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

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Registered Office

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

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PERFORMANCE OVERVIEW 2018

The Bank represents Al Rajhi Banking and Investment Corporation (Malaysia) Berhad, 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 RM22.5 million (2017: RM14.1 million) and RM22.4 million (2017: RM14.0 million) respectively for the year ended 31 December 2018.

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 responsibilities 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 the 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.

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. 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 Accountant (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 2018, six (6) Board meetings were held and the attendance by Directors at the board meetings were as follows:

Member	No of meetings attended/held
Muhammad Afaq Khan Chairman, Independent Non-executive Director	6/6
Waleed Abdullah Al-Mogbel (Resigned on 31 May 2018) Non-independent Executive Director	2/2
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	5/6

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 2018 are as follows:

Member	No of meetings attended/held
Ow Chee Hong Chairman	4/4
Muhammad Afaq Khan Member	4/4
Johari Bin Abdul Muid Member	3/4

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 2018 are as follows:

Member	No of meetings attended/held
Johari Bin Abdul Muid Chairman	6/6
Ow Chee Hong Member	6/6
Muhammad Afaq Khan Member	6/6

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 2018 are as follows:

Member	No of meetings attended/held
Ow Chee Hong Chairman, Independent Non-executive Director	5/5
Muhammad Afaq Khan Independent Non-executive Director	5/5
Johari Bin Abdul Muid (Appointed on 10 November 2018) Independent Non-executive Director	5/5

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 BNM's Guidelines 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 in place an 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. This information (the audited texts and tables) is marked by a bar on the left-hand side throughout this report and incorporated by cross-reference in the financial statements.

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 an 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 or liquidity contingency planning; and

(d) Assessing the effectiveness of risk mitigation which are 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 decision 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 Bank ("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 2018.

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 12 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	11,728	11,635

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 and 9 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
Waleed Abdullah Al-Mogbel (Resigned on 31 May 2018)
Ow Chee Hong
Stefano P. Bertamini
Johari bin Abdul Muid

The directors of the subsidiary are disclosed in Note 12 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 2018 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 29 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 and insurance premium paid for the Directors and the officers of the Group and of the Bank was RM30,000.

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 2019

The general consensus expects GDP growth to slow down to 4.8% for 2019, with private consumption and private investment remaining the key drivers of expansion. The slowdown is mainly due to the slowing Chinese economy and global growth, prevailing trade protectionism advocated by the Trump administration, and tumbling crude oil and commodity prices. The Bank expects the Malaysia’s economy to see an uninspiring but stable growth in 2019 as dampened external demand, slowing global growth and domestic political uncertainties continue to weigh on the country.

Against the backdrop of a slowing economy, the Bank will continue to focus on selective, quality financing growth and driving fee based income.

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.

DIRECTORS' REPORT (Continued)

DISCLOSURE OF SHARIAH BOARD (Continued)

(a) Shariah Board Profiles

The profiles of the Shariah Board members are as follows:

Prof. Dr Saleh Abdullah S. Al Lheidan
Chairman

Prof. Dr Salleh holds a PhD and a Masters Degree in Comparative Fiqh (Islamic Law) from 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 2007.

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 has a Masters Degree from the International Islamic University, Malaysia and is a graduate from the Islamic University of Madinah, Saudi Arabia.

Dr Mohammed Hael Ghilan Al - Madhagi
Member

Dr Hael holds a PhD in Fiqh "Islamic Jurisprudence" from Al-Imam Muhammad Ibn Saud Islamic University, Riyadh.

He is currently a senior shariah consultant at Al Rajhi Bank, Saudi Arabia and is involved in developing banking products in accordance to Shariah. 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 Economy and Finance.

DIRECTORS' REPORT (Continued)

DISCLOSURE OF SHARIAH BOARD (Continued)

(a) Shariah Board Profiles (Continued)

Mr Lokmanulhakim Bin Hussain
Member

Mr Lokmanulhakim Bin Hussain currently serves as a researcher at International Shari'ah Research Academy for Islamic Finance (ISRA). He obtained his first class honors in both Bachelor of Arts degree in Shariah and a Master's degree in Fiqh from Islamic University of Medina, Kingdom of Saudi Arabia.

As a researcher, his articles involve in researchers related to Islamic Finance and has presented numerous research papers at various seminars and conferences. He sits as a member of Shariah Board of Al Rajhi Bank Malaysia since 2014.

Apart from that, he also serves as Fatwa Fellow under Malaysian National Fatwa Council to respond to current issues on Islam through news media.

Mr Wan Rumaizi Wan Husin
Member

Mr Wan Rumaizi Wan Husin is the former lecturer at the Department of Fiqh and Usul al-Fiqh at the Kulliyah of Islamic Revealed Knowledge and Human Sciences of International Islamic University Malaysia ('IIUM'). He is currently pursuing a PhD in Islamic Banking and Finance and currently has a Master's Degree in Fiqh and Usul al-Fiqh from IIUM.

Mr Wan Rumaizi has vast experience in Contemporary Issues in the areas of Fiqh Mualamat and Islamic Economics, as well as Fiqhi-Medico. He is a Shariah Committee Member of PruBSN Takaful since 2014 and became a member of the Shariah Board of Al Rajhi Bank Malaysia in July 2015.

The composition of the Shariah Board Committee and the attendance by members at the Shariah Board meetings held in 2018 are as follows:

Shariah Board Members	Shariah Board Meeting	Shariah Extensive Meeting
Prof. Dr. Saleh Abdullah Al-Lheidan (Chairman)	39/40	100%
Assoc. Prof. Dr. Azman Mohd Noor (Deputy Chairman)	39/40	100%
Sheikh Dr. Mohammed Hael Al-Madhagi (Member)	39/40	100%
Sheikh Lokmanulhakim Bin Hussain (Member)	38/40	100%
Sheikh Wan Rumaizi Wan Husin (Member)	38/40	100%

DIRECTORS' REPORT (Continued)

DISCLOSURE OF SHARIAH BOARD (Continued)

(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 specifies 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;

(iii) To ensure that the Bank complies with Shariah principle in all aspect 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 advertisements, 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 for matters which have not been resolved or endorsed. The Shariah Board is also expected to assist the SAC on any matters referred by the Bank.

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DIRECTORS' REPORT (Continued)

SIGNIFICANT EVENTS

Significant events during the financial year ended 31 December 2018 are disclosed in Note 41.

SUBSEQUENT EVENTS

There were no material events subsequent to the statement of the financial position date that require disclosure or adjustments to the financial statements.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office. The auditors remuneration is disclosed in Note 28 to the Financial Statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 6 MAY 2019

MUHAMMAD AFAQ KHAN
DIRECTOR

OW CHEE HONG
DIRECTOR

Kuala Lumpur, Malaysia

AL RAJHI BANKING AND 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, Muhammad Afaq Khan 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 157 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 2018 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 6 MAY 2019

MUHAMMAD AFAQ KHAN
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 157 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 6 MAY 2019

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

Before me,

PESURUHJAYA SUMPAH
No. W 661
TAN KIM CHOOI
1.1.2019-31.12.2021
MALAYSIA

LEVEL 25, MENARA HONG LEONG,
NO 6, JALAN DAMANLELA, BUKIT DAMANSARA,
50490 KUALA LUMPUR

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

REPORT OF SHARIAH BOARD

بسم الله الرحمن الرحيم

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 2018.

Products Endorsement and Issuance of Shariah Rulings

We have reviewed and approved the products and the contracts relating to the transactions undertaken by the Bank during the year ended 31 December 2018. 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 2018, we have issued 47 Shariah rulings on products and services proposed and submitted by the Bank.

Assessment of the Work Carried Out by Shariah Supervision and Shariah Audit

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

Shariah Risk Function

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.

Shariah Training and Awareness

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.

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 2018 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 2018 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

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

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Company No. 719057-X

Independent auditors' report to the member of Al-Rajhi Banking and 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 and Investment Corporation (Malaysia) Bhd., which comprise the statements of financial position as at 31 December 2018 of the Group and of the Company, 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 Company 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 157.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018, 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 Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("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 Company 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 Company and our auditors' report thereon.

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

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Independent auditors' report to the member of
Al-Rajhi Banking and 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 Company, 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 Company 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 Company are responsible for the preparation of financial statements of the Group and of the Company 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 Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company'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 Company 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 Company 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 member of
Al-Rajhi Banking and 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 Company, 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 Company'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 Company'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 Company 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 Company 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 Company, including the disclosures, and whether the financial statements of the Group and of the Company 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.

Company No. 719057-X

Independent auditors' report to the member of
Al-Rajhi Banking and 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 Company, 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
AF: 0039
Chartered Accountants

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

Kuala Lumpur, Malaysia
6 May 2019

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

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

		Group		Bank	
	Note	2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
ASSETS					
Cash and short-term funds	4	247,267	606,178	247,267	606,178
Deposits and placements with banks and other financial institutions	5	392,965	382,866	392,965	382,866
Derivatives assets	6	-	561	-	561
Financial assets at fair value through profit or loss		-	6,527	-	6,527
Financial investments at amortised cost	7	1,530,248	-	1,530,248	-
Securities held-to-maturity	7	-	1,464,928	-	1,464,928
Financing and advances	8	5,001,599	5,678,979	5,001,599	5,678,979
Other assets	9	15,595	32,361	15,589	32,361
Statutory deposit with Bank Negara Malaysia	10	187,000	307,757	187,000	307,757
Tax recoverable		-	10	-	-
Deferred tax assets	11	53,194	58,884	53,194	58,884
Investment in a subsidiary	12	-*	-*	-*	-*
Investment properties	13	105,000	105,000	105,000	105,000
Property and equipment	14	15,318	15,567	15,318	15,567
Intangible assets	15	30,322	28,071	30,322	28,071
Total Assets		**7,578,508**	**8,687,689**	**7,578,502**	**8,687,679**
LIABILITIES AND SHAREHOLDER'S EQUITY					
Liabilities					
Deposits from customers	16	5,712,692	6,959,849	5,712,692	6,959,849
Deposits and placements of banks and other ffinancial institutions	17	670,986	534,610	670,986	534,610
Bills and acceptances payable		4,838	2,323	4,838	2,323
Other liabilities	18	78,605	63,054	78,761	63,113
Subordinated Sukuk	19	385,893	377,756	385,893	377,756
Total Liabilities		**6,853,014**	**7,937,592**	**6,853,170**	**7,937,651**

* The amount is significantly below the rounding threshold. Refer to Note 12 for the details.

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

		Group		Bank	
	Note	**2018**	**2017**	**2018**	**2017**
		RM'000	RM'000	RM'000	RM'000
Shareholder's equity					
Share capital	20	**1,000,000**	**1,000,000**	**1,000,000**	**1,000,000**
Reserves	21	(274,506)	(249,903)	(274,668)	(249,972)
Total Shareholder's Equity		**725,494**	**750,097**	**725,332**	**750,028**
Total Liabilities and Shareholder's Equity		**7,578,508**	**8,687,689**	**7,578,502**	**8,687,679**
COMMITMENTS AND CONTINGENCIES	33	**1,920,551**	**1,983,550**	**1,920,551**	**1,983,550**
CAPITAL ADEQUACY	37				
CET 1 / Core capital ratio		12.519%	11.832%	12.516%	11.831%
Risk-weighted capital ratio		20.849%	18.444%	20.846%	18.443%

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

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

		Group		Bank	
		2018	**2017**	**2018**	**2017**
	Note	RM'000	RM'000	RM'000	RM'000
Revenue	22	**423,822**	**460,150**	**423,404**	**459,867**
Income derived from investment of depositors' funds and others	23	404,253	428,532	404,253	428,532
Income derived from investment of shareholder's funds	24	19,569	31,618	19,151	31,335
Writeback/(allowance) for credit losses on financial assets	25	4,188	(2,626)	4,188	(2,626)
Total distributable income		**428,010**	**457,524**	**427,592**	**457,241**
Income attributable to depositors	26	(233,370)	(264,150)	(233,370)	(264,150)
Total net income		**194,640**	**193,374**	**194,222**	**193,091**
Personnel expenses	27	(111,776)	(120,802)	(111,670)	(120,699)
Other overheads and expenditures	28	(60,353)	(58,511)	(60,167)	(58,352)
Profit before zakat and taxation		**22,511**	**14,061**	**22,385**	**14,040**
Zakat		-	-	-	-
Taxation	30	(10,783)	(3,208)	(10,750)	(3,203)
Net profit for the financial year, representing total comprehensive income for the financial year		**11,728**	**10,853**	**11,635**	**10,837**
Basic/diluted earnings per share (sen)	31	**1.17**	**1.09**	**1.16**	**1.08**

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

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Share capital RM'000	**Statutory reserve** RM'000 (Note 21)	**Accumulated losses** RM'000 (Note 21)	**Total** RM'000
Group				
At 1 January 2017	1,000,000	13,206	(273,962)	739,244
Total comprehensive income for the financial year	-	-	10,853	10,853
At 31 December 2017	**1,000,000**	**13,206**	**(263,109)**	**750,097**
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**
Bank				
At 1 January 2017	1,000,000	13,206	(274,015)	739,191
Total comprehensive income for the financial year	-	-	10,837	10,837
At 31 December 2017	**1,000,000**	**13,206**	**(263,178)**	**750,028**
At 1 January 2018				
Total comprehensive income	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**

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

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

		Group		Bank	
	Note	**2018**	**2017**	**2018**	**2017**
		RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before zakat and taxation		22,511	14,061	22,385	14,040
Adjustments for:					
Depreciation of property and equipment	14	6,383	4,850	6,383	4,850
Amortisation of intangible assets	15	11,382	11,740	11,382	11,740
Net loss on disposal/write-off of equipment		201	-	201	-
Allowance for credit losses		(37,779)	-	(37,779)	-
Allowance for impairment on financing		-	9,284	-	9,284
Bad debt on financing - recovered	25	(8,458)	(8,191)	(8,458)	(8,191)
Bad debts on financing - written off	25	658	1,533	658	1,533
Allowance for expected credit loss	28	1,108	-	1,108	-
Loss on redemption of financial assets at FVTPL	24	164	-	164	-
Gain on disposal of financial investment at amortised cost	24	(97)	-	(97)	-
Unrealised gain on revaluation of securities held-for-trading	24	-	(1,265)	-	(1,265)
Unrealised gain from foreign exchange translations	24	(3,845)	(4,916)	(3,845)	(4,916)
Operating cashflow before workings capital changes		(7,772)	27,096	(7,898)	27,075
(Increase)/decrease in operating activities					
Deposits and placements with banks and other financial institutions		1,883	(74,973)	1,883	(74,973)
Derivative assets		561	(561)	561	(561)
Financing and advances		668,420	320,811	668,420	320,811
Other assets		15,668	(9,430)	15,664	(9,483)
Statutory deposit with Bank Negara Malaysia		120,757	(44,228)	120,757	(44,228)
(Decrease)/increase in operating liabilities					
Deposits from customers		(1,247,157)	905,484	(1,247,157)	905,484
Deposits and placements of banks and other financial institutions		136,376	(690,026)	136,376	(690,026)
Bills and acceptances payable		2,515	1,256	2,515	1,256
Other liabilities		15,587	(14,845)	15,684	(14,786)
Cash (used in)/generated from operating activities		(293,162)	420,584	(293,195)	420,569
Tax paid		(33)	(15)	-	-
Net cash (used in)/generated from operating activities		(293,195)	420,569	(293,195)	420,569

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

	Note	Group 2018 RM'000	Group 2017 RM'000	Bank 2018 RM'000	Bank 2017 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment	14	(6,335)	(5,813)	(6,335)	(5,813)
Purchase of intangible asset	15	(13,633)	(12,036)	(13,633)	(12,036)
Redemption of financial assets at fair value through profit or loss		6,363	439	6,363	439
Proceeds from sale of financial investment at amortised cost		151,673	-	151,673	-
(Purchase)/sale of financial investment at amortised cost		(203,784)	4,053	(203,784)	4,053
Net cash used in investing activities		(65,716)	(13,357)	(65,716)	(13,357)
CASH FLOWS FROM FINANCING ACTIVITY					
Issuance of Subordinated Sukuk, representing net cash generated from financing activity		-	78,753	-	78,753
NET (DECREASE)/INCREASE IN CASH AND SHORT-TERM FUNDS		**(358,911)**	**485,965**	**(358,911)**	**485,965**
Cash and short-term funds as at 1 January		606,178	120,213	606,178	120,213
CASH AND SHORT-TERM FUNDS	4	**247,267**	**606,178**	**247,267**	**606,178**

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

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 12.

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 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 Amendments to MFRS and Annual Improvements to MFRS:

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under MFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in MFRS 15 provide a more structured approach (i.e. five-step model) to measure and recognise revenue. The five step model that will apply to revenue recognition under MFRS 15 is as follows:

(1) Identify the contract(s) with a customer;
(2) Identify the performance obligations in the contract;
(3) Determine the transaction price;
(4) Allocate the transaction price to the performance obligations in the contract; and
(5) Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 BASIS OF PREPARATION (Continued)

MFRS 15 Revenue from Contracts with Customers (Continued)

The Bank has adopted the standard on its effective date, using the modified retrospective method of adoption. The standard does not apply to income or revenue associated with financial instruments scoped in MFRS 9 such as financing and advances and financial investment securities. The adoption of this standard has no material financial impact as most of the revenue of the Group and of the Bank are already recognised in accordance with the principles of MFRS 15.

MFRS 9 Financial Instruments

MFRS 9 replaced MFRS 139 for annual periods on or after 1 January 2018.

The Bank has not restated comparative information for 2017 for financial instruments in the scope of MFRS 9. Thefore the comparative information for 2018 is reported under MFRS 139 and is not comparable to the information presented for 2018. The difference arising from adoption of MFRS 9 has been recognised directly in retained earnings as of 1 January 2018.

(i) Classification and measurement

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories of financial asset : Amortised Cost, Fair Value Through Profit or Loss ("FVTPL") and Fair Value Through Other Comprehensive Income ("FVOCI"). The basis of classification depends on the Group’s and the Bank’s business model and contractual cash flow characteristics of the financial asset.

There are no changes to Group's and Bank's accounting for financial liabilities. All the liabilities will remain as amortised cost as there has not been significant change in the requirement for financial liabilities under MFRS 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 BASIS OF PREPARATION (Continued)

MFRS 9 Financial Instruments (Continued)

(i) Classification and measurement (Continued)

The measurement category and the carrying amount of financial assets and liabilities in accordance with MFRS 139 and MFRS 9 at 1 January 2018 are compared as follow:

	MFRS 139		MFRS 9	
	Measurement Category	Carrying amount RM'000	Measurement Category	Carrying amount RM'000
Cash and short-term funds	Amortised cost	606,178	Amortised cost	606,178
Deposits and and other financial institutions	Amortised cost	382,866	Amortised cost	382,866
Securities held-for-trading	FVTPL	6,527	FVTPL	6,527
Securities held-to-maturity	Amortised cost	1,464,928	Amortised cost	1,444,949
Financing and advances	Amortised cost	5,678,979	Amortised cost	5,657,896

(ii) Impairment

The adoption of MFRS 9 has fundamentally changed the Bank's accounting for financing loss impairments by replacing MFRS 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. MFRS 9 requires the Bank to record an allowance for ECLs for all financings and other debt financial assets not held at FVTPL, together with financing commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Details of the Bank's impairment method are disclosed in Note 2.10.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 BASIS OF PREPARATION (Continued)

MFRS 9 Financial Instruments (Continued)

(ii) Impairment (Continued)

The impact of adoption of the MFRS 9 on the Group's and Bank's accounts are the opening retained earnings decreased by RM41.4 million arising from remeasurement of financial assets as at 1 January 2018.

The following table shows the Group's and Bank's financial assets, deferred tax asset, other liabilities and accumulated losses as at 1 January 2018.

Group and Bank

	MFRS 139 carrying amount 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 carrying amount 1 January 2018 RM'000
Cash and short-term funds	606,178	-	-	606,178
Deposits and placements with banks and other financial institutions	382,866	-	-	382,866
Securities held-for-trading	6,527	(6,527)	-	-
Financial assets at FVTPL	-	6,527	-	6,527
Securities held-to-maturity	1,464,928	(1,464,928)	-	-
Financial investment at amortised cost (Note 7)	-	1,464,928	(19,979)	1,444,949
Deferred tax asset	58,884	-	5,060	63,944
Financing and advances:				
Gross financing and advances	5,752,791	-	-	5,752,791
Less: Allowance for impairment	(73,812)	73,812	-	-
Effects of adoption of MFRS 9	-	(73,812)	(21,083)	(94,895)
Carrying amount	5,678,979	-	(21,083)	5,657,896

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 BASIS OF PREPARATION (Continued)

MFRS 9 Financial Instruments (Continued)

(ii) Impairment (Continued)

	MFRS 139 carrying amount 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 carrying amount 1 January 2018 RM'000
Other liabilities				
ECL allowance on off-balance sheet	-	-	(329)	(329)
Accumulated losses	(263,109)	-	(36,331)	(299,440)
Provision for taxation	(3,208)	-	5,060	1,852

Transfers of Investment Property (Amendments to MFRS 140)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property is insufficient to support the change in use.

The amendments apply for annual periods beginning on or after 1 January 2018, with earlier application permitted. Entities are given two options to apply these amendments:

(i) the *prospective approach* - apply the amendments to transfers that occur after the date of initial application and also reassess the classification of property assets held at that date; or

(ii) the *retrospective approach* - apply the amendments retrospectively, but only if it does not involve the use of hindsight.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 BASIS OF PREPARATION (Continued)

Transfers of Investment Property (Amendments to MFRS 140) (Continued)

There is no impact to the financial statements upon adoption of the amendments to the Group and the Bank.

IC Interpretation 22 Foreign Currency Transactions and Advance Consideration

IC Interpretation 22 addresses the exchange rate that should be used to measure revenue (or expense) when the related consideration was received (or paid) in advance. It requires that the exchange rate to use is the one that applied when the non-monetary asset (or liability) arising from the receipt (or payment) of advance consideration was initially recognised.

(i) retrospectively according to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors; or

(ii) prospectively to all assets, expenses and income in the scope of the interpretation initially recognised on or after:

- the beginning of the reporting period in which the entity first applies the interpretation; or

- the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

There is no significant impact to the financial statements upon adoption of the interpretation to the Group and the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 BASIS OF PREPARATION (Continued)

New and amendment to MFRSs issued but not effective

The standards and interpretations that are issued and which are applicable the Group and the Bank, 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**
MFRS 16 Leases	1 January 2019
IC Interpretation 23: Uncertainty over Income Tax Treatments	1 January 2019
Amendments to MFRS contained in the document entitled "Annual Improvements to MFRS Standards document 2015 - 2017 Cycle"	1 January 2019
Amendments to MFRS 3 and MFRS 11: Previously Held Interest in a Joint Operation contained in the document entitled "Annual Improvements to MFRS Standards 2015 - 2017 Cycle"	1 January 2019
Amendments to MFRS 112: Income Tax Consequences of Payments on Financial Instruments Classified as Equity contained in the document entitled "Annual Improvements to MFRS Standards 2015 - 2017 Cycle"	1 January 2019
Amendments to MFRS 123: Borrowing Costs Eligible for Capitalisation contained in the document entitled "Annual Improvements to MFRS Standards 2015 - 2017 Cycle"	1 January 2019
MFRS 16: Leases	1 January 2019
Amendments to MFRS 9: Prepayment Features with Negative Compensation	1 January 2019
Amendments to MFRS 119: Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to MFRS 128: Long-term Interests in Associates and Joint Ventures	1 January 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 BASIS OF PREPARATION (Continued)

IC Interpretation 22 Foreign Currency Transactions and Advance Consideration (Continued)

New and amendment to MFRSs issued but not effective (Continued)

MFRSs, Amendments to MFRSs and Interpretations	**Effective for financial period beginning on or after**
Amendments to MFRS 2: Share-Based Payment	1 January 2020
Amendments to MFRS 3: Business Combinations	1 January 2020
Amendments to MFRS 3: Definition of a Business	1 January 2020
Amendments to MFRS 6: Exploration for and Evaluation of	1 January 2020
Amendments to MFRS 14: Regulatory Deferral Accounts	1 January 2020
Amendments to MFRS 101: Presentation of Financial Statements	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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 BASIS OF PREPARATION (Continued)

The new MFRSs, MFRS Amendments and Interpretations issued but not yet effective do not have a significant impact on the Group and Bank, apart from those discussed below:

MFRS 16 Leases

MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model, similar to the accounting for finance leases under MFRS 117. The standard will supersede MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease - Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

(i) Lessee

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Subsequently, lessees will be required to recognise profit expense on the lease liability and the depreciation expense on the right-of-use asset.

(ii) Lessor

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

The standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group and the Bank are in the process of assessing the financial implication for adopting the new standard and plan to adopt the new standard on the required effective date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 SUBSIDIARIES AND BASIS OF CONSOLIDATION

(a) Basis of consolidation

The consolidated financial statements comprise of the financial statements of the Bank and its subsidiary as at 31 December 2018. The financial statements of the Bank's subsidiary are prepared for the same reporting date as the Bank, using consistent accounting policies to like transactions and events in similar circumstances.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Bank obtains control and continue 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 subsidiary;
- Derecognises the cumulative foreign exchange translation differences recorded in equity;
- 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)

(b) Investment in subsidiaries

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; and

- The ability to use its power over the investee to affect its returns.

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. 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

Business model assessment

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets (Continued)

Subsequent measurement

Business model assessment

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.

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

As a second step of its classification process the Bank assesses the contractual terms of financial 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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets (Continued)

The most significant elements of profit within a financing arrangement are typically the consideration for the time value of money and credit risk. To make 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 condition 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets (Continued)

(ii) FVOCI (debt instrument)

The Group and the Bank measure financial assets at FVOCI if the following condition 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 asset.

- 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 recycle 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 criterias is met. Such designation is determined on an instrument-by-instrument basis:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets (Continued)

(iii) Financial assets at FVTPL (Continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 PROPERTY AND EQUIPMENT (Continued)

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	10%
Renovations	20%
Computer equipment and intangible	20%
Motor vehicle	20%

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 INVESTMENT PROPERTIES (Continued)

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;

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 INSTITUTIONS

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

The adoption of MFRS 9 has fundamentally changed the Bank's financing loss impairment method by replacing MFRS 139 incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses 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'. 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").

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 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 IMPAIRMENT (Continued)

(a) Financial assets (Continued)

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 a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the 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.

- 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.

- 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 IMPAIRMENT (Continued)

(b) The calculation of ECLs (Continued)

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 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 IMPAIRMENT (Continued)

(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 environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in Ringgit Malaysia, which is the Group’s and the Bank'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 does 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.

(b) Fee and commission

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 is recognised are as revenue over the period in which the services are provided.

(ii) Fee income earned on the completion of contractual

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

Fee and commission income can be divided into the following

(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) Commission

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

(3) Agency fees

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 INCOME RECOGNITION (Continued)

(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 OPERATING LEASE

Under the operating lease, the Group and the Bank act as a lessee. The operating lease payments are accounted for on a straight-line basis over the lease term and included in "Other overheads and expenditures".

2.21 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 both under MFRS 9 and MFRS 139 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.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

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.

(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.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

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.

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.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

3.2 ESTIMATES (Continued)

(iii) Deferred taxes (Continued)

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 provides 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	
	2018	**2017**
	RM'000	RM'000
Cash and bank balances with banks and other financial institutions	48,651	95,998
Money at call and deposit placements with licensed banks with contractual maturity of less than one month	198,616	510,180
	247,267	606,178

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)	
	2018	**2017**	**2018**	**2017**
Foreign financial institutions	2.82	2.19	365	347
Money at call and deposit placements with licensed banks with contractual maturity of more than one month	2.71	1.67	18	24

6. DERIVATIVE ASSETS

Group and Bank	**Notional Amount**	**Fair Value Assets**	**Fair Value Liabilities**
	RM'000	RM'000	RM'000
2018			
Foreign currency forward contract	-	-	-
2017			
Foreign currency forward contract	21,892	561	-

7. FINANCIAL INVESTMENT AT AMORTISED COST (2017: SECURITIES HELD-TO-MATURITY)

	Group and Bank 2018	**Group and Bank 2017**
At amortised cost/ held-to-maturity	RM'000	RM'000
Unquoted :		
Islamic government securities in Malaysia	1,266,464	1,418,151
Islamic private debt securities in Malaysia	34,609	46,777
Cagamas sukuk	236,042	-
	1,537,115	1,464,928
Expected credit loss ("ECL")	(6,867)	-
	1,530,248	1,464,928

	Stage 1 ECL **RM'000**	**Stage 2** ECL **RM'000**	**Stage 3** ECL **RM'000**	Total **RM'000**
At 1 January 2018	-	-	-	-
Effects of adoption of MFRS 9 (Note 2.1)	-	19,979	-	19,979
Changes due to				-
Transferred to Stage 1	-	-	-	-
Transferred to Stage 2	-	-	-	-
Transferred 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. FINANCING AND ADVANCES

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

	Group and Bank 2018		
At amortised cost	**Bai' Bithaman Ajil** RM'000	**Qard** RM'000	**Total net financing and advances** RM'000
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
Less: ECL			
- Stage 1			(33,982)
- Stage 2			(32,150)
- Stage 3			(33,018)
Total net financing and advances			5,001,599

8. FINANCING AND ADVANCES (Continued)

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

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 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

8. FINANCING AND ADVANCES (Continued)

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

	Group and Bank 2017		
	Bai' Bithaman Ajil RM'000	**Qard** RM'000	**Total net financing and advances** RM'000
At amortised cost			
Term financing:			
Corporate financing	3,951,645	-	3,951,645
Personal financing	590,376	-	590,376
Home financing	1,065,290	-	1,065,290
SME financing	33,712	-	33,712
Vehicle financing	78,999	-	78,999
Shop-house financing	31,353	-	31,353
Charge cards	-	1,416	1,416
Gross financing and advances	5,751,375	1,416	5,752,791
Less: Impairment allowance:			
- Collective assessment			(72,549)
- Individual assessment			(1,263)
Total net financing and advances			5,678,979

All gross financing and advances are within Malaysia.

8. FINANCING AND ADVANCES (Continued)

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

	Group and Bank 2018 RM'000	Group and Bank 2017 RM'000
Domestic non-bank financial institutions	33,469	172,498
Domestic business enterprise	3,436,655	3,812,703
Individuals	1,613,825	1,745,370
Foreign entities	16,800	22,220
	5,100,749	5,752,791

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

	Group and Bank 2018 RM'000	Group and Bank 2017 RM'000
Fixed rate:		
Corporate financing	318,236	593,354
Personal financing	542,263	590,376
SME financing	28,927	33,712
Home financing	6,850	8,462
Vehicle financing	63,357	78,999
Charge card	1,349	1,416
Shop-house financing	662	751
Variable rate:		
Home financing	988,636	1,056,828
Shop-house financing	27,981	30,602
Corporate financing	3,122,488	3,358,291
	5,100,749	5,752,791

8. FINANCING AND ADVANCES (Continued)

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

	Group and Bank	
	2018	**2017**
	RM'000	RM'000
Due within three months	1,681,691	1,853,010
More than three months to one year	526,194	548,589
More than one year to five years	519,664	685,282
More than five years	2,373,200	2,665,910
	5,100,749	5,752,791

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

	Group and Bank	
	2018	**2017**
	RM'000	RM'000
Working capital	2,667,282	3,195,681
Purchase of property - residential property	1,035,275	1,128,065
Personal use	542,414	590,570
Purchase of land	195,590	181,076
Purchase of industrial buildings and factories	170,448	172,345
Purchase of commercial complex	97,529	100,277
Purchase of other non-residential property	90,806	95,527
Construction	73,490	62,252
Others	72,688	85,699
Purchase of vehicles	62,787	78,693
Purchase of fixed assets (excluding land and building)	62,340	39,023
Purchase of shophouses	28,751	22,167
Charge card	1,349	1,416
	5,100,749	5,752,791

8. FINANCING AND ADVANCES (Continued)

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

	Group and Bank	
	2018	**2017**
	RM'000	RM'000
Household	1,631,399	1,767,689
Wholesale and retail trade	1,095,464	1,073,310
Manufacturing	833,801	897,350
Real estate, renting and business activities	668,944	1,033,211
Construction	574,019	551,725
Education, health and others	98,746	82,916
Agriculture, hunting and related service activities	68,875	61,267
Transportation	38,596	30,888
Finance intermediation	33,471	172,511
Mining and quarrying	25,625	24,619
Hotel and restaurant	20,535	41,437
Other business	11,274	15,868
	5,100,749	5,752,791

(g) Movements in impaired financing and advances

	Group and Bank	
	2018	**2017**
	RM'000	RM'000
At 1 January	23,856	43,144
Impaired during the financial year	102,176	57,349
Reclassified as non-impaired	(1,142)	(12,590)
Recoveries	(43,618)	(35,289)
Write-off	(14,426)	(28,758)
At 31 December (Note 36 (c)(vi))	66,846	23,856
Ratio of net impaired financing and advances to gross financing and advances less individual impairment allowances	0.67%	0.39%

Included in amount classified as impaired as at 31 December 2018 is profit accrued on impaired financing of RM1,834,644 (2017: RM656,444).

All impaired financing are within Malaysia.

8. FINANCING AND ADVANCES (Continued)

(h) Movements in ECL/impairment allowances for financing and advances:

	Group and Bank	
	2018	2017
	RM'000	RM'000
ECL/ Collective assessment allowance		
At 1 January	72,549	81,797
Effects of adoption of MFRS 9 (Note 2.1)	(72,549)	-
Stage 1 ECL on adoption of MFRS 9 as at 1 January 2018	30,773	-
Stage 2 ECL on adoption of MFRS 9 as at 1 January 2018	53,612	-
Stage 1 ECL provided during the financial year (Note 25(a))	3,209	-
Stage 2 ECL provided during the financial year (Note 25(a))	(21,462)	-
Allowance made during the financial year (Note 25 (b))	-	8,401
Amount written off during the financial year	-	(17,649)
At 31 December (Note 36 c(vi))	66,132	72,549
As % of total gross financing and advances less individual impairment allowances	1.30%	1.26%
ECL/ Individual assessment allowance		
At 1 January	1,263	7,289
Effects of adoption of MFRS 9 (Note 2.1)	(1,263)	-
Stage 3 ECL on adoption of MFRS 9 as at 1 January 2018	10,510	-
Stage 3 ECL provided during the financial year (Note 25(a))	35,013	-
Allowance made during the financial year (Note 25(a))	-	1,247
Amount recovered during the financial year (Note 25(a))	-	(364)
Amount written off	(12,505)	(6,909)
At 31 December (Note 36 c(vi))	33,018	1,263

8. FINANCING AND ADVANCES (Continued)

Group and Bank	Stage 1 RM'000	Stage 2 RM'000	Stage 3 RM'000	Collective assesment RM'000	Individual assessment RM'000	Total RM'000
At 1 January 2018	-	-	-	72,549	1,263	73,812
Effects of adoption of MFRS 9 (Note 2.1)	30,773	53,612	10,510	(72,549)	(1,263)	21,083
Changes due to financial assets recognised in the opening balance:						
- Transferred to 12-mth ECL	3,714	(2,823)	(891)	-	-	-
- Transferred to Lifetime ECL not credit impaired	(1,066)	2,030	(964)	-	-	-
- Transferred to Lifetime ECL credit impaired	(16)	(14,741)	14,757	-	-	-
Financing derecognised during the period (other than write-offs)	(4,879)	(13,667)	(530)	-	-	(19,076)
Write-offs	-	-	(12,505)	-	-	(12,505)
New financing originated/ purchased	8,656	1,274	2,216	-	-	12,146
Changes due to change in credit risk	(3,693)	9,147	20,746	-	-	26,200
Allowance made/ (written back), net	493	(2,682)	(321)	-	-	(2,510)
At 31 December 2018	33,982	32,150	33,018	-	-	99,150

8. FINANCING AND ADVANCES (Continued)

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

	Group and Bank	
	2018	**2017**
	RM'000	RM'000
Working capital	48,142	10,110
Purchase of properties - residential	11,882	6,461
Personal use	5,925	6,179
Purchase of transport vehicles	714	940
Charge card	183	166
	66,846	23,856

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

	Group and Bank	
	2018	**2017**
	RM'000	RM'000
Construction	31,782	-
Household	18,704	13,746
Manufacturing	9,255	9,040
Other business	7,105	1,054
Financial Intermediation	-	16
	66,846	23,856

9. OTHER ASSETS

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	RM'000	RM'000	RM'000
Other debtors and deposits	17,856	24,150	17,850	24,150
Amount due from holding company*	-	9,545	-	9,545
Sundry deposits	3,302	3,637	3,302	3,637
Less: Allowance for ECL (2017: Allowance for impairment)	(5,563)	(4,971)	(5,563)	(4,971)
	15,595	32,361	15,589	32,361
Allowance for ECL (2017: Allowance for impairment):				
As at 1 January	(4,971)	(6,343)	(4,971)	(6,343)
(Additions)/reversal	(592)	1,372	(592)	1,372
As at 31 December	(5,563)	(4,971)	(5,563)	(4,971)

* Amount due from holding company is unsecured, profit free and repayable on demand.

10. 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.

11. DEFERRED TAX ASSETS

	Group and Bank	
	2018	**2017**
	RM'000	RM'000
At 1 January	58,884	62,087
- effect of adoption of MFRS 9 (Note 2.1)	5,060	-
At 1 January, as restated	63,944	62,087
Recognised in profit/loss (Note 30)	(10,750)	(3,203)
At 31 December	53,194	58,884

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 and Bank	
	2018	**2017**
Group and Bank	RM'000	RM'000
Deferred tax assets	55,594	59,384
Deferred tax liabilities	(2,400)	(500)
	53,194	58,884

11. DEFERRED TAX ASSETS (Continued)

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

Deferred tax liabilities:

	Property and equipment RM'000	Investment properties RM'000	Total RM'000
Group and Bank			
At 1 January 2018	-	(500)	(500)
Recognised in profit/loss	-	(1,900)	(1,900)
At 31 December 2018	-	(2,400)	(2,400)
At 1 January 2017	(1,687)	(500)	(2,187)
Recognised in profit/loss	1,687	-	1,687
At 31 December 2017	-	(500)	(500)

Deferred tax assets:

	Property and equipment RM'000	Provisions RM'000	Unutilised losses RM'000	Total RM'000
Group and Bank				
At 1 January 2018				
- as previously stated	867	8,534	49,983	59,384
- effect of adoption of MFRS 9 (Note 2.1)	-	-	5,060	5,060
At 1 January 2018, as restated	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
At 1 January 2017	-	6,413	57,861	64,274
Recognised in profit/loss	867	2,121	(7,878)	(4,890)
At 31 December 2017	867	8,534	49,983	59,384

11. DEFERRED TAX ASSETS (Continued)

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	
	2018	**2017**
	RM'000	RM'000
Unutilised tax losses	166,088	201,300

The deferred tax assets have been recognised as at 31 December 2018 as the directors are of the view that it is probable for the Bank to realise the deferred tax asset.

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.

12. INVESTMENT IN A SUBSIDIARY

Name	Principal activity	Effective interest 2018	Effective interest 2017
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 (2017: 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
Ezly Binti Onn

13. 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 2018, the fair values of the properties are based on valuation carried out by an independent qualified valuer using the comparison method of valuation approach. This method of valuation seeks to determine the value of the properties being valued by comparing and adopting as a yardstick recent transactions and sale evidences involving other similar properties in the vicinity.

The following amounts have been reflected in the income statement:

	Group and Bank	
	2018	**2017**
	RM'000	RM'000
Rental income derived from investment properties (Note 24)	1,827	2,907
Direct operating expenses	(373)	(200)
Profit arising from investment properties carried at fair value	1,454	2,707

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 disclosures for investment properties have been provided in Note 40.

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

14. PROPERTY AND EQUIPMENT

	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**

Included in property and equipment are the cost of fully depreciated assets which are still in use amounting to RM88,075,758 (2017: RM94,294,559).

14. 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							
2017							
Cost							
At 1 January 2017	30,345	3,061	6,869	73,917	255	-	114,447
Additions	555	426	133	4,699	-	-	5,813
At 31 December 2017	30,900	3,487	7,002	78,616	255	-	120,260
Accumulated depreciation							
At 1 January 2017	29,331	2,356	5,266	62,652	238	-	99,843
Charge for the financial year	322	138	378	3,995	17	-	4,850
At 31 December 2017	29,653	2,494	5,644	66,647	255	-	104,693
Net book value							
At 31 December 2017	**1,247**	**993**	**1,358**	**11,969**	**-**	**-**	**15,567**

15. INTANGIBLE ASSETS

	Group and Bank 2018 RM'000	Group and Bank 2017 RM'000
Computer software		
Cost		
At 1 January	148,223	136,187
Additions	4,502	12,036
Work-in-progress	9,131	-
Write-off	(39)	-
At 31 December	161,817	148,223
Accumulated amortisation		
At 1 January	120,152	108,412
Amortisation for the financial year	11,382	11,740
Write-off	(39)	-
At 31 December	131,495	120,152
Net book value	**30,322**	**28,071**

Included in intangible assets are the cost of fully depreciated assets which are still in use amounting to RM102,525,743 (2017: RM88,138,418)

16. DEPOSITS FROM CUSTOMERS

(i) By type of deposit

	Note	Group and Bank 2018 RM'000	Group and Bank 2017 RM'000
Savings deposits			
Qard		212,428	189,464
Demand deposits			
Qard		449,002	661,589
Mudharabah	(a)	118,091	117,658
Term deposit			
Commodity Murabahah		4,912,043	5,952,790
General investment account	(a)		
Mudharabah		7,158	8,935
Wakalah		13,580	28,987
Other deposits		390	426
		5,712,692	6,959,849

16. DEPOSITS FROM CUSTOMERS (Continued)

(i) By type of deposit (Continued)

(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	
	2018	**2017**
	RM'000	RM'000
Business enterprises	1,937,093	1,593,951
Government and statutory bodies	2,243,542	1,176,025
Non-bank financial institutions	925,083	1,798,013
Other entities	156,752	1,653,125
Individuals	366,113	368,235
Non resident	84,109	310,325
Others	-	60,175
	5,712,692	6,959,849

(iii) By maturity structure

	Group and Bank	
	2018	**2017**
	RM'000	RM'000
Due within three months	3,232,069	3,572,928
More than three months to one year	2,409,425	3,292,044
More than one year to five years	71,198	94,877
	5,712,692	6,959,849

17. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2018	**2017**
	RM'000	RM'000
Non-Mudharabah Funds		
Licensed Islamic banks	670,986	393,573
Licensed financial institutions	-	141,037
	670,986	534,610

18. OTHER LIABILITIES

	Note	Group		Bank	
		2018	**2017**	**2018**	**2017**
		RM'000	RM'000	RM'000	RM'000
Other accruals and payables	(i)	44,448	48,734	44,604	48,793
Amount due to holding company (Note 32(b))	(ii)	21,278	-	21,278	-
Deferred income	(iii)	12,750	14,250	12,750	14,250
Profit reserve - Wakalah Invest		129	70	129	70
		78,605	63,054	78,761	63,113

(i) Included in other accruals and payables is amount due ARNT amounting to RM175,472 (2017: RM62,717).

(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 24.

	Group and Bank	
	2018	**2017**
Deferred as at 1 January	14,250	15,000
Recognised as income in profit or loss	(1,500)	(750)
Deferred as at 31 December	12,750	14,250

19. SUBORDINATED SUKUK

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.

20. SHARE CAPITAL

	Group and Bank	
	2018	2017
	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.

21. RESERVES

	Group		Bank	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Non-distributable:				
Statutory reserve	13,206	13,206	13,206	13,206
Accumulated losses	(287,712)	(263,109)	(287,874)	(263,178)
	(274,506)	(249,903)	(274,668)	(249,972)

21. RESERVES (Continued)

The nature and purpose of the statutory reserve is as follows:

(i) Statutory reserve

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. Therefore, there is no transfer to statutory reserve during the year under review.

Movements of the statutory reserve are as follows:

	Group and Bank	
	2018	**2017**
	RM'000	RM'000
At 1 January	13,206	13,206
Transferred from total comprehensive income for the financial year	-	-
At 31 December	13,206	13,206

22. REVENUE

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

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

	Group and Bank	
	2018	**2017**
	RM'000	RM'000
Income derived from investment of:		
(i) General investment deposits	415	691
(ii) Other deposits	403,838	427,841
	404,253	428,532

23. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS (Continued)

(i) Income derived from investment of general investment deposits

	Group and Bank	
	2018	**2017**
	RM'000	RM'000
Finance income and hibah		
Financing and advances	400	669
Money at call and deposit with financial institutions	15	22
Total finance income and hibah	415	691

(ii) Income derived from investment of other deposits

	Group and Bank	
	2018	**2017**
	RM'000	RM'000
Finance income and hibah		
Financing and advances	328,944	359,637
Financial investment at amortised cost	64,312	-
Securities held-to-maturity	-	58,466
Money at call and deposit with financial institutions	10,578	9,734
Accretion of discount	4	4
	403,838	427,841

24. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	RM'000	RM'000	RM'000
Finance income and hibah				
Money at call and deposit with financial institutions	1,939	1,823	1,939	1,823
Other operating income				
- Net gain from foreign exchange translations				
- Realised	(840)	2,300	(840)	2,300
- Unrealised	3,845	4,916	3,845	4,916
- Rental income (Note 13)	1,827	2,907	1,827	2,907
- Wakalah fees on gold trading	1,399	1,424	1,399	1,424
- Loss on redemption of financial assets at FVTPL	(164)	-	(164)	-
- Gain on disposal of financial investment at amortised cost	97	-	97	-
- Unrealised gain on revaluation of securities held-for-trading	-	1,265	-	1,265
- Others	333	350	333	350
Other income				
- Agency fees	418	283	-	-
- Service charges	3,345	4,457	3,345	4,457
- Commission received	7,370	11,893	7,370	11,893
	19,569	31,618	19,151	31,335

25. WRITEBACK/(ALLOWANCE) FOR CREDIT LOSSES ON FINANCIAL ASSETS

	Group and Bank	
	2018	**2017**
	RM'000	RM'000
Financing and advances:		
(a) Stage 1		
- provided during the financial year	3,558	-
- written back during the financial year	(349)	-
Stage 2		
- provided during the financial year	2,731	-
- written back during the financial year	(24,193)	-
Stage 3		
- provided during the financial year	35,258	-
- written back during the financial year	(245)	-
Total	16,760	-
Individual assessment allowance		
- provided during the financial year	-	1,247
- written back during the financial year	-	(364)
Collective assessment allowance		
- provided during the financial year	-	8,405
- written back during the financial year	-	(4)
Total	16,760	9,284
(b) Bad debts on financing:		
- recovered during the financial year	(8,458)	(8,191)
- written off during the financial year	658	1,533
Total	(7,800)	(6,658)
(d) Financial investment at amortised cost		
- provided in the financial year	14	-
- written back	(13,126)	-
Total	(13,112)	-
(e) Impairment allowance for off balance sheet		
- provided in the financial year	47	-
- written back	(83)	-
Total	(36)	-
Grand total	(4,188)	2,626

26. INCOME ATTRIBUTABLE TO DEPOSITORS

	Group and Bank	
	2018	**2017**
	RM'000	RM'000
Deposits from customers		
- Non-Mudharabah	217,297	232,751
- Mudharabah	1,597	1,704
- Wakalah	806	985
	219,700	235,440
Deposits and placements of banks and other financial institutions		
- Non-Mudharabah	13,670	28,710
	233,370	264,150

27. PERSONNEL EXPENSES

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	RM'000	RM'000	RM'000
Salaries and wages	70,191	70,587	70,119	70,517
Statutory contributions	14,206	15,612	14,192	15,598
Allowance and bonuses	17,339	16,623	17,319	16,618
Others	10,040	17,980	10,040	17,966
	111,776	120,802	111,670	120,699

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

28. OTHER OVERHEADS AND EXPENDITURES

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	RM'000	RM'000	RM'000
Marketing				
Advertisement and publicity	4,299	4,162	4,123	4,004
Establishment				
Office rental	8,766	9,512	8,766	9,512
Depreciation of property and equipment	6,383	4,850	6,383	4,850
Amortisation of intangible assets	11,382	11,740	11,382	11,740
Electronic data processing expenses	3,925	3,949	3,925	3,949
Premises	4,653	3,736	4,653	3,736
Others	190	279	190	279
General expenses				
Auditors' remuneration:				
Statutory audit	658	198	653	193
Regulatory related services	100	100	100	100
Other services	44	43	39	39
Takaful and insurance	1,067	1,639	1,067	1,639
Professional fees	6,566	1,687	6,566	1,687
Security service charges	2,725	4,140	2,725	4,140
Communication	1,351	1,772	1,351	1,772
Transaction and outsourcing fees	2,980	4,467	2,980	4,467
Fraud and operational losses	(1,751)	18	(1,751)	18
Printing and stationeries	512	809	512	809
Entertainment	195	218	195	218
Shariah expenses	944	1,001	944	1,001
Allowance for ECL (2017: Write back for allowance)	1,108	(364)	1,108	(364)
Non-Executive Directors' Remuneration	440	695	440	695
Administration travel and transport	770	795	770	795
Licence fees, bank charges and stamp duty	435	456	435	456
Subscription fees	1,079	1,120	1,079	1,120
Others	1,532	1,489	1,532	1,497
	60,353	58,511	60,167	58,352

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

29. CEO, DIRECTORS AND SHARIAH BOARD MEMBERS' REMUNERATION

The remuneration attributable to the Group and the Bank during the financial year amounted to RM4,182,000 (2017: RM4,308,000).

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

Group and Bank	2018 Fees	2018 Salaries and/ or other emoluments*	2018 Total	2017 Fees	2017 Salaries and/ or other emoluments*	2017 Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Chief Executive Officer:						
Chen Thien Yin	-	2,777	2,777	-	2,629	2,629
Non-Executive Directors:						
Ow Chee Hong	96	38	134	96	69	165
Muhammad Afaq Khan	135	38	173	102	43	145
Johari Bin Abdul Muid	96	38	134	14	-	14
Datuk Seri Dr Nik Norzrul Thani Bin Nik Hassan Thani (Resigned on 2 November 2017)	-	-	-	113	258	371
Executive Directors:						
Waleed Abdullah Al-Mogbel **	-	-	-	-	-	-
Stefano P. Bertamini **	-	-	-	-	-	-
Shariah Board Members:						
Prof. Dr Saleh Abdullah S. Al Lheidan	96	116	212	96	120	216
Assoc Prof Dr Azman Mohd Noor	90	116	206	90	120	210
Dr Mohammed Hael Ghilan Al - Madhagi	66	116	182	66	120	186
Mr Loqmanulhakim Bin Hussain	66	116	182	66	120	186
Mr Wan Rumaizi Wan Husin	66	116	182	66	120	186
Total	711	3,471	4,182	709	3,599	4,308

* 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.

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

30. TAXATION

	Group		Bank	
	2018	**2017**	**2018**	**2017**
	RM'000	RM'000	RM'000	RM'000
Tax expense for the financial year:				
- Malaysian income tax	33	5	-	-
Deferred tax:				
- Relating to origination of temporary differences	6,112	4,704	6,112	4,704
- Under/(over) provision in prior year	4,638	(1,501)	4,638	(1,501)
Sub-total	10,750	3,203	10,750	3,203
Total	10,783	3,208	10,750	3,203

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	
	2018	**2017**	**2018**	**2017**
	RM'000	RM'000	RM'000	RM'000
Profit before zakat and taxation	22,511	14,061	22,385	14,040
Income tax using Malaysian tax rate of 24% (2017: 24%)	5,405	3,375	5,372	3,370
Tax effects from:				
- expense not deductible for tax purposes	745	1,447	745	1,447
- income not subjected to tax	(5)	(113)	(5)	(113)
- Under/(over) provision of deferred tax in prior year	4,638	(1,501)	4,638	(1,501)
	10,783	3,208	10,750	3,203

31. 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	
	2018	**2017**	**2018**	**2017**
Net profit for the financial year (RM'000)	11,728	10,853	11,635	10,837
Average shares issued during the year ('000)	1,000,000	1,000,000	1,000,000	1,000,000
Basic profit per share (sen)	1.17	1.09	1.16	1.08

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

32. 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.

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.

32. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

(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 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 18)	(21,278)	-	-
- Subsidiary company (Note 18)	-	(175)	-
- Subordinated Sukuk (Note 19)	(385,893)	-	-
- Dividend payable on Subordinated Sukuk	(1,414)	-	-
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)

32. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

(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 2017			
Asset/(liabilities)			
Amount due from:			
- Financing and advances	-	-	3,732
- Deposits placements	5,397	-	-
- Holdings Company (Note 9)	9,545	-	-
Amount due to:			
- Current accounts - i	-	-	(225)
- Savings account - i	-	-	(468)
- Commodity Murabahah Term Deposit	-	-	(620)
- Subsidiary company (Note 18)	-	(63)	-
- Subordinated Sukuk (Note 19)	(377,756)	-	-
- Dividend payable on Subordinated Sukuk	(1,022)	-	-
Transaction for financial year ended 31 December 2017			
Income/(expenses)			
Profit income from:			
- Financing and advances	-	-	167
- Deposits placements	236	-	-
	-	-	-
Income attributable to depositors:	-	-	-
- Dividend on Subordinated Sukuk	1,022	-	-
Short-term employee benefits:			
- Salary and other remuneration	-	-	(13,438)

The total key management personnel compensation includes Chief Executive Officer/Managing Director's remuneration of which details are disclosed in Note 29.

33. 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:

	2018			2017		
	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
Group and Bank						
Transaction-related contingent items	70,662	35,331	35,331	91,035	45,518	45,517
Trade-related contingencies	3,580	716	716	27,493	5,499	5,499
Irrevocable commitments to extend credit:						
- Maturity not exceeding one year	1,742,964	348,568	322,230	1,764,333	351,173	318,070
- Maturity exceeding one year	95,435	47,689	47,080	92,221	47,804	46,627
Unutilised credit card lines	7,910	1,582	1,187	8,468	1,694	1,270
	1,920,551	433,886	406,544	1,983,550	451,688	416,983

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.

34. 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	
	2018	**2017**
	RM'000	RM'000
Authorised and contracted for:		
Property and equipment	10,239	18,780

35. CREDIT EXPOSURE ARISING FROM CREDIT TRANSACTIONS WITH CONNECTED PARTIES

	Group and Bank	
	2018	**2017**
Outstanding credit exposures with connected parties (RM'000)	10,115	13,798
Percentage of outstanding credit exposures to connected parties as proportion of capital base	0.9%	1.3%
Percentage of outstanding credit exposures to connected parties as proportion of total outstanding credit exposures	0.1%	0.2%
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;

35. 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.

36. 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 profit or loss ("FVTPL"); and
iv. Other financial liabilities ("Other FL").

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial instrument by category (Continued)

Group	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	17,893	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

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

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial instrument by category (Continued)

Group (Continued)	Carrying amount RM'000	FR RM'000	FVTPL RM'000	Amortised Cost RM'000	Other FL RM'000
2017					
Financial Assets					
Cash and short term funds	606,178	606,178	-	-	-
Deposits and placements with banks and other financial institutions	382,866	382,866	-	-	-
Hedging financial instruments	561	-	561	-	-
Financing and advances	5,678,979	5,678,979	-	-	-
Securities held-to-maturity	1,464,928	-	-	1,464,928	-
Financial assets at fair value through profit or loss	6,527	-	6,527	-	-
Statutory deposits with BNM	307,757	307,757	-	-	-
Other assets	24,187	24,187	-	-	-
	8,471,983	6,999,967	7,088	1,464,928	-
Financial Liabilities					
Deposits from customers	6,959,849	-	-	-	6,959,849
Deposits and placements of banks and other financial institutions	534,610	-	-	-	534,610
Bills and acceptances payable	2,323	-	-	-	2,323
Other liabilities	36,022	-	-	-	36,022
Subordinated Sukuk	377,756	-	-	-	377,756
	7,910,560	-	-	-	7,910,560

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

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial instrument by category (Continued)

Bank	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

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

36. 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
2017					
Financial Assets					
Cash and short term funds	606,178	606,178	-	-	-
Deposits and placements with banks and other financial institutions	382,866	382,866	-	-	-
Hedging financial instruments	561	-	561	-	-
Financing and advances	5,678,979	5,678,979	-	-	-
Securities held-to-maturity	1,464,928	-	-	1,464,928	-
Financial assets at fair value through profit or loss	6,527	-	6,527	-	-
Statutory deposits with BNM	307,757	307,757	-	-	-
Other assets	24,187	24,187	-	-	-
	8,471,983	6,999,967	7,088	1,464,928	-
Financial Liabilities					
Deposits from customers	6,959,849	-	-	-	6,959,849
Deposits and placements of banks and other financial institutions	534,610	-	-	-	534,610
Bills and acceptances payable	2,323	-	-	-	2,323
Other liabilities	36,022	-	-	-	36,022
Subordinated Sukuk	377,756	-	-	-	377,756
	7,910,560	-	-	-	7,910,560

36. 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 lending, hedging, 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 lending 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.

36. 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	2018 RM'000	2017 RM'000
Credit risk exposure relating to on-balance sheet assets:		
Cash and short term funds	247,267	606,178
Deposits and placements with banks and other financial institutions	392,965	382,866
Derivatives assets	-	561
Financial assets at fair value through profit or loss	-	6,527
Financial investments at amortised cost	1,530,248	-
Securities held-to-maturity	-	1,464,928
Net financing and advances	5,001,599	5,678,979
Statutory deposit with BNM	187,000	307,757
Other assets	17,893	24,187
	7,376,972	8,471,983
Credit risk exposure of off-balance sheet items:		
Commitment and contingencies	1,920,551	1,983,550
Total maximum credit risk exposure	9,297,523	10,455,533

Bank	2018 RM'000	2017 RM'000
Credit risk exposure relating to on-balance sheet assets:		
Cash and short term funds	247,267	606,178
Deposits and placements with banks and other financial institutions	392,965	382,866
Derivatives assets	-	561
Financial assets at fair value through profit or loss	-	6,527
Financial investments at amortised cost	1,530,248	-
Securities held-to-maturity	-	1,464,928
Net financing and advances	5,001,599	5,678,979
Statutory deposit with BNM	187,000	307,757
Other assets	17,887	24,187
	7,376,966	8,471,983
Credit risk exposure of off-balance sheet items:		
Commitment and contingencies	1,920,551	1,983,550
Total maximum credit risk exposure	9,297,517	10,455,533

36. 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 2018 for the Bank is 59.8% (2017: 62.5%). 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.

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

36. 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	Short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments at amortised cost RM'000	Net financing and advances RM'000	Statutory deposits with BNM RM'000	Other assets RM'000	Total RM'000
2018							
Household	-	-	-	1,610,850	-	-	1,610,850
Wholesale and 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	-	17,893	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 2018

36. 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	Short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments at amortised cost RM'000	Net financing and advances RM'000	Statutory deposits with BNM RM'000	Other assets RM'000	Total RM'000
2018							
Household	-	-	-	1,610,850	-	-	1,610,850
Wholesale and 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 2018

36. 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 and Bank	Short term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Derivatives assets RM'000	Financial assets at FVTPL RM'000	Securities held-to-maturity RM'000	Net financing and advances RM'000	Statutory deposits with BNM RM'000	Other assets RM'000	Total RM'000
2017									
Household	-	-	-	-	-	1,691,329	-	-	1,691,329
Wholesale & retail trade	-	-	561	-	46,777	1,073,310	-	-	1,120,648
Real estate, renting and business activities	-	-	-	-	-	1,033,211	-	-	1,033,211
Manufacturing	-	-	-	-	-	897,350	-	-	897,350
Construction	-	-	-	-	-	551,725	-	-	551,725
Finance intermediation	606,178	382,866	-	6,527	1,418,151	98,427	307,757	-	2,819,906
Education, health and others	-	-	-	-	-	82,916	-	-	82,916
Agriculture, hunting and related service activities	-	-	-	-	-	61,267	-	-	61,267
Hotel and restaurant	-	-	-	-	-	41,437	-	-	41,437
Transportation	-	-	-	-	-	30,888	-	-	30,888
Mining and quarrying	-	-	-	-	-	24,619	-	-	24,619
Other business	-	-	-	-	-	92,500	-	24,187	116,687
Total	606,178	382,866	561	6,527	1,464,928	5,678,979	307,757	24,187	8,471,983

36. 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				
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
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	17,887	-	-	17,887
Total	6,941,104	414,741	21,121	7,376,966

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

36. 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
2017				
Group and Bank				
Cash and short term funds	556,856	12,151	37,171	606,178
Deposits and placement with banks and other financial instituitions	-	382,866	-	382,866
Derivatives assets	-	-	561	561
Financial assets at fair value through profit or loss	6,527	-	-	6,527
Securities held-to-maturity	1,464,928	-	-	1,464,928
Net financing and advances	5,678,979	-	-	5,678,979
Statutory deposits with BNM	307,757	-	-	307,757
Other assets	24,187	-	-	24,187
Total	8,039,234	395,017	37,732	8,471,983

36. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit Risk Management (Continued)

(iv) Collateral

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

- for personal housing financing: mortgages over residential properties
- for commercial property financing: charges over the properties being financed
- for vehicle financing: charges over the vehicles financed
- for other financing: charges over business assets such as premises, inventories, trade receivables or deposits

(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").

36. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit Risk Management (Continued)

(v) Credit quality of financial assets (Continued)

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

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

	Group and Bank	
	2018	**2017**
	RM'000	RM'000
Neither past due nor impaired	4,826,201	5,518,462
Past due but not impaired	207,702	210,473
Impaired (Note 8 (h))	66,846	23,856
Gross financing and advances	5,100,749	5,752,791
Less:		
Collective impairment allowance (Note 8 (i))	(66,132)	(72,549)
Individual impairment allowance (Note 8 (i))	(33,018)	(1,263)
Net financing and advances	5,001,599	5,678,979

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

	Group and Bank	
	2018	**2017**
	RM'000	RM'000
Current	4,826,201	5,518,462
Past due 1-30 days	139,038	150,052
Past due 31-90 days	68,664	60,421
Past due more than 90 days (Note 8 (h))	66,846	23,856
	5,100,749	5,752,791
Collective impairment (Note 8 (i))	(66,132)	(72,549)
Individual impairments (Note 8 (i))	(33,018)	(1,263)
Net financing and advances	5,001,599	5,678,979

36. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit Risk Management (Continued)

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

	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
2018						
Group						
Neither past due nor impaired	247,267	392,965	-	1,530,248	187,000	17,893
Bank						
Neither past due nor impaired	247,267	392,965	-	1,530,248	187,000	17,887
2017						
Group and Bank						
Neither past due nor impaired	606,178	382,866	561	1,471,455	307,757	24,187

36. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit Risk Management (Continued)

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

(a) Analysed by rating agency designation are as follows:

	Short term funds	Deposits and placement of banks and other financial institutions	Hedging financial instruments	Financial assets/ investments portfolios	Statutory deposit with BNM	Other assets
2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group						
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	-	1,530,248	187,000	17,893
Bank						
AAA to A-	184,905	-	-	236,029	-	-
BBB+ to B-	22,922	-	-	-	-	-
Unrated	39,440	392,965	-	1,294,219	187,000	17,887
	247,267	392,965	-	1,530,248	187,000	17,887
2017						
Group and Bank						
AAA to A-	558,062	-	-	1,418,151	-	-
BBB+ to B-	8,437	-	-	-	-	-
Unrated	39,679	382,866	561	53,304	307,757	24,187
	606,178	382,866	561	1,471,455	307,757	24,187

36. 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 2018.

(i) Profit rate sensitivity analysis

	2018		**2017**	
	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%	8,868	(36,633)	8,668	(44,712)
- 1%	(8,868)	36,633	(8,668)	44,712

(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.

	2018			**2017**		
		Impact on profit after tax and equity			**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	813	41	(41)	17	(1)	1
AUD	284	14	(14)	254	(13)	13
HKD	192	10	(10)	162	(8)	8
SAR	(159)	(8)	8	(403)	20	(20)
USD	(35)	(2)	2	855	(43)	43
Others	326	16	(16)	296	(14)	14
	1,421	71	(71)	1,181	(59)	59

36. 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 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)]	1,603,538	1,068,354	522,745	499,564	1,307,724	(34,154)	-	4,967,771	4.46
- Non-Performing	-	-	-	-	-	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.

36. 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' equity	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	-		

36. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risk Management (Continued)

(iii) Profit Rate Risk (Continued)

Group 2017	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 %
	← Non-trading book →								
Assets									
Cash and short term funds	510,029	-	-	-	-	96,149	-	606,178	2.57
Hedging financial instruments	-	-	-	-	-	561	-	561	-
Deposit and placement with bank and other financial institutions	-	53,965	323,792	-	-	5,109	-	382,866	2.16
Financial assets at FVTPL	-	-	-	-	-	-	6,527	6,527	-
Securities held-to-maturity	-	46,000	-	798,570	600,000	20,358	-	1,464,928	3.88
Financing and advances									
- Performing	1,805,006	1,111,548	544,596	662,871	1,572,996	31,918	-	5,728,935	5.59
- Non-Performing[1]	-	-	-	-	-	(49,956)	-	(49,956)	
Other assets[2]	-	-	-	-	-	547,650	-	547,650	
Total assets	2,315,035	1,211,513	868,388	1,461,441	2,172,996	651,789	6,527	8,687,689	

Note:

(1) This is arrived at after deducting the collective and individual impairment allowance from the outstanding gross non performing financing.

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

36. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risk Management (Continued)

(iii) Profit Rate Risk (Continued)

Group (Continued) 2017	**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	1,402,364	1,222,689	3,265,114	94,877	-	974,805	-	6,959,849	2.62
Deposits and placements of banks and other financial institutions	124,285	402,593	3,875	-	-	3,857	-	534,610	3.48
Bills and acceptance payable	-	-	-	-	-	2,323	-	2,323	
Other liabilities	-	-	-	-	-	63,054	-	63,054	
Subordinated Sukuk	-	53,965	323,791	-	-	-	-	377,756	
Total liabilities	1,526,649	1,679,247	3,592,780	94,877	-	1,044,039	-	7,937,592	
Shareholders' fund	-	-	-	-	-	750,097	-	750,097	
Total liabilities and shareholders' fund	1,526,649	1,679,247	3,592,780	94,877	-	1,794,136	-	8,687,689	
On-balance sheet profit sensitivity gap	788,386	(467,734)	(2,724,392)	1,366,564	2,172,996	(1,142,347)	6,527		
Off-balance sheet profit sensitivity gap	-	-	-	-	-	1,983,550	-		
Total profit sensitivity gap	788,386	(467,734)	(2,724,392)	1,366,564	2,172,996	841,203	6,527		

36. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risk Management (Continued)

(iii) Profit Rate Risk (Continued)

Bank 2018	Non-trading book 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 assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	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.

36. 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	-		

36. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risk Management (Continued)

(iii) Profit Rate Risk (Continued)

	← Non-trading book →								
Bank 2017	**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	510,029	-	-	-	-	96,149	-	606,178	2.57
Hedging financial instruments	-	-	-	-	-	561	-	561	-
Deposit and placement with bank									-
and other financial institutions	-	53,965	323,792	-	-	5,109	-	382,866	2.16
Financial assets at FVTPL	-	-	-	-	-	-	6,527	6,527	-
Securities held-to-maturity	-	46,000	-	798,570	600,000	20,358	-	1,464,928	3.88
Financing and advances									
- performing	1,805,006	1,111,548	544,596	662,871	1,572,996	31,918	-	5,728,935	5.59
- Non performing[1]	-	-	-	-	-	(49,956)	-	(49,956)	
Other assets[2]	-	-	-	-	-	547,640	-	547,640	
Total assets	2,315,035	1,211,513	868,388	1,461,441	2,172,996	651,779	6,527	8,687,679	

Note:

(1) This is arrived at after deducting the collective and individual impairment allowance from the outstanding gross non performing financing.

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

36. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Risk Management (Continued)

(iii) Profit Rate Risk (Continued)

Bank (Continued) **2017**	**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	1,402,364	1,222,689	3,265,114	94,877	-	974,805	-	6,959,849	2.62
Deposits and placements of banks and other financial institutions	124,285	402,593	3,875	-	-	3,857	-	534,610	3.48
Bills and acceptance payable	-	-	-	-	-	2,323	-	2,323	-
Other liabilities	-	-	-	-	-	63,113	-	63,113	-
Subordinated Sukuk	-	53,965	323,791	-	-	-	-	377,756	
Total liabilities	1,526,649	1,679,247	3,592,780	94,877	-	1,044,098	-	7,937,651	
Shareholders' fund	-	-	-	-	-	750,028	-	750,028	
Total liabilities and shareholders' fund	1,526,649	1,679,247	3,592,780	94,877	-	1,794,126	-	8,687,679	
On-balance sheet profit sensitivity gap	788,386	(467,734)	(2,724,392)	1,366,564	2,172,996	(1,142,347)	6,527		
Off-balance sheet profit sensitivity gap	-	-	-	-	-	1,983,550	-		
Total profit sensitivity gap	788,386	(467,734)	(2,724,392)	1,366,564	2,172,996	841,203	6,527		

36. 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.

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36. 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 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	

36. FINANCIAL RISK MANAGEMENT (Continued)

(f) Liquidity Risk (Continued)

Group 2017	**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	524,224	81,954	-	-	-	-	606,178
Deposits and placements with banks and other financial institutions	-	-	55,097	218,895	108,874	-	382,866
Hedging financial instruments	-	561	-	-	-	-	561
Financial assets at FVTPL	6,527	-	-	-	-	-	6,527
Securities held-to-maturity	-	-	12,000	-	832,571	620,357	1,464,928
Financing and advances	117,357	614,820	1,139,409	1,593,989	46,051	2,167,353	5,678,979
Statutory deposits with BNM	307,757	-	-	-	-	-	307,757
Other assets	30,419	231	643	632	144	207,824	239,893
Total assets	986,284	697,566	1,207,149	1,813,516	987,640	2,995,534	8,687,689
Liabilities							
Deposits from customers	1,400,802	939,899	1,232,226	1,699,329	875,982	811,611	6,959,849
Deposits and placements of banks and other financial institutions	-	125,298	404,414	3,875	-	1,023	534,610
Bills and acceptance payable	2,323	-	-	-	-	-	2,323
Other liabilities	16,560	-	277	-	31,967	14,250	63,054
Subordinated Sukuk	-	-	-	-	-	377,756	377,756
Total liabilities	1,419,685	1,065,197	1,636,917	1,703,204	907,949	1,204,640	7,937,592
Shareholders' fund	-	-	-	-	-	750,097	750,097
Total liabilities and shareholders' fund	1,419,685	1,065,197	1,636,917	1,703,204	907,949	1,954,737	8,687,689
Net maturity mismatch	(433,401)	(367,631)	(429,768)	110,312	79,691	1,040,797	

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

36. 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	

36. FINANCIAL RISK MANAGEMENT (Continued)

(f) Liquidity Risk (Continued)

Bank **2017**	**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	524,224	81,954	-	-	-	-	606,178
Deposits and placements with banks and other financial institutions	-	-	55,097	218,895	108,874	-	382,866
Hedging financial instruments	-	561	-	-	-	-	561
Financial assets at FVTPL	6,527	-	-	-	-	-	6,527
Securities held-to-maturity	-	-	12,000	-	832,570	620,358	1,464,928
Financing and advances	117,357	614,820	1,139,409	1,593,989	46,051	2,167,353	5,678,979
Statutory deposits with BNM	307,757	-	-	-	-	-	307,757
Other assets	30,419	231	643	632	145	207,813	239,883
Total assets	986,284	697,566	1,207,149	1,813,516	987,640	2,995,524	8,687,679
Liabilities							
Deposits from customers	1,400,802	939,899	1,232,226	1,699,329	875,982	811,611	6,959,849
Deposits and placements of banks and other financial institutions	-	125,298	404,414	3,875	-	1,023	534,610
Bills and acceptance payable	2,323	-	-	-	-	-	2,323
Other liabilities	16,620	-	277	-	31,966	14,250	63,113
Subordinated Sukuk	-	-	-	-	-	377,756	377,756
Total liabilities	1,419,745	1,065,197	1,636,917	1,703,204	907,948	1,204,640	7,937,651
Shareholders' fund	-	-	-	-	-	750,028	750,028
Total liabilities and shareholders' fund	1,419,745	1,065,197	1,636,917	1,703,204	907,948	1,954,668	8,687,679
Net maturity mismatch	(433,461)	(367,631)	(429,768)	110,312	79,692	1,040,856	

36. 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 **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	1,095,632	665,356	1,467,104	715,978	669,303	1,103,818	5,717,191
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	1,134,147	1,006,480	1,864,006	943,947	818,139	1,103,818	6,870,537

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36. FINANCIAL RISK MANAGEMENT (Continued)

(f) Liquidity Risk (Continued)

Group 2017	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	1,400,762	940,519	1,237,137	1,714,162	894,109	825,770	7,012,459
Deposits and placements of banks and other financial institutions	-	125,468	406,465	3,875	-	-	535,808
Bills and acceptance payable	2,323	-	-	-	-	-	2,323
Other liabilities	58,515	-	1,167	-	3,372	-	63,054
Subordinated Sukuk	-	-	56,584	224,759	112,613	-	393,956
Total liabilities	1,461,600	1,065,987	1,701,353	1,942,796	1,010,094	825,770	8,007,600

36. 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
Liabilities							
Deposits from customers	1,095,632	665,356	1,467,104	715,978	669,303	1,103,818	5,717,191
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	1,134,303	1,006,480	1,864,006	943,947	818,139	1,103,818	6,870,693
2017							
Liabilities							
Deposits from customers	1,400,762	940,519	1,237,137	1,714,162	894,109	825,770	7,012,459
Deposits and placements of banks and other financial institutions	-	125,468	406,465	3,875	-	-	535,808
Bills and acceptance payable	2,323	-	-	-	-	-	2,323
Other liabilities	58,574	-	1,167	-	3,372	-	63,113
Subordinated Sukuk	-	-	56,584	224,759	112,613	-	393,956
Total liabilities	1,461,659	1,065,987	1,701,353	1,942,796	1,010,094	825,770	8,007,659

36. 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.

<u>Capital Management and Basel II</u>

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.

37. 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.

37. 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	
	2018	**2017**	**2018**	**2017**
	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	(274,506)	(249,903)	(274,668)	(249,972)
	725,494	750,097	725,332	750,028
Less: Deferred tax	(53,194)	(58,884)	(53,194)	(58,884)
Total Tier-I capital	**672,300**	**691,213**	**672,138**	**691,144**
Tier-II capital				
Collective impairment for impairment loss on non-impaired financing	61,408	62,466	61,408	62,466
Subordinated Sukuk	385,893	323,792	385,893	323,792
Total Tier-II capital	**447,301**	**386,258**	**447,301**	**386,258**
Capital base	**1,119,601**	**1,077,471**	**1,119,439**	**1,077,402**
CET 1/Core capital ratio	12.519%	11.832%	12.516%	11.831%
Risk-weighted capital ratio	20.849%	18.444%	20.846%	18.443%

37. 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 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
Large Exposures Risk Requirement	-	-	-	-
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

37. 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 2017			
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	2,182,340	2,182,340	-	-
Banks, Development Financial Institutions ("DFIs") and MDBs	508,741	508,741	134,473	10,758
Corporate	4,037,460	3,895,154	3,723,150	297,852
Regulatory Retail	704,175	700,219	525,165	42,013
Residential Real Estate (RRE) Financing	1,058,636	1,058,636	497,598	39,808
Other assets	102,315	102,316	69,144	5,532
Defaulted Exposures	12,464	12,149	14,800	1,184
Total for On-Balance Sheet Exposures	8,606,131	8,459,555	4,964,330	397,147
Off-Balance Sheet Exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	451,688	451,688	416,983	33,359
Total for Off-Balance Sheet Exposures	451,688	451,688	416,983	33,359
Total On and Off-Balance Sheet Exposures	9,057,819	8,911,243	5,381,313	430,506
Large Exposures Risk Requirement	-	-	-	-
Market Risk	Long position	Short position		
Foreign Currency Risk	119,896	-	119,896	9,592
Operational Risk	-	-	340,583	27,247
Total RWA and Capital Requirements			5,841,792	467,345

37. 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			
	Gross exposures	Net exposures	Risk weighted assets	Capital requirements
Exposure Class	RM'000	RM'000	RM'000	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
Large Exposures Risk Requirement	-	-	-	-
	Long position	Short position		
Market Risk				
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

37. 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 2017			
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	2,182,340	2,182,340	-	-
Banks, Development Financial Institutions ("DFIs") and MDBs	508,741	508,741	134,473	10,758
Corporate	4,037,460	3,895,154	3,723,150	297,852
Regulatory Retail	704,175	700,219	525,165	42,013
Residential Real Estate (RRE) Financing	1,058,636	1,058,636	497,598	39,808
Other assets	102,315	102,316	69,144	5,532
Defaulted Exposures	12,464	12,149	14,800	1,184
Total for On-Balance Sheet Exposures	8,606,131	8,459,555	4,964,330	397,147
Off-Balance Sheet Exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	451,688	451,688	416,983	33,359
Total for Off-Balance Sheet Exposures	451,688	451,688	416,983	33,359
Total On and Off-Balance Sheet Exposures	9,057,819	8,911,243	5,381,313	430,506
Large Exposures Risk Requirement	-	-	-	-
Market Risk	Long position	Short position		
Foreign Currency Risk	119,896	-	119,896	9,592
Operational Risk	-	-	340,583	27,247
Total RWA and Capital Requirements			5,841,792	467,345

37. CAPITAL ADEQUACY (Continued)

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

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**	**Equity exposures**	**Other assets**	**Total exposure after netting and CRM**	**Total 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

37. CAPITAL ADEQUACY (Continued)

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

Group and Bank
2017

	Exposures after netting and credit risk mitigation ("CRM")								
Risk weights	**Sovereigns/ Central Bank**	**Banks, DFIs and MDBs**	**Corporate**	**Regulatory Retail**	**Residential Real Estate**	**Equity exposures**	**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%	2,182,340	-	-	-	-	-	33,171	2,215,511	-
20%	-	427,993	102,098	-	-	-	-	530,091	106,018
35%	-	-	-	-	389,048	-	-	389,048	136,167
50%	-	129,081	180,652	-	611,751	-	-	921,484	460,742
75%	-	-	-	705,441	12,051	-	-	717,492	538,119
100%	-	-	4,009,411	-	46,912	-	69,144	4,125,467	4,125,467
Total	2,182,340	557,074	4,292,161	705,441	1,059,762	-	102,315	8,899,093	5,366,513
Defaulted Exposures									
35%	-	-	-	-	-	-	-	-	-
50%	-	-	-	192	3,231	-	-	3,423	1,712
100%	-	-	-	-	-	-	-	-	-
150%	-	-	8,726	-	-	-	-	8,726	13,088
Total	-	-	8,726	192	3,231	-	-	12,149	14,800
Total Performing and Defaulted	2,182,340	557,074	4,300,887	705,633	1,062,993	-	102,315	8,911,242	5,381,313

37. CAPITAL ADEQUACY (Continued)

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

Group and Bank **2018**	**Principal** RM'000	**Risk-weighted** RM'000
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
2017		
0%	2,215,511	-
20%	530,091	106,018
35%	389,048	136,167
50%	924,907	462,454
75%	717,492	538,119
100%	4,125,467	4,125,467
150%	8,726	13,088
Risk-weighted assets for credit risk	8,911,242	5,381,313
Large exposure risk-weighted assets for equity holdings		
Risk-weighted assets for market risk		119,896
Risk-weighted assets for operational risk		340,583
Total risk-weighted assets		5,841,792

37. CAPITAL ADEQUACY (Continued)

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

Group and Bank 2018	**AAA**	**AA+**	**AA**	**AA-**	**A+**	**A**	**A-**	**BBB+**	**BBB**	**BBB-**	**BB+ to B-**	**Below B-**	**Unrated**	**Total**
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	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

37. CAPITAL ADEQUACY (Continued)

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

Group and Bank														
2017	**AAA**	**AA+**	**AA**	**AA-**	**A+**	**A**	**A-**	**BBB+**	**BBB**	**BBB-**	**BB+ to B-**	**Below B-**	**Unrated**	**Total**
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Exposure Class														
On and Off Balance-Sheet Exposures														
Credit Exposure - Standardised Approach														
Sovereigns/Central Banks	-	-	-	-	-	-	2,182,340	-	-	-	-	-	-	2,182,340
Banks, DFIs & MDBs	-	-	-	-	84,756	5,315	-	23,306	6,444	251	5,761	-	431,239	557,072
Corporate	-	-	-	-	-	-	-	-	-	-	-	-	4,443,508	4,443,508
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	-	-	709,589	709,589
Residential Real Estate (RRE) Financing	-	-	-	-	-	-	-	-	-	-	-	-	1,062,992	1,062,992
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	102,318	102,318
Total	-	-	-	-	84,756	5,315	2,182,340	23,306	6,444	251	5,761	-	6,749,646	9,057,819

37. CAPITAL ADEQUACY (Continued)

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

Group and Bank	**2018**		**2017**	
	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	1,458,670	-	2,182,340	-
Banks, Development Financial Institutions & MDBs	615,138	-	508,741	-
Corporate	3,628,522	797,158	4,037,460	806,851
Regulatory Retail	619,562	4,104	704,175	6,534
Residential Real Estate (RRE) Financing	983,419	-	1,058,636	-
Other assets	89,458	-	102,315	-
Defaulted Exposures	33,899	-	12,464	-
Total for On-Balance Sheet Exposures	7,428,668	801,262	8,606,131	813,385
Off-Balance Sheet Exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	433,886	-	451,688	-
Total for Off-Balance Sheet Exposures	433,886	-	451,688	-
Total On and Off-Balance Sheet Exposures	7,862,554	801,262	9,057,819	813,385

37. CAPITAL ADEQUACY (Continued)

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

Group and Bank	**2018**			**2017**		
	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	70,662	35,331	35,331	91,035	45,518	45,517
Short term self liquidating trade related contingencies	3,580	716	716	27,493	5,499	5,499
Foreign exchange related contracts						
- One year or less	-	-	-	-	-	-
Credit derivative contracts						
- One year or less	-	-	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	95,435	47,689	47,080	92,221	47,804	46,627
Other commitments, such as formal standby facilities and credit lines, with an original maturity up to one year	1,742,964	348,568	322,230	1,764,333	351,173	318,070
Unutilised credit card lines	7,910	1,582	1,187	8,468	1,694	1,270
	1,920,551	433,886	406,544	1,983,550	451,688	416,983

38. 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.

38. 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 2018

38. SEGMENTAL INFORMATION (Continued)

Group	Retail banking RM'000	Treasury & money market RM'000	Corporate investment banking RM'000	Others RM'000	Total RM'000
2017					
Total revenue	134,399	215,215	110,252	284	460,150
Result					
Segment result	85,458	34,728	74,842	284	195,312
Unallocated corporate expenses	-	-	-	-	(181,251)
Profit before zakat and taxation					14,061
Zakat and taxation					(3,208)
Net profit for the financial year					**10,853**
Other information					
Segment assets	1,761,467	2,346,253	4,333,549	-	8,441,269
Unallocated corporate assets	-	-	-	-	246,420
Total assets					8,687,689
Segment liabilities	3,554,741	3,939,715	-	-	7,494,456
Unallocated corporate liabilities	-	-	-	-	443,136
Total liabilities					7,937,592
Other segment items					
Capital expenditure	28,803	513	407	-	29,723
Unallocated capital expenditure					(11,874)
					17,849
Depreciation and and amortisation	3,226	312	368	-	3,906
Unallocated depreciation and amortisation					12,684
					16,590
Other non-cash (income)/expenses	7,253	-	(9,879)	-	(2,626)

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

38. 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	-	-	-	-	19,859
					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 2018

38. SEGMENTAL INFORMATION (Continued)

Bank	Retail banking RM'000	Treasury & money market RM'000	Corporate investment banking RM'000	Others RM'000	Total RM'000
2017					
Total revenue	134,399	215,215	110,253	-	459,867
Result					
Segment result	85,458	34,726	74,843	-	195,027
Unallocated corporate expenses	-	-	-	-	(180,987)
Profit before zakat and taxation					14,040
Zakat and taxation					(3,203)
Net profit for the financial year					**10,837**
Other information					
Segment assets	1,761,467	2,346,253	4,333,549	-	8,441,269
Unallocated corporate assets	-	-	-	-	246,410
Total assets					8,687,679
Segment liabilities	3,554,741	3,939,718	-	-	7,494,459
Unallocated corporate liabilities	-	-	-	-	443,192
Total liabilities					7,937,651
Other segment items					
Capital expenditure	28,803	513	407	-	29,723
Unallocated capital expenditure	-	-	-	-	(11,874)
					17,849
Depreciation and and amortisation	3,226	312	368	-	3,906
Unallocated depreciation and amortisation	-	-	-	-	12,684
					16,590
Other non-cash (income)/expenses	7,253	-	(9,879)	-	(2,626)

39. LEASE COMMITMENTS

The Group and the Bank have lease commitments in respect of rented premises and equipment on hire, all of which are classified as operating leases. A summary of the non-cancellable long-term lease commitments is as follows:

	2018	**2017**
	RM'000	RM'000
Group and Bank		
Within one year	1,993	1,571
One year to less than five years	10,603	10,006
	12,596	11,577

40. 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 libilities 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.

40. 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 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.

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.

40. 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.

Group and Bank
2018

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	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.

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 0.97% to 18.58% (2017: 1.1% to 15.1%).

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40. 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
2017

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Assets measured at fair value:				
Financial assets at fair value through profit or loss				
- Quoted securities (unit trust)	6,527	-	-	6,527
Investment properties	-	-	105,000	105,000
Assets for which fair values are disclosed (Note 40 (b)):				
Financing and advances	-	-	5,442,431	5,442,431
Financial investments at amortised cost	-	1,462,378	-	1,462,378

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 2017.

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 0.97% to 18.58% (2017: 1.1% to 15.1%).

40. FAIR VALUE MEASUREMENTS (Continued)

(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.

	2018		2017	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
	RM'000	RM'000	RM'000	RM'000
Financial assets				
Financing and advances	5,001,599	4,806,608	5,678,979	5,442,431
Financial investments at amortised cost	1,530,248	1,534,811	1,464,928	1,462,378

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 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 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.

40. FAIR VALUE MEASUREMENTS (Continued)

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

(iii) Financing and advances (Continued)

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.

(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.

40. 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 2018 and 31 December 2017

	Fair value RM'000	**Valuation techniques**	**Unobservable inputs**	**Range (weighted average)**
Investment properties	105,000	Comparison approach	Estimated value per square fit	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 and adopting as a yardstick recent sale evidences involving other similar properties in the vicinity.

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

An increase or decrease in the unobservable inputs used in the valuation might result in a correspondingly higher or lower fair value.

**NOTES TO THE FINANCIAL STATEMENTS
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40. 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)	
	2018	**2017**
	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

41. SIGNIFICANT EVENT

During the current financial year, the holding company of the Bank has received a letter from Bank Negara Malaysia stating that the central bank has no objection for the holding company to commence negotiation for a proposed merger of the Bank with Malaysian Industrial Development Finance ("MIDF") Group.

42. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution by the Board of Directors dated 6 May 2019.