014	Financial assets available-for-sale RM'000	Financial assets held-to-maturity RM'000	Total RM'000
Rated securities			
Islamic debt securities			
Grade AA	-	-	-
Grade AA+	-	-	-
Grade AAA	2,292,341	456,444	2,748,785
Grade AA1	299,387	30,743	330,130
Grade AA2	35,424	-	35,424
Grade AA3	25,025	71,376	96,401
	2,652,177	558,563	3,210,740
Cagamas bonds			
Grade AAA	53,627	122,835	176,462
Negotiable Islamic debt certificates			
Grade AA1	-	248,719	248,719
	2,705,804	930,117	3,635,921
Unrated securities			
Government investment issues	6,793,223	8,673,072	15,466,295
Government bonds	2,162,419	1,078,786	3,241,205
Khazanah bonds	85,259	449,742	535,001
	9,040,901	10,201,600	19,242,501
Shares			
Quoted and unit trust shares	205,064	-	205,064
Unquoted shares	6,833	-	6,833
	211,897	-	211,897
	11,958,602	11,131,717	23,090,319

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.3 Credit risk (cont'd)

42.3.16 Credit risk exposure on investment securities (cont'd)

Group 2013	Financial assets available-for-sale RM'000	Financial assets held-to-maturity RM'000	Total RM'000
Rated securities			
Islamic debt securities			
Grade AA	-	-	-
Grade AA+	-	-	-
Grade AAA	2,033,286	305,604	2,338,890
Grade AA1	253,969	35,894	289,863
Grade AA2	-	-	-
Grade AA3	-	10,345	10,345
Grade BBB+ and below	-	23	23
	2,287,255	351,866	2,639,121
Cagamas bonds			
Grade AAA	-	-	-
Islamic commercial papers			
Grade AAA	-	4,972	4,972
	2,287,255	356,838	2,644,093
Unrated securities			
Government investment issues	6,209,785	8,574,372	14,784,157
Government bonds	1,747,170	903,555	2,650,725
Khazanah bonds	22,500	306,684	329,184
	7,979,455	9,784,611	17,764,066
Shares			
Quoted and unit trust shares	185,137	-	185,137
Unquoted shares	11,250	-	11,250
	196,387	-	196,387
	10,463,097	10,141,449	20,604,546

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.3 Credit risk (cont'd)

42.3.16 Credit risk exposure on investment securities (cont'd)

Bank 2013	Financial assets available-for-sale RM'000	Financial assets held-to-maturity RM'000	Total RM'000
Rated securities			
Islamic debt securities			
Grade AA	-	-	-
Grade AA+	-	-	-
Grade AAA	2,033,286	305,604	2,338,890
Grade AA1	253,969	35,894	289,863
Grade AA2	-	-	-
Grade AA3	-	10,345	10,345
Grade BBB+ and below	-	23	23
	2,287,255	351,866	2,639,121
Cagamas bonds			
Grade AAA	-	-	-
Islamic commercial papers			
Grade AAA	-	4,972	4,972
	2,287,255	356,838	2,644,093
Unrated securities			
Government investment issues	6,209,785	8,574,372	14,784,157
Government bonds	1,747,170	903,555	2,650,725
Khazanah bonds	22,500	306,684	329,184
	7,979,455	9,784,611	17,764,066
Shares			
Quoted and unit trust shares	184,364	-	184,364
Unquoted shares	6,833	-	6,833
	191,197	-	191,197
	10,457,907	10,141,449	20,599,356

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.4 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

42.4.1 Management of liquidity risk

The Bank's liquidity and funding position is supported by significant retail deposit base which comprises savings and deposits from customers. In monitoring the liquidity risk, the Bank applies maturity mismatch analysis showing concentration of these funding. Liquidity positions are reported to Asset and Liability Committee (ALCO) on monthly basis.

In mitigating this risk, management has arranged for a diversity in source of funds in addition to the core deposit base. This is besides the adoption of a policy in prudent management of assets with purpose to boost liquidity, apart from daily monitoring of future cash flows and liquidity. This shows orderly internal control processes and proper contingency plans were drawn up in managing this risk.

As a regulatory requirement, the Bank maintains liquidity level by complying to guidelines on new liquidity framework as prescribed by Bank Negara Malaysia.

Daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Bank relies on deposits from customers and corporations, and from selling of financing with recourse to Cagamas as source of funding. These sources of funding are of high liquidity since they are repayable to the depositors on demand. This situation increases the Bank's liquidity risk of which the Bank actively manages through maintenance of competitive pricing rate and constant monitoring of market trends.

During the year, issuance of additional shares to the members and public has further cushioned and stabilised the liquidity position of the Bank.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.4 Liquidity risk (cont'd)

42.4.2 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 less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month.

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	
	2014	2013
At 31 December	**33.33%**	31.49%
Average for the year	**32.21%**	33.34%
Maximum for the year	**33.89%**	34.51%
Minimum for the year	**30.63%**	31.49%

42.4.3 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.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.4 Liquidity risk (cont'd)

42.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities

Bank 2014	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	Total RM'000
Assets							
Cash, deposits and placements with financial institutions	**1,807,326**	**1,271,453**	**160,099**	**-**	**-**	**-**	**3,238,878**
Investment securities	**211,897**	**5,084**	**263,920**	**318,078**	**977,085**	**21,314,255**	**23,090,319**
Financing and advances	**158,574**	**943,278**	**2,009,699**	**3,072,012**	**4,330,909**	**49,968,077**	**60,482,549**
Other receivables, deposits and prepayments	**-**	**-**	**-**	**-**	**-**	**2,364,908**	**2,364,908**
	2,177,797	**2,219,815**	**2,433,718**	**3,390,090**	**5,307,994**	**73,647,240**	**89,176,654**
Liabilities							
Deposits from customers	**9,246,607**	**17,214,757**	**18,280,967**	**11,646,593**	**9,123,276**	**3,010,773**	**68,522,973**
Deposits and placements from banks and financial institutions	**1,400,000**	**400,000**	**-**	**-**	**-**	**-**	**1,800,000**
Recourse obligations on financing sold to Cagamas	**-**	**-**	**-**	**-**	**599,565**	**1,178,053**	**1,777,618**
Debt securities issued	**-**	**-**	**-**	**-**	**301,896**	**2,718,675**	**3,020,571**
Other liabilities and payables	**-**	**-**	**-**	**-**	**-**	**1,611,373**	**1,611,373**
	10,646,607	**17,614,757**	**18,280,967**	**11,646,593**	**10,024,737**	**8,518,874**	**76,732,535**
Shareholders' fund	**-**	**-**	**-**	**-**	**-**	**12,444,119**	**12,444,119**
	-	**-**	**-**	**-**	**-**	**12,444,119**	**12,444,119**
Net maturity mismatch	**(8,468,810)**	**(15,394,942)**	**(15,847,249)**	**(8,256,503)**	**(4,716,743)**	**52,684,247**	**-**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.4 Liquidity risk (cont'd)

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

Bank 2014	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	Total RM'000
Commitment and contingencies							
Bank guarantee given in respect of banking facilities granted to customers	-	2,730	-	41,317	240,502	224,826	509,375
Claims for damages from litigation taken against the Bank	-	-	-	-	-	7,594	7,594
Undrawn financing	-	-	-	-	-	2,116,835	2,116,835
	-	2,730	-	41,317	240,502	2,349,255	2,633,804

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.4 Liquidity risk (cont'd)

42.4.4 Liquidity risk of assets and liabilities by remaining contractual maturities (cont'd)

Bank 2013	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	Total RM'000
Assets							
Cash, deposits and placements with financial institutions	1,494,193	411,472	485,575	456,720	-	-	2,847,960
Investment securities	191,197	-	540,421	393,025	798,144	18,676,569	20,599,356
Financing and advances	131,477	844,818	1,874,956	2,935,870	3,947,704	47,569,352	57,304,177
Other receivables, deposits and prepayments	-	-	-	-	-	2,128,106	2,128,106
	1,816,867	1,256,290	2,900,952	3,785,615	4,745,848	68,374,027	82,879,599
Liabilities							
Deposits from customers	8,923,997	16,894,748	18,312,215	10,807,139	7,491,370	2,868,298	65,297,767
Deposits and placements from banks and financial institutions	950,000	670,000	-	-	-	-	1,620,000
Recourse obligations on financing sold to Cagamas	-	-	-	-	-	1,528,696	1,528,696
Debt securities issued	-	-	-	9,799	-	1,497,289	1,507,088
Other liabilities and payables	-	-	-	-	-	1,642,824	1,642,824
	9,873,997	17,564,748	18,312,215	10,816,938	7,491,370	7,537,107	71,596,375
Shareholders' fund	-	-	-	-	-	11,283,224	11,283,224
	-	-	-	-	-	11,283,224	11,283,224
Net maturity mismatch	(8,057,130)	(16,308,458)	(15,411,263)	(7,031,323)	(2,745,522)	49,553,696	-

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.4 Liquidity risk (cont'd)

42.4.4 Liquidity risk of contingent liabilities and commitment by remaining contractual maturities (cont'd)

Bank 2013	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	Total RM'000
Commitment and contingencies							
Bank guarantee given in respect of banking facilities granted to customers	-	-	23,634	8,271	16,860	492,865	541,630
Claims for damages from litigation taken against the Bank	-	-	-	-	-	3,362	3,362
Undrawn financing	-	-	-	-	-	2,595,260	2,595,260
	-	-	23,634	8,271	16,860	3,091,487	3,140,252

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.5 Market risk

Market risk is the risk that fluctuation in future cash flows or fair value of financial instruments due to changes in market variables, such as profit rates and equity prices, would affect financial position or cash flows of the Bank. In managing market risk, risk exposure can be controlled within the acceptable parameters, while optimising rate of return.

42.5.1 Management of market risk

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

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

Overall authority in management of market risk is vested in ALCO.

42.5.2 Profit rate risk

Investment in debt securities and financing are exposed to a 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. However, the Bank has not practised hedging through profit rate swap during the year.

Management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank’s financial assets and liabilities to various standard and non-standard profit rate scenarios.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.5 Market risk (cont'd)

42.5.2 Profit rate risk (cont'd)

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.

Bank

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
2014				
Year ended 31 December	**(274,546)**	**274,578**	**(137,277)**	**137,285**
Average for the year	**(312,270)**	**299,190**	**(156,141)**	**149,589**
Maximum for the year	**(354,741)**	**326,484**	**(177,377)**	**163,238**
Minimum for the year	**(270,619)**	**269,053**	**(135,317)**	**134,519**
2013				
Year ended 31 December	(360,162)	360,216	(180,088)	180,101
Average for the year	(373,767)	373,831	(186,891)	186,908
Maximum for the year	(429,795)	429,862	(214,906)	214,923
Minimum for the year	(358,746)	358,812	(179,381)	179,398

42.5.3 Exposure to profit rate

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

Stress test results are produced monthly to determine the impact of changes in profit rate and other risk factors on the Bank's profitability, capital adequacy and liquidity.

The stress test provides an assessment of the financial impact of identified extreme events on the market risk exposures to the Bank.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.5 Market risk (cont'd)

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

	Non-trading book							
Bank 2014	**Up to 1 month RM'000**	**More than 1 month - 3 months RM'000**	**More than 3 months - 1 year RM'000**	**More than 1 year - 5 years RM'000**	**More than 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
Assets								
Cash, deposits and placements with financial institutions	3,078,779	160,099	-	-	-	-	-	3,238,878
Financial assets available-for-sale	5,084	10,153	800,703	5,463,611	5,467,154	-	211,897	11,958,602
Financial assets held-to-maturity	-	253,768	494,460	6,837,678	3,545,811	-	-	11,131,717
Financing and advances								
- Non-impaired	16,320,011	9,433	148,978	3,558,733	39,155,023	1,640,136	-	60,832,314
- Impaired, net of allowances	-	-	-	-	-	(349,765)	-	(349,765)
Other non-profit sensitive balances	-	-	-	-	-	2,364,908	-	2,364,908
	19,403,874	433,453	1,444,141	15,860,022	48,167,988	3,655,279	211,897	89,176,654

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.5 Market risk (cont'd)

42.5.4 Exposure to profit rate risk on profit-bearing financial instruments (cont'd)

Bank 2014	Non-trading book: Up to 1 month RM'000	More than 1 month - 3 months RM'000	More than 3 months - 1 year RM'000	More than 1 year - 5 years RM'000	More than 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
Liabilities								
Deposits from customers	**23,977,397**	**18,278,718**	**20,713,232**	**5,434,588**	**119,038**	**-**	**-**	**68,522,973**
Deposits and placements from banks and financial institutions	**1,800,000**	**-**	**-**	**-**	**-**	**-**	**-**	**1,800,000**
Recourse obligations on financing sold to Cagamas	**-**	**-**	**599,565**	**1,178,053**	**-**	**-**	**-**	**1,777,618**
Debt securities issued	**-**	**-**	**301,896**	**2,367,494**	**351,181**	**-**	**-**	**3,020,571**
Other non-profit sensitive balances	**-**	**-**	**-**	**-**	**-**	**1,611,373**	**-**	**1,611,373**
	25,777,397	**18,278,718**	**21,614,693**	**8,980,135**	**470,219**	**1,611,373**	**-**	**76,732,535**
Shareholders' fund	**-**	**-**	**-**	**-**	**-**	**12,444,119**	**-**	**12,444,119**
On-balance sheet profit sensitivity gap	**(6,373,523)**	**(17,845,265)**	**(20,170,552)**	**6,879,887**	**47,697,769**	**(10,400,213)**	**211,897**	**-**
Off-balance sheet profit sensitivity gap	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total profit sensitivity gap	**(6,373,523)**	**(17,845,265)**	**(20,170,552)**	**6,879,887**	**47,697,769**	**(10,400,213)**	**211,897**	**-**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.5 Market risk (cont'd)

42.5.4 Exposure to profit rate risk on profit-bearing financial instruments (cont'd)

	Non-trading book							
Bank 2013	Up to 1 month RM'000	More than 1 month - 3 months RM'000	More than 3 months - 1 year RM'000	More than 1 year - 5 years RM'000	More than 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
Assets								
Cash, deposits and placements with financial institutions	1,905,662	485,575	456,723	-	-	-	-	2,847,960
Financial assets available-for-sale	-	334,053	878,425	4,519,920	4,534,312	-	191,197	10,457,907
Financial assets held-to-maturity	-	15,172	312,744	4,682,099	5,131,434	-	-	10,141,449
Financing and advances								
- Non-impaired	10,758,785	43,152	215,355	3,793,840	42,692,704	-	-	57,503,836
- Impaired, net of allowances	-	-	-	-	-	(199,659)	-	(199,659)
Other non-profit sensitive balances	-	-	-	-	-	2,128,106	-	2,128,106
	12,664,447	877,952	1,863,247	12,995,859	52,358,450	1,928,447	191,197	82,879,599

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.5 Market risk (cont'd)

42.5.4 Exposure to profit rate risk on profit-bearing financial instruments (cont'd)

Bank 2013	Up to 1 month RM'000	More than 1 month - 3 months RM'000	More than 3 months - 1 year RM'000	More than 1 year - 5 years RM'000	More than 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
	← Non-trading book					→		
Liabilities								
Deposits from customers	25,977,446	18,312,215	18,298,509	2,641,581	68,016	-	-	65,297,767
Deposits and placements from banks and financial institutions	1,620,000	-	-	-	-	-	-	1,620,000
Recourse obligations on financing sold to Cagamas	-	-	-	1,528,696	-	-	-	1,528,696
Debt securities issued	-	-	-	1,507,088	-	-	-	1,507,088
Other non-profit sensitive balances	-	-	-	-	-	1,642,824	-	1,642,824
	27,597,446	18,312,215	18,298,509	5,677,365	68,016	1,642,824	-	71,596,375
Shareholders' fund	-	-	-	-	-	11,283,224	-	11,283,224
On-balance sheet profit sensitivity gap	(14,932,999)	(17,434,263)	(16,435,262)	7,318,494	52,290,434	(10,997,601)	191,197	-
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-	-	-
Total profit sensitivity gap	(14,932,999)	(17,434,263)	(16,435,262)	7,318,494	52,290,434	(10,997,601)	191,197	-

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.6 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of an overall Bank's standards for the management of operational risk in the following areas:

i) requirements for appropriate segregation of duties, including the independent authorisation of transactions;

ii) requirements for the reconciliation and monitoring of transactions;

iii) compliance with regulatory and other legal requirements;

iv) documentation of controls and procedures;

v) requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;

vi) requirements for the reporting of operational losses and proposed remedial action;

vii) development of contingency plans;

viii) training and professional development;

ix) ethical and business standards; and

x) risk mitigation, including insurance where this is effective.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit and Examination Committee and senior management of the Bank.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.7 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.

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.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.7 Capital management (cont'd)

42.7.1 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	
	2014	2013 Restated
Before proposed dividend		
Core capital ratio	**18.26%**	17.61%
Risk-weighted capital adequacy ratio	**19.66%**	17.83%
After proposed dividend		
Core capital ratio	**17.59%**	16.90%
Risk-weighted capital adequacy ratio	**18.99%**	17.13%

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	
	2014 RM'000	2013 RM'000
Tier I capital		
Paid-up share capital	**2,973,677**	2,973,677
Retained profits	**4,915,527**	4,218,310
Other reserves	**4,304,098**	3,804,921
Total Tier I capital (core)	**12,193,302**	10,996,908
Tier II capital		
Collective impairment *	**731,757**	675,933
Regulatory reserve	**245,566**	-
Total Tier II capital	**977,323**	675,933
Total capital	**13,170,625**	11,672,841
Less: Investment in subsidiaries	**(43,500)**	(43,500)
Less: Investment in property and equipment **	**-**	(492,344)
	(43,500)	(535,844)
Total capital base	**13,127,125**	11,136,997

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.7 Capital management (cont'd)

42.7.1 Capital adequacy ratio (cont'd)

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

** The amount was excluded since the construction of Menara Kembar Bank Rakyat in Jalan Rakyat, Kuala Lumpur has been completed as of 31 December 2014.

Assets in various categories are risk-weighted as follows:

	Bank	
	2014	2013
	RM'000	RM'000
Total assets assigned 20% risk-weighted	**541,768**	421,783
Total assets assigned 50% risk-weighted	**1,352,334**	1,275,974
Total assets assigned 100% risk-weighted	**63,521,927**	59,174,808
Off-Balance Sheet claims assigned 50% risk-weighted	**-**	1,038,104
Off-Balance Sheet claims assigned 100% risk-weighted	**1,356,114**	541,630
	66,772,143	62,452,299

43. 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.

43. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

43.1 Valuation of financial instruments

The Group measures 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 determines fair values using valuation techniques.

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

43. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

43.2 Valuation of financial instruments at fair value

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group					
2014					
Cash and short-term funds	3,080,554	3,080,554	-	-	3,080,554
Deposits and placements with financial institutions	185,838	185,838	-	-	185,838
Financial assets available-for-sale					
Islamic debt securities	2,652,177	2,652,177	-	2,652,177	-
Government investment issues	6,793,223	6,793,223	-	6,793,223	-
Government bonds	2,162,419	2,162,419	-	2,162,419	-
Khazanah bonds	85,259	85,259	-	85,259	-
Cagamas bonds	53,627	53,627	-	53,627	-
Quoted shares	203,347	203,347	203,347	-	-
Unit trust shares	1,717	1,717	-	1,717	-
Unquoted shares	10,249	10,249	-	-	10,249
	11,962,018	11,962,018	203,347	11,748,422	10,249
Financial assets held-to-maturity					
Government bonds	1,078,786	1,055,176	-	-	1,055,176
Government investment issues	8,673,072	8,465,937	-	-	8,465,937
Islamic debt securities	558,563	549,705	-	-	549,705
Khazanah bonds	449,742	448,453	-	-	448,453
Cagamas Bonds	122,835	121,340	-	-	121,340
Negotiable Islamic debt certificates	248,719	248,732	-	-	248,732
	11,131,717	10,889,343	-	-	10,889,343
Financing and advances	60,482,549	68,993,458	-	-	68,993,458
Trade receivables	6,484	6,484	-	-	6,484
Other receivables and deposits	450,231	450,231	-	-	450,231
	87,299,391	95,567,926	203,347	11,748,422	83,616,157

43. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

43.2 Valuation of financial instruments at fair value (cont'd)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group					
2014					
Financial liabilities					
Deposits from customers	**68,522,973**	**68,522,973**	**-**	**-**	**68,522,973**
Deposits and placements from banks and financial institutions	**1,800,000**	**1,800,000**	**-**	**-**	**1,800,000**
Recourse obligations on financing sold to Cagamas	**1,777,618**	**1,654,215**	**-**	**-**	**1,654,215**
Debt securities issued	**3,020,571**	**2,588,032**	**-**	**-**	**2,588,032**
Trade payables	**3,348**	**3,348**	**-**	**-**	**3,348**
Other liabilities	**1,431,012**	**1,431,012**	**-**	**-**	**1,431,012**
	76,555,522	**75,999,580**	**-**	**-**	**75,999,580**

43. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

43.2 Valuation of financial instruments at fair value (cont'd)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group					
2013					
Cash and short-term funds	1,907,843	1,907,843	-	-	1,907,843
Deposits and placements with financial institutions	947,386	947,386	-	-	947,386
Financial assets available-for-sale					
Islamic debt securities	2,287,255	2,287,255	-	2,287,255	-
Government investment issues	6,209,785	6,209,785	-	6,209,785	-
Government bonds	1,747,170	1,747,170	-	1,747,170	-
Khazanah bonds	22,500	22,500	-	22,500	-
Quoted shares	183,245	183,245	183,245	-	-
Unit trust shares	1,892	1,892	-	1,892	-
Unquoted shares	11,250	11,250	-	-	11,250
	10,463,097	10,463,097	183,245	10,268,602	11,250
Financial assets held-to-maturity					
Government bonds	903,555	881,543	-	-	881,543
Government investment issues	8,574,372	8,337,792	-	-	8,337,792
Islamic debt securities	351,866	345,798	-	-	345,798
Khazanah bonds	306,684	303,025	-	-	303,025
Islamic Commercial papers	4,972	4,972	-	-	4,972
	10,141,449	9,873,130	-	-	9,873,130
Financing and advances	57,304,177	66,944,853	-	-	66,944,853
Trade receivables	9,048	9,048	-	-	9,048
Other receivables and deposits	456,920	456,920	-	-	456,920
	81,229,920	90,602,277	183,245	10,268,602	80,150,430

43. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

43.2 Valuation of financial instruments at fair value (cont'd)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Group					
2013					
Financial liabilities					
Deposits from customers	65,297,767	65,297,767	-	-	65,297,767
Deposits and placements from banks and financial institutions	1,620,000	1,620,000	-	-	1,620,000
Recourse obligations on financing sold to Cagamas	1,528,696	1,360,720	-	-	1,360,720
Debt securities issued	1,507,088	1,299,898	-	-	1,299,898
Financing from other financial institutions	39,602	36,270	-	-	36,270
Trade payables	6,900	6,900	-	-	6,900
Other liabilities	1,359,301	1,359,301	-	-	1,359,301
	71,359,354	70,980,856	-	-	70,980,856

43. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

43.2 Valuation of financial instruments at fair value (cont'd)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Bank					
2014					
Cash and short-term funds	3,078,779	3,078,779	-	-	3,078,779
Deposits and placements with financial institutions	160,099	160,099	-	-	160,099
Financial assets available-for-sale					
Islamic debt securities	2,652,177	2,652,177	-	2,652,177	-
Government investment issues	6,793,223	6,793,223	-	6,793,223	-
Government bonds	2,162,419	2,162,419	-	2,162,419	-
Khazanah bonds	85,259	85,259	-	85,259	-
Cagamas bonds	53,627	53,627	-	53,627	-
Quoted shares	203,347	203,347	203,347	-	-
Unit trust shares	1,717	1,717	-	1,717	-
Unquoted shares	6,833	6,833	-	-	6,833
	11,958,602	11,958,602	203,347	11,748,422	6,833
Financial assets held-to-maturity					
Government bonds	1,078,786	1,055,176	-	-	1,055,176
Government investment issues	8,673,072	8,465,937	-	-	8,465,937
Islamic debt securities	558,563	549,705	-	-	549,705
Khazanah bonds	449,742	448,453	-	-	448,453
Cagamas Bonds	122,835	121,340	-	-	121,340
Negotiable Islamic debt certificates	248,719	248,732	-	-	248,732
	11,131,717	10,889,343	-	-	10,889,343
Financing and advances	60,482,549	68,993,458	-	-	68,993,458
Other receivables and deposits	395,598	395,598	-	-	395,598
	87,207,344	95,475,879	203,347	11,748,422	83,524,110

43. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

43.2 Valuation of financial instruments at fair value (cont'd)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Bank					
2014					
Financial liabilities					
Deposits from customers	**68,522,973**	**68,522,973**	**-**	**-**	**68,522,973**
Deposits and placements from banks and financial institutions	**1,800,000**	**1,800,000**	**-**	**-**	**1,800,000**
Recourse obligations on financing sold to Cagamas	**1,777,618**	**1,654,215**	**-**	**-**	**1,654,215**
Debt securities issued	**3,020,571**	**2,588,032**	**-**	**-**	**2,588,032**
Other liabilities	**1,592,597**	**1,592,597**	**-**	**-**	**1,592,597**
	76,713,759	**76,157,817**	**-**	**-**	**76,157,817**

43. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

43.2 Valuation of financial instruments at fair value (cont'd)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Bank					
2013					
Cash and short-term funds	1,905,665	1,905,665	-	-	1,905,665
Deposits and placements with financial institutions	942,295	942,295	-	-	942,295
Financial assets available-for-sale					
Islamic debt securities	2,287,255	2,287,255	-	2,287,255	-
Government investment issues	6,209,785	6,209,785	-	6,209,785	-
Government bonds	1,747,170	1,747,170	-	1,747,170	-
Khazanah bonds	22,500	22,500	-	22,500	-
Quoted shares	182,472	182,472	182,472	-	-
Unit trust shares	1,892	1,892	-	1,892	-
Unquoted shares	6,833	6,833	-	-	6,833
	10,457,907	10,457,907	182,472	10,268,602	6,833
Financial assets held-to-maturity					
Government bonds	903,555	881,543	-	-	881,543
Government investment issues	8,574,372	8,337,792	-	-	8,337,792
Islamic debt securities	351,866	345,798	-	-	345,798
Khazanah bonds	306,684	303,025	-	-	303,025
Islamic Commercial papers	4,972	4,972	-	-	4,972
	10,141,449	9,873,130	-	-	9,873,130
Financing and advances	57,304,177	66,944,853	-	-	66,944,853
Other receivables and deposits	404,732	404,732	-	-	404,732
	81,156,225	90,528,582	182,472	10,268,602	80,077,508

43. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

43.2 Valuation of financial instruments at fair value (cont'd)

	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
Bank					
2013					
Financial liabilities					
Deposits from customers	65,297,767	65,297,767	-	-	65,297,767
Deposits and placements from banks and financial institutions	1,620,000	1,620,000	-	-	1,620,000
Recourse obligations on financing sold to Cagamas	1,528,696	1,360,720	-	-	1,360,720
Debt securities issued	1,507,088	1,299,898	-	-	1,299,898
Other liabilities	1,490,679	1,490,679	-	-	1,490,679
	71,444,230	71,069,064	-	-	71,069,064

43. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

43.3 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 2014 RM'000	**Fair value 2014 RM'000**	Carrying amount 2013 RM'000	Fair value 2013 RM'000
Group				
Financial assets				
Cash and short-term funds	**3,080,554**	**3,080,554**	1,907,843	1,907,843
Deposits and placements with financial institutions	**185,838**	**185,838**	947,386	947,386
Financial assets held-to-maturity	**11,131,717**	**10,889,343**	10,141,449	9,873,130
Financing and advances	**60,482,549**	**68,993,458**	57,304,177	66,944,853
Trade receivables	**6,484**	**6,484**	9,048	9,048
Other receivables and deposits	**450,231**	**450,231**	456,920	456,920
Financial liabilities				
Deposits from customers	**68,522,973**	**68,522,973**	65,297,767	65,297,767
Deposits and placements from banks and financial institutions	**1,800,000**	**1,800,000**	1,620,000	1,620,000
Recourse obligations on financing sold to Cagamas	**1,777,618**	**1,654,215**	1,528,696	1,360,720
Debt securities issued	**3,020,571**	**2,588,032**	1,507,088	1,299,898
Financing from other financial institutions	**-**	**-**	39,602	36,270
Trade payables	**3,348**	**3,348**	6,900	6,900
Other liabilities	**1,431,012**	**1,431,012**	1,359,301	1,359,301

43. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	Carrying amount 2014 RM'000	**Fair value 2014 RM'000**	Carrying amount 2013 RM'000	Fair value 2013 RM'000
Bank				
Financial assets				
Cash and short-term funds	**3,078,779**	**3,078,779**	1,905,665	1,905,665
Deposits and placements with financial institutions	**160,099**	**160,099**	942,295	942,295
Financial assets held-to-maturity	**11,131,717**	**10,889,343**	10,141,449	9,873,130
Financing and advances	**60,482,549**	**68,993,458**	57,304,177	66,944,853
Other receivables and deposits	**395,598**	**395,598**	404,732	404,732
Financial liabilities				
Deposits from customers	**68,522,973**	**68,522,973**	65,297,767	65,297,767
Deposits and placements from banks and financial institutions	**1,800,000**	**1,800,000**	1,620,000	1,620,000
Recourse obligations on financing sold to Cagamas	**1,777,618**	**1,654,215**	1,528,696	1,360,720
Debt securities issued	**3,020,571**	**2,588,032**	1,507,088	1,299,898
Other liabilities	**1,592,597**	**1,592,597**	1,490,676	1,490,676

43. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

43.3 Valuation of financial instruments not carried at fair value (cont'd)

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

43.3.1 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.

43.3.2 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.

43.3.3 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.

43.3.4 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 repayment to be received in the future using effective profit rate for each financing type.

43.3.5 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.

43. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

43.3 Valuation of financial instruments not carried at fair value (cont'd)

43.3.6 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.

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.

43.3.7 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.

43.3.8 Recourse obligations on financing sold to Cagamas

The fair values for recourse obligations sold to Cagamas that have remaining maturity of 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.

43.3.9 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.

43.3.10 Financing from other financial institutions

Financing from other financial institutions is stated at amortised cost at the end of the reporting period. Fair value is estimated using effective profit rate for the financing which was used in discounting present value for the future determinable repayment of the financing.

43.3.11 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.