AL RAJHI BANKING & INVESTMENT CORPORATION (MALAYSIA) BHD.
(Incorporated in Malaysia)
Company No. 719057-X

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Registered Office

Ground Floor, East Block
Wisma Golden Eagle Realty
142-B Jalan Ampang
50450 Kuala Lumpur

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PERFORMANCE OVERVIEW 2019

The Bank represents Al Rajhi Banking & Investment Corporation (Malaysia) Bhd, while the Group represents both the Bank and its wholly-owned subsidiary, Al Rajhi Nominee (Tempatan) Sdn. Bhd..

The Group and the Bank recorded a profit before zakat and taxation of RM33.6 million (2018: RM22.5 million) and RM33.5 million (2018: RM22.4 million) respectively for the financial year ended 31 December 2019.

STATEMENT OF CORPORATE GOVERNANCE

The Board of Directors of the Bank (“the Board”) recognises the importance of corporate governance as set out in the Malaysian Code on Corporate Governance 2017 (“the Code”) and Bank Negara Malaysia's ("BNM") Policy on Corporate Governance in discharging its responsilibilities to enhance shareholders’ value and safeguard the interests of other stakeholders towards enhancing business prosperity and corporate accountability. This also means inculcating a culture that seeks to balance conformance requirements with the need to deliver long term strategic success through performance, predicated on entrepreneurship, control and ownership, without compromising personal or corporate ethics and integrity.

BOARD OF DIRECTORS

(i) Board Composition and Its Roles and Responsibilities

At the date of this report, the Board consists of four (4) Directors which include three (3) independent non-executive Directors. The non-executive Directors shall not engage in the day to day management of the Bank and shall not participate in any business dealings and shall not be involved in any other relationship with the Bank. This ensures that the independent non-executive Directors remain free from conflict of interest and facilitates them to carry out their roles and responsibilities. The appointment of independent non-executive Directors facilitates the exercise of independent evaluation in Board deliberations and decision-making, and thus providing check and balance in the Board.

The Board is responsible for the overall corporate governance, including its strategic direction, establishing goals for management and monitoring the achievement of these goals. The roles and responsibilities of the Chairman and the Chief Executive Officer ("CEO") are clearly separated, to institute an appropriate balance of power and authority. The Chairman is responsible for ensuring the effectiveness of the Board as well as representing the Board to the Shareholder.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

BOARD OF DIRECTORS (Continued)

(i) Board Composition and Its Roles and Responsibilities (Continued)

The Directors, with their different backgrounds and specialisations, collectively bring with them a wide range of experience and expertise. The CEO is responsible for implementing the policies and decisions of the Board, overseeing the operations as well as coordinating the development and implementation of business and corporate strategies. The independent non-executive Directors bring an independent judgement to the decision making of the Board and provide a review and challenge on the performance of the management.

As a principle of good governance, all Directors are subject to re-election at regular intervals. The Bank’s Articles of Association also provide for the retirement of Directors by rotation and, under BNM’s guidelines, all appointment and re-appointment of Directors have to be approved by BNM.

(ii) Board of Directors' Profile

The Directors' profiles are as follows:

Mr. Muhammad Afaq Khan
Chairman, Independent Non-executive Director

Mr. Muhammad Afaq Khan was appointed as an Independent Non-executive Director to Al Rajhi Bank Malaysia Board on 5 September 2016. He was appointed as Chairman of Board of Directors on 2 November 2017.

Mr. Afaq brings with him thirty years experience as an Islamic banking professional. With a proven track record of building global business, he has also won several Islamic Banker of the Year awards and other accolades, recognising him as a pioneering and influential Islamic banker and led the first Sovereign Sukuk for the Government of Malaysia.

Previously, Mr. Afaq served as Group CEO of Islamic Banking, Standard Chartered Bank (Saadiq), where he contributed efforts in winning over 200 industry awards for the institution. Prior to that, he was part of the senior management in HSBC Group to establish the Islamic Banking business. He served as Global Head of Asset Finance and Advisory of HSBC Amanah and successfully developed the Islamic strategy for Capital Markets, Corporate Finance for HSBC Group.

He specialises in building businesses and charting new territories in Islamic Banking including opening up new geographies and creating first-in-the-world Islamic Banking deals. A key player in developing Islamic Banking regulations across geographies and with industry bodies, Mr. Afaq holds a Masters in Business Administration with Major in Finance from University of Western Illinois. Mr. Afaq has resigned as Chairman with effect from 29 February 2020.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

BOARD OF DIRECTORS (Continued)

(ii) Board of Directors' Profile (Continued)

Mr. Stefano P. Bertamini
Non-independent Executive Director

Mr. Stefano P. Bertamini (Steve) was appointed as a Non-Independent Executive Director to the Board on 25 February 2016. He joined Al Rajhi Bank Saudi Arabia in May 2015 as the Chief Executive Officer until 31 December 2019. Before his appointment at Al Rajhi Bank as CEO, Steve was the Group Executive Director and CEO for Global Consumer Banking at Standard Chartered and a member of the Board of Standard Chartered PLC between 2008 and 2014. He was responsible for Retail Banking, Wealth Management, SME and Private Bank with operations across 44 countries.

Previously, Steve spent 22 years with General Electric (GE), most recently as Chairman and CEO of GE North East Asia and became a GE Officer in 2006. He was also responsible for GE's acquisition and merger business in the Asia-Pacific region from 2004 and President of GE Capital Asia since January 2001.

Steve is an active member of various external organisations including World Presidents' Organization, CEO Forum, Global 50 and Global Executive Group.

Steve graduated from University of Texas in Austin with a Bachelor's degree of Business in Finance and Management and earned his MBA at the University of North Texas.

Mr. Ow Chee Hong
Independent Non-executive Director

Mr. Ow Chee Hong was appointed to the Board as of 6 October 2015. He holds a Bachelor of Economics (Accounting and Computer Science) from Monash University, Melbourne, Australia (1989) and started his career in Kassim Chan (now Deloitte Malaysia) in 1989 as an auditor, specialising in financial and IT audits of banks and insurance organisations.

Mr. Ow was heading the Technology Consulting at Deloitte Malaysia and was admitted as a Partner in 2004. During his 12 years tenure with Deloitte Consulting Malaysia, he had built a strong and niche consulting practice focused on IT Advisory engagements such as strategic IT planning, programme management of large IT Transformation initiatives, IT due diligence and others. His clients were primarily in the financial industry ranging from retail banks, insurance companies to unit trusts and asset management entities.

In February 2012, Mr. Ow left Deloitte to start a boutique consulting firm that provides business and technology advisory. He is a Fellow member of CPA Australia, and is well versed with financial management, risk management, valuations and financial due diligence.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

BOARD OF DIRECTORS (Continued)

(ii) Board of Directors' Profile (Continued)

Mr. Johari Abdul Muid
Independent Non-executive Director

Mr. Johari Abdul Muid was appointed as Independent Non-Executive Director to Al Rajhi Bank Malaysia Board on 10 November 2017.

Mr. Johari brings with him over 30 years of experience in financial services sector of Corporate Malaysia ranging from Banking, Investment and Social Security management.

Previously, Mr. Johari served as CEO & Managing Director of RHB Banking Group where he successfully transformed the Retail Banking business performance within 2 years. Prior to that, Mr. Johari was the Deputy CEO of EPF Pension Policy & Strategic Planning. Mr. Johari also served in CIMB for over 20 years as the Head of Treasury Division and Head of CIMB Securities respectively.

Mr. Johari is a fellow member of the Chartered Institute of Management Accountants (CIMA).

(iii) Board Meetings

Board meetings for the ensuing financial year are scheduled in advance before the end of the current financial year to facilitate the Directors to plan and organise the next year's Board meetings into their respective schedules.

For the financial year 2019, six (6) Board meetings were held and the attendance by Directors at the board meetings were as follow:

Member	No. of meetings attended/held
Muhammad Afaq Khan (Resigned w.e.f. 29 February 2020) Chairman, Independent Non-executive Director	5/6
Stefano P. Bertamini Non-independent Executive Director	6/6
Ow Chee Hong Independent Non-executive Director	6/6
Johari Bin Abdul Muid Independent Non-executive Director	6/6

STATEMENT OF CORPORATE GOVERNANCE (Continued)

BOARD OF DIRECTORS (Continued)

(iii) Board Meetings (Continued)

At the Board meetings, the Board reviews various management reports on the business performance of the Bank and the minutes of meetings of the Board Committees are tabled for review by members of the Board.

Members of the Board shall deliberate and in the process, evaluate the potential risks and viability of business propositions and corporate proposals that have significant impact on the Bank's business or on its financial position.

Board meetings are governed by a structured format agenda and the agenda for each Board meeting and papers relating to the agenda items are forwarded to all Directors in advance prior to the scheduled Board meetings for their perusal.

Minutes of every Board meeting are circulated to all the Directors for their perusal prior to confirmation of the minutes at the following Board meeting.

(iv) Board Committee

Board Committees were established to assist the Board in the running of the Bank. The following are the Board Committees with their specific terms of reference and functions:

Audit Committee

The composition of the Audit Committee and the attendance by members at the Board Committee meetings held in 2019 are as follow:

Member	No. of meetings attended/held
Ow Chee Hong Chairman	4/4
Muhammad Afaq Khan (Resigned w.e.f. 29 February 2020) Member	4/4
Johari Bin Abdul Muid Member	4/4

The primary function of the Audit Committee is to assist the Board in discharging its responsibilities by providing independent oversight of the Bank's financial reporting, the internal control system, the effectiveness of internal audit function, and risk management system. The Audit Committee also provides, by way of regular meetings, a line of communication between the Board, the internal and external auditors.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

BOARD OF DIRECTORS (Continued)

(iv) Board Committee (Continued)

Risk Management Committee

The composition of the Risk Management Committee and the attendance by members at the Board Committee meetings held in 2019 are as follow:

Member	No. of meetings attended/held
Johari Bin Abdul Muid Chairman	6/6
Ow Chee Hong Member	6/6
Muhammad Afaq Khan (Resigned w.e.f. 29 February 2020) Member	3/6

The objective of the Risk Management Committee is to establish a forum for deliberation and consideration of risks which the Bank is exposed to, its strategic direction and objectives while overseeing to ensure that the risk management systems, policies and procedures are in place and functioning.

Nominating Remuneration Committee

The composition of the Nominating Remuneration Committee and the attendance by members at the Board Committee meetings held in 2019 are as follow:

Member	No. of meetings attended/held
Ow Chee Hong Chairman, Independent Non-executive Director	4/4
Muhammad Afaq Khan (Resigned w.e.f. 29 February 2020) Independent Non-executive Director	4/4
Johari Bin Abdul Muid Independent Non-executive Director	4/4

STATEMENT OF CORPORATE GOVERNANCE (Continued)

BOARD OF DIRECTORS (Continued)

(iv) Board Committee (Continued)

The responsibility of the Nominating Remuneration Committee is to support the Board in carrying out its functions in appointments/removals, composition, performance evaluation and development and fit and proper assessments concerning the Board of Directors, Senior Management and Company Secretary. The Committee is also responsible to support the Board in overseeing the design and operation of the Bank's remuneration system and ensuring that the remuneration is competitive and consistent with the Bank's objective and strategy.

INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES

The Code and BNM's Policy on Corporate Governance require banks to maintain a sound system of internal control to safeguard shareholders' investments and the Bank's assets.

Responsibility of the Board

The Board recognises the importance of maintaining a sound system of internal control to safeguard shareholders' investments and the Bank's assets. The Board is also responsible for the Bank's system of internal controls and its effectiveness. It includes reviewing the adequacy and integrity of controls relating to financial, operational, risk management, and compliance with applicable laws and regulations.

The system is designed to manage the Bank's risks within an acceptable risk profile and the Board acknowledges that the system, by its nature, can only provide reasonable assurance and not absolute assurance against material misstatement of financial information and records or against financial losses or fraud.

Key Internal Control Elements

The Bank has put in place on-going internal control processes for identifying, evaluating, managing and reporting on the significant risks that may affect the achievement of its business objectives throughout the financial year under review. The key internal control elements in the processes are described below:

(i) Clear Line of Responsibilities

The management of the Bank is primarily delegated to the CEO and its Management Committee, whose responsibilities are set by the Board. The management assists the Board in the implementation of the policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES (Continued)

Key Internal Control Elements (Continued)

(ii) Risk Management Framework

Risk Management Division is established to assist the Board in the development of general risk policies and procedures, monitor and evaluate material risks that may arise from the Bank's business activities. The Board with the assistance of the Risk Management Division, has established an enterprise-wide risk management framework that details a holistic risk management governance structure for risk management which balances risks and returns, as well as integrated risk management processes for credit risk, market risk, liquidity risk and operational risk.

(iii) Internal Audit Activities

On-going reviews of the internal control system are carried out by the internal auditor to test control effectiveness in the Bank. Results of such reviews are reported to the Audit Committee. The internal audit activities revolve primarily on areas of priority as identified by risk analysis and in accordance with the annual internal audit plan as approved by the Audit Committee.

(iv) Annual Business Plan

A detailed budgeting process is established requiring all key business units in the Bank to prepare budgets annually which are discussed and approved by the Board. Regular reporting on actual performance against approved budgets is in place and significant variances shall be followed up by the management and to be reported to the Board.

(v) Management Reporting

The Board also receives and reviews reports from the management on a regular basis in ensuring the effectiveness of the Bank's daily operations and that the Bank's operations are in accordance with the established goals.

(vi) Policies and Procedures

There are policies, procedures and authority limits imposed on the management in respect of the day-to-day operations. Compliance with internal controls and the relevant laws and regulations are also set out in operations manuals, guidelines and directives which are updated from time to time.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

RISK MANAGEMENT

Audited information according to MFRS 7 and MFRS 101

Risk management disclosures provided in line with the requirements of the Malaysian Financial Reporting Standard ("MFRS") 7 (*Financial Instruments) Disclosures,* (and disclosures on capital management as required by MFRS 101)*(Presentation of Financial Statements) (Revised)* form part of the financial statements audited by the Bank's independent auditors Ernst & Young PLT.

Risk management plays a substantial role in the governance of the Bank as the Bank recognises the diversity and complexity of banking operations and the exposure to various kinds of risks mainly on credit risk, market risk, liquidity risk and operational risk.

The Bank recognises the importance of an effective risk management and control measures to ensure the Bank's corporate value, sustained profitability and continued enhancement of shareholder value.

A risk conscious corporate culture and pre-emptive actions of employees are also crucial for an effective risk management. The risk conscious corporate culture is met through communication, training, policies, procedures, and organisational structures, roles and responsibilities.

Overall Risk Management Framework

Risk Management Governance Structure and Processes

The Bank has established within its risk management framework a holistic risk management governance structure for risk management which balances risks and returns, as well as integrated risk management processes for credit risk, market risk, liquidity risk and operational risk. The risk management governance structure provides clear accountabilities and responsibilities for risk management processes throughout the organisation at the Board level, at the Executive Management level and at the business unit and support unit level. The risk management processes encompass four broad processes, namely risk identification, risk assessment and measurement, risk control and mitigation and risk monitoring.

Stress test and scenario analysis serves as important risk management tools as part of the Bank's risk assessment process and are used to assess the financial risks management capability of the Bank to continue to operate effectively under different stressed scenarios. The stress test and scenario analysis will assist the Bank in the following:

(a) Evaluating the optimal capitalisation level for the Bank to weather extreme banking scenarios;

(b) Understanding the nature and key risk profile of the Bank;

(c) Estimating the adequacy of liquidity contingency planning; and

(d) Assessing the effectiveness of risk mitigation which is already established.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

RISK MANAGEMENT (Continued)

Credit Risk Management

Credit risk is defined as the risk of potential losses arising from a customer default or deterioration in the credit standing of a customer with whom the Bank has entered transactions into.

The Bank establishes policies and procedures for credit origination, scoring, rating, approval, monitoring, collection and recovery. Credit approval authorities are delegated to committees and individuals in accordance to the risk appetite of the Board. Regular analysis and reporting of risk profile covering credit exposure, movements of non-performing financings ("NPFs"), concentration of credit exposure, adequacy of specific provision for NPFs and capital adequacy is updated to the management, the Risk Management Committee and the Board.

Market and Liquidity Risk Management

Market risk is defined as the risk that the Bank could incur losses due to changes in the value of assets and liabilities (including off-balance sheet items) caused by fluctuations in the market risk factors such as profit rates and foreign exchange rates. Meanwhile, liquidity risk is defined as the risk of losses arising from funding difficulties to raise the necessary funds, or when it is forced to obtain funds at much higher rates than usual.

The Bank establishes policies and procedures for monitoring, reporting and controling of market and liquidity risks including setting appropriate management trigger and exposure limits and performing regular stress testing. The Asset and Liability Committee (“ALCO”) is established to monitor, deliberate and make decisions on matters related to funding, liquidity as well as asset and liability mismatch risks management. The Bank manages its liquidity in compliance to BNM’s Basel III liquidity requirements. Regular analysis and reporting of market and liquidity risks profile is updated to the ALCO, the Risk Management Committee and the Board.

Operational Risk Management

Operational risk is defined as the risk of loss, whether direct or indirect, to which the Bank is exposed due to inadequacy or failure of processes, procedures, systems or controls, and external events. Operational risk, in some form, exists in each of the Bank’s business and support activities and can result in direct and indirect financial loss, regulatory sanctions, customer dissatisfaction and damage to the Bank’s reputation.

STATEMENT OF CORPORATE GOVERNANCE (Continued)

RISK MANAGEMENT (Continued)

Operational Risk Management (Continued)

The management of operational risk is an important priority for the Bank. To mitigate such operational risks, the Bank has developed an operational risk program and essential methodologies that enable identification, measurement, monitoring, and reporting of inherent and emerging operational risks.

The day-to-day management of operational risk exposures is through the development and maintenance of comprehensive internal controls and procedures based on segregation of duties, independent checks, segmented system access control and multi-tier authorisation processes. An incident reporting process is also established to capture and analyse frauds and control lapses.

A periodic self-risk and control assessment is established for business and support units to pre-emptively identify risks and evaluate control effectiveness. Action plans are developed for the control issues identified.

CAPITAL ADEQUACY FRAMEWORK INITIATIVES

In line with the Basel II Pillar 1 on minimum capital requirement, the Bank has implemented the Capital Adequacy Framework for Islamic Banks ("CAFIB") issued by BNM by adopting the following approaches:

a) Credit Risk Charge - Standardised Approach
b) Market Risk Charge - Standardised Approach
c) Operational Risk Charge - Basic Indicator Approach

The Bank has developed a framework for Internal Capital Adequacy and Assessment Process ("ICAAP"). The ICAAP goes one step further in ensuring that the Bank has in place a structured process for assessing the adequacy of its internal capital levels relative to its risk profile and appetite that covers all material risks beyond those specified in Pillar 1.

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in Islamic Banking business and the provision of related financial business under the Islamic Financial Services Act 2013.

The principal activity of the subsidiary is disclosed in Note 13 to the financial statements.

There were no significant changes to these principal activities during the financial year.

FINANCIAL RESULTS

	Group RM'000	Bank RM'000
Net profit for the financial year	29,850	29,800

There were no material transfers to or from reserves, provisions or allowances during the financial year other than those disclosed in the statement of changes in equity and in Notes 7, 8, 9 and 10 the financial statements.

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

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Group and of the Bank for the current financial year in which this report is made.

DIVIDEND

No dividend has been paid or declared by the Bank since the end of the previous financial year.

The Directors do not recommend the payment of any dividend for the current financial year.

DIRECTORS' REPORT (Continued)

DIRECTORS OF THE BANK

The names of the Directors of the Bank in office since the date of the last report and at the date of this report are as follows:

Muhammad Afaq Khan (resigned w.e.f. 29 February 2020)
Ow Chee Hong
Stefano P. Bertamini
Johari Bin Abdul Muid

The directors of the subsidiary are disclosed in Note 13 to the financial statements.

DIRECTORS' INTERESTS IN SHARES

According to the register of Directors' shareholding, none of the Directors holding office as at 31 December 2019 held any shares in the Bank or its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than directors' remuneration as disclosed in Note 32 of the financial statements or amount of emoluments received or due and receivable by the directors from fixed salaries as full time employees of related corporations) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangements to which the Bank or its subsidiary is a party whereby Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

During the financial year, the total amount of indemnity coverage was RM10,000,000 and insurance premium paid for the Directors and the officers of the Group and of the Bank was RM28,500.

ISSUE OF SHARES

There were no changes to the issued and paid-up capital of the Bank during the financial year.

DIRECTORS' REPORT (Continued)

COMPLIANCE WITH BANK NEGARA MALAYSIA'S GUIDELINES ON FINANCIAL REPORTING

In the preparation of the financial statements of the Group and of the Bank, the Directors have taken reasonable steps to ensure that Bank Negara Malaysia's expectations on financial reporting have been complied with, including those as set out in the Guidelines on Financial Reporting for Islamic Banking Institutions.

BAD AND DOUBTFUL FINANCING

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that proper actions had been taken in relation to the writing off of bad financing and the making of allowance for doubtful financing and have satisfied themselves that all bad financing have been written-off and that adequate allowance had been made for doubtful financing.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written-off for bad financing or the amount of the allowance for bad and doubtful financing in the financial statements of the Group and of the Bank, inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business, had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and of the Bank misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate.

DIRECTORS' REPORT (Continued)

CONTINGENT AND OTHER LIABILITIES

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 and which secures the liabilities of any other person; or

(ii) any contingent liability in respect of the Group and of the Bank that has arisen since the end of the financial year other than in the ordinary course of the banking business.

No contingent liability or other liability of the Group and of the Bank 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 its obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and of the Bank, which would render any amount stated in the financial statements misleading.

BUSINESS PLAN AND OUTLOOK FOR 2020

For 2020, economies worldwide are faced with palpable challenges. As the pandemic still races on, more nations are giving into lockdowns and restricted-movements. The reality prompted Bank Negara Malaysia to reverse the nation’s 2020 GDP-forecast to a possible 2% contraction.

Fortunately, the Bank came into 2020 in better shape, after a solid 3 and a half year transformation, where 2019 marks one of the best performance since inception while its asset-quality and capital-position remain well-preserved.

As such, the Bank sees 2020 trials to be one an ‘Earnings-Issue’ rather than a ‘Balance-Sheet-Issue' as it balances opposing demands between supporting customers and preserving its financial stability. How it fares in 2020 will depend on 2 notable factors, managing its financing portfolio for possible rise in financing losses as well as managing its profitability in the current low profit rate environment.

Notwithstanding the above, the Bank remains confident to withstand projected GDP contraction with the capital position is expected to remain intact and above the required levels.

DIRECTORS' REPORT (Continued)

DISCLOSURE OF SHARIAH BOARD

The Shariah Board reports to the Board of Director and its main duty and responsibility is to oversee the Bank's activities and operations, investments and prudent development to ensure compliance with Shariah principles.

(a) Shariah Board Profiles

The profiles of the Shariah Board members are as follows:

Sheikh Prof. Dr. Saleh Abdullah Al Lheidan
Chairman

Prof. Dr. Salleh Abdullah Al Lheidan holds a PhD and a Master's Degree in Comparative Fiqh (Islamic Law) from Al-Imam Mohammed bin Saud Islamic University in Riyadh, Saudi Arabia.

He is presently the General Manager for the Shariah Group of Al Rajhi Bank, Saudi Arabia and at the same time he serves as the Secretariat and also a member of the Shariah Board of Al Rajhi Bank, Saudi Arabia. He currently sits as the Chairman of the Shariah Board of Al Rajhi Bank Malaysia since his appointment in 2007.

Sheikh Assoc. Prof. Dr. Azman Mohd Noor
Deputy Chairman

Assoc. Prof. Dr. Azman Bin Mohd Noor holds a PhD in Islamic Law from the University of Edinburgh, United Kingdom. He holds 2 Master's Degrees from the International Islamic University Malaysia and National University of Malaysia (UKM) respectively. He obtained a Bachelor Degree in Shariah from the Islamic University of Medina, Kingdom of Saudi Arabia.

Sheikh Dr. Mohammed Hael Al-Madhagi
Member

Dr. Mohamed Hael Al-Madhagi holds a PhD in Islamic Jurisprudence from Al-Imam Muhammad Bin Saud Islamic University, Riyadh.

He is currently a senior shariah consultant at Al Rajhi Bank, Saudi Arabia and is instrumentally involve in developing banking products in accordance to Shariah principles. He has been invited to talk in seminars and was a main speaker at the symposium held by the Journal of Islamic Banking in collaboration with the Islamic World Organisation for the Economy and Finance.

DIRECTORS' REPORT (Continued)

DISCLOSURE OF SHARIAH BOARD (Continued)

(a) Shariah Board Profiles (Continued)

Sheikh Lokmanulhakim Bin Hussain
Member

Sheikh Lokmanulhakim Bin Hussain is a former researcher of International Shari'ah Research Academy for Islamic Finance (ISRA). He obtained his first class honours in both Bachelor of Arts degree in Shariah and a Master's degree in Fiqh from Islamic University of Medina, Kingdom of Saudi Arabia. He sits as a member of Shariah Board of Al Rajhi Bank Malaysia since 2014.

Sheikh Wan Rumaizi Bin Wan Husin
Member

Sheikh Wan Rumaizi Bin Wan Husin is a former lecturer at the Department of Fiqh and Usul al-Fiqh at the Kulliyyah of Islamic Revealed Knowledge and Human Sciences of International Islamic University Malaysia (IIUM). He holds a Master's Degree in Fiqh and Usul al-Fiqh from IIUM. Prior to that, he obtained his Bachelor's Degree in the same specialisation from Ali Bayt University of Jordan. He joined the Shariah Board of Al Rajhi Bank Malaysia as member in July 2015.

The composition of the Shariah Board Committee and the attendance by members at the Shariah Board meetings held in 2019 are as follows:

Shariah Board Members	Shariah Board Meeting	Shariah Extensive Meeting
Sheikh Prof. Dr. Saleh Abdullah Al-Lheidan (Chairman)	36/36	100%
Sheikh Assoc. Prof. Dr. Azman Mohd Noor (Deputy Chairman)	35/36	100%
Sheikh Dr. Mohammed Hael Al-Madhagi (Member)	36/36	100%
Sheikh Lokmanulhakim Bin Hussain (Member)	36/36	100%
Sheikh Wan Rumaizi Bin Wan Husin (Member)	35/36	100%

(b) Shariah Board and Its Roles and Responsibilities

The duties and responsibilities of the Shariah Board amongst others are as follows:

(i) To advise the Board of Directors on Shariah matters in order to ensure that the business operations of the Bank comply with the Shariah principles at all times;

(ii) To endorse the Shariah Compliance Manual. The manual specifics the manner in which a submission or request for advice be made to Shariah Board, the conduct of the Shariah Board's meeting and the manner of compliance with any Shariah decision;

DIRECTORS' REPORT (Continued)

DISCLOSURE OF SHARIAH BOARD (Continued)

(b) Shariah Board and Its Roles and Responsibilities (Continued)

(iii) To ensure that the Bank complies with Shariah principles in all aspects and to decide consequential action upon any violation;

(iv) To ensure that the products of the Bank comply with Shariah principles in all aspects, the Shariah Board must endorse the following:

(a) the terms and conditions contained in the proposal form, contract, agreement or other legal documentation used in executing the transactions; and

(b) the product manual, marketing advertisement, sales illustrations and brochures used to describe the product.

(v) To provide assistance to related parties such as legal counsel, auditor or consultant on Shariah matters so that compliance with Shariah principles can be assured completely;

(vi) To provide written Shariah opinion and to record any opinion given under the following circumstances:

(a) where the Bank makes reference to the Shariah Advisory Council (‘SAC’) of Bank Negara Malaysia for advice; and

(b) where the Bank submits applications to Bank Negara Malaysia for new products approval in accordance with guidelines on product approval issued by Bank Negara Malaysia.

(vii) To advise on matters to be referred to the SAC which have not been resolved or endorsed. The Shariah Board is also expected to assist the SAC on any matters referred by the Bank.

SIGNIFICANT EVENT

Significant event during the financial year ended 31 December 2019 is disclosed in Note 44.

SUBSEQUENT EVENTS

Subsequent event during the financial year ended 31 December 2019 is disclosed in Notes 45.

AL RAJHI BANKING & INVESTMENT CORPORATION (MALAYSIA) BHD.
(Incorporated in Malaysia)
Company No. 719057-X

DIRECTORS' REPORT (Continued)

SIGNIFICANT EVENT

Significant event during the financial year ended 31 December 2019 is disclosed in Note 43.

SUBSEQUENT EVENTS

Subsequent event during the financial year ended 31 December 2019 is disclosed in Notes 44.

AUDITORS

The auditors, Ernst & Young PLT, have expressed their willingness to continue in office. The auditors' remuneration is disclosed in Note 31 to the Financial Statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 29 JUL 2020

JOHARI BIN ABDUL MUID
DIRECTOR

OW CHEE HONG
DIRECTOR

Kuala Lumpur, Malaysia

AL RAJHI BANKING & INVESTMENT CORPORATION (MALAYSIA) BHD.
(Incorporated in Malaysia)
Company No. 719057-X

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016

We, Johari Bin Abdul Muid and Ow Chee Hong, being two of the directors of Al Rajhi Banking and Investment Corporation (Malaysia) Bhd., do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 27 to 161 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2019 and of the results and the cash flows of the Group and the Bank for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 29 JUL 2020

JOHARI BIN ABDUL MUID
DIRECTOR

OW CHEE HONG
DIRECTOR

Kuala Lumpur, Malaysia

STATUTORY DECLARATION
PURSUANT TO SECTION 251(1)(b) OF THE COMPANIES ACT, 2016

I, SHAMSUL ANUAR BIN DATO' HAJI MOHD RASEP @ HAJI ABDUL RASHID (MIA Membership No. 29481), being the officer primarily responsible for the financial management of Al Rajhi Banking and Investment Corporation (Malaysia) Bhd., do solemnly and sincerely declare that the accompanying financial statements set out on pages 27 to 161 are in my opinion 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 abovenamed SHAMSUL ANUAR BIN DATO' HAJI MOHD RASEP @ HAJI ABDUL RASHID at Kuala Lumpur on 29 JUL 2020

SHAMSUL ANUAR BIN DATO' HAJI MOHD RASEP @ HAJI ABDUL RASHID

Before me,

PESURUHJAYA SUMPAH
No. W 710
MOHAN A.S. MANIAM
1.1.2019 hingga 31.12.2021
MALAYSIA

Tingkat 20 Ambank Group Building
55, Jln. Raja Chulan, 50200 Kuala Lumpur

REPORT OF SHARIAH BOARD

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

All praise is due to Allah, prayers and peace be upon the last Prophet Mohammad, and be upon his relatives and all his companions; now therefore,

السلام عليكم ورحمة الله وبركاته

In carrying out the roles and responsibilities of Shariah Board of Al Rajhi Banking and Investment Corporation (Malaysia) Bhd., we hereby submit the following report on Shariah Compliance of Al Rajhi Banking and Investment Corporation (Malaysia) Bhd.'s ("the Bank"), activities and operations for the financial year ended 31 December 2019.

<u>Products Endorsement and Issuance of Shariah Rulings</u>

We have reviewed and approved the products and the contracts relating to the transactions undertaken by the Bank during the year ended 31 December 2019. We have also conducted our review to form an opinion as to whether the Bank has complied with the Shariah rulings issued by us. For the financial year ended 31 December 2019, we have issued 65 Shariah rulings on products and services proposed and submitted by the Bank.

<u>Assessment of the Work Carried Out by Shariah Supervision and Shariah Audit</u>

We have assessed the plans, assignments and findings prepared, performed and submitted by Shariah Supervision, and Shariah Audit which includes examining, on a sample basis, various types of transactions, relevant documentations and procedures adopted by the Bank.

<u>Shariah Risk Function</u>

We have assessed the function of Shariah Risk in monitoring and controlling Shariah non-compliance risks, and therefore mitigate or minimize the occurrence of Shariah non-compliances. This will enable the Bank to continue its operations and activities effectively without exposing the Bank to unacceptable levels of risk.

<u>Shariah Training and Awareness</u>

To enhance the understanding of the Bank's employees on the rulings issued by Shariah Board, we have ensured series of trainings on Shariah rulings conducted by Shariah Division to mitigate the risk of Shariah non-compliance. Shariah Board has conducted an engagement program with key staff of the Bank, for instance, Shariah training with title Islamic Finance: Current, Future Trends and Challenges delivered by Sheikh Wan Rumaizi Bin Wan Husin in November 2019.

REPORT OF SHARIAH BOARD (Continued)

In our opinion:

1. The contracts, transactions and dealings entered into by the Bank. during the year ended 31 December 2019 that we have reviewed are in general compliant with the Shariah principles;

2. 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;

3. In accordance with the Shariah non-compliance reporting requirements imposed by Islamic Financial Services Act 2013 (IFSA), the Shariah non-compliance event(s) were presented to us for confirmation and the rectification plans were presented accordingly to us and to the Board of Directors for approval. The Bank has rectified the Shariah non-compliance event(s) and has taken preventive actions to avoid the recurrence of the events.

We the undersigned, the Shariah Board members of Al Rajhi Banking & Investment Corporation (Malaysia) Bhd., to the best of our knowledge, do hereby confirm that the operations of the Bank to the best of its effort for the financial year ended 31 December 2019 have, in general, been conducted in compliance with Shariah except for some minor remarks which the Bank already rectified in line with the Shariah requirements.

And prayers and peace be upon the last Prophet Mohammad, and be upon his relatives and all his companions.

The Shariah Board

١٤٤١ ٦/٩

Prof. Dr. Saleh bin Abdullah Al-Lheidan
Chairman

Assoc. Prof. Dr. Azman bin Mohd Noor
Deputy Chairman

Dr. Mohammed Hael Al-Madhagi
Member

Sheikh Lokmanulhakim bin Hussain
Member

Sheikh Wan Rumaizi bin Wan Husin
Member

Building a better
working world

Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF 0039
SST ID: W10-2002-32000062
Chartered Accountants
Level 23A Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur, Malaysia

Tel: +603 7495 8000
Fax: +603 2095 5332 (General line)
+603 2095 9076
+603 2095 9078
ey.com

719057-X

Independent auditors' report to the members of
Al-Rajhi Banking & Investment Corporation (Malaysia) Bhd.
(Incorporated in Malaysia)
Report on the audit of the financial statements

Opinion

We have audited the financial statements of Al-Rajhi Banking & Investment Corporation (Malaysia) Bhd., which comprise the statements of financial position as at 31 December 2019 of the Group and of the Bank, and statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 27 to 161.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditors' report thereon

The directors of the Bank are responsible for the other information. The other information comprises the Directors' Report, but does not include the financial statements of the Group and of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

Company No. 719057-X

**Independent auditors' report to the members of
Al-Rajhi Banking & Investment Corporation (Malaysia) Bhd. (Continued)
(Incorporated in Malaysia)**

Information other than the financial statements and auditors' report thereon (Continued)

In connection with our audit of the financial statements of the Group and of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors of the Bank are responsible for the preparation of financial statements of the Group and of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Bank, the directors are responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Company No. 719057-X

Independent auditors' report to the members of
Al-Rajhi Banking & Investment Corporation (Malaysia) Bhd. (Continued)
(Incorporated in Malaysia)

Auditors' responsibilities for the audit of the financial statements (Continued)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements of the Group and of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Building a better working world

Company No. 719057-X

Independent auditors' report to the members of
Al-Rajhi Banking & Investment Corporation (Malaysia) Bhd. (Continued)
(Incorporated in Malaysia)

Auditors' responsibilities for the audit of the financial statements (Continued)

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other matters

This report is made solely to the members of the Bank, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young PLT

Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF0039
Chartered Accountants

Lee Pei Yin

Lee Pei Yin
No. 03189/05/2019 J
Chartered Accountant

Kuala Lumpur, Malaysia
29 July 2020

AL RAJHI BANKING & INVESTMENT CORPORATION (MALAYSIA) BHD.
(Incorporated in Malaysia)
Company No. 719057-X

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

		Group		Bank	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
ASSETS					
Cash and short-term funds	4	237,229	247,267	237,229	247,267
Deposits and placements with banks and other financial institutions	5	389,862	392,965	389,862	392,965
Derivatives assets	6	34	-	34	-
Financial investment at amortised cost	7	744,126	1,530,248	744,126	1,530,248
Financial investments at fair value through other comprehensive income (FVOCI)	8	313,663	-	313,663	-
Financing and advances	9	5,266,868	5,001,599	5,266,868	5,001,599
Other assets	10	15,988	15,595	15,984	15,589
Statutory deposit with Bank Negara Malaysia	11	135,900	187,000	135,900	187,000
Deferred tax assets	12	49,496	53,194	49,497	53,194
Investment in a subsidiary	13	-*	-*	-*	-*
Investment properties	14	105,000	105,000	105,000	105,000
Property and equipment	15	18,778	15,318	18,778	15,318
Intangible assets	16	37,016	30,322	37,016	30,322
Right-of-use assets	17	15,303	-	15,303	-
Total Assets		**7,329,263**	**7,578,508**	**7,329,260**	**7,578,502**
LIABILITIES AND SHAREHOLDER'S EQUITY					
Liabilities					
Deposits from customers	18	5,745,493	5,712,692	5,745,493	5,712,692
Deposits and placements of banks and other financial institutions	19	365,757	670,986	365,757	670,986
Bills and acceptances payable		4,873	4,838	4,875	4,838
Other liabilities	20	60,682	78,605	60,890	78,761
Lease liabilities	21	17,212	-	17,212	-
Subordinated sukuk	22	381,881	385,893	381,881	385,893
Total Liabilities		**6,575,898**	**6,853,014**	**6,576,108**	**6,853,170**

* The amount is significantly below the rounding threshold. Refer to Note 13 for the details.

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

	Note	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
Shareholder's equity					
Share capital	23	**1,000,000**	**1,000,000**	**1,000,000**	**1,000,000**
Reserves	24	(246,635)	(274,506)	(246,848)	(274,668)
Total Shareholder's Equity		**753,365**	**725,494**	**753,152**	**725,332**
Total Liabilities and Shareholder's Equity		**7,329,263**	**7,578,508**	**7,329,260**	**7,578,502**
COMMITMENTS AND CONTINGENCIES	36	**1,389,591**	**1,920,551**	**1,389,591**	**1,920,551**
CAPITAL ADEQUACY	41				
CET 1 / Core capital ratio		12.343%	12.519%	12.339%	12.516%
Risk-weighted capital ratio		20.002%	20.849%	19.998%	20.846%

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

STATEMENTS OF INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

		Group		Bank	
		2019	**2018**	**2019**	**2018**
	Note	RM'000	RM'000	RM'000	RM'000
Revenue	25	**402,892**	**423,822**	**402,536**	**423,404**
Income derived from investment of depositors' funds and others	26	356,284	404,253	356,284	404,253
Income derived from investment of shareholder's funds	27	46,608	19,569	46,252	19,151
Writeback for credit losses on financial assets	28	11,893	4,188	11,893	4,188
Total distributable income		**414,785**	**428,010**	**414,429**	**427,592**
Income attributable to depositors	29	(196,438)	(233,370)	(196,438)	(233,370)
Total net income		**218,347**	**194,640**	**217,991**	**194,222**
Personnel expenses	30	(122,055)	(111,776)	(121,961)	(111,670)
Other overheads and expenditures	31	(62,728)	(60,353)	(62,533)	(60,167)
Profit before zakat and taxation		**33,564**	**22,511**	**33,497**	**22,385**
Zakat		-	-	-	-
Taxation	33	(3,714)	(10,783)	(3,697)	(10,750)
Profit for the year		**29,850**	**11,728**	**29,800**	**11,635**
Basic/diluted earnings per share (sen)	34	**2.99**	**1.17**	**2.98**	**1.16**

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

AL RAJHI BANKING & INVESTMENT CORPORATION (MALAYSIA) BHD.
(Incorporated in Malaysia)
Company No. 719057-X

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

		Group		Bank	
		2019	**2018**	**2019**	**2018**
	Note	RM'000	RM'000	RM'000	RM'000
Net profit for the financial year		**29,850**	**11,728**	**29,800**	**11,635**
Other comprehensive income/(loss)					
Items that may be reclassified subsequently to profit or loss					
Financial investment held at fair value through other comprehensive income:					
- Net unrealised loss on financial investment at fair value through other comprehensive income		(542)	-	(542)	-
Other comprehensive loss for the financial year net of tax		(542)	-	(542)	-
Total comprehensive income for the financial year		29,308	11,728	29,258	11,635
Total comprehensive income for the financial year attributable to equity holder of the Bank		**29,308**	**11,728**	**29,258**	**11,635**

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

AL RAJHI BANKING & INVESTMENT CORPORATION (MALAYSIA) BHD.
(Incorporated in Malaysia)
Company No. 719057-X

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Share capital RM'000	Statutory reserve RM'000 (Note 24)	Regulatory reserve RM'000 (Note 24)	Fair value reserve of financial investment FVOCI RM'000 (Note 24)	Accumulated losses RM'000 (Note 24)	Total RM'000
Group						
At 1 January 2018	1,000,000	13,206	-	-	(263,109)	750,097
Effect of adopting MFRS 9	-	-	-	-	(36,331)	(36,331)
Total comprehensive income for the financial year	-	-	-	-	11,728	11,728
At 31 December 2018	**1,000,000**	**13,206**	-	-	**(287,712)**	**725,494**
At 1 January 2019	1,000,000	13,206	-	-	(287,712)	725,494
Effect of adopting MFRS 16 (Note 2.1)	-	-	-	-	(1,438)	(1,438)
Total comprehensive income for the financial year	-	-	-	(542)	29,850	29,308
Transfer to Regulatory reserve	-	-	4,500	-	(4,500)	-
At 31 December 2019	**1,000,000**	**13,206**	**4,500**	**(542)**	**(263,800)**	**753,364**
Bank						
At 1 January 2018	1,000,000	13,206	-	-	(263,178)	750,028
Effect of adopting MFRS 9	-	-	-	-	(36,331)	(36,331)
Total comprehensive income for the financial year	-	-	-	-	11,635	11,635
At 31 December 2018	**1,000,000**	**13,206**	-	-	**(287,874)**	**725,332**
At 1 January 2019	1,000,000	13,206	-	-	(287,874)	725,332
Effect of adopting MFRS 16 (Note 2.1)	-	-	-	-	(1,438)	(1,438)
Total comprehensive income for the financial year	-	-	-	(542)	29,800	29,258
Transfer to Regulatory reserve	-	-	4,500	-	(4,500)	-
At 31 December 2019	**1,000,000**	**13,206**	**4,500**	**(542)**	**(264,012)**	**753,152**

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

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	Group 2019 RM'000	Group 2018 RM'000	Bank 2019 RM'000	Bank 2018 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before zakat and taxation		33,564	22,511	33,497	22,385
Adjustments for:					
Depreciation of property and equipment	15	6,187	6,383	6,187	6,383
Depreciation of Right-of-use of assets		7,981	-	7,981	-
Amortisation of intangible assets	16	12,901	11,382	12,901	11,382
Finance charges on lease liabilities		934	-	934	-
Net loss on disposal/write-off of equipment		72	201	72	201
Write back of allowance for credit losses		(3,726)	(37,779)	(3,726)	(37,779)
Bad debt on financing - recovered	28	(8,929)	(8,458)	(8,929)	(8,458)
Bad debts on financing - written off	28	762	658	762	658
Allowance for expected credit loss	31	2,475	1,108	2,475	1,108
Loss on disposal of financial assets at FVTPL	24	-	164	-	164
Gain on disposal of financial investment at amortised cost	27	(21,888)	(97)	(21,888)	(97)
Unrealised gain from foreign exchange translations	27	(3,046)	(3,845)	(3,046)	(3,845)
Operating cashflow before working capital changes		27,287	(7,772)	27,220	(7,898)
(Decrease)/increase in operating activities					
Deposits and placements with banks and other financial institutions		2,137	1,883	2,137	1,883
Derivative assets		(34)	561	(34)	561
Financing and advances		(260,325)	668,420	(260,325)	668,420
Other assets		(2,123)	15,668	(2,125)	15,664
Statutory deposit with Bank Negara Malaysia		51,100	120,757	51,100	120,757
(Increase)/decrease in operating liabilities					
Deposits from customers		32,801	(1,247,157)	32,801	(1,247,157)
Deposits and placements of banks and other financial institutions		(305,228)	136,376	(305,228)	136,376
Bills and acceptances payable		37	2,515	37	2,515
Other liabilities		(17,790)	15,587	(17,738)	15,684
Cash used in operating activities		(472,138)	(293,162)	(472,155)	(293,195)
Tax paid		(17)	(33)	-	-
Net cash used in operating activities		(472,155)	(293,195)	(472,155)	(293,195)

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

		Group		Bank	
	Note	**2019**	**2018**	**2019**	**2018**
		RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment		(13,303)	(6,335)	(13,303)	(6,335)
Purchase of intangible asset		(16,756)	(13,633)	(16,756)	(13,633)
Disposal of financial assets at fair value through profit or loss		-	6,363	-	6,363
Proceeds from disposal of financial investment at amortised cost		982,695	151,673	982,695	151,673
Repayment of financial investment at amortised cost		16,000	-	16,000	-
Purchase of financial investment at amortised cost		(183,870)	-	(183,870)	-
Purchase of financial investment at FVOCI		(314,205)	(203,784)	(314,205)	(203,784)
Net cash generated from/(used in) investing activities		470,561	(65,716)	470,561	(65,717)
CASH FLOWS FROM FINANCING ACTIVITY					
Lease payments, representing net cash used in financing activity		(8,444)	-	(8,444)	-
NET DECREASE IN CASH AND SHORT-TERM FUNDS		**(10,038)**	**(358,911)**	**(10,038)**	**(358,911)**
Cash and short-term funds as at 1 January		247,267	606,178	247,267	606,178
CASH AND SHORT-TERM FUNDS	4	**237,229**	**247,267**	**237,229**	**247,267**

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

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

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Bank is principally engaged in Islamic banking business which refers generally to the acceptance of deposits and granting of financing under the principles of Shariah as well as the provision of related financial services. The principal activities of the subsidiary are set out in Note 13.

There have been no significant changes to these principal activities during the financial year.

The Bank is a licensed Islamic Bank under the Islamic Financial Services Act 2013, incorporated and domiciled in Malaysia. The registered office of the Bank is located at the Ground Floor, East Block, Wisma Golden Eagle Realty, 142-B Jalan Ampang, 50450 Kuala Lumpur.

The holding company of the Bank is Al Rajhi Banking and Investment Corporation, Saudi Joint Stock Company, a public limited liability company, incorporated in Riyadh on 23 June 1987. The registered office is located at PO Box 28, Riyadh 11411, Kingdom of Saudi Arabia ("Saudi Arabia").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently in the preparation of these financial statements to all periods presented in these financial statements.

2.1 BASIS OF PREPARATION

The financial statements of the Group and of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards (“MFRS”) and the requirements of the Companies Act, 2016 in Malaysia.

The financial statements have been prepared under the historical cost convention, unless otherwise indicated in the financial statements.

The preparation of financial statements is in conformity with MFRS and MFRS requires the use of certain critical accounting estimates and assumption that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amount of revenues and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Group's and the Bank’s accounting policies. Although these estimates are based on the Directors’ best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 BASIS OF PREPARATION (Continued)

Certain qualitative disclosures under MFRS 7 *Financial Instruments: Disclosures* about the nature and extent of risks and disclosures on capital management as required by MFRS 101 *Presentation of Financial Statements (Revised)* have been included in the audited parts of the "Risk Management" section in the Statement of Corporate Governance.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except otherwise indicated.

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following MFRS:

MFRS 16 *Leases*

MFRS 16 is effective for annual periods beginning on or after 1 January 2019.

The Bank has applied MFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised as an adjustment to retained earnings as at 1 January 2019.

(i) Definition of a lease

A contract contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset. This may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset;

- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

- the customer has the right to direct the use of the asset. The customer has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 BASIS OF PREPARATION (Continued)

MFRS 16 Leases (Continued)

(i) Definition of a lease (Continued)

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the Group is a lessee, it has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

The Bank assesses at contract inception, whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(ii) Recognition and initial measurement

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to.

make lease payments and right-of-use assets representing the right to use the underlying assets.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the respective Group entities' incremental borrowing rate. Generally, the Group and the Bank use their incremental borrowing rate as the discount rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 BASIS OF PREPARATION (Continued)

MFRS 16 Leases (Continued)

(ii) Recognition and initial measurement (Continued)

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments less any incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Group is reasonably certain to exercise; and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The following table shows the Group and Bank's right-of-use assets, lease liabilities and retained earnings, as at 1 January 2019:

	Carying amount 31 December 2018	Re-measurement	Carying amount 1 January 2019
	RM'000	RM'000	RM'000
Right-of-use assets	-	22,424	22,424
Lease liabilities	-	(23,862)	(23,862)
Accumulated losses	(287,712)	1,438	(286,274)

The impact of adoption of MFRS 16 on the Group and the Bank's accounts is the decrease in opening retained earnings by RM1.4 million, arising from the recognition right-of-use assets and lease liabilities as at 1 January 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 BASIS OF PREPARATION (Continued)

MFRS 16 Leases (Continued)

(ii) Recognition and initial measurement (Continued)

(a) Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Bank premises	3 to 6 years
- Non-bank premises	2 to 3 years
- Other equipments	5 years

(b) Lease liabilitiesLease liabilities

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

In calculating the present value of lease payments, the Bank uses its incremental borrowing rate at the lease commencement date because the profit rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of profit and reduced for the lease payments made.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 BASIS OF PREPARATION (Continued)

MFRS 16 Leases (Continued)

(ii) Recognition and initial measurement (Continued)

(b) Lease liabilities (Continued)

The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (i.e changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

(iii) Subsequent measurement

(a) Right-of-use assets

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

(b) Lease Liabilities

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a revision of in-substance fixed lease payments, or if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

(iv) Impairment

See accounting policy Note 2.10(e) on impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 BASIS OF PREPARATION (Continued)

(v) Lessor accounting

The Bank, as a lessor, is not required to make any adjustments for leases in which it is a lessor. From date of initial application, the lessor accounts for those leases applying MFRS 16.

(vi) Short-term leases and lease of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases of equipment i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and lease of low-value assets are recognised as expense over the lease term.

The following table shows the Group's and the Bank's short-term leases and lease of low-value assets:

	Note	Group and Bank 2019 RM'000
Premises	31	4,480

MFRSs interpretations and amendments issued but not effective

The following are the accounting standards, interpretations and amendments of MFRSs that are issued, but not yet effective up to the date of issuance of the Group’s and the Bank's financial statements are disclosed below. The Group and the Bank intend to adopt these standards, if applicable, when they become effective.

MFRSs, Amendments to MFRSs and Interpretations	**Effective for financial period beginning on or after**
Amendments to MFRS 3: Definition of a Business	1 January 2020
Amendments to MFRS 101: Presentation of Financial Statements	1 January 2020
Amendments to MFRS 2: Share-Based Payment	1 January 2020
Amendments to MFRS 3: Business Combinations	1 January 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 BASIS OF PREPARATION (Continued)

MFRSs interpretations and amendments issued but not effective (Continued)

MFRSs, Amendments to MFRSs and Interpretations	**Effective for financial period beginning on or after**
Amendments to MFRS 6: Exploration for and Evaluation of Mineral Resources	1 January 2020
Amendments to MFRS 14: Regulatory Deferral Accounts	1 January 2020
Amendments to MFRS 108: Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020
Amendments to MFRS 101 & MFRS 108: Definition of Material	1 January 2020
Amendments to MFRS 134: Interim Financial Reporting	1 January 2020
Amendment to MFRS 137: Provisions, Contingent Liabilities and Contingent Assets	1 January 2020
Amendment to MFRS 138: Intangible Assets	1 January 2020
Amendments to IC Interpretation 12: Service Concession Arrangements	1 January 2020
Amendments to IC Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments	1 January 2020
Amendment to IC Interpretation 20: Stripping Costs in the Production Phase of Surface Mine	1 January 2020
Amendments to IC Interpretation 22: Foreign Currency Transactions and Advance Consideration	1 January 2020
Amendments to IC Interpretation 132: Intangible Assets - Web Site Costs	1 January 2020
MFRS 17: Insurance Contracts	1 January 2021
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be announced

The Group and the Bank plan to apply the abovementioned standards, interpretations and amendments from annual periods beginning 1 January 2020 onwards for those standards, interpretations and amendments, that are effective for annual periods beginning on or after 1 January 2020.

The Group and the Bank do not plan to apply MFRS 17 *Insurance Contract* that is effective for annual periods, begining on or after 1 January 2021 as it is not applicable to the Group and the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 SUBSIDIARIES AND BASIS OF CONSOLIDATION

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December 2019. The financial statements of the Bank's subsidiary are prepared at the same reporting date as the Bank, using consistent accounting policies to liken transactions and events in similar circumstances.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Bank obtains control and continues to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intra-group balances, income and expenses and unrealised gain and losses resulting from intra-group transactions are eliminated in full.

A change in the ownership profit of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts;
- Derecognises the carrying amount of any non-controlling profit in the former
- Derecognises the cumulative foreign exchange translation differences recorded
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained in the former subsidiary;
- Recognises any surplus or deficit in the profit or loss; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, if required in accordance with other MFRSs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 SUBSIDIARIES AND BASIS OF CONSOLIDATION (Continued)

(a) Basis of consolidation (Continued)

Subsidiaries are entities over which the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

(b) Investment in subsidiaries

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses 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.

In the Bank's separate financial statements, investment in subsidiaries is stated at cost less impairment losses. On disposal of such investment, the difference between the net disposal proceeds and their carrying amount is included in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 FINANCIAL INSTRUMENTS

Financial assets and liabilities, with the exception of financing and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Financing and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

(a) Financial assets

The Group and the Bank classify their financial assets in the following categories: at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition. Regular purchases and sales of financial assets are recognised on the trade date.

The classification of financial assets at initial recognition depend on the financial asset's contractual cash flow characteristics and business model for managing them.

With the exception of trade receivables that do not contain a significant financing component or for which the Group and the Bank has applied the practical expedient. The Group and the Bank initially measure a financial asset at its fair value plus, in the case of financial asset not at fair value through profit or loss, transaction costs.

Subsequent measurement

Trade receivables that do not contain a significant financing component or for which the Group and the Bank has applied the practical expedient are measured at the transaction price determined under MFRS 15.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets (Continued)

Subsequent measurement (Continued)

<u>Business model assessment</u>

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

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

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel.

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.

- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets (Continued)

The Solely Payments of Principal and Profit ("SPPP") test

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

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

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

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

For purpose of subsequent measurement, financial assets are classified in three categories:

(i) Financial assets at amortised cost (debt instruments)

This category is relevant to the Group and the Bank. The Group and the Bank measure financial assets at amortised cost if the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flow that are solely payments of principal and profit on the principal amount outstanding.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets (Continued)

(i) Financial assets at amortised cost (debt instruments) (Continued)

Financial assets at amortised cost are subsequently measured using the effective profit rate (EPR) and subject to impairment. Any gains or losses are recognised in profit or loss when the assets is derecognised, modified or impaired.

(ii) FVOCI (debt instrument)

The Group and the Bank measure financial assets at FVOCI if the following conditions are met:

- The financial asset is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.

- The contractual terms of the financial asset give rise on specified dates to cash flow that are solely payments of principal and profit on the principal amount outstanding.

For debt instrument at FVOCI, profit income, foreign exchange revaluation and impairment losses or reversals are recognised at amortised cost. The remaining fair value changes are recognised in other comprehensive income ("OCI"). Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

(iii) Financial assets at FVTPL

Financial assets at FVTPL are those that are held-for-trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under MFRS 9. Management designates an instrument at FVTPL upon initial recognition when one of the following criteria is met. Such designation is determined on an instrument-by-instrument basis:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets (Continued)

(iii) Financial assets at FVTPL (Continued)

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or

- The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets with cash flows that are not solely payment of principal and profit are classified and measured at FVTPL, irrespective of the business model.

Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

(b) Financial liabilities

Financial liabilities are initially recognised at fair value plus transaction costs and subsequently at the amortised cost using the effective profit method. The Group and the Bank do not have any financial liabilities classified at fair value through profit or loss. Financial liabilities are de-recognised when extinguished.

2.4 PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working conditions for its intended use.

Any item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or upon disposal. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 PROPERTY AND EQUIPMENT (Continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Subsequent to recognition, property and equipment except for assets in progress are stated at cost less accumulated depreciation and any accumulated impairment losses, if any.

Depreciation of the property and equipment is calculated to write down the cost of the property and equipment on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates of depreciation are as follows:

Furniture and fittings and office equipment
Renovations
Computer equipment
Motor vehicle

Assets in progress are not depreciated as these assets are not available for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each statement of financial position date.

At each date of statement of financial position, the Bank assess whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is written-down immediately to its recoverable amount. See accounting policy Note 2.10(e) on impairment of non-financial assets.

2.5 INVESTMENT PROPERTIES

Investment properties, comprising principally land and office buildings, are held for long term rental yields or for capital appreciation or both, and are not occupied by the Group or the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 INVESTMENT PROPERTIES (Continued)

Investment properties are stated at fair value, representing open-market value determined by registered independent valuer having appropriate recognised professional qualification. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group and the Bank uses alternative valuation methods such as recent prices of less active markets or discounted cash flow projections.

Changes in fair values are recorded in profit or loss in the year in which they arise. On disposal of an investment property, or when it is permanently withdrawn from use or no future economic benefits are expected from its disposal, it shall be de-recognised. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period of the retirement or upon disposal.

2.6 INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or infinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each statement of financial position date.

Costs associated with maintaining computer software programmes are recognised as expenses as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group and the Bank are recognised as intangible assets when the following criteria are met:

(i) It is technically feasible to complete the software product so that it will be available for use;

(ii) Management intends to complete the software product and use or sell it;

(iii) There is an ability to use or sell the software product;

(iv) It can be demonstrated how the software product will generate probable future economic benefits;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 INTANGIBLE ASSETS (Continued)

(v) Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and

(vi) The expenditure attributable to the software product during its development can be reliably measured.

Direct attributable costs that can be capitalised as part of the software product include software development employee costs and appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as expenses as incurred.

Computer software development costs are amortised over their finite useful lives of five years.

2.7 OTHER ASSETS

Other assets are carried at anticipated realisable values. Bad debts are written off when identified. See accounting policy Note 2.10 on impairment.

2.8 CASH AND SHORT-TERM FUNDS

Cash and short-term funds consist of cash and bank balances and short-term deposits with original maturities of less than one month from the date of acquisition or placement.

2.9 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL

Deposits and placements with banks and other financial institutions consist of placement with original maturities of more than one month from the date of acquisition or placement.

2.10 IMPAIRMENT

(a) Financial assets

Under MFRS 9, the Bank records the allowance for expected credit losses ("ECL") for all financings and other debt financial assets not held at FVTPL, together with financing commitments and financial guarantee contracts, in this section all referred to as ‘financial instruments’ using the foward looking ECL approach. Equity instruments are not subject to impairment under MFRS 9. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or 'LTECL'), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months’ expected credit loss ("12m ECL").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 IMPAIRMENT (Continued)

(a) Financial assets (Continued)

The 12m ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12m ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

(b) The calculation of ECLs

The Bank calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the Effective Profit Rate (EPR). A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- Probability of Default ("PD") - PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

- Exposure at Default ("EAD") - EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 IMPAIRMENT (Continued)

(b) The calculation of ECLs (continued)

- Loss Given Default ("LGD") - LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the bank would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Bank considers three scenarios (a base case, rosy and worst). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted financings are expected to be recovered, including the probability that the financings will cure and the value of collateral or the amount that might be received for selling the asset.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

<u>Stage 1</u>
The 12m ECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12m ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EPR. This calculation is made for each of the three scenarios, as explained above.

<u>Stage 2</u>
When a financing has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EPR.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 IMPAIRMENT (Continued)

(b) The calculation of ECLs (continued)

Stage 3
For financing considered credit-impaired, the bank recognises the lifetime expected credit losses for these financing.

(c) Debt instruments measured at FVOCI

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

(d) Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- Malaysia Real GDP (Annual YOY %)
- Malaysia CPI YOY 2010=100
- Generic 1st Crude oil, Brent
- Malaysia Overnight Policy Rate Index
- FTSE Bursa Malaysia KLCI Index
- Bank Negara Malaysia KLIBOR Interbank Offered Rate Fixing 3 Month
- Malaysia Gross National Income at Current Prices Index
- Malaysia PPI Goods in Domestic Economy 2005=100 YOY
- United States Dollar/ Malaysia Ringgit Cross
- Malaysia Quarterly Unemployment Rate (% of Labour Force)
- Malaysia House Price Index Annual Index YOY
- Bursa Malaysia Industrial Production index
- Total manufacturing Salaries wages

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 IMPAIRMENT (Continued)

(e) Non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there is separately identifiable cash flow (cash generating units).

The recoverable amount is the higher of a non-financial asset's 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. An impairment loss is recognised for the amount by which the carrying amount of the non-financial asset exceeds its recoverable amount. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the income statement. Any subsequent increase in recoverable amount is recognised in the profit or loss.

2.11 PROVISIONS

Provisions are recognised when all of the following conditions have been met:

(a) The Group and the Bank has a present legal and constructive obligation as a result of past events;

(b) It is probable that an outflow of reserves will be required to settle the obligation; and

(c) A reliable estimate of the amount can be made.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 OTHER LIABILITIES

Other liabilities are stated at cost which is the fair value of the consideration expected to be paid in future for the goods and services received.

2.13 EMPLOYEE BENEFITS

(a) Short term employee benefits.

Wages, salaries, bonuses, paid annual leave and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group and the Bank.

A provision is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(b) Defined contribution plans

A defined contribution plan is a pension plan under which the Bank pays fixed contributions to the national pension scheme, Employees' Provident Fund ("EPF"). The Group and the Bank's contributions to EPF are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Bank has no further payment obligations.

2.14 INCOME TAX

(a) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 INCOME TAX (Continued)

(b) Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets or liabilities and the carrying amount of the asset or liability as reported in the financial statements. It reflects the manner in which the Group and the Bank expects to recover the carrying value of the asset or settle the carrying value of the liability.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax credits and unused tax losses can be utilised.

Deferred tax is determined using tax rate (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.15 ZAKAT

Zakat represents business zakat payable by the Bank to comply with the principles of Shariah and as approved by the Shariah Advisory Council. The Bank only pays zakat on its business and does not pay zakat on behalf of depositors or shareholders. The zakat provision is borne by the Bank’s holding company.

2.16 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

The financial statements of each of the Group's and the Bank's entities are measured using the currency of the primary economic enviroment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RInggit Malaysia, which is the Group's and theBank's functional and presentation currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 FOREIGN CURRENCY TRANSLATION (Continued)

(b) Transactions and balances

In preparing the financial statements of the Group and the Bank, transactions in currencies other than the Group's functional currency ("foreign currencies") are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange gains and losses resulting from the settlement of such transaction and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

2.17 CONTINGENT LIABILITIES AND ASSETS

The Group and the Bank does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group and the Bank or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrences of one or more uncertain future events beyond the control of the Group and the Bank. The Group and the Bank do not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

2.18 EQUITY

Ordinary shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Cost directly attributable to the issuance of new equity shares are taken to equity as a deduction from the proceeds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 INCOME RECOGNITION

(a) Financing income

Income from financing and receivables are recognised in the income statement using the effective profit method. The effective profit rate ("EPR") is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset. The calculation of EPR includes all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EPR.

Murabahah income is recognised on EPR basis over the period of the contract based on the principal amounts outstanding.

(b) Fee and commission income

The Group and the Bank earn fee income from a diverse range of services they provide to its customers as follows:

(i) Fee income earned from provision of services

Income earned from the provision of services are recognised as revenue over the period in which the services are provided.

(ii) Fee income earned on the completion of contractual arrangements

Income earned on the completion of contractual arrangements is recognised as revenue when the performance obligation is completed.

Fee and commission income can be divided into the following categories:

(1) Service charges

Income earned on the services provided to retail and corporate customers, including account management and various transaction - based services, such as income from banking services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 INCOME RECOGNITION (Continued)

(b) Fee and commission income (Continued)

(ii) Fee income earned on the completion of contractual arrangements

(2) Commission received

Income earned from financing arrangement, management and participation fees, underwriting and brokerage fees are recognised as income based on the completion of performance obligations.

(3) Agency fees

Agency fees on services and facilities extended to customers are recognised on inception of such transaction.

(c) Contract liability

Contract liability or deferred income is the obligation to transfer services to the customer for which the Group and the Bank has received consideration from the customer. Revenue is recognised as and when the performance obligations are met or completed.

(d) Rental income

Income from Ijarah rental is recognised based on contractual agreement.

2.20 EXPENSES

Expenses are recognised when it is probable that the decrease in future economic benefits related to that decrease in asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably. Expenses that may arise in the course of regular activities of the Group and the Bank include among others the operating expenses on the Group and the Bank's operations.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements involved making certain estimates, assumptions and judgements that affect the accounting policies applied and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates and assumptions.

The measurement of impairment losses under MFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

3.1 JUDGEMENTS

In the process of applying the Group's and the Bank's accounting policies, management has made the following judgements which has the most significant effect and the amounts recognised in the financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

3.1 JUDGEMENTS (Continued)

(i) Impairment assessment on financing and advances

The Group and the Bank assess financing and advances at each reporting date to assess whether an impairment loss should be recorded. Whilst management's judgement is guided by the relevant BNM guidelines, judgement is made about the future and other key factors in respect of the recovery of the financing and advances such as obligor's financial situation and the net realisable value of the collateral.

(ii) Impairment assessment on financial investments at amortised cost

The Group and the Bank's assessment on impairment on financial investments at amortised cost at each reporting date incorporates forward-looking and historical, current and forecasted information into ECL estimation based on indicators such as significant financial difficulties of the issuer or obligors and deterioration of the credit quality of the issuers or obligors.

(iii) Determining the lease term of contracts with renewal and termination options - Group and the Bank as lessee.

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

3.2 ESTIMATES

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimate is revised and in any future periods affected. Significant areas of estimation, uncertainty and critical judgements used in applying accounting policies that have significant effect on the amount recognised in the financial statements include the following:

(i) Allowance for impairment on financing and advances

Management makes certain assumptions to estimate the allowance for impairment on financing and advances.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

3.2 ESTIMATES (Continued)

(i) Allowance for impairment on financing and advances (Continued)

Amongst factors considered are the Group’s and the Bank’s aggregate exposure to the obligor, the net realisable value of the underlying collateral value, the viability of the customer’s business model and the capacity to generate sufficient cash flow to service debt obligations and the aggregate amount and ranking of all other creditor claims. The actual amount of the future cash flows and their timing may differ from the estimates used by management and consequently may cause actual losses to differ from the impairment made.

Financing and advances that have been assessed individually but for which no impairment is required and all individually insignificant financing and advances are then assessed collectively, in groups of assets with similar credit risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects of which are not yet evident. The collective assessment takes account of data from the financing and advances (such as credit quality, levels of arrears, credit utilisation, financing to collateral ratios etc.) and judgements on the effect of concentrations of risks (such as the performance of different individual groups).

(ii) Valuation of investment properties

The measurement of the fair value for investment properties is arrived at by reference to market evidence of transaction prices and physical external inspection of the properties and is performed by a professional independent valuer.

(iii) Deferred taxes

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

In determining the Group's and the Bank's tax charge for the year, it involves estimation and judgement, which includes interpretation of local tax law and an assessment of whether the tax authority will accept the position taken. The Group and the Bank provide for current tax liabilities at the best estimate based on all available evidence and the amount that is expected to be paid to the tax authority where an outflow is probable.

4. CASH AND SHORT-TERM FUNDS

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Cash and bank balances with banks and other financial institutions	58,120	48,651
Money at call and deposit placements with licensed banks with contractual maturity of less than one month	179,109	198,616
	237,229	247,267

5. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

The Group and Bank's weighted average effective profit rates ("WAEPR") of deposits and the average maturity of deposits as at 31 December were as follows:

	WAEPR (%p.a)		Average Maturity (Days)	
	2019	**2018**	**2019**	**2018**
Foreign financial institutions	3.19	2.82	367	365
Money at call and deposit placements with licensed banks with contractual maturity of less than one month	2.66	2.71	14	18

6. DERIVATIVE ASSETS

Group and Bank	Notional Amount	Fair Value Assets	Liabilities
	RM'000	RM'000	RM'000
2019			
Foreign currency forward contract	2,118	34	-
2018			
Foreign currency forward contract	-	-	-

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

7. FINANCIAL INVESTMENT AT AMORTISED COST

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
At amortised cost		
Unquoted :		
Islamic government securities in Malaysia	725,856	1,266,464
Islamic private debt securities in Malaysia	18,321	34,609
Cagamas sukuk	-	236,042
	744,177	1,537,115
Expected credit loss ("ECL")	(51)	(6,867)
	744,126	1,530,248

Movement in ECL

	Stage 1 ECL	**Stage 2 ECL**	**Stage 3 ECL**	**Total**
	RM'000	RM'000	RM'000	RM'000
At 1 January 2019	14	6,853	-	6,867
Changes due to				
Transfer to Stage 1	6,853	(6,853)	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
New financial assets originated	-	-	-	-
Allowance written back, net	(6,816)	-	-	(6,816)
Closing balance	51	-	-	51

Movement in ECL

	Stage 1 ECL	**Stage 2 ECL**	**Stage 3 ECL**	**Total**
	RM'000	RM'000	RM'000	RM'000
At 1 January	-	-	-	-
Effects of adoption of	-	-	-	
MFRS 9 (Note 2.1)	-	19,979	-	19,979
Changes due to	-	-	-	-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
New financial assets originated	14	-	-	14
Allowance written back, net	-	(13,126)	-	(13,126)
Closing balance	14	6,853	-	6,867

8. FINANCIAL INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
At fair value		
Quoted :		
Government securities and treasury bills:		
Islamic government securities in Malaysia	313,663	-
Total Financial Investments at FVOCI	313,663	-

9. FINANCING AND ADVANCES

(a) Financing and advances analysed by types and Shariah contracts are as follows:

	Group and Bank 2019		
	Murabahah	**Qard**	**Total financing and advances**
At amortised cost	RM'000	RM'000	RM'000
Term financing:			
Corporate financing	3,816,008	-	3,816,008
Personal financing	530,055	-	530,055
Home financing	910,687	-	910,687
SME financing	24,921	-	24,921
Vehicle financing	46,314	-	46,314
Shop-house financing	27,224	-	27,224
Charge cards	-	341	341
Gross financing and advances	5,355,209	341	5,355,550
Less: ECL			
- Stage 1			(29,854)
- Stage 2			(25,045)
- Stage 3			(33,783)
Total net financing and advances			5,266,868

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

9. FINANCING AND ADVANCES (Continued)

(a) Financing and advances analysed by types and Shariah contracts are as follows: (Continued)

Movement in gross financing and advances

	Group and Bank			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RM'000	RM'000	RM'000	RM'000
Gross carrying amount at 1 January 2019	4,765,747	268,156	66,846	5,100,749
Transfer to Stage 1	58,538	(56,243)	(2,295)	-
Transfer to Stage 2	(73,519)	74,761	(1,242)	-
Transfer to Stage 3	(17,739)	(6,577)	24,316	-
Financing derecognised during the year (other than write-off)	(2,222,725)	(94,106)	(2,339)	(2,319,170)
Write-off	-	-	(19,899)	(19,899)
New financing originated or purchased	2,765,845	123,703	615	2,890,163
Changes to contractual cash flows (excluding derecognition)	(283,271)	(9,594)	(3,428)	(296,293)
Gross carrying amount as at 31 December 2019	4,992,876	300,100	62,574	5,355,550

	Group and Bank 2018		
	Murabahah	**Qard**	**Total financing and advances**
	RM'000	RM'000	RM'000
At amortised cost			
Term financing:			
Corporate financing	3,440,724	-	3,440,724
Personal financing	542,263	-	542,263
Home financing	995,486	-	995,486
SME financing	28,927	-	28,927
Vehicle financing	63,357	-	63,357
Shop-house financing	28,643	-	28,643
Charge cards		1,349	1,349
Gross financing and advances	5,099,400	1,349	5,100,749

9. FINANCING AND ADVANCES (Continued)

(a) Financing and advances analysed by types and Shariah contracts are as follows: (Continued)

	Group and Bank 2018		
	Murabahah	**Qard**	**Total financing and advances**
	RM'000	RM'000	RM'000
Less: ECL (Note 9(h))			
- Stage 1			(33,982)
- Stage 2			(32,150)
- Stage 3			(33,018)
Total net financing and advances			5,001,599

Movement in gross financing and advances

	Group and Bank 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RM'000	RM'000	RM'000	RM'000
Gross carrying amount at 1 January 2018	5,235,276	493,659	23,856	5,752,791
Transfer to Stage 1	21,033	(20,079)	(954)	-
Transfer to Stage 2	(98,062)	99,251	(1,189)	-
Transfer to Stage 3	(15,903)	(24,031)	39,934	-
Financing derecognised during the period (other than write-off)	(2,483,459)	(275,131)	(732)	(2,759,322)
Write off	-	-	(14,426)	(14,426)
New financing originated or purchased	2,345,550	38,494	20,136	2,404,180
Changes to contractual cash flows (excluding derecognition)	(238,688)	(44,007)	221	(282,474)
Gross carrying amount as at 31 December 2018	4,765,747	268,156	66,846	5,100,749

All gross financing and advances are within Malaysia.

9. FINANCING AND ADVANCES (Continued)

(b) The gross financing and advances analysed by type of customers are as follows:

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Domestic non-bank financial institutions	26,198	33,469
Domestic business enterprise	3,814,731	3,436,655
Individuals	1,500,354	1,613,825
Foreign entities	14,267	16,800
	5,355,550	5,100,749

(c) The gross financing and advances analysed by profit rate sensitivity are as follows:

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Fixed rate:		
Corporate financing	145,459	318,236
Personal financing	530,055	542,263
SME financing	24,920	28,927
Home financing	5,422	6,850
Vehicle financing	46,313	63,357
Charge card	341	1,349
Shop-house financing	509	662
Variable rate:		
Home financing	905,266	988,636
Shop-house financing	26,716	27,981
Corporate financing	3,670,550	3,122,488
	5,355,550	5,100,749

(d) The gross financing and advances analysed by maturity structure are as follows:

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Due within three months	1,736,949	1,681,691
More than three months to one year	805,363	526,194
More than one year to five years	582,944	519,664
More than five years	2,230,294	2,373,200
	5,355,550	5,100,749

9. FINANCING AND ADVANCES (Continued)

(e) The gross financing and advances analysed by economic purpose are as follows:

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Working capital	3,020,442	2,667,282
Purchase of property - residential property	914,028	1,035,275
Personal use	530,257	542,414
Purchase of land	180,140	195,590
Purchase of industrial buildings and factories	157,400	170,448
Others	127,282	72,688
Construction	87,043	73,490
Purchase of commercial complex	84,942	97,529
Purchase of other non-residential property	83,694	90,806
Purchase of fixed assets (excluding land and building)	82,209	62,340
Purchase of vehicles	45,991	62,787
Purchase of shophouses	41,781	28,751
Charge card	341	1,349
	5,355,550	5,100,749

(f) The gross financing and advances analysed by sectors are as follows:

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Household	1,515,008	1,631,399
Wholesale and retail trade	1,085,891	1,095,464
Manufacturing	939,397	833,801
Real estate, renting and business activities	800,121	668,944
Construction	640,086	574,019
Education, health and others	104,728	98,746
Agriculture, hunting and related service activities	80,069	68,875
Other business	69,447	11,274
Hotel and restaurant	40,541	20,535
Transportation	38,873	38,596
Finance intermediation	26,197	33,471
Mining and quarrying	15,192	25,625
	5,355,550	5,100,749

9. FINANCING AND ADVANCES (Continued)

(g) Movements in impaired financing and advances

	Group and Bank 2019 RM'000	2018 RM'000
At 1 January	66,846	23,856
Impaired during the financial year	46,910	102,176
Reclassified as non-impaired	(6,797)	(1,142)
Recoveries	(24,486)	(43,618)
Write-off	(19,899)	(14,426)
At 31 December Note 40(c)(vi)	62,574	66,846
Ratio of net impaired financing and advances to gross financing and advances less individual impairment allowance	0.54%	0.67%

Included in amount classified as impaired as at 31 December 2019 is profit accrued on impaired financing of RM2,383,000 (2018: RM1,835,000).

All impaired financing are within Malaysia.

` (h) Movements in ECL for financing and advances:

	Group and Bank 2019 RM'000	2018 RM'000
ECL/ Collective assessment allowance		
At 1 January		
Stage 1 ECL	33,982	30,773
Stage 2 ECL	32,150	53,612
Net stage 1 ECL (written back)/provided during the financial year Note 28(a)	(4,128)	3,209
Net stage 2 ECL written back during the financial year Note 28(a)	(7,105)	(21,462)
At 31 December Note 40(c)(vi)	54,899	66,132
As % of total gross financing and advances less individual impairment allowances	1.03%	1.30%

9. FINANCING AND ADVANCES (Continued)

(h) Movements in ECL for financing and advances (Continued):

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
ECL/ Individual assessment allowance		
At 1 January	33,018	10,510
Net stage 3 ECL provided during financial year Note 28(a)	14,456	35,013
Amount written off	(13,691)	(12,505)
At 31 December Note 40(c)(vi)	33,783	33,018

Group and Bank	**Stage 1** RM'000	**Stage 2** RM'000	**Stage 3** RM'000	**Total** RM'000
At 1 January 2019	33,982	32,150	33,018	99,150
Changes due to financial assets recognised in the opening balance:				
- Transfer to 12-month ECL	7,879	(6,255)	(1,624)	-
- Transfer to Lifetime ECL not credit impaired	(657)	1,526	(869)	-
- Transfer to Lifetime ECL credit impaired	(80)	(520)	600	-
Financing derecognised during (other than write-offs)	(6,568)	(2,656)	(1,565)	(10,789)
Write-offs	-	-	(13,691)	(13,691)
New financing originated	8,540	1,087	595	10,222
Changes due to change in credit ris	(11,285)	10,387	17,291	16,393
ECL (written back)/made, net	(1,957)	(10,674)	28	(12,603)
At 31 December 2019	29,854	25,045	33,783	88,682

(i) Impaired financing analysed by economic purpose are as follows:

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Working capital	42,496	48,142
Purchase of properties - residential property	12,059	11,882
Personal use	7,192	5,925
Purchase of vehicles	513	714
Charge card	314	183
	62,574	66,846

9. FINANCING AND ADVANCES (Continued)

(j) Impaired financing analysed by sector are as follows:

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Construction	32,303	31,782
Household	20,078	18,704
Other business	9,296	7,105
Manufacturing	897	9,255
	62,574	66,846

10. OTHER ASSETS

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	RM'000	RM'000	RM'000	RM'000
Other debtors and deposits	17,670	17,856	17,666	17,850
Sundry deposits	2,993	3,302	2,993	3,302
Less: Allowance for ECL				
(2018: Allowance for impairment)	(4,675)	(5,563)	(4,675)	(5,563)
	15,988	15,595	15,984	15,589
Allowance for ECL (2018:				
Allowance for impairment):				
As at 1 January	(5,563)	(4,971)	(5,563)	(4,971)
(Reversal)/additions	888	(592)	888	(592)
As at 31 December	(4,675)	(5,563)	(4,675)	(5,563)

11. STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

The non-profit bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act 2009, the amount of which is determined as set percentages to total eligible liabilities.

12. DEFERRED TAX ASSETS

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	RM'000	RM'000	RM'000	RM'000
At 1 January	53,194	63,944	53,194	63,944
Recognised in profit/loss (Note 33)	(3,698)	(10,750)	(3,697)	(10,750)
At 31 December	49,496	53,194	49,497	53,194

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 the deferred taxes relate to the same authority. The following amounts are presented after appropriate offsetting in the statement of financial position:

	Group		Bank	
	2019	**2018**	**2019**	**2018**
Group and Bank	RM'000	RM'000	RM'000	RM'000
Deferred tax assets	55,626	55,594	55,627	55,594
Deferred tax liabilities	(6,130)	(2,400)	(6,130)	(2,400)
	49,496	53,194	49,497	53,194

The movements in deferred tax assets and liabilities during the financial year comprise the following:

Deferred tax liabilities:

	Right-of-use assets	**Property and equipment**	**Investment properties**	**Total**
	RM'000	RM'000	RM'000	RM'000
Group and Bank				
At 1 January 2019	-	-	(2,400)	(2,400)
Recognised in profit/loss	(3,673)	(1,457)	1,400	(3,730)
At 31 December 2019	(3,673)	(1,457)	(1,000)	(6,130)
At 1 January 2018	-	-	(500)	(500)
Recognised in profit/loss	-	-	(1,900)	(1,900)
At 31 December 2018	-	-	(2,400)	(2,400)

12. DEFERRED TAX ASSETS (Continued)

The movements in deferred tax assets and liabilities during the financial year comprise the following (Continued):

Deferred tax assets:

	Lease Liabilities RM'000	Property and equipment RM'000	Provisions RM'000	Unutilised losses RM'000	Total RM'000
Group					
At 1 January 2019	-	1,944	13,789	39,861	55,594
Recognised in profit/loss	4,131	(1,944)	(3,494)	1,339	32
At 31 December 2019	4,131	-	10,295	41,200	55,626
At 1 January 2018	-	867	8,534	55,043	64,444
Recognised in profit/loss	-	1,077	5,255	(15,182)	(8,850)
At 31 December 2018	-	1,944	13,789	39,861	55,594

	Lease Liabilities RM'000	Property and equipment RM'000	Provisions RM'000	Unutilised losses RM'000	Total RM'000
Bank					
At 1 January 2019	-	1,944	13,789	39,861	55,594
Recognised in profit/loss	4,131	(1,944)	(3,493)	1,339	33
At 31 December 2019	4,131	-	10,296	41,200	55,627
At 1 January 2018	-	867	8,534	55,043	64,444
Recognised in profit/loss	-	1,077	5,255	(15,182)	(8,850)
At 31 December 2018	-	1,944	13,789	39,861	55,594

Unutilised tax losses

At the reporting date, the Group and the Bank has recognised deferred tax asset on the following temporary differences:

	Group and Bank 2019 RM'000	2018 RM'000
Unutilised tax losses	171,652	202,516

12. DEFERRED TAX ASSETS (Continued)

Deferred tax assets: (Continued)

The deferred tax assets have been recognised on the unutilised tax losses as at 31 December 2019 as the directors are of the view that the unutilised business losses of the Group are available for offsetting against future taxable profits of the respective entities within the Group. The unutilised business losses will be available for offsetting only for another 7 consecutive years from the Year of Assessment 2019, after which it will expire.

In evaluating the ability to realise the deferred tax assets, the Bank relies principally on forecasted taxable income using historical and projected future operating results and the reversal of existing temporary differences within a medium term horizon.

On 27 December 2018, the Finance Act 2018 was gazetted and section 10 of the Finance Act 2018 made amendments to Section 44 of Income Tax Act 1967 (“ITA”). Effective year of assessment (“YA”) 2019, the ability to carry forward the unabsorbed losses and unutilised allowances ia restricted to a maximum period of seven (7) consecutive years.

13. INVESTMENT IN A SUBSIDIARY

Name	Principal activity	Effective interest 2019	2018
Al Rajhi Nominee (Tempatan) Sdn Bhd ("ARNT") *	Nominee services	100%	100%

* The subsidiary was incorporated with a paid-up share capital of RM2. The income and expenses of the subsidiary are borne by the Bank. The auditors' remuneration borne by the Bank is RM4,500 (2018: RM4,500).

The names of the Directors of the subsidiary in office since the date of the last report and at the date of this report are as follows:

Zarir Bin Mohd Rawi @ Mohd Rauf
Shamsul Anuar Bin Dato’ Haji Mohd Rasep @ Haji Abdul Rashid
(appointed w.e.f. 24 April 2020)

14. INVESTMENT PROPERTIES

The Group's and Bank's investment properties are stated at fair value and consist of one hundred and twenty eight (128) units of stratified shop and office lots known as I-City at Shah Alam, Selangor, Malaysia.

As at 31 December 2019, the fair values of the properties are based on valuation carried out by an independent qualified valuer using the comparison method of valuation approach. The method of valuation seeks to determine the value of the property, being valued by comparing the investment properties with comparable properties which have been sold or are being offered for sale and making adjustments for factors which affect value such as location and accessibility, market conditions, size, shape and terrain of land, tenurial interest and restrictions if any, occupancy status, built-up area, building construction, finishes and services, age and condition of building and other relevant characteristics.

The following amounts have been reflected in the income statement:

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Rental income derived from investment properties (Note 27)	1,796	1,827
Direct operating expenses	(284)	(373)
Profit arising from investment properties carried at fair value	1,512	1,454

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

The fair value hierarchy disclosure for investment properties have been provided in Note 42.

The Group and the Bank have determined that the highest and best use of the investment property do not differ from its existing use.

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15. PROPERTY AND EQUIPMENT

Group and Bank	Renovations RM'000	Furniture and fittings RM'000	Office equipment RM'000	Computer equipment RM'000	Motor vehicle RM'000	Work-in-progress RM'000	Total RM'000
2019							
Cost							
At 1 January 2019	24,775	3,830	6,309	80,758	255	745	116,672
Additions	-	133	377	12,793	-	-	13,303
Capitalisation	-	-	-	745	-	(745)	-
Reclassification	(2,515)	1,819	640	(3,299)	-	-	(3,355)
Disposal	-	-	-	-	-	-	-
Write-off	(1,704)	(98)	(302)	(17,490)	-	-	(19,594)
At 31 December 2019	20,556	5,684	7,024	73,507	255	-	107,026
Accumulated depreciation							
At 1 January 2019	23,786	2,390	4,999	69,924	255	-	101,354
Charge for the financial year	247	159	201	5,580	-	-	6,187
Reclassification	(2,161)	1,464	690	236			229
Write-off	(1,704)	(75)	(253)	(17,490)	-	-	(19,522)
At 31 December 2019	20,168	3,938	5,637	58,250	255	-	88,248
Net book value							
At 31 December 2019	388	1,746	1,387	15,257	-	-	18,778

Included in property and equipment are the cost of fully depreciated assets which are still in use amounting to RM1,464,000 (2018: RM1,562,000).

15. PROPERTY AND EQUIPMENT (Continued)

	Renovations	Furniture and fittings	Office equipment	Computer equipment	Motor vehicle	Work-in-progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group and Bank							
2018							
Cost							
At 1 January 2018	30,900	3,487	7,002	78,616	255	-	120,260
Additions	110	776	280	4,424	-	745	6,335
Reclassification	(29)	12	17	-	-	-	-
Disposal	-	-	(5)	-	-	-	(5)
Write off	(6,206)	(445)	(985)	(2,282)	-	-	(9,918)
At 31 December 2018	24,775	3,830	6,309	80,758	255	745	116,672
Accumulated depreciation							
At 1 January 2018	29,653	2,494	5,644	66,647	255	-	104,693
Charge for the financial year	321	206	308	5,548	-	-	6,383
Disposal	-	-	(3)	-	-	-	(3)
Write off	(6,188)	(310)	(950)	(2,271)	-	-	(9,719)
At 31 December 2018	23,786	2,390	4,999	69,924	255	-	101,354
Net book value							
At 31 December 2018	989	1,440	1,310	10,834	-	745	15,318

16. INTANGIBLE ASSETS

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Computer software		
Cost		
At 1 January	161,817	148,223
Additions	15,673	4,502
Reclassification	2,610	-
Work-in-progress	1,083	9,131
Write-off	-	(39)
At 31 December	181,183	161,817
Accumulated amortisation		
At 1 January	131,495	120,152
Amortisation for the financial year	12,901	11,382
Reclassification	(229)	-
Write-off	-	(39)
At 31 December	144,167	131,495
Net book value	37,016	30,322

Included in intangible assets are the cost of fully depreciated assets which are still in use amounting to RM14,270,000 (2018: RM14,851,000)

17. RIGHT-OF-USE ASSETS

The Group and Bank have lease contracts from various items of bank premises, non-bank premises and other equipment used in it operations. Lease contracts generally have lease term between 2 and 6 years.

The Group's and Bank's obligation under its leases are secured by lessor's title to the leased assets. Generally the Group and Bank are restricted from signing and subleasing the leased assets.

17. RIGHT-OF-USE ASSETS (Continued)

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

	Group and Bank			
	Bank Premises	**Non Bank Premises**	**Other Equipments**	**Total**
	RM'000	RM'000	RM'000	RM'000
At 1 January 2019	-	-	-	-
MFRS 16 adjustment	21,733	691	-	22,424
At 1 January 2019, restated	21,733	691	-	22,424
Additions	-	-	860	860
Depreciation expenses	(7,347)	(466)	(167)	(7,981)
31 December 2019	14,386	225	692	15,303

MFRS 16 was adopted on 1 January 2019 and applied the modified retrospective approach.

The following are the amounts recognised in profit or loss:

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Depreciation expenses of right-of-use assets	7,981	-
Finance charges on lease liabilities	934	-
Expenses relating to short-term leases (included in office rental)	33	-
Expenses relating to leases of low-value assets (included in office rental)	2	-
Total amount recognised in profit or loss	8,950	-

The Group had total cash outflows for leases of RM8,444,000 in 2019 (2018 RM9,052,000). The Group also had non-cash addition to right-of-use assets and lease libilities of RM860,000 in 2019 (Nil in 2018).

18. DEPOSITS FROM CUSTOMERS

(i) By type of deposit

	Note	Group and Bank 2019 RM'000	Group and Bank 2018 RM'000
Savings deposits			
Qard		122,606	143,290
Commodity Murabahah		19,072	3,292
Demand deposits			
Qard		400,456	449,722
Mudharabah	(a)	254	117,372
Commodity Murabahah		414,959	86,538
Term deposit			
Commodity Murabahah		4,785,139	4,891,351
General investment account	(a)		
Mudharabah		486	7,158
Wakalah		2,141	13,580
Other deposits		380	389
		5,745,493	5,712,692

(a) In line with the Bank's IFSA Transition Plan as communicated to BNM, the Bank will continue to include the balances relating to its general investment account and demand deposits based on mudharabah principles, as part of deposits from customers. This is because these products were approved prior to the IFSA and the investment account guideline and are being solely used as securities against financing facility provided to the customers. The balances will continue to reduce untill full settlement of the related financing.

(ii) By type of customer

	Group and Bank 2019 RM'000	Group and Bank 2018 RM'000
Business enterprises	1,892,511	1,937,093
Government and statutory bodies	2,104,264	2,243,542
Non-bank financial institutions	1,201,737	925,083
Other entities	158,813	156,752
Individuals	302,784	366,113
Non resident	85,384	84,109
	5,745,493	5,712,692

18. DEPOSITS FROM CUSTOMERS (Continued)

(iii) By maturity structure

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Due within three months	4,256,304	3,232,069
More than three months to one year	1,364,417	2,409,425
More than one year to five years	124,772	71,198
	5,745,493	5,712,692

19. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Non-Mudharabah Funds		
Licensed Islamic banks	167,871	670,986
Licensed financial institutions	197,886	-
	365,757	670,986

20. OTHER LIABILITIES

	Note	Group		Bank	
		2019	**2018**	**2019**	**2018**
		RM'000	RM'000	RM'000	RM'000
Other accruals and payables	(i)	49,362	44,448	49,570	44,604
Amount due to holding company Note 35(b)	(ii)	-	21,278	-	21,278
Deferred income	(iii)	11,250	12,750	11,250	12,750
Profit reserve - Wakalah Invest		70	129	70	129
		60,682	78,605	60,890	78,761

20. OTHER LIABILITIES (Continued)

(i) Included in other accruals and payables is amount due to ARNT amounting to RM222,000 (2018: RM175,000).

(ii) Amount due to holding company is unsecured, profit-free and repayable on demand.

(iii) On 30 June 2017, the Group and the Bank entered into an agreement acting as an agent to solely market and distribute bancatakaful products to its customers for 10 years of which an exclusivity fee was paid in advance. The income is amortised over the period of the agreement when the customers receive and consume the benefits provided and is recognised as part of other income under "commission received" in Note 27.

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Deferred as at 1 January	12,750	14,250
Recognised as income in profit or loss	(1,500)	(1,500)
Deferred as at 31 December	11,250	12,750

No funds for purification by Shariah were distributed.

21. LEASE LIABILITIES

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

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
At 31 December 2018	-	-
MFRS 16 adjustment	23,862	-
At 1 January 2019, restated	23,862	-
Addition	860	-
Accretion of finance charges	934	-
Payments	(8,444)	-
31 December 2019	17,212	-

22. SUBORDINATED SUKUK

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Subordinated Sukuk (Note 35(b))	381,881	385,893

On 10 November 2014, the Bank issued SAR250.0 million nominal value of Subordinated Sukuk ("the Sukuk") under the Shariah principle of Mudharabah to its holding company. Pursuant to the Sukuk Programme Agreement and upon the term and subject to the conditions contained therein, the Bank had on 16 March 2017 issued a second tranche of the Sukuk amounting to SAR 100.0 million nominal value to its holding company. As per the initial agreements, the Sukuk have a tenure of 7 years from the issue date. However, in 2018, the holding company agreed to extend the tenure of the Sukuk for an additional 3 years. The Bank may redeem the Sukuk at an Optional Redemption Date which is on any date after the fifth (5th) year from the issue date of the Sukuk.

The Sukuk Programme qualifies as Tier-II capital of the Issuer as per BNM's Risk-Weighted Capital Adequacy Framework for Islamic Banks. The Sukuk issued under the Sukuk Programme will be based on the Shariah principles of Mudharabah (profit sharing) and Al-Wakalah (contract of agency).

The Sukuk is unsecured and the proceeds shall be utilised for the investment in Shariah compliant money market placements with banks in Kingdom of Saudi Arabia and other approved middle eastern countries. The profit sharing ratio between the Bank and its holding company is 80:20 respectively.

23. SHARE CAPITAL

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Issued and fully paid:		
Ordinary shares 1 January/31 December	1,000,000	1,000,000

There were no changes to the issued and paid-up capital of the Bank during the financial year, and the ordinary share do not have par value.

24. RESERVES

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	RM'000	RM'000	RM'000	RM'000
Non-distributable:				
Statutory reserve (i)	13,206	13,206	13,206	13,206
Regulatory reserve (ii)	4,500	-	4,500	-
Fair value through other comprehensive income reserve (i	(542)	-	(542)	-
Accumulated losses	(263,800)	(287,712)	(264,012)	(287,874)
	(246,636)	(274,506)	(246,848)	(274,668)

The nature and purpose of the reserves are as follows:

(i) The statutory reserve is maintained in compliance with BNM's guideline on Capital Funds for Islamic Banks issued on 1 July 2013, and is not distributable as cash dividends. On 3 May 2017, BNM issued the revised Capital Funds for Islamic Bank whereby the previous requirement to maintain a reserve fund is no longer required.

(ii) The regulatory reserve is maintained in accordance with BNM's policy on Financial Reporting For Islamic Banking Instituition to maintain, in aggregate loss allowance for non-credit impaired exposure and regulatory reserve of no less than 1% of total credit exposures, net of loss allowance for credit impaired exposures.

(iii) The fair value reserve includes the cumulative net changes in the fair value of financial investments, at FVOCI, until the financial investments are derecognised, where the fair value will be recycled to income statement.

Movements of the reserves are as follows:

	Group and Bank			
	Statutory reserve	**Regulatory reserve**	**Fair value of financial nvestments at FVOCI**	**Total**
	RM'000	RM'000	RM'000	RM'000
At 1 January	13,206	-	-	13,206
Transferred from total comprehensive income Regulatory Reserve for the financial year	-	4,500	-	4,500
Transferred from Fair value through other comprehensive income (FVOCI) Reserve for the financial year	-	-	(542)	(542)
At 31 December	13,206	4,500	(542)	17,164

25. REVENUE

Revenue of the Group and the Bank comprises financing income, fees and commission income and other income as derived from the banking operations.

26. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Income derived from investment of:		
(i) General investment deposits	131	415
(ii) Other deposits	356,153	403,838
	356,284	404,253

(i) Income derived from investment of general investment deposits

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Finance income and hibah		
Financing and advances	125	400
Money at call and deposit with financial institutions	6	15
Total finance income and hibah	131	415

(ii) Income derived from investment of other deposits

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Finance income and hibah		
Financing and advances	298,045	328,944
Financial investment at amortised cost	47,509	64,312
Financial investment held at fair value through other comprehensive income (FVOCI)	1,678	-
Money at call and deposit with financial institutions	8,920	10,578
Accretion of discount	1	4
	356,153	403,838

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27. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	RM'000	RM'000	RM'000	RM'000
Finance income and hibah				
Money at call and deposit with financial institutions	4,477	1,939	4,477	1,939
Other operating income				
- Net gain from foreign exchange translations				
- Realised	307	(840)	307	(840)
- Unrealised	3,046	3,845	3,046	3,845
- Rental income (Note 14)	1,796	1,827	1,796	1,827
- Wakalah fees on gold trading	922	1,399	922	1,399
- Loss on disposal of financial assets at FVTPL	-	(164)	-	(164)
- Gain on disposal of financial investment at amortised cost	21,888	97	21,888	97
- Others	1,034	333	1,034	333
Other income				
- Agency fees	356	418	-	-
- Service charges	3,158	3,345	3,158	3,345
- Commission received	9,624	7,370	9,624	7,370
	46,608	19,569	46,252	19,151

28. WRITEBACK FOR CREDIT LOSSES ON FINANCIAL ASSETS (Continued)

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Financing and advances:		
(a) Stage 1		
- provided during the financial year	(3,782)	(3,558)
- written back during the financial year	7,910	349
Stage 2		
- provided during the financial year	(3,756)	(2,731)
- written back during the financial year	10,861	24,193
Stage 3		
- provided during the financial year	(14,476)	(35,258)
- written back during the financial year	20	245
Total	(3,223)	(16,760)
(b) Bad debts on financing:		
- recovered during the financial year	8,929	8,458
- written off during the financial year	(762)	(658)
Total	8,167	7,800
(c) Financial investment at amortised cost		
- provided in the financial year	(37)	(16)
- written back	6,853	13,128
Total	6,816	13,112
(d) Impairment allowance for off balance sheet		
- provided in the financial year	-	(47)
- written back	133	83
Total	133	36
Grand total	11,893	4,188

29. INCOME ATTRIBUTABLE TO DEPOSITORS

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Deposits from customers		
- Non-Mudharabah	185,302	217,297
- Mudharabah	848	1,597
- Wakalah	125	806
	186,275	219,700
Deposits and placements of banks and other financial institutions		
- Non-Mudharabah	10,163	13,670
	196,438	233,370

30. PERSONNEL EXPENSES

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	RM'000	RM'000	RM'000	RM'000
Salaries and wages	73,309	70,191	73,243	70,119
Statutory contributions	16,280	14,206	16,265	14,192
Allowance and bonuses	25,261	17,339	25,248	17,319
Others	7,205	10,040	7,205	10,040
	122,055	111,776	121,961	111,670

31. OTHER OVERHEADS AND EXPENDITURES

		Group		Bank	
		2019	**2018**	**2019**	**2018**
		RM'000	RM'000	RM'000	RM'000
Marketing					
Advertisement and publicity		2,154	4,299	1,968	4,123
Establishment					
Office rental		35	8,766	35	8,766
Lease	17	7,981	-	7,981	-
Depreciation of property and equipment	15	6,187	6,383	6,187	6,383
Amortisation of intangible assets	16	12,901	11,382	12,901	11,382
expenses		5,032	3,925	5,032	3,925
Premises	2.1(vi)	4,480	4,653	4,480	4,653
Takaful and insurance		272	190	272	190
Finance charges on lease		934	-	934	-
General expenses					
Auditors' remuneration:					
Statutory audit		284	658	284	653
Regulatory related services		100	100	100	100
Other services		45	44	40	39
Takaful and insurance		1,001	1,067	1,001	1,067
Professional fees		4,975	6,566	4,975	6,566
Security service charges		2,480	2,725	2,480	2,725
Communication		1,143	1,351	1,143	1,351
Transaction and outsourcing fees		4,095	2,980	4,095	2,980
Printing and stationeries		422	512	422	512
Entertainment		174	195	174	195
Shariah expenses		1,009	944	1,009	944
Allowance for ECL		2,475	1,108	2,475	1,108
Non-Executive Directors' remuneration		457	440	457	440
Administration travel and transport		789	770	789	770
Licence fees, bank charges and stamp duty		534	435	534	435
Subscription fees		1,433	1,079	1,433	1,079
Others		1,336	(219)	1,332	(219)
		62,728	60,353	62,533	60,167

32. CEO, DIRECTORS AND SHARIAH BOARD MEMBERS' REMUNERATION

The remuneration attributable to the Group and the Bank during the financial year amounted to RM4,191,000 (2018: RM4,182,000).

The total remuneration of the directors of the Group and the Bank are as follows:

	2019			2018		
Group and Bank	**Fees**	**Salaries and/ or other emoluments***	**Total**	**Fees**	**Salaries and/ or other emoluments***	**Total**
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Chief Executive Officer:						
Chen Thien Yin	-	2,776	2,776	-	2,777	2,777
Non-Executive Directors:						
Ow Chee Hong	96	42	138	96	38	134
Muhammad Afaq Khan	135	36	171	135	38	173
Johari Bin Abdul Muid	96	42	138	96	38	134
Executive Directors:						
Stefano P. Bertamini **	-	-	-	-	-	-
Shariah Board Members:						
Prof. Dr Saleh Abdullah S. Al Lheidan	96	117	213	96	116	212
Assoc Prof Dr Azman Mohd Noor	90	117	207	90	116	206
Dr Mohammed Hael Ghilan Al - Madhagi	66	117	183	66	116	182
Mr Loqmanulhakim Bin Hussain	66	117	183	66	116	182
Mr Wan Rumaizi Wan Husin	66	117	183	66	116	182
Total	711	3,480	4,191	711	3,471	4,182

* Includes bonus, ex-gratia, EPF, fixed allowances, yearly allowances and attending allowances.

** Any fees and allowances incurred will be borne and paid directly by Al Rajhi Bank Saudi Arabia, the holding company of the Bank. During the current and previous financial years, there were no fees payable.

33. TAXATION

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	RM'000	RM'000	RM'000	RM'000
Tax expense for the financial year:				
- Malaysian income tax	17	33	-	-
Deferred tax:				
- Relating to origination of temporary differences	9,331	6,112	9,331	6,112
- Relating to increase in Malaysian RPGT rate	500	-	500	-
- (Over)/under provision in prior year	(6,134)	4,638	(6,134)	4,638
Sub-total	3,697	10,750	3,697	10,750
Total	3,714	10,783	3,697	10,750

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

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	RM'000	RM'000	RM'000	RM'000
Profit before zakat and taxation	33,564	22,511	33,497	22,385
Income tax using Malaysian tax rate of 24% (2018: 24%)	8,055	5,405	8,039	5,372
Tax effects from:				
- expense not deductible for tax purposes	1,293	745	1,292	745
- income not subjected to tax	-	(5)	-	(5)
- changes in RPGT rate	500	-	500	-
- (Over)/under provision of deferred tax in prior year	(6,134)	4,638	(6,134)	4,638
	3,714	10,783	3,697	10,750

33. TAXATION (Continued)

Effective from 1 January 2019, the RPGT rate had been revised from 5% to 10% on disposals of properties in the sixth and subsequent years of ownership. This is in line with the adjustment made in Budget 2019.

34. BASIC/DILUTED EARNINGS PER SHARE

The basic and diluted earnings per ordinary share is calculated by dividing the Group's profit after taxation for the financial year by the weighted average number of ordinary shares outstanding during the financial year.

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	RM'000	RM'000	RM'000	RM'000
Net profit for the financial year (RM'000)	29,850	11,728	29,800	11,635
Average shares issued during the year ('000)	1,000,000	1,000,000	1,000,000	1,000,000
Basic profit per share (sen)	2.99	1.17	2.98	1.16

There were no dilutive potential ordinary shares at the end of the financial year.

35. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS

(a) Related parties and relationships

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 Directors are of the opinion that all transactions below have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtained in transactions with unrelated parties.

35. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

(a) Related parties and relationships (Continued)

The related parties and their relationships with the Bank are as follows:

Related parties	Relationship
(i) Al Rajhi Banking and Investment Corporation, Saudi Joint Stock Company, Kingdom of Saudi Arabia	Holding company.
(ii) Key Management Personnel	Defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. The key management personnel of the Bank includes all Directors of the Bank and the Management Committee members of the Bank.

(b) Significant related party transactions and balances are as follows:

	Holding company RM'000	Subsidiary company RM'000	Key management personnel RM'000
Balances as at 31 December 2019			
Asset/(liabilities)			
Amount due from:			
- Financing and advances	-	-	2,402
Amount due to:			
- Current accounts - i	-	-	(140)
- Savings account - i	-	-	(200)
- Commodity Murabahah Term Deposit	(21,383)	-	-
- Subsidiary company (Note 20)	-	(222)	-
- Subordinated Sukuk (Note 22)	(381,881)	-	-
- Dividend payable on Subordinated Sukuk	(1,596)	-	-

35. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

(b) Significant related party transactions and balances are as follows (Continued):

	Holding company RM'000	**Subsidiary company** RM'000	**Key management personnel** RM'000
Transaction for financial year ended 31 December 2019			
Income/(expenses)			
Profit income from:			
- Financing and advances	-	-	113
- Deposits placements	16	-	-
Income attributable to depositors:			
- Dividend on Subordinated Sukuk	1,596	-	-
Short-term employee benefits:			
- Salary and other remuneration	-	-	(13,844)

	Holding company RM'000	**Subsidiary company** RM'000	**Key management personnel** RM'000
Balances as at 31 December 2018			
Asset/(liabilities)			
Amount due from:			
- Financing and advances	-	-	2,247
- Deposits placements	11,026	-	-
Amount due to:			
- Current accounts - i	-	-	(132)
- Savings account - i	-	-	(96)
- Commodity Murabahah Term Deposit	(13,241)	-	-
- Holdings company (Note 20)	(21,278)	-	-
- Subsidiary company (Note 20)	-	(175)	-
- Subordinated Sukuk (Note 22)	(385,893)	-	-
- Dividend payable on Subordinated Sukuk	(1,414)	-	-

35. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

(b) Significant related party transactions and balances are as follows (Continued):

	Holding company RM'000	**Subsidiary company** RM'000	**Key management personnel** RM'000
Transaction for financial year ended 31 December 2018 Income/(expenses)			
Profit income from:			
- Financing and advances	-	-	118
- Deposits placements	194	-	-
Income attributable to depositors:			
- Dividend on Subordinated Sukuk	1,414	-	-
Short-term employee benefits:			
- Salary and other remuneration	-	-	(12,646)

The total key management personnel compensation includes Chief Executive Officer/Managing Director's remuneration of which details are disclosed in Note 32.

36. COMMITMENTS AND CONTINGENCIES

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

The commitments and contingencies and the related risk-weighted exposures of the Group and the Bank as at the end of financial year are as follows:

	2019			2018		
	Principal amount RM'000	**Credit equivalent amount** RM'000	**Risk weighted amount** RM'000	**Principal amount** RM'000	**Credit equivalent amount** RM'000	**Risk weighted amount** RM'000
Group and Bank						
Transaction-related contingent items	86,397	43,198	43,198	70,662	35,331	35,331
Trade-related contingencies	691	138	138	3,580	716	716
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	1,190,241	238,029	230,534	1,742,964	348,568	322,230
- Maturity exceeding one year	103,824	51,909	52,006	95,435	47,689	47,080
Unutilised charge card lines	8,438	1,688	1,266	7,910	1,582	1,187
	1,389,591	334,962	327,142	1,920,551	433,886	406,544

The Credit Equivalent and Risk Weighted for the Group and the Bank are computed in accordance with BNM's CAFIB: Standardised Approach for Credit and Market Risk, and Basic Indicator Approach for Operational Risk (Basel II) respectively.

37. CAPITAL COMMITMENTS

Capital expenditure pertaining to the Group and the Bank as approved by Directors but not provided for in the financial statements is as follows:

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Authorised and contracted for:		
Property and equipment	10,611	10,239

38. CREDIT EXPOSURE ARISING FROM CREDIT TRANSACTIONS WITH CONNECTED PARTIES

	Group and Bank	
	2019	**2018**
Outstanding credit exposures with connected parties (RM'000)	11,295	10,115
Percentage of outstanding credit exposures to connected parties as proportion of capital base	1.0%	0.9%
Percentage of outstanding credit exposures to connected parties as proportion of total outstanding credit exposures	0.2%	0.1%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	0.0%	0.0%

The disclosure on Credit Transactions and Exposures with Connected Parties above is presented in accordance with paragraph 9.1 of BNM's revised Guidelines on Credit Transactions and Exposures with Connected Parties for Islamic Banks.

Based on these guidelines, a connected party refers to the following:

(i) Directors of the Bank and their close relatives;

(ii) Controlling shareholders' and their close relatives;

(iii) Executive officer, being member of management having authority and responsibility for planning, directing and/or controlling the activities of the Bank, and his close relatives;

39. CREDIT EXPOSURE ARISING FROM CREDIT TRANSACTIONS WITH CONNECTED PARTIES (Continued)

(iv) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;

(v) Firms, partnerships, companies or legal entities which control, or are controlled by any person listed in (i) to (iv) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiaries or entities controlled by them;

(vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and

(vii) Subsidiary of or an entity controlled by the Bank and its connected parties.

Credit transactions and exposures to connected parties as disclosed above includes the extension of credit facilities and/or off-balance sheet credit exposures such as guarantees, trade-related facilities and financing commitments.

The credit transaction with connected parties above are all transacted on arm’s length basis and on terms and conditions no more favourable than those entered into with other counterparties with similar circumstances and credit worthiness. Due care has been taken to ensure that the credit worthiness of the connected party is not less than that normally required of other persons.

40. FINANCIAL RISK MANAGEMENT

(a) Overview

The Group’s risk management practice seeks to ensure that adequate financial resources are available for the development of the Group’s businesses whilst managing its key areas of credit, market, liquidity and operational risks.

The Group’s overall risk management framework, including the risk governance and the risk management process are set out in the Risk Management section in the Directors' Report.

(b) Financial instrument by category

The table below provide an analysis of financial instruments categorised as follows:

i. Financing and receivables ("FR");
ii. Financial investments at amortised cost;
iii. Financial assets at fair value through other comprehensive income ("FVOCI"); and
iv. Other financial liabilities ("Other FL").

40. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial instrument by category (Continued)

Group	Carrying amount RM'000	FR RM'000	FVOCI RM'000	Amortised Cost RM'000	Other FL RM'000
2019					
Financial Assets					
Cash and short term funds	237,229	237,229	-	-	-
Deposits and placements with banks and other financial institutions	389,862	389,862	-	-	-
Derivative assets	34	-	-	34	-
Financing and advances	5,266,868	5,266,868	-	-	-
Financial investments at amortised cost	744,126	-	-	744,126	-
Financial investments at fair value through other comprehensive income (FVOCI)	313,663	-	313,663	-	-
Statutory deposit with BNM	135,900	135,900	-	-	-
Other assets	19,031	19,031	-	-	-
	7,106,713	6,048,890	313,663	744,160	-
Financial Liabilities					
Deposits from customers	5,745,493	-	-	-	5,745,493
Deposits and placements of banks and other financial institutions	365,757	-	-	-	365,757
Bills and acceptances payable	4,875	-	-	-	4,875
Other liabilities	62,848	-	-	-	62,848
Subordinated sukuk	381,881	-	-	-	381,881
	6,560,854	-	-	-	6,560,854

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40. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial instrument by category (Continued)

Group (Continued)	Carrying amount RM'000	FR RM'000	FVOCI RM'000	Amortised Cost RM'000	Other FL RM'000
2018					
Financial Assets					
Cash and short term funds	247,267	247,267	-	-	-
Deposits and placements with banks and other financial institutions	392,965	392,965	-	-	-
Financing and advances	5,001,599	5,001,599	-	-	-
Financial investments at amortised cost	1,530,248	-	-	1,530,248	-
Statutory deposit with BNM	187,000	187,000	-	-	-
Other assets	17,893	17,893	-	-	-
	7,376,972	5,846,724	-	1,530,248	-
Financial Liabilities					
Deposits from customers	5,712,692	-	-	-	5,712,692
Deposits and placements of banks and other financial institutions	670,986	-	-	-	670,986
Bills and acceptances payable	4,838	-	-	-	4,838
Other liabilities	62,065	-	-	-	62,065
Subordinated sukuk	385,893	-	-	-	385,893
	6,836,474	-	-	-	6,836,474

40. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial instrument by category (Continued)

Bank	**Carrying amount** RM'000	**FR** RM'000	**FVOCI** RM'000	**Amortised Cost** RM'000	**Other FL** RM'000
2019					
Financial Assets					
Cash and short term funds	237,229	237,229	-	-	-
Deposits and placements with banks and other financial institutions	389,862	389,862	-	-	-
Derivative assets	34	-	-	34	-
Financing and advances	5,266,868	5,266,868	-	-	-
Financial investments at amortised cost	744,126	-	-	744,126	-
Financial investments at fair value through other comprehensive income (FVOCI)	313,663	-	313,663	-	
Statutory deposit with BNM	135,900	135,900	-	-	-
Other assets	19,031	19,031	-	-	-
	7,106,713	6,048,890	313,663	744,160	-
Financial Liabilities					
Deposits from customers	5,745,493	-	-	-	5,745,493
Deposits and placements of banks and other financial institutions	365,757	-	-	-	365,757
Bills and acceptances payable	4,875	-	-	-	4,875
Other liabilities	63,085	-	-	-	63,085
Subordinated sukuk	381,881	-	-	-	381,881
	6,561,091	-	-	-	6,561,091

40. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial instrument by category (Continued)

Bank (Continued)	Carrying amount RM'000	FR RM'000	FVTPL RM'000	Amortised Cost RM'000	Other FL RM'000
2018					
Financial Assets					
Cash and short term funds	247,267	247,267	-	-	-
Deposits and placements with banks and other financial institutions	392,965	392,965	-	-	-
Financing and advances	5,001,599	5,001,599	-	-	-
Financial investments at amortised cost	1,530,248	-	-	1,530,248	-
Statutory deposits with BNM	187,000	187,000	-	-	-
Other assets	17,887	17,887	-	-	-
	7,376,966	5,846,718	-	1,530,248	-
Financial Liabilities					
Deposits from customers	5,712,692	-	-	-	5,712,692
Deposits and placements of banks and other financial institutions	670,986	-	-	-	670,986
Bills and acceptances payable	4,838	-	-	-	4,838
Other liabilities	51,877	-	-	-	51,877
Subordinated sukuk	385,893	-	-	-	385,893
	6,826,286	-	-	-	6,826,286

40. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit Risk Management

(i) Credit Risk management overview

Credit risk is the potential loss of revenue as a result of defaults by borrowers or counterparties through the Group's and the Bank's financing, trading and investing activities. The primary exposure to credit risk arises through its financing and advances as well as financial transactions with counterparties including interbank money market activities and debt securities. The amount of credit exposure is represented by the carrying amounts of the assets in the statement of financial position.

The management of credit risk is governed by credit policies and guidelines documenting the financing standards, discretionary power for financing approval, credit risk rating, collateral and valuation, review, and restructuring of problematic and delinquent financing. The management of counterparties are guided by counterparty limit, counterparty ratings, tenure and types of permissible transactions and these are subject to regular review.

(ii) Maximum exposure to credit risk

The maximum exposure to credit risk at the statement of financial position date is the amount on the statement of financial position as well as off balance sheet financial instruments, without taking into account of any collateral held or credit enhancements. For contingent liabilities, the maximum exposure to credit risk is the maximum that the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

40. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit Risk Management (Continued)

(ii) Maximum exposure to credit risk (Continued)

The table below shows the maximum exposure to credit risk of the Group and the Bank:

Group	**2019** RM'000	**2018** RM'000
Credit risk exposure relating to on-balance sheet assets:		
Cash and short term funds	237,229	247,267
Deposits and placements with banks and other financial institutions	389,862	392,965
Derivatives assets	34	-
Financial investments at amortised cost	744,126	1,530,248
Financial investments at fair value through other comprehensive income (FVOCI)	313,663	-
Net financing and advances	5,266,868	5,001,599
Statutory deposit with BNM	135,900	187,000
Other assets	19,031	17,893
	7,106,713	7,376,972
Credit risk exposure of off-balance sheet items:		
Commitment and contingencies	1,389,591	1,920,551
Total maximum credit risk exposure	8,496,304	9,297,523

Bank		
Credit risk exposure relating to on-balance sheet assets:		
Cash and short term funds	237,229	247,267
Deposits and placements with banks and other		-
financial institutions	389,862	392,965
Derivatives assets	34	-
Financial investments at amortised cost	744,126	1,530,248
Financial investments at fair value through other comprehensive income (FVOCI)	313,663	-
Net financing and advances	5,266,868	5,001,599
Statutory deposit with BNM	135,900	187,000
Other assets	19,031	17,887
	7,106,713	7,376,966
Credit risk exposure of off-balance sheet items:		
Commitment and contingencies	1,389,591	1,920,551
Total maximum credit risk exposure	8,496,304	9,297,517

40. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit Risk Management (Continued)

(ii) Maximum exposure to credit risk (Continued)

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for financing and advances as at 31 December 2019 for the Bank is 60.4% (2018: 59.8%). The financial effect of collateral held for the other financial assets is not significant.

(iii) Credit Risk Concentration

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. The Group analysed the credit risk concentration by industry and geographic segments in which the customer is engaged.

40. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit Risk Management (Continued)

(iii) Credit Risk Concentration (Continued)

(a) Credit Risk - Credit Risk Concentration - By Industry Analysis (Continued)

Group	Cash and Short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Derivatives assets RM'000	Financial investments at amortised cost RM'000	Financial investments at FVOCI RM'000	Net financing and advances RM'000	Statutory deposit with BNM RM'000	Other assets RM'000	Total RM'000
2019									
Household	-	-	-	-	-	1,485,265	-	-	1,485,265
Wholesale and retail trade	-	-	34	18,270	-	1,080,172	-	-	1,098,476
Real estate, renting and business activities	-	-	-	-	-	780,908	-	-	780,908
Manufacturing	-	-	-	-	-	931,737	-	-	931,737
Construction	-	-	-	-	-	615,200	-	-	615,200
Finance intermediation	237,229	389,862	-	725,856	313,663	26,197	135,900	-	1,828,707
Education, health and others	-	-	-	-	-	104,102	-	-	104,102
Agriculture, hunting and related service activities	-	-	-	-	-	79,886	-	-	79,886
Hotel and restaurant	-	-	-	-	-	40,541	-	-	40,541
Transportation	-	-	-	-	-	38,692	-	-	38,692
Mining and quarrying	-	-	-	-	-	14,721	-	-	14,721
Other business	-	-	-	-	-	69,447	-	19,031	88,478
Total	237,229	389,862	34	744,126	313,663	5,266,868	135,900	19,031	7,106,713

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40. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit Risk Management (Continued)

(iii) Credit Risk Concentration (Continued)

(a) Credit Risk - Credit Risk Concentration - By Industry Analysis (Continued)

Bank	Cash and Short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Derivatives assets RM'000	Financial investments at amortised cost RM'000	Financial investments at FVOCI RM'000	Net financing and advances RM'000	Statutory deposit with BNM RM'000	Other assets RM'000	Total RM'000
2019									
Household	-	-	-	-	-	1,485,265	-	-	1,485,265
Wholesale and retail trade	-	-	34	18,270	-	1,080,172	-	-	1,098,475
Real estate, renting and business activities	-	-	-	-	-	780,908	-	-	780,908
Manufacturing	-	-	-	-	-	931,737	-	-	931,737
Construction	-	-	-	-	-	615,200	-	-	615,200
Finance intermediation	237,229	389,862	-	725,856	313,663	26,197	135,900	-	1,828,707
Education, health and others	-	-	-	-	-	104,102	-	-	104,102
Agriculture, hunting and related service activities	-	-	-	-	-	79,886	-	-	79,886
Hotel and restaurant	-	-	-	-	-	40,541	-	-	40,541
Transportation	-	-	-	-	-	38,692	-	-	38,692
Mining and quarrying	-	-	-	-	-	14,721	-	-	14,721
Other business	-	-	-	-	-	69,447	-	19,031	88,476
Total	237,229	389,862	34	744,126	313,663	5,266,868	135,900	19,031	7,106,713

40. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit Risk Management (Continued)

(iii) Credit Risk Concentration (Continued)

(a) Credit Risk - Credit Risk Concentration - By Industry Analysis (Continued)

Group	Cash and Short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Derivatives assets RM'000	Financial investments at amortised cost RM'000	Financial investments at FVOCI RM'000	Net financing and advances RM'000	Statutory deposit with BNM RM'000	Other assets RM'000	Total RM'000
2018									
Household	-	-	-	-	-	1,610,850	-	-	1,610,850
Wholesale & Retail trade	-	-	-	27,755	-	1,083,243	-	-	1,110,998
Real estate, renting and business activities	-	-	-	-	-	645,682	-	-	645,682
Manufacturing	-	-	-	-	-	821,102	-	-	821,102
Construction	-	-	-	-	-	548,101	-	-	548,101
Finance intermediation	247,267	392,965	-	1,502,493	-	33,471	187,000	-	2,363,196
Education, Health and Others	-	-	-	-	-	97,801	-	-	97,801
Agriculture, hunting and related service activities	-	-	-	-	-	66,613	-	-	66,613
Hotel & restaurant	-	-	-	-	-	20,535	-	-	20,535
Transportation	-	-	-	-	-	38,447	-	-	38,447
Mining and Quarrying	-	-	-	-	-	24,480	-	-	24,480
Other business	-	-	-	-	-	11,274	-	17,893	29,167
Total	247,267	392,965	-	1,530,248	-	5,001,599	187,000	17,893	7,376,972

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

40 FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit Risk Management (Continued)

(iii) Credit Risk Concentration (Continued)

(a) Credit Risk - Credit Risk Concentration - By Industry Analysis (Continued)

Bank	**Cash and Short term funds** RM'000	**Deposits and placements with banks and other financial institutions** RM'000	**Derivatives assets** RM'000	**Financial investments at amortised cost** RM'000	**Financial investments at FVOCI** RM'000	**Net financing and advances** RM'000	**Statutory deposit with BNM** RM'000	**Other assets** RM'000	**Total** RM'000
2018									
Household	-	-	-	-	-	1,610,850	-	-	1,610,850
Wholesale & retail trade	-	-	-	27,755	-	1,083,243	-	-	1,110,998
Real estate, renting and business activities	-	-	-	-	-	645,682	-	-	645,682
Manufacturing	-	-	-	-	-	821,102	-	-	821,102
Construction	-	-	-	-	-	548,101	-	-	548,101
Finance intermediation	247,267	392,965	-	1,502,493	-	33,471	187,000		2,363,196
Education, health and others	-	-	-	-	-	97,801	-	-	97,801
Agriculture, hunting and related service activities	-	-	-	-	-	66,613	-	-	66,613
Hotel and restaurant	-	-	-	-	-	20,535	-	-	20,535
Transportation	-	-	-	-	-	38,447	-	-	38,447
Mining and quarrying	-	-	-	-	-	24,480	-	-	24,480
Other business	-	-	-	-	-	11,274	-	17,887	29,161
Total	247,267	392,965	-	1,530,248	-	5,001,599	187,000	17,887	7,376,966

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

40. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit Risk Management (Continued)

(iii) Credit Risk Concentration (Continued)

(b) Credit Risk - Credit Risk Concentration - By Geographical Analysis

	Malaysia	Saudi Arabia	Other countries	Total
	RM'000	RM'000	RM'000	RM'000
2019				
Group and Bank				
Cash and short term funds	205,921	7,675	23,633	237,229
Deposits and placement with banks and other financial instituitions	-	-	389,862	389,862
Derivatives assets	34	-	-	34
Financial investments at amortised cost	744,126	-	-	744,126
Financial investments at fair value through other comprehensive income (FVOCI)	313,663	-	-	313,663
Net financing and advances	5,266,868	-	-	5,266,868
Statutory deposits with BNM	135,900	-	-	135,900
Other assets	19,031	-	-	19,031
Total	6,685,543	7,675	413,495	7,106,713

40. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit Risk Management (Continued)

(iii) Credit Risk Concentration (Continued)

(b) Credit Risk - Credit Risk Concentration - By Geographical Analysis

	Malaysia RM'000	Saudi Arabia RM'000	Other countries RM'000	Total RM'000
2018				
Group and Bank				
Cash and short term funds	204,370	21,776	21,121	247,267
Deposits and placement with banks and other financial instituitions	-	392,965	-	392,965
Financial investments at amortised cost	1,530,248	-	-	1,530,248
Net financing and advances	5,001,599	-	-	5,001,599
Statutory deposits with BNM	187,000	-	-	187,000
Other assets	17,893	-	-	17,893
Total	6,941,110	414,741	21,121	7,376,972

(iv) Collateral

The main types of collateral obtained by the Group and the Bank to mitigate credit risk are as follows:

- for home financing: mortgages over the properties
- for shop-house financing: charges over the properties being financed
- for vehicle financing: charges over the vehicles financed
- for corporate and SME financing: charges over business assets such as premises, or deposits.

40. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit Risk Management (Continued)

(v) Credit quality of financial assets

For the purposes of disclosure relating to MFRS 7, all financial assets are categorised into the following:

- neither past due nor impaired
- past due but not impaired
- impaired

The Bank assesses credit quality of financing and advances using internal rating techniques tailored to the various categories of products and counterparties. These techniques have been developed internally and combine statistical analysis with credit officers' judgment.

Internal ratings	Description
- Investment grade	Strong(est) credit quality which associated with general standards of investment grade as per defined by international rating agency such as Standard and Poor's ("S&P"), Moody's, Fitch, and Japan Credit Rating Agency ("JCR").
- Non-Investment grade	Weaker credit quality which associated with general standards of non-investment grade as per defined by international rating agency such as Standard and Poor's ("S&P"), Moody's, Fitch, and Japan Credit Rating Agency ("JCR").

The credit quality of financial assets other than financing and advances are determined based on the ratings of counterparties as defined by Moody's or equivalent ratings of other international rating agencies as defined below:

- AAA to AA3
- A1 to A3
- Baa1 to Baa3
- P1 to P3
- Non rated

40. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit Risk Management (Continued)

(vi) Credit quality of financial assets - net financing and advances

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Neither past due nor impaired	5,133,884	4,826,151
Past due but not impaired	159,092	207,752
Impaired (Note 9 (g))	62,574	66,846
Gross financing and advances	5,355,550	5,100,749
Less:		
Collective impairment allowance (Note 9 (h))	(54,899)	(66,132)
Individual impairment allowance (Note 9 (h))	(33,783)	(33,018)
Net financing and advances	5,266,868	5,001,599

The ageing of financing and advances as at the end of the financial year are as follows:

	Group and Bank	
	2019	**2018**
	RM'000	RM'000
Current	5,133,884	4,826,151
Past due 1-30 days	110,911	139,109
Past due 31-90 days	48,181	68,643
Past due more than 90 days (Note 9 (g))	62,574	66,846
	5,355,550	5,100,749
Collective impairment (Note 9 (h))	(54,899)	(66,132)
Individual impairments (Note 9 (h))	(33,783)	(33,018)
Net financing and advances	5,266,868	5,001,599

40. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit Risk Management (Continued)

(vii) Credit quality of financial assets - securities portfolio and other financial assets

	Cash and Short term funds RM'000	Deposits and placement of banks and other financial institutions RM'000	Hedging financial instruments RM'000	Financial assets/ investments portfolios RM'000	Statutory deposit with BNM RM'000	Other assets RM'000
2019						
Group and Bank						
Neither past due nor impaired	237,229	389,862	34	1,057,789	135,900	19,031
2018						
Group and Bank						
Neither past due nor impaired	247,267	392,965	-	1,530,248	187,000	17,893

40. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit Risk Management (Continued)

(vii) Credit quality of financial assets - securities portfolio and other financial assets (Continued)

Analysed by rating agency designation are as follows:

2019	Cash and Short term funds RM'000	Deposits and placement of banks and other financial institutions RM'000	Hedging financial instruments RM'000	Financial assets/ investments portfolios RM'000	Statutory deposit with BNM RM'000	Other assets RM'000
Group and Bank						
AAA to A-	186,588	-	-	-	-	-
BBB+ to B-	25,227	-	-	-	-	-
Unrated	25,415	389,862	34	1,057,789	135,900	19,031
	237,229	389,862	34	1,057,789	135,900	19,031
2018						
Group and Bank						
AAA to A-	184,905	-	-	236,029	-	-
BBB+ to B-	22,922	-	-	-	-	-
Unrated	39,440	392,965	-	1,294,219	187,000	17,893
	247,267	392,965	-	1,530,247	187,000	17,893

40. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risk Management

Market risk sensitivity assessment is based on the changes in key variables; such as profit rates while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables and the impact on the re-priced mismatches of assets and liabilities position of the bank as at 31 December 2019.

(i) Profit rate sensitivity analysis

	2019		**2018**	
	Impact on profit after tax	**Impact on equity**	**Impact on profit after tax**	**Impact on equity**
	RM'000	RM'000	RM'000	RM'000
Group and Bank				
+1%	3,068	(41,214)	8,868	(36,633)
- 1%	(3,068)	41,214	(8,868)	36,633

40. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risk Management (Continued)

(ii) Foreign currency sensitivity analysis

The foreign currency sensitivity represents the effect of the appreciation or depreciation of the foreign currency rates on the consolidated currency position, while other variables remain constant.

	2019	2019 Impact on profit after tax and equity		2018	2018 Impact on profit after tax and equity	
	Currency exposures	**+5%**	**-5%**	**Currency exposures**	**+5%**	**-5%**
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group and Bank						
EUR	88	4	(4)	813	41	(41)
AUD	99	5	(5)	284	14	(14)
HKD	247	12	(12)	192	10	(10)
SAR	152	8	(8)	(159)	(8)	8
USD	715	36	(36)	(35)	(2)	2
Others	859	43	(43)	326	16	(16)
	2,160	108	(108)	1,421	71	(71)

40. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risk Management (Continued)

(iii) Profit Rate Risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of yield/profit rate on its financial position. The rate of return risk is the potential impact of market factors affecting rates on returns in comparison with the expected rates of return for investment account holders. Yield/profit rate is monitored and managed by the ALCO to protect the income of its operations. The assets and liabilities at carrying amount are categorised by the earlier of the next contractual repricing dates and maturity dates as follows:

	←	Non-trading book			→				
Group 2019	**Up to 1 month** RM'000	**> 1 -3 months** RM'000	**> 3 - 12 months** RM'000	**1 - 5 years** RM'000	**> 5 years** RM'000	**Non-profit sensitive** RM'000	**Trading book** RM'000	**Total** RM'000	**Average effective profit rate** %
Assets									
Cash and short term funds	179,093	-	-	-	-	58,136	-	237,229	2.15
Derivative assets	-	-	-	-	-	34	-	34	
Deposit and placement with bank and other financial institutions	-	54,554	327,326	-	-	7,982	-	389,862	3.10
Financial investments at amortised cost	-	-	17,949	640,000	70,000	16,177	-	744,126	4.14
Financial investments at fair value through other comprehensive income (FVOCI)	-	-	-	-	295,000	18,663	-	313,663	
Financing and advances									
- Performing[(1)]	593,886	1,112,799	801,802	571,086	2,182,248	(34,735)	-	5,227,086	4.50
- Non-Performing	-	-	-	-	-	39,782	-	39,782	
Other assets[(2)]	-	-	-	-	-	362,178	-	362,178	
Right-of-use assets	-	-	-	-	-	15,303	-	15,303	
Total assets	772,979	1,167,353	1,147,077	1,211,086	2,547,248	483,520	-	7,329,263	

Note:
(1) This is arrived at after deducting the stage 1 and stage 2 ECL from the outstanding gross performing financing.
(2) Other assets include property and equipment, intangible assets, deferred tax assets, investment properties and statutory deposits with Bank Negara Malaysia.

40. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risk Management (Continued)

(iii) Profit Rate Risk (Continued)

Group (Continued) **2019**	**Up to 1 month** RM'000	**> 1 -3 months** RM'000	**> 3 - 12 months** RM'000	**1 - 5 years** RM'000	**> 5 years** RM'000	**Non-profit sensitive** RM'000	**Trading book** RM'000	**Total** RM'000	**Average effective profit rate** %
Liabilities									
Deposits from customers	1,170,274	2,088,703	1,360,531	123,557	-	1,002,428	-	5,745,493	3.49
Deposits and placements of banks and other financial institutions	205,023	115,918	42,500	-	-	2,316	-	365,757	3.09
Bills and acceptance payable	-	-	-	-	-	4,875	-	4,875	
Other liabilities	-	-	-	-	-	60,682	-	60,682	
Lease liabilities	-	-	-	-	-	17,212	-	17,212	
Subordinated Sukuk	-	54,554	327,327	-	-	-	-	381,881	
Total liabilities	1,375,297	2,259,175	1,730,358	123,557	-	1,087,513	-	6,575,900	
Shareholders' fund	-	-	-	-	-	753,365	-	753,365	
Total liabilities and shareholders' equity	1,375,297	2,259,175	1,730,358	123,557	-	1,840,878	-	7,329,265	
On-balance sheet profit sensitivity gap	(602,318)	(1,091,822)	(583,281)	1,087,529	2,547,248	(1,357,358)	-		
Off-balance sheet profit sensitivity gap	-	-	-	-	-	1,389,591	-		
Total profit sensitivity gap	(602,318)	(1,091,822)	(583,281)	1,087,529	2,547,248	32,233	-		

40. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risk Management (Continued)

(iii) Profit Rate Risk (Continued)

Group 2018	← Non-trading book				→				
	Up to 1 month	**> 1 -3 months**	**> 3 - 12 months**	**1 - 5 years**	**> 5 years**	**Non-profit sensitive**	**Trading book**	**Total**	**Average effective profit rate**
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Assets									
Cash and short term funds	198,569	-	-	-	-	48,698	-	247,267	3.13
Deposit and placement with bank and other financial institutions	-	55,128	330,765	-		7,072	-	392,965	2.84
Financial investments at amortised cost	-	416,000	-	894,702	200,000	19,546	-	1,530,248	4.03
Financing and advances									
- Performing[1]	1,603,538	1,068,354	522,745	499,564	1,307,724	(34,154)	-	4,967,771	4.46
- Non-Performing[1]	-	-	-	-	-	33,828	-	33,828	
Other assets[2]	-	-	-	-	-	406,429	-	406,429	
Total assets	1,802,107	1,539,482	853,510	1,394,266	1,507,724	481,419	-	7,578,508	

Note:

(1) This is arrived at after deducting the stage 1 and stage 2 ECL from the outstanding gross performing financing.

(2) Other assets include property and equipment, intangible assets, deferred tax assets, investment properties and statutory deposits with Bank Negara Malaysia.

40. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risk Management (Continued)

(iii) Profit Rate Risk (Continued)

Group (Continued) 2018	**Up to 1 month** RM'000	**> 1 -3 months** RM'000	**> 3 - 12 months** RM'000	**1 - 5 years** RM'000	**> 5 years** RM'000	**Non-profit sensitive** RM'000	**Trading book** RM'000	**Total** RM'000	**Average effective profit rate** %
Liabilities									
Deposits from customers	1,025,901	1,465,753	2,399,254	71,198	-	750,586	-	5,712,692	3.45
Deposits and placements of banks and other financial institutions	14,731	653,242	-	-	-	3,013	-	670,986	3.44
Bills and acceptance payable	-	-	-	-	-	4,838	-	4,838	
Other liabilities	-	-	-	-	-	78,605	-	78,605	
Subordinated Sukuk	-	-	-	-	385,893	-	-	385,893	
Total liabilities	1,040,632	2,118,995	2,399,254	71,198	385,893	837,042	-	6,853,014	
Shareholders' fund	-	-	-	-	-	725,494	-	725,494	
Total liabilities and shareholders' fund	1,040,632	2,118,995	2,399,254	71,198	385,893	1,562,536	-	7,578,508	
On-balance sheet profit sensitivity gap	761,475	(579,513)	(1,545,744)	1,323,068	1,121,831	(1,081,117)	-		
Off-balance sheet profit sensitivity gap	-	-	-	-	-	1,920,551	-		
Total profit sensitivity gap	761,475	(579,513)	(1,545,744)	1,323,068	1,121,831	839,434	-		

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

40. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risk Management (Continued)

(iii) Profit Rate Risk (Continued)

	← Non-trading book				→				
Bank 2019	**Up to 1 month** RM'000	**> 1 -3 months** RM'000	**> 3 - 12 months** RM'000	**1 - 5 years** RM'000	**> 5 years** RM'000	**Non-profit sensitive** RM'000	**Trading book** RM'000	**Total** RM'000	**Average effective profit rate** %
Assets									
Cash and short term funds	179,093	-	-	-	-	58,136	-	237,229	2.15
Derivative assets	-	-	-	-	-	34	-	34	
Deposit and placement with bank and other financial institutions	-	54,554	327,326	-	-	7,982	-	389,862	3.10
Financial investments at amortised cost	-	-	17,948	640,000	70,000	16,178	-	744,126	4.14
Financial investments at fair value through other comprehensive income (FVOCI)	-	-	-	-	295,000	18,663	-	313,663	
Financing and advances									
- Performing(1)	593,885	1,112,799	801,802	571,086	2,182,249	(34,735)	-	5,227,086	4.50
- Non-Performing	-	-	-	-	-	39,782	-	39,782	
Other assets(2)	-	-	-	-	-	362,175	-	362,175	
Right-of-use assets	-	-	-	-	-	15,303		15,303	
Total assets	772,978	1,167,353	1,147,076	1,211,086	2,547,249	483,518	-	7,329,260	

Note:
(1) This is arrived at after deducting the stage 1 and stage 2 ECL from the outstanding gross performing financing.
(2) Other assets include property and equipment, intangible assets, deferred tax assets, investment properties and statutory deposits with Bank Negara Malaysia.

40. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risk Management (Continued)

(iii) Profit Rate Risk (Continued)

Bank (Continued) **2019**	**Up to 1 month** RM'000	**> 1 -3 months** RM'000	**> 3 - 12 months** RM'000	**1 - 5 years** RM'000	**> 5 years** RM'000	**Non-profit sensitive** RM'000	**Trading book** RM'000	**Total** RM'000	**Average effective profit rate** %
Liabilities									
Deposits from customers	1,170,274	2,088,703	1,360,531	123,557	-	1,002,428	-	5,745,493	3.49
Deposits and placements of banks and other financial institutions	205,023	115,918	42,500	-	-	2,316	-	365,757	3.09
Bills and acceptance payable	-	-	-	-	-	4,875	-	4,875	
Other liabilities	-	-	-	-	-	60,890	-	60,890	
Lease liabilities	-	-	-	-	-	17,212	-	17,212	
Subordinated Sukuk	-	54,555	327,326	-	-	-	-	381,881	
Total liabilities	1,375,297	2,259,176	1,730,357	123,557	-	1,087,721	-	6,576,108	
Shareholders' fund	-	-	-	-	-	753,152	-	753,152	
Total liabilities and shareholders' fund	1,375,297	2,259,176	1,730,357	123,557	-	1,840,873	-	7,329,260	
On-balance sheet profit sensitivity gap	(602,319)	(1,091,823)	(583,281)	1,087,529	2,547,249	(1,357,355)	-		
Off-balance sheet profit sensitivity gap	-	-	-	-	-	1,389,591	-		
Total profit sensitivity gap	(602,319)	(1,091,823)	(583,281)	1,087,529	2,547,249	32,236	-		

40. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risk Management (Continued)

(iii) Profit Rate Risk (Continued)

	← Non-trading book →								
Bank **2018**	**Up to 1 month** RM'000	**> 1 -3 months** RM'000	**> 3 - 12 months** RM'000	**1 - 5 years** RM'000	**> 5 years** RM'000	**Non-profit sensitive** RM'000	**Trading book** RM'000	**Total** RM'000	**Average effective profit rate** %
Assets									
Cash and short term funds	198,569	-	-	-	-	48,698	-	247,267	3.13
Deposit and placement with bank									-
and other financial institutions	-	55,128	330,765	-	-	7,072	-	392,965	2.84
Financial investments at amortised cost	-	416,000	-	894,702	200,000	19,546	-	1,530,248	4.03
Financing and advances									
- performing	1,603,538	1,068,354	522,745	499,564	1,307,724	(34,154)	-	4,967,771	4.46
- Non performing[(1)]	-	-	-	-	-	33,828	-	33,828	
Other assets[(2)]	-	-	-	-	-	406,423	-	406,423	
Total assets	1,802,107	1,539,482	853,510	1,394,266	1,507,724	481,413	-	7,578,502	

Note:

(1) This is arrived at after deducting the stage 1 and stage 2 ECL from the outstanding gross performing financing.

(2) Other assets include property and equipment, intangible assets, deferred tax assets, investment properties and statutory deposits with Bank Negara Malaysia.

40. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risk Management (Continued)

(iii) Profit Rate Risk (Continued)

Bank (Continued) 2018	**Up to 1 month** RM'000	**> 1 -3 months** RM'000	**> 3 - 12 months** RM'000	**1 - 5 years** RM'000	**> 5 years** RM'000	**Non-profit sensitive** RM'000	**Trading book** RM'000	**Total** RM'000	**Average effective profit rate** %
Liabilities									
Deposits from customers	1,025,901	1,465,753	2,399,254	71,198	-	750,586	-	5,712,692	3.45
Deposits and placements of banks and other financial institutions	14,731	653,242	-	-	-	3,013	-	670,986	3.44
Bills and acceptance payable	-	-	-	-	-	4,838	-	4,838	-
Other liabilities	-	-	-	-	-	78,761	-	78,761	-
Subordinated Sukuk	-	-	-	-	385,893	-	-	385,893	
Total liabilities	1,040,632	2,118,995	2,399,254	71,198	385,893	837,198	-	6,853,170	
Shareholders' fund	-	-	-	-	-	725,332	-	725,332	
Total liabilities and shareholders' fund	1,040,632	2,118,995	2,399,254	71,198	385,893	1,562,530	-	7,578,502	
On-balance sheet profit sensitivity gap	761,475	(579,513)	(1,545,744)	1,323,068	1,121,831	(1,081,117)	-		
Off-balance sheet profit sensitivity gap	-	-	-	-	-	1,920,551	-		
Total profit sensitivity gap	761,475	(579,513)	(1,545,744)	1,323,068	1,121,831	839,434	-		

40. FINANCIAL RISK MANAGEMENT (Continued)

(e) Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk is managed through established operational risk management processes, proper monitoring and reporting of the business units' adherence to established risk policies, procedures and limits by independent control and support units, and oversight provided by the management and the Board.

The operational risk management processes encompass appropriate documentation of processes and procedures within the framework of system of internal controls, regular disaster recovery and business continuity planning and simulations, self-compliance audit and internal audit.

(f) Liquidity Risk

Liquidity risk relates to the ability of the Group and of the Bank to maintain sufficient liquid assets to meet financial commitments and obligations when they fall due at a reasonable cost. The Assets and Liabilities Management Committee is the primary party responsible for liquidity management based on guidelines approved by the Risk Management Committee. The management of the liquidity risk is aligned to the New Liquidity Framework issued by BNM supplemented by liquidity risk management control and limits and a liquidity stress testing program. The disclosure is in accordance with the requirements of BNM's Guidelines on Financial Reporting. Liquidity limits are set for cash flow mismatches. In addition, liquidity trigger limits and concentration ratios are in place to serve as liquidity early warning indicators.

40. FINANCIAL RISK MANAGEMENT (Continued)

(f) Liquidity Risk (Continued)

The table below analyses assets and liabilities (includes non-financial instruments) based on the remaining contractual maturity on discounted basis:

Group 2019	Up to 7 days RM'000	> 7 days - 1 month RM'000	> 1 - 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 year RM'000	Total RM'000
Assets							
Cash and short term funds	233,134	4,095	-	-	-	-	237,229
Deposits and placements with banks and other financial institutions	-	-	56,282	223,203	110,377	-	389,862
Derivative assets	-	-	34	-	-	-	34
Financial investments at amortised cost	-	-	18,000	-	-	726,126	744,126
Financial investments at fair value through other comprehensive income (FVOCI)	-	-	-	-	-	313,663	313,663
Financing and advances	133,175	461,335	1,119,648	767,031	22,250	2,763,429	5,266,868
Statutory deposits with BNM	135,900	-	-	-	-	-	135,900
Other assets	11,984	-	121	5	1,225	228,248	241,583
Total assets	514,193	465,430	1,194,085	990,239	133,852	4,031,466	7,329,265
Liabilities							
Deposits from customers	1,081,943	1,185,669	1,988,691	1,011,615	250,877	226,698	5,745,493
Deposits and placements of banks and other financial institutions	30,020	130,444	115,199	42,550	-	47,544	365,757
Bills and acceptance payable	4,875	-	-	-	-	-	4,875
Other liabilities	41,364	-	15,943	-	3,375	-	60,682
Lease liabilities	-	-	-	-	-	17,212	17,212
Subordinated sukuk	-	-	-	-	-	381,881	381,881
Total liabilities	1,158,202	1,316,113	2,119,833	1,054,165	254,252	673,335	6,575,900
Shareholders' fund	-	-	-	-	-	753,365	753,365
Total liabilities and shareholders' fund	1,158,202	1,316,113	2,119,833	1,054,165	254,252	1,426,700	7,329,265
Net maturity mismatch	(644,009)	(850,683)	(925,748)	(63,926)	(120,400)	2,604,766	

40. FINANCIAL RISK MANAGEMENT (Continued)

(f) Liquidity Risk (Continued)

Group 2018	**Up to 7 days** RM'000	**> 7 days - 1 month** RM'000	**> 1 - 3 months** RM'000	**> 3 - 6 months** RM'000	**> 6 - 12 months** RM'000	**> 1 year** RM'000	**Total** RM'000
Assets							
Cash and short term funds	222,674	24,593	-	-	-	-	247,267
Deposits and placements with banks and other financial institutions	-	-	56,377	224,766	111,822	-	392,965
Financial investments at amortised cost	-	-	416,000	-	-	1,114,248	1,530,248
Financing and advances	72,839	516,987	1,074,420	1,545,061	11,375	1,780,917	5,001,599
Statutory deposits with BNM	187,000	-	-	-	-	-	187,000
Other assets	10,618	-	111	48	1,030	207,622	219,429
Total assets	493,131	541,580	1,546,908	1,769,875	124,227	3,102,787	7,578,508
Liabilities							
Deposits from customers	1,096,915	666,299	1,468,855	722,584	663,078	1,094,961	5,712,692
Deposits and placements of banks and other financial institutions	-	340,780	328,791	-	-	1,415	670,986
Bills and acceptance payable	4,838	-	-	-	-	-	4,838
Other liabilities	33,667	-	500	-	31,688	12,750	78,605
Subordinated Sukuk	-	-	-	-	-	385,893	385,893
Total liabilities	1,135,420	1,007,079	1,798,146	722,584	694,766	1,495,019	6,853,014
Shareholders' fund	-	-	-	-	-	725,494	725,494
Total liabilities and shareholders' fund	1,135,420	1,007,079	1,798,146	722,584	694,766	2,220,513	7,578,508
Net maturity mismatch	(642,289)	(465,499)	(251,238)	1,047,291	(570,539)	882,274	

40. FINANCIAL RISK MANAGEMENT (Continued)

(f) Liquidity Risk (Continued)

Bank **2019**	**Up to 7 days** RM'000	**> 7 days - 1 month** RM'000	**> 1 - 3 months** RM'000	**> 3 - 6 months** RM'000	**> 6 - 12 months** RM'000	**> 1 year** RM'000	**Total** RM'000
Assets							
Cash and short term funds	233,134	4,095	-	-	-	-	237,229
Deposits and placements with banks and other financial institutions	-	-	56,282	223,203	110,377	-	389,862
Derivative assets	-	-	34	-	-	-	34
Financial investments at amortised cost	-	-	18,000	-	-	726,126	744,126
Financial investments at fair value through other comprehensive income (FVOCI)	-	-	-	-	-	313,663	313,663
Financing and advances	133,175	461,335	1,119,648	767,031	22,250	2,763,429	5,266,868
Statutory deposits with BNM	135,900	-	-	-	-	-	135,900
Other assets	11,966	-	121	5	1,221	228,265	241,578
Total assets	514,175	465,430	1,194,085	990,239	133,848	4,031,483	7,329,260
Liabilities							
Deposits from customers	1,081,943	1,185,669	1,988,691	1,011,615	250,877	226,698	5,745,493
Deposits and placements of banks and other financial institutions	30,020	130,444	115,199	42,550	-	47,544	365,757
Bills and acceptance payable	4,875	-	-	-	-	-	4,875
Other liabilities	41,571	-	15,943	-	3,376	-	60,890
Lease liabilities	-	-	-	-	-	17,212	17,212
Subordinated sukuk	-	-	-	-	-	381,881	381,881
Total liabilities	1,158,409	1,316,113	2,119,833	1,054,165	254,253	673,335	6,576,108
Shareholders' fund	-	-	-	-	-	753,152	753,152
Total liabilities and shareholders' fund	1,158,409	1,316,113	2,119,833	1,054,165	254,253	1,426,487	7,329,260
Net maturity mismatch	(644,234)	(850,683)	(925,748)	(63,926)	(120,405)	2,604,996	

40. FINANCIAL RISK MANAGEMENT (Continued)

(f) Liquidity Risk (Continued)

Bank **2018**	**Up to 7 days** RM'000	**> 7 days - 1 month** RM'000	**> 1 - 3 months** RM'000	**> 3 - 6 months** RM'000	**> 6 - 12 months** RM'000	**> 1 year** RM'000	**Total** RM'000
Assets							
Cash and short term funds	222,674	24,593	-	-	-	-	247,267
Deposits and placements with banks and other financial institutions	-	-	56,377	224,766	111,822	-	392,965
Financial investments at amortised cost	-	-	416,000	-	-	1,114,248	1,530,248
Financing and advances	72,839	516,987	1,074,420	1,545,061	11,375	1,780,917	5,001,599
Statutory deposits with BNM	187,000	-	-	-	-	-	187,000
Other assets	10,618	-	111	48	1,024	207,622	219,423
Total assets	493,131	541,580	1,546,908	1,769,875	124,221	3,102,787	7,578,502
Liabilities							
Deposits from customers	1,096,915	666,299	1,468,855	722,584	663,078	1,094,961	5,712,692
Deposits and placements of banks and other financial institutions	-	340,780	328,791	-	-	1,415	670,986
Bills and acceptance payable	4,838	-	-	-	-	-	4,838
Other liabilities	33,823	-	500	-	31,688	12,750	78,761
Subordinated sukuk	-	-	-	-	-	385,893	385,893
Total liabilities	1,135,576	1,007,079	1,798,146	722,584	694,766	1,495,019	6,853,170
Shareholders' fund	-	-	-	-	-	725,332	725,332
Total liabilities and shareholders' fund	1,135,576	1,007,079	1,798,146	722,584	694,766	2,220,351	7,578,502
Net maturity mismatch	(642,445)	(465,499)	(251,238)	1,047,291	(570,545)	882,436	

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40. FINANCIAL RISK MANAGEMENT (Continued)

(f) Liquidity Risk (Continued)

The following table presents the cash outflows for the Group's financial liabilities by remaining contractual maturities on undiscounted basis. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and profit payments.

Group 2019	Up to 7 days RM'000	> 7 days - 1 month RM'000	> 1 - 3 months RM'000	> 3 - 6 months RM'000	> 6 - 12 months RM'000	> 1 year RM'000	Total RM'000
Liabilities							
Deposits from customers	1,081,972	1,186,621	1,993,416	1,017,817	250,631	229,647	5,760,104
Deposits and placements of banks and other financial institutions	30,025	130,778	115,923	43,290	-	-	320,016
Bills and acceptance payable	4,875	-	-	-	-	-	4,875
Other liabilities	41,365	-	15,943	-	3,374	-	60,682
Lease liabilities	-	-	-	-	-	17,212	17,212
Subordinated sukuk	-	-	58,471	232,782	115,083	-	406,336
Total liabilities	1,158,237	1,317,399	2,183,753	1,293,889	369,088	246,859	6,569,225

40. FINANCIAL RISK MANAGEMENT (Continued)

(f) Liquidity Risk (Continued)

Group **2018**	**Up to 7 days** RM'000	**> 7 days - 1 month** RM'000	**> 1 - 3 months** RM'000	**> 3 - 6 months** RM'000	**> 6 - 12 months** RM'000	**> 1 year** RM'000	**Total** RM'000
Liabilities							
Deposits from customers	1,095,986	666,338	1,469,209	721,159	671,249	1,107,009	5,730,950
Deposits and placements of banks and other financial institutions	-	341,124	328,909	-	-	-	670,033
Bills and acceptance payable	4,838	-	-	-	-	-	4,838
Other liabilities	33,677	-	11,245	-	33,683	-	78,605
Subordinated Sukuk	-	-	56,748	227,969	115,153	-	399,870
Total liabilities	1,134,501	1,007,462	1,866,111	949,128	820,085	1,107,009	6,884,296

40. FINANCIAL RISK MANAGEMENT (Continued)

(f) Liquidity Risk (Continued)

Bank **2019**	**Up to 7 days** RM'000	**> 7 days - 1 month** RM'000	**> 1 - 3 months** RM'000	**> 3 - 6 months** RM'000	**> 6 - 12 months** RM'000	**> 1 year** RM'000	**Total** RM'000
Liabilities							
Deposits from customers	1,081,972	1,186,621	1,993,416	1,017,817	250,631	229,647	5,760,104
Deposits and placements of banks and other financial institutions	30,025	130,778	115,923	43,290	-	-	320,016
Bills and acceptance payable	4,875	-	-	-	-	-	4,875
Other liabilities	41,573	-	15,943	-	3,374	-	60,890
Lease liabilities	-	-	-	-	-	17,212	17,212
Subordinated Sukuk	-	-	58,471	232,782	115,083	-	406,336
Total liabilities	1,158,445	1,317,399	2,183,753	1,293,889	369,088	246,859	6,569,433
2018							
Liabilities							
Deposits from customers	1,095,986	666,338	1,469,209	721,159	671,249	1,107,009	5,730,950
Deposits and placements of banks and other financial institutions	-	341,124	328,909	-	-	-	670,033
Bills and acceptance payable	4,838	-	-	-	-	-	4,838
Other liabilities	33,833	-	11,245	-	33,683	-	78,761
Subordinated Sukuk	-	-	56,748	227,969	115,153	-	399,870
Total liabilities	1,134,657	1,007,462	1,866,111	949,128	820,085	1,107,009	6,884,452

40. FINANCIAL RISK MANAGEMENT (Continued)

(g) Capital Management Policy

Capital risk is defined as the risk that the Group has insufficient capital to provide a sufficient resource to absorb predetermined levels of losses or that the capital structure is inefficient.

Capital risk appetite is set by the Board and reported through various metrics that enable the Group to manage capital constraints and shareholder expectations. The Assets and Liabilities Management Committee regularly revise performance against risk appetite.

A capital exposure arises where the Group has insufficient regulatory capital resources to support its strategic objectives and plans, and to meet external shareholder requirements and expectations. The Group's capital management policy is focused on optimising value for shareholders.

Capital Management and Basel II

The infrastructure implementation that has been completed has already yielded significant benefits to the Group and puts the businesses on an advanced footing to:

- Enhance our economic capital management;
- Refine risk based pricing methods for the products and services; and
- Improve asset quality across the businesses of the Group.

The Group continues to develop sustainable capabilities for continuous improvements in the use and adoption of the advanced approaches of the Basel II capital accord. The Bank had obtained BNM's approval to apply the Standardised Approach for Credit Risk.

41. CAPITAL ADEQUACY

The Group has adopted BNM's Capital Adequacy Framework for Islamic Banks ("CAFIB") guidelines to further improve capital adequacy assessment; enhance risk management processes, measurements and management capabilities; as well as to promote thorough and transparent reporting.

41. CAPITAL ADEQUACY (Continued)

For the purpose of the computation of capital adequacy ratios, the Group has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk. The definition and classification of the counterparty, exposure and asset types applied for the purpose of Capital Adequacy's reports are as per the BNM's CAFIB.

In addition, the Bank has also provided detailed Capital Adequacy disclosures as per the requirements stipulated in BNM CAFIB - Disclosures Requirements (Pillar 3) guidelines.

(a) The capital adequacy ratios are as follows:

	Group		Bank	
	2019	**2018**	**2019**	**2018**
	RM'000	RM'000	RM'000	RM'000
CET 1/Tier I capital				
Paid-up share capital	1,000,000	1,000,000	1,000,000	1,000,000
Reserves	(246,635)	(274,506)	(246,848)	(274,668)
	753,365	725,494	753,152	725,332
Less: Deferred tax	(49,496)	(53,194)	(49,497)	(53,194)
Total Tier-I capital	703,869	672,300	703,655	672,138
Tier-II capital				
Collective impairment for impairment loss on non-impaired financing	54,899	61,408	54,899	61,408
Subordinated sukuk	381,881	385,893	381,881	385,893
Total Tier-II capital	436,780	447,301	436,780	447,301
Capital base	1,140,649	1,119,601	1,140,435	1,119,439
CET 1/Core capital ratio	12.343%	12.519%	12.339%	12.516%
Risk-weighted capital ratio	20.002%	20.849%	19.998%	20.846%

41. CAPITAL ADEQUACY (Continued)

(b) The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category for the current financial year are as follows:

	Group 2019			
Exposure Class	Gross exposures RM'000	Net exposures RM'000	Risk weighted assets RM'000	Capital requirements RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	1,183,402	1,183,402	-	-
Banks, Development Financial Institutions ("DFIs") and MDBs	600,924	600,924	237,143	18,971
Corporate	4,071,026	3,931,419	3,875,083	310,007
Regulatory Retail	290,612	289,611	217,209	17,377
Residential Real Estate (RRE) Financing	894,211	894,211	393,502	31,480
Higher Risk Asset	499	499	749	60
Other assets	106,980	106,978	86,745	6,940
Defaulted Exposures	28,790	28,774	23,443	1,875
Total for On-Balance Sheet Exposures	7,176,444	7,035,818	4,833,874	386,710
Off-Balance Sheet Exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	334,962	334,962	327,142	26,171
Total for Off-Balance Sheet Exposures	334,962	334,962	327,142	26,171
Total On and Off-Balance Sheet Exposures	7,511,406	7,370,780	5,161,016	412,881
Market Risk	Long position	Short position		
Foreign Currency Risk	173,339	-	173,339	13,867
Operational Risk			368,432	29,475
Total RWA and Capital Requirements			5,702,786	456,223

41. CAPITAL ADEQUACY (Continued)

(b) The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category for the current financial year are as follows: (continued)

	Group 2018			
Exposure Class	**Gross exposures** RM'000	**Net exposures** RM'000	**Risk weighted assets** RM'000	**Capital requirements** RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	1,458,670	1,458,670	-	-
Banks, Development Financial Institutions ("DFIs") and MDBs	615,138	615,138	194,140	15,531
Corporate	3,628,522	3,490,767	3,301,944	264,156
Regulatory Retail	619,562	617,377	463,033	37,043
Residential Real Estate (RRE) Financing	983,419	983,419	448,007	35,841
Other assets	89,458	89,458	66,920	5,354
Defaulted Exposures	33,899	33,883	32,088	2,567
Total for On-Balance Sheet Exposures	7,428,668	7,288,712	4,506,132	360,492
Off-Balance Sheet Exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	433,886	433,886	406,544	32,524
Total for Off-Balance Sheet Exposures	433,886	433,886	406,544	32,524
Total On and Off-Balance Sheet Exposures	7,862,554	7,722,598	4,912,676	393,016
Market Risk	Long position	Short position		
Foreign Currency Risk	106,803	-	106,803	8,544
Operational Risk	-	-	350,620	28,050
Total RWA and Capital Requirements			5,370,099	429,610

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41. CAPITAL ADEQUACY (Continued)

(b) The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category for the current financial year are as follows: (continued)

	Bank 2019			
Exposure Class	**Gross exposures** RM'000	**Net exposures** RM'000	**Risk weighted assets** RM'000	**Capital requirements** RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	1,183,402	1,183,402	-	-
Banks, Development Financial Institutions ("DFIs") and MDBs	600,924	600,924	237,143	18,971
Corporate	4,071,026	3,931,419	3,875,083	310,007
Regulatory Retail	290,612	289,611	217,209	17,377
Residential Real Estate (RRE) Financing	894,211	894,211	393,502	31,480
Higher Risk Asset	499	499	749	60
Other assets	106,980	106,978	86,745	6,940
Defaulted Exposures	28,790	28,774	23,443	1,875
Total for On-Balance Sheet Exposures	7,176,444	7,035,818	4,833,874	386,710
Off-Balance Sheet Exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	334,962	334,962	327,142	26,171
Total for Off-Balance Sheet Exposures	334,962	334,962	327,142	26,171
Total On and Off-Balance Sheet Exposures	7,511,406	7,370,780	5,161,016	412,881
Market Risk	Long position	Short position		
Foreign Currency Risk	173,339	-	173,339	13,867
Operational Risk			368,432	29,475
Total RWA and Capital Requirements			5,702,786	456,223

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41. CAPITAL ADEQUACY (Continued)

(b) The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category for the current financial year are as follows: (continued)

	Bank 2018			
Exposure Class	**Gross exposures** RM'000	**Net exposures** RM'000	**Risk weighted assets** RM'000	**Capital requirements** RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	1,458,670	1,458,670	-	-
Banks, Development Financial Institutions ("DFIs") and MDBs	615,138	615,138	194,140	15,531
Corporate	3,628,522	3,490,767	3,301,944	264,156
Regulatory Retail	619,562	617,377	463,033	37,043
Residential Real Estate (RRE) Financing	983,419	983,419	448,007	35,841
Other assets	89,458	89,458	66,920	5,354
Defaulted Exposures	33,899	33,883	32,088	2,567
Total for On-Balance Sheet Exposures	7,428,668	7,288,712	4,506,132	360,492
Off-Balance Sheet Exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	433,886	433,886	406,544	32,524
Total for Off-Balance Sheet Exposures	433,886	433,886	406,544	32,524
Total On and Off-Balance Sheet Exposures	7,862,554	7,722,598	4,912,676	393,016
Market Risk	Long position	Short position		
Foreign Currency Risk	106,803	-	106,803	8,544
Operational Risk	-	-	350,620	28,050
Total RWA and Capital Requirements			5,370,099	429,610

41. CAPITAL ADEQUACY (Continued)

(c) The breakdown of credit risk disclosed by risk-weights (including deducted exposures) are as follows:

Group and Bank
2019

	Exposures after netting and credit risk mitigation ("CRM")								
Risk weights	**Sovereigns/ Central Bank** RM'000	**Banks, DFIs and MDBs** RM'000	**Corporate** RM'000	**Regulatory Retail** RM'000	**Residential Real Estate** RM'000	**Higher Risk Assets** RM'000	**Other assets** RM'000	**Total exposure after netting and CRM** RM'000	**Total weighted assets** RM'000
Performing Exposures									
0%	1,183,402	-	-	-	-	-	20,233	1,203,635	-
20%	-	213,927	76,420	-	-	-	-	290,347	58,069
35%	-	-	-	-	429,129	-	-	429,129	150,195
50%	-	389,862	-	-	439,580	-	-	829,442	414,721
75%	-	-	-	292,908	7,942	-	-	300,850	225,638
100%	-	-	4,183,605	-	17,560	-	86,745	4,287,910	4,287,910
150%	-	-	-	-	-	693	-	693	1,040
Total	1,183,402	603,789	4,260,025	292,908	894,211	693	106,978	7,342,006	5,137,573
Defaulted Exposures									
35%	-	-	-	-	-	-	-	-	-
50%	-	-	12,449	46	7,113	-	-	19,608	9,804
100%	-	-	-	220	-	-	-	220	220
150%	-	-	8,946	-	-	-	-	8,946	13,419
Total	-	-	21,395	266	7,113	-	-	28,774	23,443
Total Performing and Defaulted	1,183,402	603,789	4,281,420	293,174	901,324	693	106,978	7,370,780	5,161,016

41. CAPITAL ADEQUACY (Continued)

(c) The breakdown of credit risk disclosed by risk-weights (including deducted exposures) are as follows: (continued)

Group and Bank
2018

	Exposures after netting and credit risk mitigation ("CRM")								
Risk weights	**Sovereigns/ Central Bank**	**Banks, DFIs and MDBs**	**Corporate**	**Regulatory Retail**	**Residential Real Estate**	**Higher Risk Assets**	**Other assets**	**Total exposure after netting and CRM**	**Total risk weighted assets**
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Performing Exposures									
0%	1,458,670	-	-	-	-	-	22,538	1,481,208	-
20%	-	378,097	256,026	-	-	-	-	634,123	126,825
35%	-	-	-	-	407,501	-	-	407,501	142,625
50%	-	257,040	-	-	537,106	-	-	794,146	397,073
75%	-	-	-	620,410	10,277	-	-	630,687	473,015
100%	-	-	3,644,693	-	29,437	-	66,920	3,741,050	3,741,050
Total	1,458,670	635,137	3,900,719	620,410	984,321	-	89,458	7,688,715	4,880,588
Defaulted Exposures									
35%	-	-	-	-	-	-	-	-	-
50%	-	-	12,338	443	4,186	-	-	16,967	8,484
100%	-	-	-	64	3,473	-	-	3,537	3,537
150%	-	-	13,379	-	-	-	-	13,379	20,067
Total	-	-	25,717	507	7,659	-	-	33,883	32,088
Total Performing and Defaulted	1,458,670	635,137	3,926,436	620,917	991,980	-	89,458	7,722,598	4,912,676

41. CAPITAL ADEQUACY (Continued)

(d) The breakdown of risk-weighted assets by risk-weights are as follows:

Group and Bank		**Risk-**
2019	**Principal**	**weighted**
	RM'000	RM'000
0%	1,203,635	-
20%	290,347	58,069
35%	429,129	150,195
50%	849,050	424,525
75%	300,850	225,638
100%	4,288,130	4,288,130
150%	9,639	14,459
Risk-weighted assets for credit risk	7,370,780	5,161,016
Large exposure risk-weighted assets for equity holdings		
Risk-weighted assets for market risk		173,339
Risk-weighted assets for operational risk		368,432
Total risk-weighted assets		5,702,786
2018		
0%	1,481,208	-
20%	634,123	126,825
35%	407,501	142,625
50%	811,113	405,557
75%	630,687	473,015
100%	3,744,587	3,744,587
150%	13,379	20,067
Risk-weighted assets for credit risk	7,722,598	4,912,676
Large exposure risk-weighted assets for equity holdings		
Risk-weighted assets for market risk		106,803
Risk-weighted assets for operational risk		350,620
Total risk-weighted assets		5,370,099

41. CAPITAL ADEQUACY (Continued)

(e) The breakdown of credit risk disclosed by ratings by ECAIs are as follows:

Group and Bank 2019	**AAA** RM'000	**AA+** RM'000	**AA** RM'000	**AA-** RM'000	**A+** RM'000	**A** RM'000	**A-** RM'000	**BBB+** RM'000	**BBB** RM'000	**BBB-** RM'000	**BB+ to B-** RM'000	**Unrated** RM'000	**Total** RM'000
Exposure Class													
On and Off Balance-Sheet Exposures													
Credit Exposure - Standardised Approach													
Sovereigns/Central Banks	-	-	-	-	-	-	1,183,402	-	-	-	-	-	1,183,402
Banks, DFIs & MDBs	-	-	-	-	190,387	868	19,358	4,684	307	632	-	387,554	603,790
Corporate	-	-	-	-	-	-	-	-	-	-	-	4,421,043	4,421,043
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	-	294,175	294,175
Residential Real Estate (RRE) Financing	-	-	-	-	-	-	-	-	-	-	-	901,324	901,324
Total Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	693	693
Other assets	-	-	-	-	-	-	-	-	-	-	-	106,979	106,979
Total	-	-	-	-	190,387	868	1,202,760	4,684	307	632	-	6,111,768	7,511,406

41. CAPITAL ADEQUACY (Continued)

(e) The breakdown of credit risk disclosed by ratings by ECAIs are as follows: (continued)

Group and Bank 2018	AAA RM'000	AA+ RM'000	AA RM'000	AA- RM'000	A+ RM'000	A RM'000	A- RM'000	BBB+ RM'000	BBB RM'000	BBB- RM'000	BB+ to B- RM'000	Unrated RM'000	Total RM'000
Exposure Class													
On and Off Balance-Sheet Exposures													
Credit Exposure - Standardised Approach													
Sovereigns/Central Banks	-	-	-	-	-	-	1,458,670	-	-	-	-	-	1,458,670
Banks, DFIs & MDBs	-	-	5,273	-	283,870	3,073	50,004	67,634	68,511	-	95	156,676	635,136
Corporate	-	-	-	-	-	-	-	-	-	-	-	4,064,206	4,064,206
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	-	623,103	623,103
Residential Real Estate (RRE) Financing	-	-	-	-	-	-	-	-	-	-	-	991,980	991,980
Other assets	-	-	-	-	-	-	-	-	-	-	-	89,459	89,459
Total	-	-	5,273	-	283,870	3,073	1,508,674	67,634	68,511	-	95	5,925,424	7,862,554

41. CAPITAL ADEQUACY (Continued)

(f) Disclosure on credit risk mitigation are as follows:

Group and Bank

	2019		**2018**	
	Exposures before CRM	**Exposures covered by eligible collateral**	**Exposures before CRM**	**Exposures covered by eligible collateral**
Exposure Class	RM'000	RM'000	RM'000	RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	1,183,402	-	1,458,670	-
Banks, Development Financial Institutions & MDBs	600,924	-	615,138	-
Corporate	4,071,026	869,212	3,628,522	797,158
Regulatory Retail	290,612	1,001	619,562	4,104
Residential Real Estate (RRE) Financing	894,211	-	983,419	-
Higher risk aset	499	-	-	-
Other assets	106,980	-	89,458	-
Defaulted Exposures	28,790	-	33,899	-
Total for On-Balance Sheet Exposures	7,176,444	870,213	7,428,668	801,262
Off-Balance Sheet Exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	334,962	-	433,886	-
Total for Off-Balance Sheet	334,962	-	433,886	-
Total On and Off-Balance Sheet Exposures	7,511,406	870,213	7,862,554	801,262

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

41. CAPITAL ADEQUACY (Continued)

(g) Disclosure on off balance sheet and counterparty credit risk are as follows:

Group and Bank	**2019**			**2018**		
	Principal amount	**Credit equivalent amount**	**Risk weighted amount**	**Principal amount**	**Credit equivalent amount**	**Risk weighted amount**
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Transaction-related contingent items	86,397	43,198	43,198	70,662	35,331	35,331
Short term self liquidating trade related contingencies	691	138	138	3,580	716	716
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	103,824	51,909	52,006	95,435	47,689	47,080
Other commitments, such as formal standby facilities and credit lines, with an original maturity up to one year	1,190,241	238,029	230,534	1,742,964	348,568	322,230
Unutilised charged card lines	8,438	1,688	1,266	7,910	1,582	1,187
	1,389,591	334,962	327,142	1,920,551	433,886	406,544

42. SEGMENTAL INFORMATION

Segmental reporting by the Bank was prepared in accordance with MFRS 8 ‘Operating Segments’ ("MFRS 8"). Following the management approach of MFRS 8, operating segments are reported in a manner consistent with the internal reporting provided to the chief operation decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity.

All inter-segment transactions are conducted on an arm’s length basis and on normal commercial terms not more favourable than those generally available to the public.

The business segment results are prepared based on the Bank’s internal management reporting, which reflect the organisation’s management structure. Internal allocation of costs has been used in preparing the segmental reporting.

The Bank’s business segment can be organised into the following main segments reflecting the Bank’s internal reporting structure. The Bank comprises the following main business segments:

(i) Corporate investment banking

Corporate Investment Banking operations provide a full range of financial services to corporate customers as well as small and medium sized enterprises. The products and services offered include long and short term financing such as working capital financing, asset financing, project financing as well as trade financing.

(ii) Retail banking

Retail banking focus on providing product and services to individual customers and small and medium-sized enterprises. These products and services offered to customers include credit facilities, charge cards, remittance services, deposit collection and investment products.

(iii) Treasury and money market

The treasury and money market are involved in proprietary trading in treasury related products and services such as foreign exchange, money market operations and securities trading. Income from customer trading is reflected under Retail Operations.

42. SEGMENTAL INFORMATION (Continued)

Group	**Retail banking** RM'000	**Treasury & money market** RM'000	**Corporate investment banking** RM'000	**Others** RM'000	**Total** RM'000
2019					
Total revenue	152,638	125,886	124,012	356	402,892
Result					
Segment result	65,816	54,574	97,601	356	218,347
Unallocated corporate expenses	-	-	-	-	(184,783)
Profit before zakat and taxation					33,564
Zakat and taxation					(3,714)
Net profit for the financial year					29,850
Other information					
Segment assets	1,516,372	742,792	3,770,729	-	6,029,893
Unallocated corporate assets					1,299,372
Total assets					7,329,265
Segment liabilities	3,658,821	2,452,429	-	-	6,111,250
Unallocated corporate liabilities	-	-	-	-	464,651
Total liabilities					6,575,901
Other segment items					
Capital expenditure	9,509	2,923	4,189	-	16,621
Unallocated capital expenditure	-	-	-	-	22,569
					39,190
Depreciation and and amortisation	5,129	278	249	-	5,656
Unallocated depreciation and amortisation	-	-	-	-	13,432
					19,088
Other non-cash (income)/expenses	(8,558)	-	19,590	-	11,032

42. SEGMENTAL INFORMATION (Continued)

Group	**Retail banking** RM'000	**Treasury & money market** RM'000	**Corporate investment banking** RM'000	**Others** RM'000	**Total** RM'000
2018					
Total revenue	169,968	112,875	140,561	418	423,822
Result					
Segment result	74,466	24,305	97,433	418	196,622
Unallocated corporate expenses	-	-	-	-	(174,111)
Profit before zakat and taxation					22,511
Zakat and taxation					(10,783)
Net profit for the financial year					11,728
Other information					
Segment assets	1,620,570	2,334,942	3,403,567	-	7,359,079
Unallocated corporate assets	-	-	-	-	219,429
Total assets					7,578,508
Segment liabilities	4,454,001	1,929,677	-	-	6,383,678
Unallocated corporate liabilities	-	-	-	-	469,336
Total liabilities					6,853,014
Other segment items					
Capital expenditure	-	4	105	-	109
Unallocated capital expenditure	-	-	-	-	19,859
					19,968
Depreciation and and amortisation	4,164	234	322	-	4,720
Unallocated depreciation and amortisation	-	-	-	-	13,045
					17,765
Other non-cash (income)/expenses	(1,082)	-	5,270	-	4,188

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

42. SEGMENTAL INFORMATION (Continued)

Bank	**Retail banking** RM'000	**Treasury & money market** RM'000	**Corporate investment banking** RM'000	**Others** RM'000	**Total** RM'000
2019					
Total revenue	152,638	125,886	124,012	-	402,536
Result					
Segment result	65,816	54,574	97,601	-	217,991
Unallocated corporate expenses	-	-	-	-	(184,494)
Profit before zakat and taxation					33,497
Zakat and taxation					(3,697)
Net profit for the financial year					**29,800**
Other information					
Segment assets	1,516,372	742,792	3,770,729	-	6,029,893
Unallocated corporate assets					1,299,367
Total assets					7,329,260
Segment liabilities	3,658,821	2,452,429	-	-	6,111,250
Unallocated corporate liabilities	-	-	-	-	464,858
Total liabilities					6,576,108
Other segment items					
Capital expenditure	9,509	2,923	4,189	-	16,621
Unallocated capital expenditure	-	-	-	-	22,569
					39,190
Depreciation and and amortisation	5,129	278	249	-	5,656
Unallocated depreciation and amortisation	-	-	-	-	13,432
					19,088
Other non-cash (income)/expenses	(8,558)	-	19,590		11,032

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

42. SEGMENTAL INFORMATION (Continued)

Bank	**Retail banking** RM'000	**Treasury & money market** RM'000	**Corporate investment banking** RM'000	**Others** RM'000	**Total** RM'000
2018					
Total revenue	169,968	112,875	140,561	-	423,404
Result					
Segment result	74,466	24,305	97,433	-	196,204
Unallocated corporate expenses	-	-	-	-	(173,819)
Profit before zakat and taxation					22,385
Zakat and taxation					(10,750)
Net profit for the financial year					11,635
Other information					
Segment assets	1,620,570	2,334,942	3,403,567	-	7,359,079
Unallocated corporate assets	-	-	-	-	219,423
Total assets					7,578,502
Segment liabilities	4,454,001	1,929,677	-	-	6,383,678
Unallocated corporate liabilities	-	-	-	-	469,492
Total liabilities					6,853,170
Other segment items					
Capital expenditure	-	4	105	-	109
Unallocated capital expenditure	-	-	-	-	19,860
					19,969
Depreciation and and amortisation	4,164	234	322	-	4,720
Unallocated depreciation and amortisation	-	-	-	-	13,045
					17,765
Other non-cash (income)/expenses	(1,082)	-	5,270	-	4,188

43. FAIR VALUE MEASUREMENTS

(a) Assets and liabilities measured at fair value

Determination of fair value and the fair value hierarchy

Fair value is the amount at which an asset could be exchanged or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

The Group and the Bank classify their assets and liabilities which are measured at fair value according to the following hierarchy, reflecting the significance of inputs used in making the fair value measurements:

Level 1 - Quoted market prices: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 - Valuation techniques based on observable inputs: inputs other than quoted prices included within Level 1 that are observable for the instrument, whether directly (i.e. prices) or indirectly (i.e. derived from prices), are used; and

Level 3 - Valuation techniques using significant unobservable inputs: inputs used are not based on observable market data and the unobservable inputs have a significant impact on the valuation of the financial instruments and non-financial assets.

Assets and liabilities are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices are readily available, and the prices represent actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities and actively exchange-traded derivatives.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instruments are generally classified as Level 2. In cases where quoted prices are generally not available, the Bank then determines fair value based upon valuation techniques that use as inputs, market parameters including but not limited to yield curves, volatilities and foreign exchange rates. The majority of valuation techniques employ only observable market data and so reliability of the fair value measurement is high. These would include certain government sukuks and corporate sukuk, financing, derivatives and investment properties.

43. FAIR VALUE MEASUREMENTS (Continued)

(a) Assets and liabilities measured at fair value (Continued)

Determination of fair value and the fair value hierarchy (Continued)

Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or other analytical techniques.

The following table provides the fair value measurement hierarchy of the Group's and Bank's assets and liabilities.

Group and Bank
2019

	Level 1 RM'000	**Level 2** RM'000	**Level 3** RM'000	**Total** RM'000
Assets measured at fair value:				
Investment properties	-	-	105,000	105,000
Financial investments at fair value through other comprehensive income (FVOCI)	-	313,663	-	313,663
Assets for which fair values are disclosed (Note 40 (b)):				
Financing and advances	-	-	5,031,891	5,031,891
Financial investments at amortised cost	-	738,793	-	738,793

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the financial year.

The valuation date for financial assets and liabilities is 31 December 2019.

The fair value of financing and advances that are valued at Level 3 is estimated by discounting the estimated future cash flows at a discount rate between 1.23% to 16.9% (2018: 0.97% to 18.58%).

43. FAIR VALUE MEASUREMENTS (Continued)

(a) Assets and liabilities measured at fair value (Continued)

Determination of fair value and the fair value hierarchy (Continued)

The following table provides the fair value measurement hierarchy of the Group's and Bank's assets and liabilities. (Continued)

Group and Bank
2018

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Assets measured at fair value:				
Investment properties	-	-	105,000	105,000
Assets for which fair values are disclosed (Note 40 (b)):				
Financing and advances	-	-	4,806,608	4,806,608
Financial investments at amortised cost	-	1,534,811	-	1,534,811

There have been no transfer between Level 1 and Level 2 during the year.

The valuation date for financial assets and liabilities is 31 December 2018.

(b) Financial assets and liabilities not carried at fair value

The following table summarises the carrying amounts and the estimated fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value. Other than disclosed in note 40(b) below, the fair value are equal to carrying value.

Group and Bank

	2019		2018	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
Financial assets				
Financing and advances	5,266,868	5,031,891	5,001,599	4,806,608
Financial investments at amortised cost	744,126	738,793	1,530,248	1,534,811

43. FAIR VALUE MEASUREMENTS (Continued)

(b) Financial assets and liabilities not carried at fair value (Continued)

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

(i) Cash and short-term funds and deposits and placements

For cash and short-term funds and deposits and placements with maturities of less than one year, the carrying value is a reasonable estimate of fair value. For deposits and placements with maturities of six months and above, estimated fair value is based on discounted cash flows using prevailing money market profit rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

(ii) Financial investments at amortised cost

The estimated fair value is generally based on quoted and observable market price. The fair value of securities that are not traded in an active market are determined using valuation techniques which include net present value and discounted cash flow models based on assumptions of market conditions existing at the reporting date.

(iii) Financing and advances

For floating rate financing and advances, the carrying value is generally a reasonable estimate of fair value.

For fixed rate financing and advances, the fair values are estimated by discounting the estimated future cash flows using prevailing market rates of financing with similar credit risk and maturities.

The fair values of impaired fixed rates financing and advances are represented by their carrying value, net of individual impairment being the expected recoverable amount.

43. FAIR VALUE MEASUREMENTS (Continued)

(b) Financial assets and liabilities not carried at fair value (Continued)

(iv) Other assets and liabilities

The carrying value less any estimated impairment allowance for financial assets and liabilities included in "other assets and liabilities" are assumed to approximate their fair values as these items are not materially sensitive to the shift in market profit rates.

(v) Deposits from customers

The fair values of deposits with remaining maturity of less than one year are estimated to approximate their carrying amounts. The fair values of deposits with remaining maturity of more than one year are estimated using discounted cash flows based on market rates for similar deposits from customers.

(vi) Deposits from banks and bills and acceptances payable

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. The fair values of deposits with remaining maturity of more than one year are arrived at using the discounted cash flows based on prevailing market rates currently offered for similar remaining maturities.

(vii) Subordinated sukuk

The fair values of subordinated sukuk with remaining maturity of less than one year approximate their carrying values due to the relatively short maturity of the instruments. The fair values of subordinated sukuk with remaining maturities of more than one year are estimated by discounting the expected future cash flows using the applicable prevailing interest rates for borrowings with similar risk profiles.

43. FAIR VALUE MEASUREMENTS (Continued)

(c) Investment properties

(i) Information about significant unobservable inputs used in Level 3 fair value measurements on assets stated at fair value.

As at 31 December 2019 and 31 December 2018

	Fair value RM'000	Valuation techniques	Unobservable inputs	Range (weigted average) 2019	2018
Investment properties	105,000	Comparison approach	Estimated value per square feet	value per square feet	RM337 - RM971 per square feet

Under the comparison method, the investment properties' fair value is estimated based on comparable transactions. This approach is based upon the principal off substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. In theory, the best comparable sale would be an exact duplicate of the subject property and would indicate, by the known selling price of the duplicate, the price for which the subject property could be sold.

This method of valuation seeks to determine the value of the property, being valued by comparing the investment properties with comparable properties which have been sold or are being offered for sale and making adjustments for factors which affect value such as location and accessibility, market conditions, size, shape and terrain of land, tenurial interest and restrictions if any, occupancy status, built-up area, building construction, finishes and services, age and condition of building and other relevant characteristics.

Adjustments are being made to differences in location, size and shapes, accessibility, infrastructure available, improvements made on the site and other value considerations.

43. FAIR VALUE MEASUREMENTS (Continued)

(c) Investment properties (Continued)

(i) Information about significant unobservable inputs used in Level 3 fair value measurements on assets stated at fair value. (Continued)

The following tables present the reconciliation for all assets measured at fair value based on significant unobservable inputs (Level 3):

	Investment properties Fair value measurements using significant unobservable inputs (Level 3)	
	2019	**2018**
	RM'000	RM'000
Opening balance	105,000	105,000
Total gain for the year:		
Included in income statement	-	-
Closing balance	105,000	105,000

44. SIGNIFICANT EVENT

During the current financial year, the holding company of the Bank has commenced negotiation for a possible merger of the Bank with Malaysian Industrial Development Finance ("MIDF") Group.

45. SUBSEQUENT EVENT

Subsequent to the financial year ended 31 December 2019, there were significant uncertainties noted surrounding the growth outlook emanating from novel coronavirus (Covid-19) pandemic. In relation to this and in line with Bank Negara Malaysia's guideline, the Group and the Bank have implemented the automatic granting of six (6) months moratorium on qualifying financing and advances as a measure to assist the borrowers.

45. SUBSEQUENT EVENT (Continued)

At the date of this report, based on the Group and the Bank's assessment, there is no significant credit, market, liquidity and operational risks arising from these subsequent events. The Group and the Bank will continuously monitor and assess the developments and its economic impact.

46. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution by the Board of Directors dated 29 July 2020.