MAYBANK ISLAMIC BERHAD

(Co. Reg. No.: 200701029411)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2019

Co. Reg. No.: 200701029411

Maybank Islamic Berhad
(Incorporated in Malaysia)

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Maybank Islamic Berhad
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Directors' report

The directors have pleasure in presenting their report together with the audited financial statements of Maybank Islamic Berhad ("the Bank") for the financial year ended 31 December 2019.

Principal activities

The Bank is principally engaged in the business of Islamic Banking and the provision of related financial services.

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

Results

	RM'000
Profit before taxation and zakat	3,299,819
Taxation and zakat	(780,590)
Profit for the year	2,519,229

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in Notes 7(ii), 7(iii), 8, 18, 28(i), and 28(ii) to the financial statements and the statement of changes in equity.

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

Performance review

The Bank posted profit before tax and zakat of RM3,299.8 million for the financial year ended 31 December 2019, an increase of RM694.9 million or 26.7% compared to the previous corresponding year.

The impairment on financing and advances improved from a net charge of RM375.2 million in the corresponding year to a net writeback of RM282.9 million during the year under review.

Total income grew by RM655.1 million or 6.3% to RM11,016.1 million from previous corresponding year, comprising of income derived from investment of depositors' funds, income derived from investment account funds and income derived from investment of shareholder's funds of RM9,538.1 million, RM1,051.7 million and RM426.3 million respectively.

Performance review (cont'd.)

The Bank's gross financing and advances increased by RM15.2 billion to RM192.0 billion as compared to RM176.8 billion recorded in previous financial year. As at 31 December 2019, total customer funding increased by 6.1% contributed by customer deposits which grew by 9.0%, recorded at RM161.0 billion against RM147.8 billion in last financial year. Investment accounts of customers decreased by RM2.8 billion to close at RM20.7 billion compared to RM23.6 billion in the last financial year.

The Bank’s capital position continued to be strong and well above regulatory requirements as reflected by its Common Equity Tier I, Tier I Capital Ratio and Total Capital Ratio of 14.101%, 15.508% and 18.845% respectively.

Prospects

Malaysia is forecasted to chart slowed growth at 4.0% in 2020 (2019: +4.3%) arising from the Covid-19 outbreak, moderating global growth, and weak external environment. However, the impact is mitigated by Bank Negara Malaysia's further monetary policy easing, an expansionary fiscal budget for the year, increased work progress of major infrastructure projects, and additional measures to support industries and sectors impacted by the Covid-19 outbreak, which is anticipated to be constructive for the Malaysian economy.

The Bank will continue to be vigilant of the risks inherent in the current uncertain economic landscape, and continues to maintain a stable profit growth in line with its strategic objectives. This encompasses the Bank's continued focus on high quality assets and strong cost management discipline. The Bank's customers and the surrounding communities it operates in will remain at the centre of its business activities. This entails delivering innovative Shariah compliant financial solutions that addresses customers' needs, whilst positively impacting the wider community and environment. Hence, contributing towards improving welfare for humankind, the eradication of harm, and preservation of the rights of future generations as outline by the Shariah values that guides the business.

The Bank will also continue its efforts to fortify its global presence through enhancing its transaction and services capabilities internationally, with an emphasis on the countries in the Gulf Cooperation Council ("GCC") and Association of South East Asian Nations ("ASEAN") region. The global footprint to the GCC is going to be supported with the opening of a branch in Dubai DIFC. With a presence in Dubai, the aim is to be the link between businesses in ASEAN and the Middle East, and meet the demand for financing in the region.

Dividends

The amounts of dividend paid by the Bank since 31 December 2018 were as follows:

	RM'000
In respect of the financial year ended 31 December 2018 as reported in the directors' report of that year:	
Final tax exempt (single-tier) dividend of RM3.64 per ordinary share on 338,910,000 ordinary shares, declared on 8 April 2019 and paid on 18 April 2019	**1,233,632**
In respect of the financial year ended 31 December 2019:	
Interim tax exempt (single-tier) dividend of RM3.09 per ordinary share on 338,910,000 ordinary shares, declared on 27 August 2018 and paid on 29 August 2019	**1,047,232**

At the forthcoming Annual General Meeting, a final tax-exempt (single tier) dividend in respect of the current financial year ended 31 December 2019 of RM4.32 per ordinary share on 338,910,000 ordinary shares, amounting to a dividend payable of RM1,464,091,200 will be proposed for the shareholder's approval.

The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholder, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2020.

Holding company

The immediate holding company is Malayan Banking Berhad ("Maybank"), a licensed bank incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

Maybank Group Employees' Share Grant Plan ("ESGP") and Cash-settled Performance-based Employees' Share Grant Plan ("CESGP")

Maybank Group has implemented a new employee's share scheme named as the Maybank Group Employees' Share Grant Plan ("ESGP") and the scheme was awarded to the participating Maybank Group employees who fulfill the eligibility criteria. The ESGP is governed by the ESGP By-laws approved by the shareholders at an Extraordinary General Meeting held on 6 April 2017. The ESGP was implemented on 14 December 2018 for a period of seven (7) years from the effective date and is administered by the ESGP Committee.

The ESGP consists of two (2) types of performance-based awards: Employees' Share Grant Plan ("ESGP Shares") and Cash-settled Performance-based Employees' Share Grant Plan ("CESGP"). The ESGP Shares may be settled by way of issuance and transfer of new Maybank shares or by cash at the absolute discretion of the Maybank Group ESGP Committee.

Maybank Group Employees' Share Grant Plan ("ESGP") and Cash-settled Performance-based Employees' Share Grant Plan ("CESGP") (cont'd.)

The ESGP Shares is a form of Restricted Share Units ("RSU") and the ESGP Committee may, from time to time during the ESGP period, may make further ESGP grants designated as Supplemental ESGP to a selected group of eligible employees to participate in Supplemental ESGP. This selected group may consist of selected key executive, selected key retentions and selected senior external recruits, and such grants may contain terms and conditions which may vary from earlier ESGP grants made available to selected senior management.

The CESGP is a form of Cash-settled Performance-based Restricted Share Unit Scheme ("CRSU") and the ESGP Committee may, from time to time during the ESGP period, make further CESGP designated as Supplemental CESGP Grant to a selected group of eligible employees to participate in the ESGP. This selected group may consist of senior management, selected key retentions and selected senior external recruits, and such Supplemental CESGP grants may contain terms and conditions which may vary from earlier CESGP grants made available to selected employees.

The maximum number of ordinary shares in Maybank available under the ESGP should not exceed 3.5% of the total number of issued and paid-up capital of Maybank at any point of time during the duration of the scheme.

Issuance of share capital and debentures

There were no new shares issuance by the Bank during the financial year ended 31 December 2019.

During the financial year ended 31 December 2019, the Bank made issuances and redemptions of the term funding and subordinated sukuk as disclose in Notes 20 and 21 to the financial statements. The proceeds from the issuances were utilised to fund the working capital, general banking and other Shariah compliant corporate purposes.

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Maybank Islamic Berhad
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Directors

The names of the directors of the Bank in office since the beginning of the financial year to the date of this report are:

Encik Zainal Abidin bin Jamal	
Encik Dali bin Sardar	
Datuk Mohd Anwar bin Yahya	
Dato' Zulkiflee Abbas bin Abdul Hamid	(appointed on 25 April 2019)
Associate Professor Dr Aznan bin Hasan	(appointed on 25 April 2019)
Encik Shariffuddin bin Khalid	(appointed on 13 June 2019)
Encik Nor Hizam bin Hashim	(retired on 12 June 2019)
Dato' Dr Muhammad Afifi al-Akiti	(retired on 14 August 2019)

Directors' benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Bank was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate, other than arising from the ESGP.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full-time employee of the holding company as disclosed in Note 31 to the financial statements) by reason of a contract made by the Bank or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

The holding company, Maybank maintained on a group basis, a Directors' and Officers' Liability Insurance against any legal liability incurred by the directors in the discharge of their duties while holding office for Maybank or for Maybank's subsidiary companies. The directors shall not be indemnified by such insurance for any negligence, fraud, intentional breach of law or breach of trust proven against them.

Directors' interests

According to the register of directors' shareholdings, none of the directors in office at the end of the financial year had any interest in shares in the Bank and options over shares in the holding company, Maybank or other related corporations during the financial year.

Rating by external rating agency

Details of the Bank's ratings are as follows:

Rating agency	Date	Rating classification	Rating received
RAM Ratings Services Berhad ("RAM")	13 December 2019	Long-term Financial Institution Rating	AAA
		Short-term Financial Institution Rating	P1
Malaysian Rating Corporation Berhad	06 December 2019	Outlook (Long Term)	Stable

Other statutory information

(a) Before the statement of financial position, income statement and statement of comprehensive income of the Bank were made out, the directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing-off of bad financing and the making of allowance for doubtful financing and satisfied themselves that all known bad financing had been written-off and that adequate allowance had been made for doubtful financing; and

(ii) 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.

(b) At the date of this report, the directors are not aware of any circumstances which would render:

(i) the amount written-off for bad financing or the amount of the allowances for doubtful financing in the financial statements of the Bank inadequate to any substantial extent; and

(ii) the values attributed to current assets in the financial statements of the Bank misleading.

(c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate.

Other statutory information (cont'd.)

(d) 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 Bank which would render any amount stated in the financial statements misleading.

(e) At the date of this report, there does not exist:

(i) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or

(ii) any contingent liability of the Bank which has arisen since the end of the financial year other than those arising in the normal course of business of the Bank.

(f) In the opinion of the directors:

(i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Bank to meet its obligations as and when they fall due; and

(ii) no item or transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Bank for the financial year in which this report is made.

Significant and subsequent events

There are no significant adjusting events after the statement of financial position's date up to the date when the financial statements are authorised for issue.

Shariah Committee

The operation of the Bank is governed by Sections 28 and 29 of the Islamic Financial Services Act 2013 ("IFSA"), which stipulates that “any licensed institution shall at all times ensure that its aims and operations, business, affairs and activities are in compliance with Shariah and in accordance with the advice or ruling of Shariah Advisory Council ("SAC"), specify standards on Shariah matters in respect of the carrying on of its business, affair and activities” and Section IV of BNM’s “Guidelines on the Governance of Shariah Committee for The Islamic Financial Institutions” known as the Shariah Governance Framework ("SGF") (which supersedes the BNM/GPS 1), which stipulates that “Every Islamic institution is required to establish a Shariah Committee”.

Based on the above, the duties and responsibilities of the Bank’s Shariah Committee are to advise on the overall Islamic Banking operations of the Bank’s business in order to ensure compliance with the Shariah requirements.

The roles of the Shariah Committee in monitoring the Bank’s activities include:

(a) To advise the Board on Shariah matters in its business operations;

(b) To endorse Shariah Compliance Manual;

(c) To endorse and validate relevant documentations;

(d) To assist related parties on Shariah matters for advice upon request;

(e) To advise on matters to be referred to the SAC;

(f) To provide written Shariah opinions; and

(g) To assist the SAC on reference for advice.

Zakat obligation

The Bank pays zakat only on its business. The Bank does not pay zakat on behalf of the shareholder or depositors.

Auditors

The auditors, Ernst & Young PLT, have expressed their willingness to continue in office.

Auditors' remuneration are disclosed in Note 30 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 25 February 2020.

Zainal Abidin bin Jamal

Datuk Mohd Anwar bin Yahya

Kuala Lumpur, Malaysia

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Statement by directors
Pursuant to Section 251(2) of the Companies Act 2016

We, Zainal Abidin bin Jamal and Datuk Mohd Anwar bin Yahya, being two of the directors of Maybank Islamic Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 52 to 227 are properly 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 Bank as at 31 December 2019 and of the results and the cash flows of the Bank for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 25 February 2020.

Zainal Abidin bin Jamal

Datuk Mohd Anwar bin Yahya

Kuala Lumpur, Malaysia

Statutory declaration
Pursuant to Section 251(1)(b) of the Companies Act 2016

I, Shaiful Adhli Yazid, being the officer primarily responsible for the financial management of Maybank Islamic Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 52 to 227 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 Shaiful Adhli Yazid
at Kuala Lumpur in the Federal
Territory on

Shaiful Adhli Yazid

Before me,

PESURUHJAYA SUMPAH
W530
TAN SEOK KETT
BC/T/301
1/1/2019-31/12/2021
MALAYSIA

Lot 333, 3rd Floor, Wisma MPL,
Jalan Raja Chulan,
50200 Kuala Lumpur.

Corporate governance

1. The Board of Directors

Composition of the Board

As at 31 December 2019, the Board of Maybank Islamic Berhad ("Maybank Islamic" or "the Bank") comprised six (6) directors of which four (4) were Independent Non-Executive Directors. The composition of the Board complied with the requirement under the BNM Corporate Governance Policy ("BNM CG Policy") of having a majority of independent directors at all times. The members were as follows:

Name	Position	First Appointment Date
Chairman		
Encik Zainal Abidin bin Jamal	Non-Independent Non-Executive Director	Non-Independent Non-Executive Director 28 January 2010 Chairman 1 June 2017
Members		
Encik Dali bin Sardar	Independent Non-Executive Director	11 August 2014
Datuk Mohd Anwar bin Yahya	Independent Non-Executive Director	17 July 2017
Dato' Zulkiflee Abbas bin Abdul Hamid	Independent Non-Executive Director	25 April 2019
Associate Professor Dr Aznan bin Hasan	Non Independent Non-Executive Director	25 April 2019
Encik Shariffuddin bin Khalid	Independent Non-Executive Director	13 June 2019

Corporate governance (cont'd.)

1. The Board of Directors (cont'd.)

Composition of the Board (cont'd.)

A profile of each member of the Board is presented below:-

Zainal Abidin bin Jamal
Non-Independent Non-Executive Director (Chairman)

Nationality
Malaysian

Age
65

Appointment
28 January 2010

Qualification

- LL.B (Honours), University of Singapore
- Advocate & Solicitor, High Court of Malaya
- Arbitrator, Asian International Arbitration Centre (formerly known as Kuala Lumpur Regional Center for Arbitration)

Working experience

Present

- Senior Partner of Zainal Abidin & Co, Advocate & Solicitor

Past

- First Class Magistrate in Brunei Darussalam
- Advocate & Solicitor of the Supreme Court of Singapore
- Company Secretary of Harrisons Malaysian Plantation Berhad

Corporate governance (cont'd.)

1. The Board of Directors (cont'd.)

Composition of the Board (cont'd.)

Zainal Abidin bin Jamal (cont'd.)
Non-Independent Non-Executive Director (Chairman)

Directorship of other companies

- Sime Darby Plantation Berhad
- Lam Soon (M) Berhad
- Prominent Beauty Sdn Bhd
- Global Humanitarian Fund
- Padu Corporation
- Sime Darby Oils International Limited
- Chemical Company of Malaysia Berhad

Attendance in 2019

- 12 out of 12 Board meetings held in the financial year

Declaration

- No family relationship with any director and/or major shareholder of Malayan Banking Berhad and/or any of its related corporations
- No conflict of interest with Maybank Islamic Berhad and has never been charged for any offence
- Does not hold any shares in Maybank Islamic Berhad

Dali bin Sardar
Independent Non-Executive Director

Nationality
Malaysian

Age
60

Appointment
11 August 2014

Corporate governance (cont'd.)

1. The Board of Directors (cont'd.)

Composition of the Board (cont'd.)

Dali bin Sardar (cont'd.)
Independent Non-Executive Director

Qualification

- Bachelor of Arts (majoring in Economics), Knox College, Illinois, USA
- Master in Business Administration, American Graduate School of International Management, Arizona, USA

Working experience

Present

Founder/Executive Director of DTA Capital Partners Sdn Bhd

Past

- Relationship Manager and Vice President of Citicorp/ Citibank
- Managing Director of Citicorp Capital
- Chief Executive Officer of Utama Merchant Bank Berhad
- Director of Maybank Private Equity Sdn Bhd

Directorship of other companies

- Chuan Huat Resources Bhd
- Malaysian General Investment Corporation (MGIC) Bhd
- Mavcap ICT Sdn Bhd
- Peranex Sdn Bhd
- NorhTec Corporation Ltd (Thailand)
- Nova MSC Berhad

Attendance in 2019

- 13 out of 13 Board meetings held in the financial year

Corporate governance (cont'd.)

1. The Board of Directors (cont'd.)

Composition of the Board (cont'd.)

Dali bin Sardar (cont'd.)
Independent Non-Executive Director

Declaration

- No family relationship with any director and/or major shareholder of Malayan Banking Berhad and/or any of its related corporations
- No conflict of interest with Maybank Islamic Berhad and has never been charged for any offence
- Does not hold any shares in Maybank Islamic Berhad

Datuk Mohd Anwar bin Yahya
Independent Non-Executive Director

Nationality
Malaysian

Age
65

Appointment
17 July 2017

Qualification

- Bachelor of Science (Honours) in Economics & Accountancy, University of Hull, United Kingdom
- Chartered Accountant, Institute of Chartered Accountants in England and Wales
- Member of Malaysia Institute of Accountants
- Member of Malaysian Institute of Certified Public Accountants

Working experience

Present

- Executive Director at Sage 3 Sdn Bhd

Corporate governance (cont'd.)

1. The Board of Directors (cont'd.)

Composition of the Board (cont'd.)

Datuk Mohd Anwar bin Yahya (cont'd.)
Independent Non-Executive Director

Working experience (cont'd.)

Past

- Financial and Business Advisor of PricewaterhouseCoopers
- General Manager of Permodalan Kelantan Berhad
- Finance Manager of Lembaga Kemajuan Kelantan Selatan (KESEDAR)

Directorship of other companies

- Usains Holdings Sdn Bhd
- FGV Holdings Berhad
- Fraser & Neave Holdings Berhad
- Sage 3 Sdn Bhd
- Technology Park Malaysia Corporation Sdn Bhd
- Pelaburan Hartanah Nasional Berhad
- Amanah Saham Nasional Berhad

Attendance in 2019

- 13 out of 13 Board meetings held in the financial year

Declaration

- No family relationship with any director and/or major shareholder of Malayan Banking Berhad and/or any of its related corporations
- No conflict of interest with Maybank Islamic Berhad and has never been charged for any offence
- Does not hold any shares in Maybank Islamic Berhad

Corporate governance (cont'd.)

1. The Board of Directors (cont'd.)

Composition of the Board (cont'd.)

Dato' Zulkiflee Abbas bin Abdul Hamid
Independent Non-Executive Director

Nationality
Malaysian

Age
62

Appointment
25 April 2019

Qualification

- Diploma in Business Studies, MARA Institute of Technology
- Bachelor of Science in Marketing, Southern Illinois University
- Master in Business Administration, Southern Illinois University

Working experience

Present

NIL

Past

- Managing Director/President of Bank Kerjasama Rakyat Malaysia Berhad
- Chief Executive Officer of Affin Holdings Berhad
- Managing Director/Chief Executive Officer of Affin Bank Berhad
- Chief Credit Officer of Malayan Banking Berhad

Directorship of Other Companies

- Malayan Banking Berhad
- Yayasan Budiman Universiti Teknologi MARA
- Tabung Pendidikan 1 Billion

Corporate governance (cont'd.)

1. The Board of Directors (cont'd.)

Composition of the Board (cont'd.)

Dato' Zulkiflee Abbas bin Abdul Hamid (cont'd.)
Independent Non-Executive Director

Attendance in 2019

- 7 out of 7 Board meetings held in the financial year

Declaration

- No family relationship with any director and/or major shareholder of Malayan Banking Berhad and/or any of its related corporations
- No conflict of interest with Maybank Islamic Berhad and has never been charged for any offence
- Does not hold any shares in Maybank Islamic Berhad

Associate Professor Dr Aznan bin Hasan
Non Independent Non-Executive Director

Nationality
Malaysian

Age
48

Appointment
25 April 2019

Qualification

- B.A. (Honours) Shari'ah, Al Azhar University
- Master in Shari'ah, Cairo University
- Doctorate in Shari'ah, University of Wales Lampeter

Corporate governance (cont'd.)

1. The Board of Directors (cont'd.)

Composition of the Board (cont'd.)

Associate Professor Dr Aznan bin Hasan (cont'd.)
Non Independent Non-Executive Director

Working experience

Present

- Associate Professor, Institute of Islamic Banking and Finance, Institute Islamic University Malaysia ("IIUM")

Past

- Assistant Professor in of Islamic Law, Ahmad Ibrahim Kulliyyah of Laws, IIUM
- Head, Department of Islamic Law, Ahmad Ibrahim Kulliyyah of Laws, IIUM
- Head, Co-Curricular Activity Centre (CCAC), Office of the Deputy Rector (Student Affairs & Development), IIUM
- Coordinator, E-Learning Management System, Ahmad Ibrahim Kuliyyah of Laws, IIUM

Directorship of Other Companies

- Sepakat Berkat Resources Sdn Bhd
- Hana Food Industries & Trading Sdn Bhd

Attendance in 2019

- 7 out of 7 Board meetings held in the financial year

Declaration

- No family relationship with any director and/or major shareholder of Malayan Banking Berhad
- No conflict of interest with Maybank Islamic Berhad and has never been charged for any offence
- Does not hold any shares in Maybank Islamic Berhad

Corporate governance (cont'd.)

1. The Board of Directors (cont'd.)

Composition of the Board (cont'd.)

Shariffuddin bin Khalid
Independent Non-Executive Director

Nationality
Malaysian

Age
54

Appointment
13 June 2019

Qualification

- Foundation in Accountancy, University of Huddersfield, UK
- Fellow Member, Chartered Institute of Management Accountants, UK

Working experience

Present

NIL

Past

- Director, Malaysia International Islamic Finance Center and Director, Strategic Communications, Bank Negara Malaysia
- Non-Executive Director, Sterling Biofuels Ltd
- General Manager, Communication & Human Resource, Pengurusan Danaharta Nasional Berhad

Corporate governance (cont'd.)

1. The Board of Directors (cont'd.)

Composition of the Board (cont'd.)

Shariffuddin bin Khalid (cont'd.)
Independent Non-Executive Director

Directorship of other companies

- Malayan Banking Berhad
- Maybank (Cambodia) Plc
- Marine & General Berhad
- M&G Marine Logistics
- M&G Tankers Sdn Bhd
- Jasa Merin (Labuan) Plc
- M&G Ship Management (L) Pte Ltd
- MCB Bank Limited

Attendance in 2019

- 6 out of 6 Board meetings held in the financial year

Declaration

- No family relationship with any director and/or major shareholder of Malayan Banking Berhad and/or any of its related corporations
- No conflict of interest with Maybank Islamic Berhad and has never been charged for any offence
- Does not hold any shares in Maybank Islamic Berhad

Corporate governance (cont'd.)

1. The Board of Directors (cont'd.)

Board Charter

The Board acknowledges the importance of developing and maintaining a framework of Corporate Governance that is robust and sound, to promote a culture of integrity and transparency throughout the Bank. In this regard, all directors are required to maintain the highest standards of transparency, integrity and honesty. This standard serves as the basis for the principles that govern directors' conduct and their relationship with the Bank's stakeholders.

The Board Charter outlines among others, the respective roles, responsibilities and authorities of the Board (both individually and collectively) in setting the direction, management and control of the Bank.

Roles and responsibilities of the Board

The Board's duties and responsibilities include the following function:

(a) To approve and oversee the implementation of business and risk objectives and strategies as well as significant policies including the annual budget and its half yearly review;

(b) To ensure and oversee the effective design and implementation of sound governance framework, internal controls, compliance and risk management systems as well as to ensure that the Bank's overall operation is in compliance with Shariah principles;

(c) To approve and review the organizational structure and the appointment, promotion, confirmation, termination and succession plan of the Senior Management;

(d) To determine the general composition of the Board in order to ensure that the Board consists of the requisite diversity of skills, experience, gender, qualification and other core competence required;

(e) To approve and review the remuneration policy of the Bank including to approve the remuneration of the Directors, Senior Management and other material risk takers;

(f) To oversee the performance of the Senior Management and ensures that the Senior management is monitoring the effectiveness of the internal control system;

(g) To develop and document the criteria and skill sets required and to determine the general composition of the Board in order to ensure that the Board consists of the requisite diversity of skills, experience, gender qualification and other core competencies;

Corporate governance (cont'd.)

1. The Board of Directors (cont'd.)

Roles and responsibilities of the Board (cont'd.)

The Board's duties and responsibilities include the following function (cont'd.):

(h) To appoints committees of the Board and delegates any of its powers to such committees as the Board thinks fit;

(i) To ensure the establishment of a reliable and transparent financial reporting process;

(j) To approve the Bank's financial statements (and ensures the reliability of the same) as well as the interim dividend and recommends the final dividend to shareholders and the application of Dividend Reinvestment Plan thereto (where applicable);

(k) To approve policies pertaining to corporate image, brand management, community relations, investor relations and shareholder communications programs and to promote timely and effective communication with the regulators;

(l) To ensure that the Bank has a beneficial influence on the economic well-being of the communities within which it operates in the spirit of Maqasid Al-Shariah;

(m) To ensure that the Board is supported by a suitably qualified and competent Company Secretary;

(n) To ensure that the Board members have access to appropriate education and training programmes to keep abreast of the latest development in the industry and as may be prescribed by the regulatory authorities from time to time;

(o) To ensure that the corporate governance disclosures are accurate and clear; and

(p) To have due regard to any decision of the Shariah Committee on any Shariah issue relating to the carrying on of the business, affairs or activities of the Bank.

Board Committees

Delegation of certain governance responsibilities has been undertaken by the Board in favour of its Board Committees, which operate within clearly defined terms of references, primarily to assist the Board in the execution of its duties and responsibilities. Although the Board has granted such discretionary authority to these Board Committees to deliberate and decide on certain key and operational matters, the ultimate responsibility for final decision on all matters lies with the entire Board.

Corporate governance (cont'd.)

1. The Board of Directors (cont'd.)

Board Investment Committee ("BIC")

The members of the BIC as at 31 December 2019 were as follows:

Name	Position	Appointment Date
Encik Dali bin Sardar	Chairman	28 September 2016
Datuk Mohd Anwar bin Yahya	Member	24 July 2019
Dato' Zulkiflee Abbas bin Abdul	Member	24 July 2019

The specific duties of the BIC include:

(i) To review and recommend to the Board on the matters including, but not limited to the establishment of investment objectives, strategies, policies, products, business collaborations with internal and external stake holders;

(ii) To review and approve the changes in the existing Investment mandate, parameters, policies and procedures of Investment Account ("IA") including profit distribution policy and valuation policy;

(iii) To ensure the investment operations are performed in accordance with the fiduciary duties and agency duties in the agreed terms and conditions of the IA, relevant legislations and Shariah rulings and review IA performance reports on a periodic basis;

(iv) To ensure compliance to effective risk management policies, processes and infrastructure to identify, measure, monitor, control and report the various types of risk associated with the assets funded by the IA including policies and procedures to determine the significant level of IA business;

(v) To ensure the management of the IA is conducted by personnel with the appropriate competency and investment expertise; and

(vi) To review and approve the disclosures as per the requirements to ensure reliable, relevant and timely information are disseminated to the Investment Account Holders (“IAH”) to facilitate informed decision making and conduct regular review on the effectiveness of these policies to protect the interest of the IAH.

Corporate governance (cont'd.)

1. The Board of Directors (cont'd.)

Other Board Committees

Under the leverage model, the Board delegated certain of its governance responsibilities to the following Board Committees of Maybank:

1. Audit Committee[1]
2. Credit Review Committee[2]
3. Nomination and Remuneration Committee[2]
4. Risk Management Committee[2]
5. Compliance Committee of the Board[2]
6. Employee Share Grant Plan Committee

Notes:

[1] The Chairman and another member of the Audit Committee were Board members of Maybank Islamic Berhad.

[2] A member of these Board Committees was also a Board member of Maybank Islamic Berhad. Additionally, representative of the Board sits in as an invitee at the Credit Review Committee, Risk Management Committee and Compliance Committee of the Board meetings for the deliberations on matters related to the Bank.

Tenure or directorship

Consistent with the Maybank Group's Policy on Directors' Independence and recommendations of the Malaysian Code on Corporate Governance 2017 ("the Code"), the Board via the Nomination and Remuneration Committee ("NRC") assesses the independence of Independent Non-Executive Directors upon his/her appointment, re-appointment and in any event, annually. In line with the Code, the tenure of service for Independent Non-Executive Directors has been capped at the maximum period of nine years whereby upon completion of such tenure, the Independent Non-Executive Director may, subject to the NRC's recommendation and the Board's approval, continue to serve on the Board subject to re-designation as a Non-Independent Non-Executive Director.

Corporate governance (cont'd.)

1. The Board of Directors (cont'd.)

Board meetings

During the financial year ended 31 December 2019, a total of 13 meetings were convened inclusive of 5 special meetings for urgent issues and/or important decisions required to be addressed between the scheduled meetings.

All the directors have exceeded the 75% meeting attendance requirement under BNM CG Policy. Details of attendance of each director for the meetings of the Board and Board Investment Committee during the financial year ended 31 December 2019 are highlighted in the table below.

Name of Directors	Board Number of Meetings			BIC Number of Meetings		
	Held	Attended	%	Held	Attended	%
Encik Zainal Abidin bin Jamal	12	12	100			
Dato' Dr. Muhammad Afifi al-Akiti[1]	8	8	100	2	2	100
Encik Dali bin Sardar	13	13	100	4	4	100
Encik Nor Hizam bin Hashim[2]	6	6	100	2	2	100
Datuk Mohd Anwar bin Yahya	13	13	100	2	2	100
Dato' Zulkiflee Abbas bin Abdul Hamid[3]	7	7	100	2	2	100
Assoc. Prof. Dr Aznan bin Hasan[3]	7	7	100			
Encik Shariffuddin bin Khalid[4]	6	6	100			

Notes:

1 Retired on 14 August 2019.
2 Retired on 12 June 2019.
3 Appointed on 25 April 2019.
4 Appointed on 13 June 2019.

Corporate governance (cont'd.)

1. The Board of Directors (cont'd.)

Directors' remuneration

The Board believes that one area that the Board needs to focus on in order to remain effective in the discharge of its duties and responsibilities is the setting of a fair and comprehensive remuneration package to commensurate with the expertise, skills, responsibilities and the risks of being a director of a financial institution. In line with good corporate governance, Maybank Group has set out its intention to periodically review the Non-Executive Directors ("NEDs") remuneration for Maybank and its group of companies at least once every three years. A summary of the total remuneration of the Directors (shown in nearest thousand), in aggregate with categorisation into appropriate components for the financial year ended 31 December 2019 is as disclosed in Note 32 to the financial statements.

Directors' training

The Board acknowledges the importance of continuing education for its directors to ensure they are equipped with the necessary skills and knowledge to perform their functions and meet the challenges as the Board. During the year, all the Board members have attended various training programmes and workshops on relevant issues, including key training programme for directors of financial institutions, namely the Financial Institutions Directors' Education ("FIDE").

The Board continues to assess the training needs of its directors vide the Board Assessment and identify key areas of focus for training programmes.

Trainings programmes, conferences, forums and talks attended by the Directors for the financial year ended 31 December 2019 were as follows:

<u>Maybank Group internal training</u>

- Maybank 2019 Annual Risk Workshop
- Liquidity Management, FX & Hedging
- 4th Shariah Discourse - Knowledge Culture
- Board Induction Program

Corporate governance (cont'd.)

1. The Board of Directors (cont'd.)

Directors' training (cont'd.)

Trainings programmes, conferences, forums and talks attended by the Directors for the financial year ended 31 December 2019 were as follows (cont'd.):

External training

(i) FIDE

- Leadership in a Disruptive World
- 4th Distinguished Board Leadership Series: Digital To The Core
- Securities Commission Workshop - Addressing Climate Change Through Capital Market
- BNM-FIDE FORUM Dialogue on Innovation and Fintech in the Financial Services Industry
- FIDE Core Programme – Module B

(ii) Other external seminars/conferences/talks

- PNB Corporate Summit 2019
- Leading Digital Transformation for Competitive Edge
- Bursa Malaysia Sustainability Advocacy Programme : Recommendation of the Task Force on Climate-related Financial Disclosures
- Cyber Security Awareness for User: Are You Ready?
- SC-World Bank-IOSCO Asia Pacific Hub Conference 2019
- Invest Malaysia 2019: Connecting Strength Advancing Performance
- PNB Leadership Forum 2019
- Singapore Fintech Festival
- MFRS Updates Training
- Audit Oversight - Board Conversation with Audit Committees
- Malaysia REIT Forum 2019 - Opportunities in the New Malaysia
- Business Foresight Forum (BFF) 2019: New Business Directions 2025 - Catalysts for Change
- Thought Leadership Series - The Convergence of Digitisation and Sustainability
- Talk on Corporate Governance – The Latest Updates and Contemporary Developments on Corporate Governance
- Capital Markets Directors Programme
  - Module 1: Directors as Gatekeepers of Market Participants
  - Module 2B: Business Challenges and Regulatory Expectations - What Directors Need to Know (Fund Management)
  - Module 3: Risk Oversight and Compliance – Action Plan for Board of Directors
  - Module 4: Emerging and Current Regulatory Issues in the Capital Market

Corporate governance (cont'd.)

1. The Board of Directors (cont'd.)

Directors' training (cont'd.)

Trainings programmes, conferences, forums and talks attended by the directors for the financial year ended 31 December 2019 were as follows (cont'd.):

External training (cont'd.)

(ii) Other external seminars/conferences/talks (cont'd.)

- Annual Report – What A Director Must Know
- Breakfast Talk on Digital Ethics and Sustainability
- Raising Defences : Section 17A, MACC Act
- Islamic Finance For Board
- Malaysia: Post Budget 2020 Forum
- Board Strategy Session : "Future of Banking - Key Trends and Outlook"
- Mandatory Accreditation Programme (MAP)
- Eight Syura Conference in Islamic Finance, Kuwait
- Muzakarah Zakat KWSP
- International Social Well-Being Conference
- EPF Investment Seminar
- 14th International Shariah Scholars Forum (ISSF 2019),
- International Directors Summit 2019 - The Trust Compass: Resetting The Course
- ASAS Blockchain Workshop - Enabling Change for a Better Society
- 3rd Tawafuq Conference For Islamic Finance, Salalah, Oman
- IFN Forum Asia 2019
- AAOIFI 17th Annual Shariah Board Conference, Manama, Bahrain
- Kuala Lumpur Islamic Finance Forum (KLIFF),
- 5th Doha Islamic Finance Conference: Islamic Finance and Digital World, Doha, Qatar
- Executive Talk on Integrity & Governance: The Corporate Liability Provision, the "Adequate Procedures" & The Implementation of the National Anti-Corruption Plan (NACP)
- The Ethical Consideration for Exercising Professional Judgements in Financial Reporting -The 'should' and 'should not'
- Khazanah Megatrends Forum 2019
- Case Study Workshop for Independent Directors
- Board Strategy Session : "Future of Banking - Key Trends and Outlook"
- Demystifying the Diversity Conundrum: The Road to Business Excellence
- CG Watch: How Does Malaysia Rank?
- Future Business Ideas (FBI) 2019 Conference – Business Innovation ReImaged
- Audit Committee Conference 2019

Corporate governance (cont'd.)

2. Internal control framework

Introduction

In pursuant to the requirement under the BNM Corporate Governance Policy Document, the internal control framework is presented herewith outlining the key features of rules governing Maybank Islamic's organisational and operational structure, including reporting processes and control functions.

Under the leverage model, Islamic business operations are residing in Maybank Group. Hence, Maybank Islamic is similarly adopting Maybank Group's risk management and internal control system with customisation where required to address the Bank's internal control environment.

Governance and oversight

The Board of Directors

The Board has the overall responsibility for establishing a sound risk management and internal control system and reviewing its adequacy and effectiveness. Recognising the importance of a sound risk management and internal control system, the Board has established the governance structure and frameworks to ensure effective oversight of risks and controls.

The Board has delegated its governance and oversight functions to its Board Committee, i.e. the Board Investment Committee, as well as Maybank Group Board level Committees, namely, Audit Committee, Risk Management Committee, Compliance Committee, Credit Review Committee, Nomination and Remuneration Committee and Employees' Share Grant Plan Committee.

Shariah Committee

The Board has appointed an independent Shariah Committee ("SC") to provide decision, views and opinions related to Shariah matters, as well as perform oversight role on Shariah matters related to the business operations and activities to ensure compliance with Shariah. Among its main duties and responsibilities are to provide relevant advice to the Board and the management in addition to assessing the work carried out by Shariah Review and Compliance and Shariah Audit.

Corporate governance (cont'd.)

2. Internal control framework (cont'd.)

Governance and oversight (cont'd.)

Management Committee

The Management Committee of the Bank is established to assist and support the Board to oversee the core areas of business operations and implement the Board's policies and procedures on risks and controls. Maybank Islamic is also leveraging on the various Maybank Group Executive Level Management Committees ("ELCs"), namely, the Group Executive Committee, Group Management Credit Committee, Group Executive Risk Committee, Group Asset and Liability Management Committee, Group Procurement Committee, Group IT Steering Committee, and Group Staff Committee.

Lines of defence

Maybank Islamic's governance model provides a transparent and effective governance structure that promotes active involvement from the Board and senior management to ensure a uniform view of risk. The governance model aims to place accountability and ownership whilst facilitating an appropriate level of independence and segregation of duties between the lines of defence, which include the following:

Functions	Key Responsibilities
First Line of Defence	
Day-to-day management and ownership of risk	• Owns and manages day-to-day risks inherent in its business and/or activities, including that of risk taking. This includes identifying, assessing, controlling, mitigating, monitoring and reporting its risk exposures and ensuring that these activities are within the established risk strategies, risk tolerance, risk appetite, internal control frameworks, policies and procedures. • Executes activities within the end-to-end process, in accordance with the process designs and controls. • Drives and facilitates the management of risk by ensuring effective implementation and adherence to internal control framework, policies, procedures and controls, including the monitoring and reporting of risk exposures of the business/ function. • Provides clarity to risk owners in relation to risk management practices.

Corporate governance (cont'd.)

2. Internal control framework (cont'd.)

Governance and oversight (cont'd.)

Lines of defence (cont'd.)

Functions	Key Responsibilities
Second Line of Defence	
Oversee risks and challenge first line	• Establishes and owns internal control frameworks, policies and procedures to identify, assess, control, mitigate, monitor and report a particular risk that the function is entrusted to govern. • Provides overall risk governance and oversight over the internal control framework including monitoring and reporting overall risk exposures of the Group/entity. • Reviews, analyses and challenges the first line's risk assessments and effectiveness in managing risk. • Provides guidance in the implementation and execution of the established Compliance frameworks, policies and tools. • Supports sustainable and quality asset growth with optimal returns through specific credit management functions such as credit evaluation, approval and monitoring. • Communicates risk strategies and create risk awareness within the organisation. • Ensures compliance to the applicable laws, regulations, internal policies, procedures, and limits (including risk limits). This includes maintaining policies and procedures to detect and minimise risk of non-compliances and to assess the adequacy and effectiveness of such policies and procedures on an on-going basis.

Corporate governance (cont'd.)

2. Internal control framework (cont'd.)

Governance and oversight (cont'd.)

Lines of defence (cont'd.)

Functions	Key Responsibilities
Third Line of Defence	
Independent risk assurance	Provide reasonable assurance via independent assessment, review and validation, which includes the following: ● Internal control frameworks, policies and tools are sufficiently robust and consistent with regulatory standards. ● Controls to mitigate risks are adequate and effectively executed by the first line. ● Adequate oversight by the second line over the first line.

Key elements of internal control system

The key elements of the internal control system established by the Board that provides effective governance and oversight of internal control include:

Risk management framework

Risk management has evolved into an important driver for strategic decisions in support of business strategies while balancing the appropriate level of risk taken to the desired level of rewards. As risk management is a core discipline of the Bank, it is underpinned by a set of key principles which serve as the foundation in driving strong risk management culture, practices and processes:

Principles	Description
Establish risk appetite & strategy	The risk appetite which is approved by the Board, articulates the nature, type and level of risk the Bank is willing to assume.
Assign adequate capital	The approach to capital management is driven by strategic objectives and accounts for the relevant regulatory, economic and commercial environments in which the Bank operates.

Corporate governance (cont'd.)

2. Internal control framework (cont'd.)

Key elements of internal control system (cont'd.)

Risk management framework (cont'd.)

Principles	Description
Ensure proper governance and oversight function	There is clear and effective governance structure with well-defined, transparent and consistent lines of responsibility established within the Bank.
Promote strong risk culture	Institutionalisation of a strong risk culture that supports and provides appropriate standards and incentives for professional and responsible behaviour.
Implement sound risk frameworks, policies and procedures	Implementation of integrated risk frameworks, policies and procedures to ensure that risk management practices and processes are effective at all levels.
Execute strong risk management practices and processes	Robust risk management processes are in place to actively identify, measure, control, monitor and report risks inherent in all products and activities undertaken by the Bank.
Ensure sufficient resources and system infrastructure	Ensure sufficient resources, infrastructure and techniques are in place to enable effective risk management.

Compliance management framework

The Compliance Management Framework provides the fundamental policies and guidelines on compliance management and oversight for Maybank Islamic. This Framework serves as a key tool for compliance officers alongside the Board, the management and all the employees of the Bank in understanding, complying and managing compliance risk.

The Bank promotes a compliance culture that inculcates a sense of responsibility in our employees to be in compliance with all relevant laws and regulations; while the business is conducted ethically and we proactively play our part in maintaining public confidence in the financial system.

Corporate governance (cont'd.)

2. Internal control framework (cont'd.)

Key elements of internal control system (cont'd.)

Compliance management framework (cont'd.)

Principles	Description
Regulatory Management	Provide guidance and advice on the proper application and interpretation of regulatory requirements applicable to its business lines including identifying gaps and appropriate action plans.
Compliance Risk Assessment	An effectively designed compliance risk assessment helps to prioritize and map the associated risks to the applicable risk owners and allocate sufficient resources to mitigate risk effectively. Periodic compliance risk assessment and review are conducted on selected areas of concern or on specific compliance related activities.
Compliance Monitoring and Mitigation	In order to keep abreast with the changes in regulatory requirements, it is important to maintain close ties with domestic and foreign regulatory bodies to keep up-to-date as and when there are changes with the requirements and the industry best practice globally. Trainings are conducted regularly to create compliance awareness and to facilitate its implementation of laws, regulations and internal compliance policies within Maybank Group.
Compliance Reporting	A key aspect of the role of compliance function is to assist the Board and Senior Management in discharging its oversight functions through management reporting. Compliance issues including incidences of non-compliance and deficiencies, corrective measures and information are promptly updated in the monthly Compliance Report to facilitate the Board and Senior Management having a holistic and overall view of all compliance matters across Maybank Group.

We will also continue to review and enhance our capability to ensure that new and existing regulations are complied with and expectations from regulators are met.

Corporate governance (cont'd.)

2. Internal control framework (cont'd.)

Key elements of internal control system (cont'd.)

Shariah Governance framework

Maybank Islamic has in place a Shariah Governance Framework, which sets out the expectations of the Shariah governance structures, processes and arrangements within the Bank. This is to ensure its operations and business activities are in accordance with Shariah, as well as to provide comprehensive guidance to the Board, Shariah Committee ("SC") and the management in discharging their duties in matters relating to Shariah.

A sound and robust SC or Shariah Governance Framework is reflected by effective and responsible Board and management, independent SC that is both competent and accountable supported by strong internal Shariah functions comprising of Shariah Management, Shariah Risk under Risk Management, Shariah Audit and Shariah Review and Compliance functions.

Risk appetite

The risk appetite is a critical component of a robust risk management framework which is driven by both top-down Board leadership and bottom-up involvement of management at all levels. The risk appetite enables the Board and senior management to communicate, understand and assess the types and levels of risk that the Bank is willing to accept in pursuit of its business and strategic goals while taking into consideration constraints under stressed environment.

The risk appetite is integrated into the strategic planning process, and remains dynamic and responsive to the changing internal and external drivers such as market conditions, stakeholders' expectations and internal capabilities. In addition, the budgeting process is aligned to the risk appetite in ensuring that projected revenues arising from business transactions are consistent with the risk profile established. Our risk appetite also provides a consistent structure in understanding risk and is embedded in day to day business activities and decisions.

Guided by these principles, our risk appetite is articulated through a set of Risk Appetite Statements for all material risks across the Bank to ultimately balance the strategic objectives of the Bank.

Corporate governance (cont'd.)

2. Internal control framework (cont'd.)

Key elements of internal control system (cont'd.)

Risk and compliance culture

The risk and compliance culture of Maybank Islamic is driven with a strong tone from the top, complemented by the tone from the middle, to ingrain the expected values and principles of conduct that shape the behaviour and attitude of employees at all level of business and activities across the Bank. Risk and compliance frameworks and policies are clearly defined, consistently communicated and continuously reinforced throughout the Bank, to embed a robust culture that cultivates active identification, assessment and mitigation of risk as part of the responsibility of all employees across the Bank.

As part of the risk and compliance culture, the Bank has instilled a compliance culture where the Board, senior management and every employee of the Bank are committed to adhere to the requirement of relevant laws, rules and regulations. This commitment is clearly demonstrated through the establishment and strengthening of policies, processes and controls in managing and preventing non-compliances.

Cyber and technology risk management policy and guideline

The cyber risk management policy is established based on the National Institute of Standards and Technology, US ("NIST") standards which emphasises on controls from identifying risks, building resilience, detecting cyber threats and effectively responding to cyber related events. The policy encompasses the cyber risk management strategy, governance structure and risk management enablers. It complements the Technology Risk Management Guideline and covers both business and technology drivers from an end to end perspective, which focuses on the key layers of People, Process and Technology.

Technology Risk Management Guideline sets the standards for identifying on the risk and required controls in organisation’s technology related functionalities and taking the appropriate risk remedial actions. This is established to standardise the technology operation's environment which will increase high service levels to customers as well as business units.

Risk management practices & processes

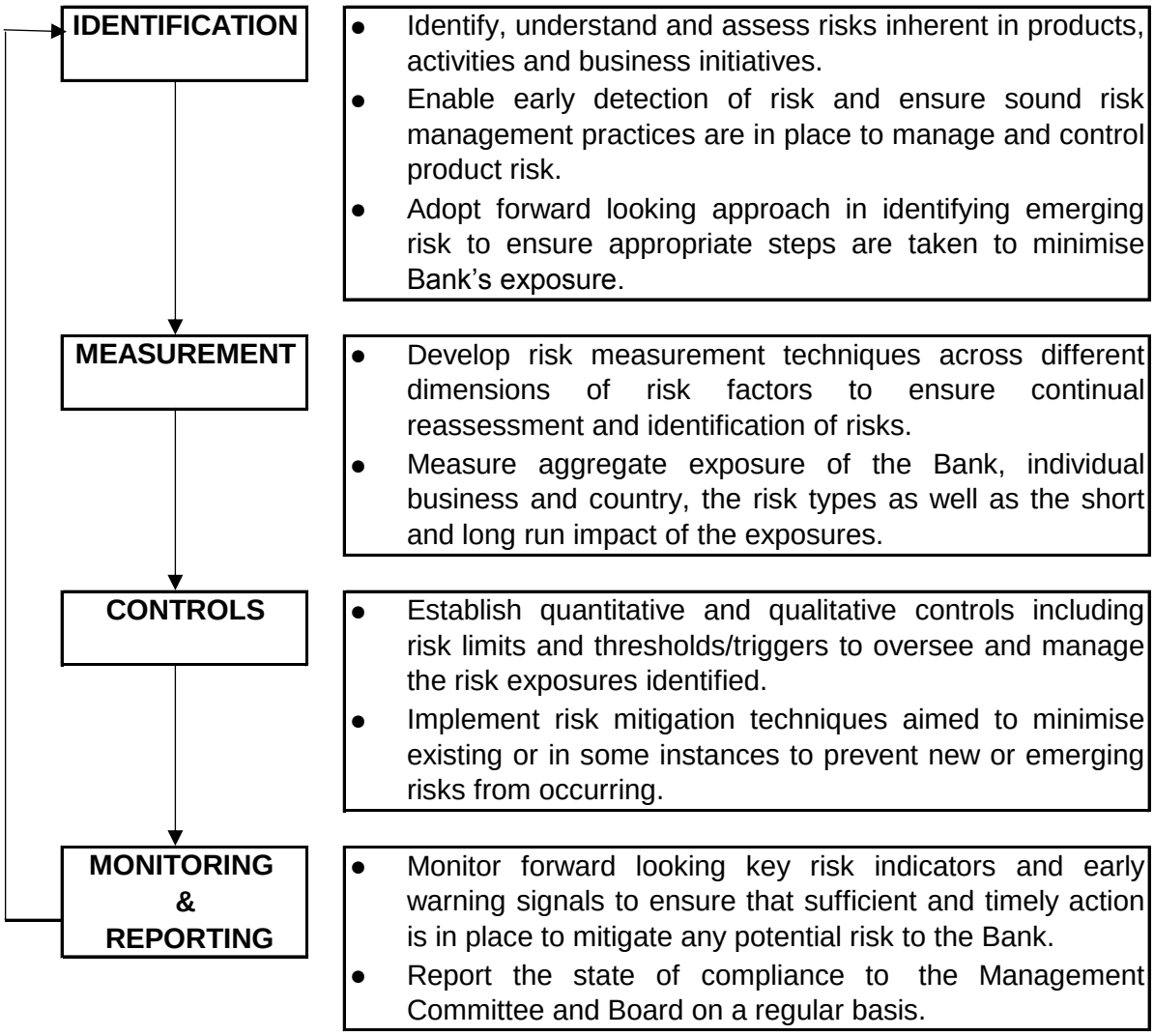
The risk management practices and processes enable the Bank to systematically identify, measure, control, monitor and report risk exposures across the Bank.

Corporate governance (cont'd.)

2. Internal control framework (cont'd.)

Key elements of internal control system (cont'd.)

Risk management practices & processes (cont'd.)



Regular updates and communication of risk management principles, policies, procedures and practices

Risk management principles, policies, procedures and practices are reviewed and updated regularly to ensure relevance to the current business environment as well as compliance with current/applicable laws and regulations. Maybank Islamic has a dedicated risk management function to facilitate establishment and review of these documents and ensure their implementation within the Bank.

Corporate governance (cont'd.)

2. Internal control framework (cont'd.)

Key elements of internal control system (cont'd.)

Sustainability management

Operating in a sustainable manner is an organic part of the Bank's approach to its core business. Our long term financial success depends upon our ability to identify and address environmental, social and ethical issues that present risks or opportunities for our business. A five year Sustainability Plan is in place, with the aim of generating long-lasting impact and value across three pillars: Community and Citizenship, Our People and Access to Products and Services; by integrating environmental, social and governance ("ESG") practices into our 'business-as-usual' as part of our commitment to all stakeholders, which are supported by relevant policies and systems.

Management of information assets

Confidentiality, integrity and availability of information are critical to the day-to-day operations and strategic decision making of Maybank Islamic. To safeguard the information assets of the Bank, the Information Risk Management Guideline is established to clearly define the processes for effective management of information assets and its associated risks. Guided by information handling rules in alignment to the information lifecycle, all information must be properly managed, controlled and protected. Additional measures include reinforcing the clear desk policy to minimise information leakage/theft and fraud.

With the increased adoption of technology capabilities and the increasing risk of cyber threats, information security has been among the key focus area. Technology controls are applied at various stages of the information cycle. Amongst the controls are Data Loss Protection to protect and prevent potential data loss or theft. Additionally, the establishment of Information Assets Working Group ("IAWG") to deliberate and formulate data protection measures further strengthen the controls and mitigate the risk of information breach.

Anti-fraud policy

The anti-fraud policy outlines the vision, principles and strategies for the Group to instil a culture of vigilance to effectively manage fraud from detection to remedy, and to deter future occurrences. Robust and comprehensive tools and programmes are employed to reinforce the policy, with clear roles and responsibilities outlined at every level of the organisation in promoting high standards of integrity in every employee. Stern disciplinary action is taken against employees involved in fraud.

Corporate governance (cont'd.)

2. Internal control framework (cont'd.)

Key elements of internal control system (cont'd.)

Reputational risk policy

Protecting our reputation is paramount to operating as an institution that provides financial services. Upholding trust forms a vital part of our obligation as a financial institution. Hence, the way in which we conduct ourselves through engagements with markets, regulators, customers, and the communities we serve is crucial. Given the importance of reputation, reputational risk policy is implemented to effectively manage reputational risk and to institutionalise awareness on and its consequences. The policy outlines the roles and responsibilities of key stakeholders and the guiding principles to protect the Bank's reputation.

Core values and code of ethics and conduct

Maybank Islamic observes the Islamic code and values. The Shariah is the overarching principle steering the Bank at all times in all its businesses and operations. In addition, the Maybank Group's core values, T.I.G.E.R. (Teamwork, Integrity, Growth, Excellence and Efficiency, Relationship Building) are the essential guiding principles to drive behavioural ethics. It is further complemented by the Code of Ethics and Conduct that sets out sound principles and standards of good practice observed by all.

Independent assurance by Group Audit

The Internal Audit ("IA") function of Maybank Islamic Berhad ("MIB") is undertaken by Maybank Group Audit, led by the Group Chief Audit Executive ("GCAE"). The GCAE is supported by a team of auditors with the requisite audit and product knowledge in various specialised areas, including Shariah and Islamic business. The principal responsibility of IA is to provide independent assurance on the adequacy and effectiveness of governance, risk management and internal control.

To maintain its independence, the IA function is placed under the direct authority and supervision of Maybank's Audit Committee of the Board ("ACB"), with administrative reporting to the Group President & Chief Executive Officer ("GPCEO"). The IA processes and activities are guided by the Audit Charter and governed by the relevant regulatory guidelines, Group's Code of Ethics and The Institute of Internal Auditor's ("IIA") mandatory guidance established under the International Professional Practices Framework ("IPPF").

Corporate governance (cont'd.)

3. Remuneration

Rewards and remuneration

Our remuneration and rewards philosophy is aligned to our strategic direction and purpose that underpin our commitment to deliver an excellent performance and long-term sustainable returns for our stakeholders. At Maybank Islamic, we embrace a Total Rewards system, a well-rounded approach with the right reward elements to drive positive outcomes and business performance. It is an integrated rewards strategy that focuses on the right remuneration, benefits, skills and capabilities development to support our employees in achieving their personal and professional aspirations. Key elements in Total Rewards are aligned to the Maybank Group's strategy, Maybank Group Human Capital's strategy, culture and T.I.G.E.R. values and are all critical in sustaining employee engagement levels, productivity and business growth.

Our remuneration policies and practices are governed by sound principles which comply with regulatory requirements. It is monitored and reviewed periodically to align with regulatory requirements as well as to reinforce a high performance culture that attracts, motivates and retains talents through market competitiveness and responsible values.

Components of remuneration

Maybank Group rewards' principles, delivered holistically via the Group's Total Rewards Framework, include components of total compensation, benefits and development.

i) Total compensation:

A mixture of Fixed Pay and Variable Pay (i.e. Variable Bonus and Long-term Incentive Plan) with targeted Pay Mix levels is designed to align with the long-term performance goals and objectives of the organisation. The compensation framework provides a balanced approach between fixed and variable components that change according to individual performance, business/corporate function performance, group performance outcome as well as an individual's level and accountability.

Corporate governance (cont'd.)

3. Remuneration (cont'd.)

Components of remuneration (cont'd.)

i) Total compensation (cont'd.):

<table>
<tr><th rowspan="2">Fixed Pay</th><th colspan="2">Variable Pay</th></tr>
<tr><th>Variable Bonus</th><th>Long Term Incentive Award</th></tr>
<tr><td rowspan="2">● Attract and retain talent by providing competitive and equitable level of pay.
● Reviewed annually through benchmarking externally against relevant peers and locations and internally aligned with consideration of market dynamics, differences in individual responsibilities, performance, achievements, skillset, as well as competency level.</td><td>● Reinforce a pay-for-performance culture and adherence to the Maybank Group’s T.I.G.E.R. Core Values.
● Variable cash award design that is aligned with the long-term performance goals of the Group.
● Based on overall Group Performance, Business/ Corporate Function and individual performance.
● Performance is measured via the Balanced Scorecard approach.
● Any Variable Bonus Awards in excess of certain thresholds will be deferred over a period of time. Deferred Variable Bonus will lapse immediately upon termination of employment (including resignation) except in the event of ill health, disability, redundancy, retirement or death.</td><td>● Offered within the suite of Total Rewards for eligible talents and senior management who have a direct line of sight in driving, leading and executing the Maybank Group’s business strategies and objectives.</td></tr>
<tr><td colspan="2">Clawback Provision:
● The Maybank Islamic Board, based on risk management issues, financial misstatement, fraud and gross negligence or wilful misconduct, has the discretion to make adjustment or clawback the Variable Bonus and Long-term Incentive Awards where appropriate.</td></tr>
</table>

Corporate governance (cont'd.)

3. Remuneration (cont'd.)

Components of remuneration (cont'd.)

ii) Benefits

Provides a range of benefits that are valued by employees which include financial protection, health care, paid time-off, staff loans at preferential rates, programmes to support work-life integration, etc. for our diverse workforce. The benefits programmes, which blend all elements including cost optimisation and employee/job needs, are reviewed regularly with proactive actions taken to remain competitive in the increasingly dynamic business landscape. This has continuously enriched our employees, which is part of our total rewards strategy.

iii) Development and career opportunities

Continue to invest in the current skills and capabilities necessary as well as the personal and professional growth of our employees. Opportunities are provided to employees to chart their careers across different businesses and geographies.

Long-term incentive award

Employees' Shares Grant Plan

In December 2018, the Bank rolled out a new scheme under our Long-Term Incentive Award i.e. Employees' Shares Grant Plan ("ESGP") which replaces the previous scheme that expired in June 2018. The ESGP has a validity period of seven years and it serves as a long-term incentive award for eligible talents and senior management.

Vesting Eligibility of the ESGP is subject to fulfilment of the ESGP vesting conditions as well as upon meeting the performance criteria at the Maybank Group level and at an individual level. The first ESGP award that was granted in December 2018 will vest by 2021 while the second ESGP Award that was granted in September 2019 will vest by 2022.

Governance and controls – remuneration practice

The Bank ensures its remuneration policies and structure are in line with the requirements of governance regulations. From a risk management perspective, the remuneration policy is supported by strong governance and is sensitive to risk outcomes.

Corporate governance (cont'd.)

3. Remuneration (cont'd.)

Governance and controls – remuneration practice (cont'd.)

The Bank also ensures compliance to regulatory governance for risk control of remuneration practices. The Bank has strong internal governance on the performance and remuneration of control functions which are measured and assessed independently from the business units to avoid conflict of interests. The remuneration of staff in control functions are predominantly fixed to reflect the nature of their responsibilities. Annual reviews of their compensation are benchmarked against the market rate and internally to ensure that it is at an appropriate level.

Performance Management principles ensure Key Performance Indicators ("KPIs") continue to focus on outcomes delivered that are aligned to the business plans. Each of the Senior Officers and Other Material Risk Takers ("OMRT") carry Risk, Governance & Compliance goals in their individual scorecard and this is cascaded accordingly. As a responsible organisation, the right KPI setting continues to shape the organisational culture, actively drive risk and compliance agendas effectively where inputs from control functions and Board Committees are incorporated into the Sector and individual performance results.

Senior Officers and Other Material Risk Takers ("OMRT")

Remuneration of Senior Officers and OMRTs are reviewed on an annual basis and submitted to the Nomination and Remuneration Committee for recommendation to the Board for approval.

Corporate governance (cont'd.)

3. Remuneration (cont'd.)

Senior Officers and Other Material Risk Takers ("OMRT") (cont'd.)

Summary of financial year ended 31 December 2019 compensation outcome for those identified as senior officers of Maybank Islamic is as follow:

Total value of remuneration awards for the financial year	Senior Officers	
	Unrestricted RM	Deferred RM
Fixed remuneration		
- Cash-based	8,711,947	-
- Shares and share-linked instruments	-	-
- Others	510,063	-
Variable remuneration		
- Cash-based	3,760,291	-
- Shares and share-linked instruments	628,860	-
- Others	-	-

Definition Senior Officers of the Identified Entities & Senior Officers of BNM regulated Companies refers to Chief Executive Officers ("CEO"); Direct Reports to the CEOs; Chief Financial Officer; Chief Risk Officer; Chief Compliance Officer; Chief Audit Executive and Company Secretary.

OMRTs are defined as employees who can materially commit or control significant amounts of the financial institution's resources or whose actions are likely to have a significant impact on its risk profile or those among the most highly remunerated officers.

Notes:
The figures above exclude the long term incentive award (combination of cash and shares) awarded in 2019 as the amount, conditional upon fulfilment of payment/vesting criteria, have not taken effect.

Shariah Committee's report

In the name of Allah, the Most Compassionate, the Most Merciful

All praise is due to Allah, the Cherisher of the Worlds, and peace and blessings be upon the Prophet of Allah, on his family and all his companions.

Assalamualaikum warahmatullahi wabarakatuh

To the shareholders, depositors and customers of Maybank Islamic Berhad ("the Bank"):

We, the members of the Shariah Committee of the Bank ("the Committee"), do hereby confirm that we have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank from 1 January 2019 until 31 December 2019. During the year, the Shariah Committee had convened 26 times and all members have satisfied the minimum attendance requirement required as per Appendix 5: Operation Procedures for the Shariah Committee of the BNM's Shariah Governance Framework which requires a Shariah Committee member to attend at least 75% of the Shariah Committee meetings held in each financial year.

We have provided the Shariah advisory services on various aspects to the Bank in order to ensure compliance with applicable Shariah principles as well as the relevant resolutions and rulings made by the Shariah Advisory Councils of the regulatory bodies.

The Bank has carried out Shariah audit and Shariah review exercise performed by Internal Audit Division Group Audit, Maybank and Shariah review by Shariah Review and Compliance, Maybank Islamic Berhad respectively throughout the organisation and the reports were deliberated in the Shariah Committee meetings. The Committee hereby confirms that appropriate efforts have been taken to rectify the Shariah and Operational gaps, and the Bank has also implemented several mechanism(s) to prevent similar Shariah and Operational gaps from recurring. Moreover, the Bank has organised a region wide Shariah training program to enhance Shariah compliance awareness throughout the organisation.

The Bank's management is responsible for ensuring that the Bank conducts its business in accordance with Shariah rules and principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank and to report to you.

We are of the opinion that:

(a) The new products, business initiatives and enhanced processes introduced by the Bank during the year ended 31 December 2019, that we have reviewed are in compliance with the Shariah rules and principles;

(b) The contracts, transactions and dealings entered into by the Bank during the year ended 31 December 2019, that we have reviewed are in compliance with the Shariah rules and principles;

Shariah Committee's report (cont'd.)

(c) The main funding sources and investments of the Bank disclosed to us conform to the basis that had been approved by us in accordance with the Shariah rules and principles;

(d) 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;

(e) The Shariah non-compliance events and disposal of any earnings from prohibited sources/means by the Bank during the year ended 31 December 2019 had been channeled to the donation/charity fund as disclosed in Note 43; and

(f) The financial statements of the Bank for the year ended 31 December 2019 together with the calculation of zakat disclosed to us are in compliance with the Shariah rules and principles.

We beg Allah the Almighty to grant us all the Success and Straight-Forwardness and Allah knows best.

Assoc. Prof. Dr. Aznan Hasan
Chairman of the Committee

Dr. Mohamed Fairooz Bin Abdul Khir
Member of the Committee

Kuala Lumpur, Malaysia
25 February 2020

Building a better working world

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Co. Reg. No.: 200701029411

Independent auditors' report to the member of Maybank Islamic Berhad (Incorporated in Malaysia)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Maybank Islamic Berhad ("the Bank"), which comprise the statement of financial position as at 31 December 2019, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 52 to 227.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and its 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 *Auditor's 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 opinion.

Independence and other ethical responsibilities

We are independent of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International 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 IESBA Code.

Information other than the financial statements and auditors' report thereon

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

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

Co. Reg. No.: 200701029411

**Independent auditors' report to the member of
Maybank Islamic Berhad (cont'd.)
(Incorporated in Malaysia)**

Information other than the financial statements and auditors' report thereon (cont'd.)

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

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

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Co. Reg. No.: 200701029411

**Independent auditors' report to the member of
Maybank Islamic Berhad (cont'd.)
(Incorporated in Malaysia)**

Auditors' responsibilities for the audit of the financial statements (cont'd.)

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

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

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

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

- Conclude on the appropriateness of 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements 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 Bank to cease to continue as a going concern.

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

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.

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Co. Reg. No.: 200701029411

Independent auditors' report to the member of Maybank Islamic Berhad (cont'd.) (Incorporated in Malaysia)

Auditors' responsibilities for the audit of the financial statements (cont'd.)

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other matters

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

Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

Dato' Megat Iskandar Shah Bin Mohamad Nor
No. 03083/07/2021 J
Chartered Accountant

Kuala Lumpur, Malaysia
25 February 2020

Co. Reg. No.: 200701029411

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2019

	Note	2019 RM'000	2018 RM'000
Assets			
Cash and short-term funds	5	**21,703,239**	21,922,103
Deposits and placements with banks and other financial institutions	6	**-**	251,328
Financial investments at fair value through profit or loss	7(i)	**383,194**	995,072
Financial investments at fair value through other comprehensive income	7(ii)	**15,292,520**	12,447,389
Financial investments at amortised cost	7(iii)	**9,671,676**	6,454,985
Financing and advances	8	**189,762,974**	174,268,203
Derivative assets	9	**200,414**	403,993
Other assets	10	**3,960,197**	4,242,911
Statutory deposit with Bank Negara Malaysia	11	**4,242,037**	4,205,000
Property, plant and equipment	12	**1,458**	-
Right-of-use assets	13	**12,966**	-
Deferred tax assets	19	**-**	24,077
Total assets		**245,230,675**	225,215,061
Liabilities			
Customers' funding:			
- Deposits from customers	14	**161,039,140**	147,781,749
- Investment accounts of customers [1]	15	**20,737,670**	23,565,061
Deposits and placements of banks and other financial institutions	16	**38,827,556**	32,174,135
Bills and acceptances payable		**137,893**	11,050
Financial liabilities at fair value through profit or loss	17	**-**	385,687
Derivative liabilities	9	**221,674**	391,949
Other liabilities	18	**170,965**	2,129,694
Provision for zakat		**30,304**	23,450
Term funding	20	**9,891,993**	4,738,180
Subordinated sukuk	21	**2,028,311**	2,534,301
Capital securities	22	**1,002,170**	1,002,441
Deferred tax liabilities	19	**83,002**	-
Total liabilities		**234,170,678**	214,737,697

[1] Investment accounts of customers are used to fund financing and advances as disclosed in Note 8.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statement of financial position as at 31 December 2019 (cont'd.)

	Note	2019 RM'000	2018 RM'000
Equity attributable to equity holder of the Bank			
Share capital	23	**7,197,398**	7,197,398
Retained profits	24	**2,676,002**	2,970,618
Other reserves	24	**1,186,597**	309,348
		11,059,997	10,477,364
Total liabilities and shareholder's equity		**245,230,675**	225,215,061
Commitments and contingencies	37	**63,976,328**	59,033,318

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Co. Reg. No.: 200701029411

Maybank Islamic Berhad
(Incorporated in Malaysia)

Income statement
For the year ended 31 December 2019

	Note	2019 RM'000	2018 RM'000
Income derived from investment of depositors' funds	25	**9,538,085**	8,831,807
Income derived from investment of investment account funds	26	**1,051,729**	1,099,068
Income derived from investment of shareholder's funds	27	**426,290**	430,134
Writeback of/(allowances for) impairment losses on financing and advances, net	28(i)	**282,866**	(375,246)
(Allowances for)/writeback of impairment losses on financial investments, net	28(ii)	**(3,954)**	7,537
Writeback of impairment losses on other financial assets, net	28(iii)	**-**	167
Total distributable income		**11,295,016**	9,993,467
Profit distributed to depositors	29	**(5,557,966)**	(5,029,737)
Profit distributed to investment account holders		**(566,816)**	(597,724)
Total net income		**5,170,234**	4,366,006
Overhead expenses	30	**(1,453,793)**	(1,417,570)
Finance cost	32	**(416,622)**	(343,485)
Profit before taxation and zakat		**3,299,819**	2,604,951
Taxation	33	**(750,239)**	(605,683)
Zakat		**(30,351)**	(23,658)
Profit for the year		**2,519,229**	1,975,610
Earnings per share attributable to equity holder of the Bank - basic/diluted (sen)	34	**743.3**	655.4

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Co. Reg. No.: 200701029411

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of comprehensive income
For the year ended 31 December 2019

	Note	2019 RM'000	2018 RM'000
Profit for the year		**2,519,229**	1,975,610
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Net gain on foreign exchange translation		**82**	-
Net gain on financial investments at fair value through other comprehensive income		**344,186**	25,103
- Net gain from change in fair value		**454,140**	27,873
- Changes in expected credit losses		**(960)**	3,920
- Income tax effect	19	**(108,994)**	(6,690)
Other comprehensive income for the financial year, net of tax		**344,268**	25,103
Total comprehensive income for the year, net of tax		**2,863,497**	2,000,713
Total comprehensive income attributable to:			
Equity holder of the Bank		**2,863,497**	2,000,713

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Co. Reg. No.: 200701029411

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of changes in equity
For the year ended 31 December 2019

		<---------- Non-distributable				----------> Distributable	
	Share capital (Note 23) RM'000	Equity contribution from the holding company (Note 24) RM'000	Fair Value Through Other Comprehensive Income reserve (Note 24) RM'000	Regulatory reserve (Note 24) RM'000	Exchange fluctuation reserve (Note 24) RM'000	Retained profits (Note 24) RM'000	Total equity RM'000
At 1 January 2019	**7,197,398**	**1,697**	**(5,865)**	**313,516**	**-**	**2,970,618**	**10,477,364**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**2,519,229**	**2,519,229**
Other comprehensive income	**-**	**-**	**344,186**	**-**	**82**	**-**	**344,268**
Total comprehensive income for the year	**-**	**-**	**344,186**	**-**	**82**	**2,519,229**	**2,863,497**
Transfer to regulatory reserve	**-**	**-**	**-**	**532,981**	**-**	**(532,981)**	**-**
Dividend on ordinary shares (Note 35)	**-**	**-**	**-**	**-**	**-**	**(2,280,864)**	**(2,280,864)**
Total transactions with shareholder/ other equity movements	**-**	**-**	**-**	**532,981**	**-**	**(2,813,845)**	**(2,280,864)**
At 31 December 2019	**7,197,398**	**1,697**	**338,321**	**846,497**	**82**	**2,676,002**	**11,059,997**

Co. Reg. No.: 200701029411

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of changes in equity (cont'd.)
For the year ended 31 December 2019 (cont'd.)

		<---------- Non-distributable	---------->		Distributable	
	Share capital (Note 23) RM'000	**Equity contribution from the holding company (Note 24) RM'000**	**Fair Value Through Other Comprehensive Income reserve (Note 24) RM'000**	**Regulatory reserve (Note 24) RM'000**	**Retained profits (Note 24) RM'000**	**Total equity RM'000**
At 1 January 2018						
- as previously stated	5,481,783	1,697	(32,318)	508,700	3,351,547	9,311,409
- effect of adopting MFRS 9	-	-	1,350	(493,501)	(342,607)	(834,758)
At 1 January 2018, as restated	5,481,783	1,697	(30,968)	15,199	3,008,940	8,476,651
Profit for the year	-	-	-	-	1,975,610	1,975,610
Other comprehensive income	-	-	25,103	-	-	25,103
Total comprehensive income for the year	-	-	25,103	-	1,975,610	2,000,713
Transfer to regulatory reserve	-	-	-	298,317	(298,317)	-
Issue of ordinary shares	1,715,615	-	-	-	-	1,715,615
Dividend on ordinary shares (Note 35)	-	-	-	-	(1,715,615)	(1,715,615)
Total transactions with shareholder/ other equity movements	1,715,615	-	-	298,317	(2,013,932)	-
At 31 December 2018	7,197,398	1,697	(5,865)	313,516	2,970,618	10,477,364

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Co. Reg. No.: 200701029411

Maybank Islamic Berhad
(Incorporated in Malaysia)

Statement of cash flows
For the year ended 31 December 2019

	2019 RM'000	2018 RM'000
Cash flows from operating activities		
Profit before taxation and zakat	**3,299,819**	2,604,951
Adjustments for:		
Accretion of discount less amortisation of premium	**(24,622)**	(49,197)
(Writeback of)/allowances for impairment losses on financing and advances	**(186,705)**	418,692
Allowances for/(writeback of) impairment losses on financial investments	**3,954**	(7,537)
Writeback of impairment losses on other financial assets	**-**	(167)
Depreciation of property, plant and equipment	**164**	-
Depreciation of right-of-use assets	**2,145**	-
Finance cost on lease liabilities	**240**	-
Unrealised gains on revaluation of derivatives	**(603)**	(26,892)
Unrealised (gains)/losses on revaluation of financial investments at fair value through profit or loss	**(909)**	207
Unrealised (gains)/losses on revaluation of financial liabilities at fair value through profit or loss	**(701)**	6,187
Gains on disposal of financial investments at fair value through other comprehensive income	**(74,112)**	(5,870)
(Gains)/losses on disposal of financial investments at fair value through profit or loss	**(7,523)**	2,242
Gains on foreign exchange translations	**(69,016)**	(134,656)
ESGP expenses	**1,239**	-
Finance cost	**416,622**	343,485
Operating profit before working capital changes	**3,359,992**	3,151,445
Change in deposits and placements with banks and other financial institutions	**251,328**	(251,328)
Change in cash and short-term funds with original maturity of more than three months	**50,452**	(50,452)
Change in financial investments portfolio	**(4,894,493)**	(6,975,086)
Change in financing and advances	**(15,307,126)**	(13,664,593)
Change in derivative assets and liabilities	**33,908**	(147,483)
Change in other assets	**274,394**	2,482,449
Change in statutory deposit with Bank Negara Malaysia	**(37,037)**	(963,000)
Change in deposits from customers	**13,257,391**	17,884,309
Change in deposits and placements of banks and other financial institutions	**6,722,421**	4,070,651
Change in investment accounts of customers	**(2,827,391)**	(990,384)
Change in financial liabilities at fair value through profit or loss	**(384,986)**	(513,195)
Change in bills and acceptances payable	**126,843**	2,196
Change in other liabilities	**(1,964,647)**	1,794,642
Brought forward	**(1,338,951)**	5,830,171

Statement of cash flows (cont'd.)
For the year ended 31 December 2019

	Note	2019 RM'000	2018 RM'000
Carried forward			
Cash (used in)/generated from operating activities		**(1,338,951)**	5,830,171
Taxes and zakat paid		**(775,651)**	(542,331)
Net cash (used in)/generated from operating activities		**(2,114,602)**	5,287,840
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,620)**	-
Net cash used in investing activities		**(1,620)**	-
Cash flows from financing activities			
Proceeds from issuance of shares		**-**	1,715,615
Dividend paid ordinary shares		**(2,280,864)**	(1,715,615)
Dividend paid for capital securities		**(49,771)**	(49,500)
Dividend paid for subordinated sukuk		**(104,250)**	(117,750)
Redemption of subordinated sukuk		**(500,000)**	-
Drawdown/(redemption) of term funding		**5,250,000**	(207,063)
Dividend paid for term funding		**(365,048)**	(176,235)
Repayment of lease liabilities		**(2,257)**	-
Net cash generated from/(used in) financing activities		**1,947,810**	(550,548)
Net (decrease)/increase in cash and cash equivalents		**(168,412)**	4,737,292
Cash and cash equivalents at beginning of year		**21,871,651**	17,134,359
Cash and cash equivalents at end of year		**21,703,239**	21,871,651
Cash and cash equivalents comprise:			
Cash and short term funds	5	**21,703,239**	21,922,103
Deposits and placements with banks and other financial institutions	6	**-**	251,328
		21,703,239	22,173,431
Less: Cash and short-term funds and deposits and placements with original maturity of more than three months		**-**	(301,780)
		21,703,239	21,871,651

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

1. Corporate information

The Bank is a public limited liability company, incorporated on 5 September 2007 and domiciled in Malaysia. The registered office of the Bank is located at 15th Floor, Tower A Dataran Maybank, 1, Jalan Maarof, 59000 Kuala Lumpur.

The Bank is principally engaged in the business of Islamic Banking and the provision of related financial services. There were no significant changes in these activities during the financial year.

The holding company of the Bank is Malayan Banking Berhad ("Maybank"), a licensed bank incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

These financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 25 February 2020.

2. Accounting policies

2.1 Basis of preparation and presentation of the financial statements

The financial statements of the Bank has been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS"), and the requirements of the Companies Act 2016 in Malaysia.

The financial statements of the Bank has been prepared under the historical cost basis unless otherwise indicated in the summary of significant accounting policies disclosed in Note 2.2.

The Bank presents the statement of financial position in the order of liquidity.

Financial assets and financial liabilities are offset and the net amounts are reported in the statement of financial position of the Bank only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the income statement of the Bank unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies

(i) Financial assets

(a) Date of recognition

All financial assets are initially recognised on the trade date i.e. the date that the Bank becomes a party to the contractual provision of the instruments. This includes regular way trades, purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

(b) Initial recognition and subsequent measurement

All financial assets are measured initially at their fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

The Bank classify all of its financial assets based on the business model for managing the assets and the asset's contractual cash flow characteristics.

i) Business model assessment

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

The 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 portfolio and the financial assets held within that business model are evaluated and reported to the key management personnel;

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

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

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(b) Initial recognition and subsequent measurement (cont'd.)

i) Business model assessment (cont'd.)

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 incorporate such information when assessing newly originated or newly purchased financial assets going forward.

ii) The solely payments of principal and profit ("SPPP") test

Upon determination of business model, the Bank will assess the contractual terms of financial assets to identify whether they meet the SPPP test.

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

The most significant elements of profit within a financing arrangement are typically the consideration for the time value of money and credit risk. In making the SPPP assessment, the Bank applies judgement and consider 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 fair value through profit or loss.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(b) Initial recognition and subsequent measurement (cont'd.)

Included in financial assets are the following:

- Amortised cost, as explained in Note 2.2(i)(b)(1);
- Fair value through other comprehensive income ("FVOCI"), as explained in Note 2.2(i)(b)(2); and
- Fair value through profit or loss ("FVTPL"), as explained in Note 2.2(i)(b)(3)

(1) Financial assets at amortised cost

The Bank measures financial assets at amortised cost if both of the following conditions are met:

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

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

Included in financial assets at amortised cost are cash and short-term funds, deposits and placements with financial institutions, financial investments and financing and advances as disclosed in the respective notes to the financial statements.

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

The Bank measures debt instruments at FVOCI when both of the following conditions are met:

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

- The contractual terms of the financial assets meet the SPPP test.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(b) Initial recognition and subsequent measurement (cont'd.)

(2) Fair value through other comprehensive income ("FVOCI") (cont'd.)

Financial assets at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in Other Comprehensive Income ("OCI"). Finance income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. Where the Bank hold more than one investment in the same security, they are deemed to be disposed-off on a first-in-first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

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

Included in financial asset FVOCI are financial investments and financing and advances to customers.

(3) Financial assets at fair value through profit or loss ("FVTPL")

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

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

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(b) Initial recognition and subsequent measurement (cont'd.)

(3) Financial assets at fair value through profit or loss ("FVTPL") (cont'd.)

Included in financial assets at FVTPL are financial investments and derivatives.

Subsequent to initial recognition, financial assets designated at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recognised in the income statement under the caption of 'other operating income'.

(c) Derecognition

A financial asset is derecognised when there is substantial modification of terms and conditions or factors other than substantial modification.

(1) Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a financing to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new financing with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded.

The newly recognised financing are classified as Stage 1 for Expected Credit Loss (“ECL”) measurement purposes, unless the new financing is deemed to be purchased or originated credit-impaired ("POCI").

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective profit rate ("EPR"), the Bank record a modification gain or loss, to the extent that an impairment loss has not already been recorded.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(c) Derecognition (cont'd.)

(2) Derecognition other than for substantial modification

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

(i) The rights to receive cash flows from the financial asset have expired; or

(ii) The transfer of financial asset is as set out below and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset; or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass–through’ arrangement.

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assume a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount financed plus accrued profit at market rates;

- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients; and

- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including profit earned, during the period between the collection date and the date of required remittance to the eventual recipients.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(c) Derecognition (cont'd.)

(2) Derecognition other than for substantial modification (cont'd.)

A transfer only qualifies for derecognition if either the Bank has:

- Transferred substantially all the risks and rewards of the asset; or
- Neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and have retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(d) Impairment of financial assets

The MFRS 9 impairment requirements are based on an ECL model. The ECL model applies to financial assets measured at amortised cost or at FVOCI, irrevocable financing commitments and financial guarantee contracts, which include financing and advances and debt instruments held by the Bank. The ECL model also applies to contract assets under MFRS 15 *Revenue from Contracts with Customers* and lease receivables under MFRS 16 *Leases*.

The measurement of expected credit loss involves increased complexity and judgement that include:

(i) Determining a significant increase in credit risk since initial recognition

The assessment of significant deterioration since initial recognition is key in establishing the point of switching between the requirement to measure an allowance based on 12-month ECL and one that is based on lifetime ECL. The quantitative and qualitative assessments are required to estimate the significant increase in credit risk by comparing the risk of a default occurring on the financial assets as at reporting date with the risk of default occurring on the financial assets as at the date of initial recognition.

The Bank applies a three-stage approach based on the change in credit quality since initial recognition:

3-Stage approach	Stage 1	Stage 2	Stage 3
	Performing	Under-performing	Non-performing
ECL Approach	12-month ECL	Lifetime ECL	Lifetime ECL
Criterion	No significant increase in credit risk	Credit risk increased significantly	Credit-impaired assets
Recognition of profit income	On gross carrying amount	On gross carrying amount	On net carrying amount

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(d) Impairment of financial assets (cont'd.)

(ii) ECL Measurement

There are three main components to measure ECL which are a probability of default model ("PD"), a loss given default model ("LGD") and an exposure at default model ("EAD"). The model is to leverage as much as possible on the Bank's existing Basel II models and performed the required adjustments to produce MFRS 9 compliant model.

MFRS 9 does not distinguish between individual assessment and collective assessment. Therefore, the Bank has decided to continue measure the impairment mainly on an individual transaction basis for financial assets that are deemed to be individually significant, and collectively assess for other financial assets as per Maybank Group's policy.

(iii) Expected life

Lifetime ECL must be measured over the expected life. This is restricted to the maximum contractual life and takes into account expected prepayment, extension, call and similar options, except for certain revolving financial instruments such as credit cards and cashline. The expected life for these revolving facilities generally refers to its behavioural life.

(iv) Financial investments at FVOCI

The ECL for financial investments 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.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(d) Impairment of financial assets (cont'd.)

(v) Forward-looking information

ECL are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. The reasonable and supportable forward-looking information is based on the Maybank Group's and the Bank's research arm, Maybank Kim Eng ("MKE"). In addition, the MKE research's assumptions and analysis are also based on the collation of macroeconomic data obtained from various sources such as, but not limited to regulators, government and foreign ministries as well as independent research organisations.

Where applicable, the Bank incorporates forward-looking adjustments in credit risk factors of PD and LGD used in ECL calculation; taking into account the impact of multiple probability-weighted future forecast economic scenarios.

Embedded in ECL is a broad range of forward-looking information as economic inputs, such as:

- Gross Domestic Product ("GDP") growth;
- Unemployment rates;
- House Price Indices; and
- Bank Negara Malaysia ("BNM") policy rates

The Bank applies the following three alternative macroeconomic scenarios to reflect an unbiased probability-weighted range of possible future outcomes in estimating ECL:

Base scenario: This scenario reflects that current macroeconomic conditions continue to prevail; and

Upside and Downside scenarios: These scenarios are set relative to the base scenario, reflecting best and worst-case macroeconomic conditions based on subject matter expert's best judgement from current economic conditions.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(d) Impairment of financial assets (cont'd.)

(vi) Valuation of collateral held as security for financial assets

The Bank's valuation policy for collateral assigned to its financial assets are depended on its financing arrangements.

(e) Modification of financing

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of financing to customers. When this happens, the Bank assess whether or not the new terms are substantially different to the original terms. The Bank do this by considering, among others, the following factors:

- If the customer is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the customer is expected to be able to pay;

- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the financing;

- Significant extension of the financing term when the customer is not in financial difficulty;

- Significant change in the profit rate;

- Change in the currency the financing in denominated in; and

- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the financing.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Financial assets (cont'd.)

(e) Modification of financing (cont'd.)

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculate a new effective profit rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assess whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the customer being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in the income statements as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculate the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in the income statements. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective profit rate (or credit-adjusted effective profit rate for purchased or originated credit-impaired financial assets).

(f) Reclassification of financial assets

Reclassification of financial assets is permissible when and only when there is change in business model for managing financial assets.

The Bank does not consider the following changes in circumstances as reclassifications:

- an item that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- an item becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- changes in measurement where the Bank adopt fair value option.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(ii) Financial liabilities

(a) Date of recognition

All financial liabilities are initially recognised on the trade date i.e. the date that the Bank becomes a party to the contractual provision of the instruments. 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.

(b) Initial recognition and subsequent measurement

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. All financial liabilities are measured initially at fair value plus directly attributable transaction costs, except in the case of financial liabilities at FVTPL.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

(1) Financial liabilities at FVTPL

Financial liabilities designated at fair value

Financial liabilities designated upon initial recognition at FVTPL are designated at the initial date of recognition, and only if the criteria in MFRS 9 are satisfied.

The Bank has adopted Fair Value Option ("FVO") for certain financial liabilities. The Bank has designated certain financial liabilities namely, structured deposits containing embedded derivatives at FVTPL upon inception. Details of the financial liabilities at FVTPL are disclosed in Note 17.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(ii) Financial liabilities (cont'd.)

(b) Initial recognition and subsequent measurement (cont'd.)

(1) Financial liabilities at FVTPL (cont'd.)

<u>Financial liabilities designated at fair value</u> (cont'd.)

The changes in fair value are presented differently as follows:

(i) change in fair value due to own credit risk - presented in other comprehensive income; and

(ii) change in fair value due to market risk or other factors - presented in income statement.

(2) Other financial liabilities

The Bank's other financial liabilities include deposits from customers, investment accounts of customers, deposits and placements of banks and other financial institutions, debt securities (including term fundings), payables, bills and acceptances payable and other liabilities.

(1) <u>Deposits from customers, investment accounts of customers and deposits and placements of banks and other financial institutions</u>

Deposits from customers, investment accounts of customers and deposits and placements of banks and other financial institutions are stated at placement values. Profit expense of deposits from customers, investment accounts of customers and deposits and placements from banks and other financial institutions measured at amortised cost is recognised as it is accrued using the effective yield method.

(2) <u>Debt securities</u>

Debt securities issued by the Bank are classified as financial liabilities or equity in accordance with the substance of the contractual terms of the instruments. The Bank's debt securities issued consist of subordinated sukuk, capital securities and term fundings.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(ii) Financial liabilities (cont'd.)

(b) Initial recognition and subsequent measurement (cont'd.)

(2) Other financial liabilities (cont'd.)

(2) *Debt securities* (cont'd.)

These debt securities are classified as liabilities in the statement of financial position as there is a contractual obligation by the Bank to make cash payments of either principal or profit or both to holders of the debt securities and that the Bank is contractually obliged to settle the financial instrument in cash or another financial instrument.

Subsequent to initial recognition, debt securities issued are recognised at amortised cost, with any difference between proceeds net of transaction costs and the redemption value being recognised in the income statement over the period of the term fundings on an effective yield method.

(3) *Payables*

Payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective yield method.

(4) *Bills and acceptances payable*

Bills and acceptances payable represent the Bank's own bills and acceptances rediscounted and outstanding in the market. These financial liabilities are measured at amortised cost using the effective yield method.

(5) *Other liabilities*

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

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(ii) Financial liabilities (cont'd.)

(c) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the original financial liability and the consideration paid is recognised in the income statement.

(iii) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position of the Bank if there is a current legal enforceable right to offset the recognised amount and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The financial assets and financial liabilities of the Bank that are subject to offsetting, enforceable master netting arrangements and similar agreements are disclosed in Note 40.

(iv) Derivative financial instruments and hedge accounting

(a) Derivative financial instruments

The Bank trades derivatives such as profit rate swaps, foreign exchange swap, forward foreign exchange contracts and options on profit rates and foreign currencies.

Derivative financial instruments are initially recognised at fair value. For non-option derivatives, their fair value are normally zero or negligible at inception. For purchased or written options, their fair value are equivalent to the market premium paid or received. The derivatives are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques that include discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the income statement.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(iv) Derivative instruments and hedge accounting (cont'd.)

(b) Hedge accounting

The Bank uses derivative instruments to manage exposures to profit rate, foreign currency and credit risks. In order to manage these particular risks, the Bank applies hedge accounting for transactions which meet specified criteria.

At the inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and on ongoing basis.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

(1) *Fair value hedge*

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging instrument is recognised in the income statement. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying amount of the hedged item in the statement of financial position and is also recognised in the income statement.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying amount is amortised over the remaining term of the hedge using the effective yield method. Effective yield rate amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

The Bank did not apply fair value hedge accounting as at the end of the current and previous financial year.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(iv) Derivative instruments and hedge accounting (cont'd.)

(b) Hedge accounting (cont'd.)

(2) *Cash flow hedge*

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the income statement.

When a hedging instrument expires, or is sold, terminated, exercised or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency commitment is met.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to income statement.

The Bank did not apply cash flow hedge accounting as at end of the current and previous financial year.

(3) *Net investment hedge*

Net investment hedge including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income, while any gain or loss relating to the ineffective portion is recognised immediately in the income statement.

On disposal of the foreign operations, the cumulative amount of any such gains or losses recognised in other comprehensive income is transferred to the income statement.

The Bank did not apply net investment hedge accounting as at end of the current and previous financial year.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(v) Embedded derivatives

Embedded derivatives in financial assets are not separated from a host financial asset and classify based on the business model and their contractual terms as outlined in Note 2.2(i).

Derivatives embedded in financial liabilities and in non-financial host contracts are treated as separate derivatives and recorded at fair value if their economic characteristic and risk are not closely related at those of the host contract is not itself held for trading or designated at FVTPL. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the income statement.

(vi) Property, plant and equipment and depreciation

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset, if and only if, it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

Subsequent to initial recognition, all items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. When significant parts of property, plant and equipment are required to be replaced in intervals, the Bank recognise such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statements as incurred.

Depreciation of other property, plant and equipment is computed on a straight-line basis over its estimated useful life at the following annual rates:

Office furniture, fittings, equipment and renovations	10% - 25%
Computers and peripherals	14% - 25%
Motor vehicles	20% - 25%

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(vi) Property, plant and equipment and depreciation (cont'd.)

The residual value, useful life and depreciation method are reviewed at each financial year end and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the income statements.

Details of property, plant and equipment of the Bank are disclosed in Note 12.

(vii) Other assets

Included in other assets are other debtors, prepayments and deposits and tax recoverable.

Other assets are carried at anticipated realisable values. Bad debts are written-off when identified. An estimate is made for doubtful debts based on a review of all outstanding balances as at the reporting date.

(viii) Cash and short-term funds

Cash and short-term funds in the statement of financial position comprise cash balances and deposits with financial institutions and money at call with a maturity of one month or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents comprise of cash and short-term funds, and deposits and placements with financial institutions, with the original maturity of three (3) months or less.

(ix) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If there is such indication or when annual impairment testing for an asset is required, the Bank estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit ("CGU")'s fair value less costs to sell and its value-in-use ("VIU"). When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(ix) Impairment of non-financial assets (cont'd.)

The Bank bases its VIU calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Bank's CGU to which the individual assets are allocated. In assessing VIU, 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. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

For other non-financial assets, an assessment is made at each reporting date as to whether any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset’s or CGU’s recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

(x) Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(x) Provisions (cont'd.)

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. Any increase in the provision due to the passage of time is recognised in the income statement.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed and recognised in income statement.

(xi) Foreign currencies

(a) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia ("RM") which is the Bank's functional and presentation currency.

(b) Foreign currency transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Bank and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in the income statement.

Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the spot exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the spot exchange rates at the date when the fair value was determined.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(xi) Foreign currencies (cont'd.)

(b) Foreign currency transactions and balances (cont'd.)

Exchange differences arising on the translation of non-monetary items carried at fair value are included in the income statement for the financial year except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income.

(xii) Income and deferred taxes

(a) Income tax

Current tax assets/recoverable and current tax liabilities/provisions 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.

Income taxes for the year comprises current and deferred taxes.

Income tax expense relating to items recognised directly in equity, is recognised in other comprehensive income or in equity and not in the income statements.

Details of income taxes for the Bank are disclosed in Note 33.

(b) Deferred tax

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts at the reporting date.

Deferred tax liabilities are recognised for all temporary differences, except:

(i) when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(xii) Income and deferred taxes (cont'd.)

(b) Deferred tax (cont'd.)

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

(i) when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside income statement is recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(xii) Income and deferred taxes (cont'd.)

(b) Deferred tax (cont'd.)

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Details of deferred tax assets and liabilities are disclosed in Note 19.

(xiii) Zakat

This represents business zakat payable by the Bank to comply with the principle of Shariah. Zakat provision is calculated based on 'Shareholders' Equity with Adjustment' method, at 2.5%. The beneficiaries of the zakat fund are determined by the Zakat Committee and subject to the approval of the Shariah Committee.

(xiv) Leases

Policy applicable after 1 January 2019

The Bank has applied MFRS 16 *Leases* using the modified retrospective approach, under which cumulative effect on initial application is recognised as an adjustment to retained earning at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated, i.e. it is presented as previously reported under MFRS 117 *Leases* and related interpretation.

(a) Classification

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

(b) Recognition and initial measurement

(1) Bank as a lessee

The Bank applies a single recognition and measurement approach for all lease, except for short-term leases and leases of low value assets. The Bank recognises leases liabilities to make lease payments and right-of-use asset representing the right-of-use the underlying assets.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(xiv) Leases (cont'd.)

(b) Recognition and initial measurement (cont'd.)

(1) Bank as a lessee (cont'd.)

Right-of-use ("ROU") assets

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

The cost of ROU assets includes the amount of lease liabilities adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The lease term includes periods covered by an option to extend if the Bank is reasonably certain to exercise that option. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment assessment. The impairment policy for ROU assets are in accordance with impairment of non-financial assets as described in Note 2.2(ix).

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term at the commencement date of the lease. The lease payment includes fixed payments (including in substance fixed payment) less any incentive receivables, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The lease payment also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate. Variable lease payments that do not depend on an index a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(xiv) Leases (cont'd.)

(b) Recognition and initial measurement (cont'd.)

(1) Bank as a lessee (cont'd.)

In calculating the present value of lease payment, the Bank uses its incremental funding rate at the commencement date because the profit rate implicit in the lease is not readily determinable. The amount of the lease liabilities is increased to reflect the accretion of profit and reduced for the lease payment made after the commencement date. The carrying amount of lease liabilities is remeasured if there is modification, a change in the lease term, a change in the lease payment or a change in the assessment of an option to purchase the underlying asset.

(2) Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. The Bank also apply the lease of low-value assets recognition exemption to leases of assets that are considered of low-value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense when incurred.

(xv) Fair value measurement

The Bank measures financial instruments such as financial investments at FVTPL, financial liabilities designated at FVTPL, financial investments FVOCI and derivatives at fair value at each statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Bank.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(xv) Fair value measurement (cont'd.)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between fair value hierarchy levels by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The fair value hierarchies of financial instruments that are measured at fair value are disclosed in Note 39(c).

While the fair value hierarchies of financial instruments that are not measured at fair value, for which the fair value is disclosed are presented in Note 39(g).

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(xvi) Income recognition

For all financial instruments measured at amortised cost and profit-bearing financial investments at FVTPL, financial investments at FVOCI, profit income for all profit-bearing financial instruments are recognised within income from financing in the income statement using the effective yield method.

The effective yield method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the finance income over the relevant period. The effective yield rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective yield/profit rate, the Bank takes into account 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 effective profit rate, but does not consider future credit losses.

Profit on impaired financial assets is recognised using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss.

Profit income and expense from the business are recognised on an accrual basis in accordance with the principles of Shariah.

(xvii) Other operating income

Commitment and guarantee fees are recognised as income based on time apportionment basis.

Handling fees paid to motor vehicle dealers for Islamic hire purchase financing are amortised in the income statement over the tenure of the financing in accordance with BNM's Circular on "Accounting Treatment of Handling Fees for Hire Purchase Financing" dated 16 October 2006 and is set off against income recognised on the Islamic hire purchase financing.

(xviii) Financing and related expense recognition

Finance cost and income attributable to deposits, investment accounts and term fundings of the Bank are amortised using the effective yield method.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(xix) Employee benefits

(a) Short-term employee benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the income statement in the year in which the associated services are rendered by employees of the Bank. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised as an expense in the income statement when the absences occur.

(b) Defined contribution plans

As required by law, companies in Malaysia make contributions to the Employees Provident Fund (“EPF”). Such contributions are recognised as an expense in the income statement when incurred.

(c) Share-based compensation

(1) Employees' Share Grant Plan ("ESGP Shares")

The ESGP Shares is awarded to the eligible Executive Directors and employees of the participating Maybank Group excluding dormant subsidiaries. The ESGP Shares may be settled by way of issuance and allotment of new Maybank shares or by way of cash settlement as determined by the ESGP Committee.

The total fair value of ESGP Shares granted to eligible employees is recognised as an employee cost with a corresponding increase in the reserve within equity over the vesting period and taking into account the probability that the ESGP Shares will vest. The fair value of ESGP Shares is measured at grant date, taking into account, the market and non-market vesting conditions upon which the ESGP Shares were granted.

Upon vesting of ESGP Shares, the Bank will recognise the impact of the actual numbers of ESGP Shares vested as compared to original estimates.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(xix) Employee benefits (cont'd.)

(c) Share-based compensation (cont'd.)

(2) Cash-settled Performance-based Employees' Share Grant Plan ("CESGP")

The CESGP is awarded to the eligible Executive Directors and employees of the participating Maybank Group, subject to achievement of performance criteria set out by the Board of Directors and prevailing market practices in the respective countries. Upon vesting, the cash amount equivalent to the value of the Maybank Reference Shares will be transferred to the eligible employees.

The total fair value of CESGP granted to eligible employees is recognised as an employee cost with a corresponding increase in the liability over the vesting period and taking into account the probability that the CESGP will vest. The fair value of CESGP is measured at grant date, taking into account, the market and non-market vesting conditions upon which the CESGP were granted.

Upon vesting of CESGP, the Bank will recognise the impact of the actual numbers of CESGP vested as compared to original estimates.

(xx) Share capital and dividends declared

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

Dividends declared on ordinary shares are recognised as a liability and deducted from equity in the period in which all relevant approvals have been obtained.

(xxi) Contingent assets and contingent liabilities

Contingent assets arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Bank. The Bank does not recognise contingent assets but discloses its existence when inflows of economic benefits are probable, but not virtually certain.

2. Accounting policies (cont'd.)

2.2 Summary of significant accounting policies (cont'd.)

(xxi) Contingent assets and contingent liabilities (cont'd.)

Contingent liabilities are possible obligations that arise from past events, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably. The Bank does not recognised contingent liabilities. Contingent liabilities are disclosed, unless the probability of outflow of economic benefits is remote.

(xxii) Earnings per share ("EPS")

The Bank presents basic and diluted (where applicable) EPS for profit or loss from continuing operations attributable to the ordinary equity holders of the Bank on the face of the income statement.

Basic and diluted EPS are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the financial year.

(xxiii) Restricted Profit Sharing Investment Accounts (“RPSIA”)

RPSIA placements are used to fund specific financing assets and are based on the principle of Mudharabah whereby profits will be shared between the Bank as Mudharib and the investors as Rabbul Mal whereas losses shall be borne solely by the investors. These placements and financing assets are recorded in the Bank's financial statement as its liabilities and assets in accordance with MFRS 9. Any impairment allowances required on the financing are not recognised in the profit or loss of the Bank but charged to and borne by the investors.

All assets financed by the RPSIA are excluded from the computation of ECL and capital ratio as disclosed in Notes 8 and 42 respectively.

2. Accounting policies (cont'd.)

2.3 Changes in accounting policies and disclosures

On 1 January 2019, the Bank adopted the following amendments to MFRS and annual improvements to MFRSs:

Description	**Effective for annual periods beginning on or after**
MFRS 9 *Prepayment Features with Negative Compensation* (Amendments to MFRS 9)	1 January 2019
MFRS 16 *Leases*	1 January 2019
MFRS 128 *Long-term Interests in Associates and Joint Ventures* (Amendments to MFRS 128)	1 January 2019
Annual Improvements to MFRSs 2015-2017 Cycle	
(i) MFRS 3 *Business Combinations*	1 January 2019
(ii) MFRS 11 *Joint Arrangements*	1 January 2019
(iii) MFRS 112 *Income Taxes*	1 January 2019
(iv) MFRS 123 *Borrowing Costs*	1 January 2019
MFRS 119 *Plan Amendment, Curtailment or Settlement* (Amendments to MFRS 119)	1 January 2019
IC Interpretation 23 *Uncertainty over Income Tax Treatments*	1 January 2019

MFRS 9 *Prepayment Features with Negative Compensation* (Amendments to MFRS 9)

Under MFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are solely payments of principal and profit on the principal amount outstanding (the SPPP criterion) and the instrument is held within the appropriate business model for that classification. The amendments to MFRS 9 clarify that a financial asset passes the SPPP criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments are effective for annual periods beginning on or after 1 January 2019. Retrospective application is required but restatement of comparative information not compulsory. With early application is permitted. These amendments had no significant impact on the Bank’s financial statements.

2. Accounting policies (cont'd.)

2.3 Changes in accounting policies and disclosures

MFRS 16 *Leases*

Before the adoption of MFRS 16, the Bank classified each of its leases such as lease for branch premises, data centres and IT and office equipment at the inception date as either a finance lease or an operating lease in accordance with MFRS 117 *Leases*. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Bank; otherwise, it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between profit (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased assets were not capitalised and the lease payments were recognised as rental expense in the statements of comprehensive income on a straight-line basis over the lease term. Any prepaid and accrued rent were recognised under other assets: prepayments and other liabilities: accruals, respectively.

MFRS 16 is effective for annual period beginning on or after 1 January 2019, with early application is permitted. MFRS 16 supersedes MFRS 117, 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*. 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. Lessor accounting under MFRS 16 is substantially unchanged from MFRS 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in MFRS 117. Therefore, MFRS 16 did not have an impact for leases where the Bank is the lessor.

Maybank Group has analysed the impact of the first-time application of MFRS 16 in a Group-wide project, including existing processes, systems and policies. The Bank has developed its approach for assessing the different types of leases including applying the recognition exemptions in the standard that allows the Bank not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets; and incorporating forward-looking assumptions in making certain decisions such as extension and termination options on lease contracts of which management have assessed on a case by case basis.

2. Accounting policies (cont'd.)

2.3 Changes in accounting policies and disclosures (cont'd.)

MFRS 16 *Leases* (cont'd.)

Leases previously classified as operating leases - The Bank as lessee

On 1 January 2019, the Bank has applied MFRS 16 for the first time using the modified retrospective approach. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank has recognised the right-of-use assets based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. The adoption of MFRS 16 have no impact to the Bank's retained earnings.

The Bank elected the following transition practical expedients on a lease-by-lease basis for measurement purposes at first-time application of the standard:

(1) A single discount rate was applied for those portfolio of leases with reasonably similar characteristics such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment;

(2) Short-term lease contracts with a term not exceeding 12 months at the date of initial application are not recognised under MFRS 16;

(3) Initial direct costs are excluded from the measurement of the right-of-use asset at the date of initial application; and

(4) The Bank used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

2. Accounting policies (cont'd.)

2.3 Changes in accounting policies and disclosures (cont'd.)

MFRS 16 *Leases* (cont'd.)

The adoption of MFRS 16 resulted in the following financial effects to the statement of financial position of the Bank.

Extract of Statement of financial position

	31 December 2018 RM'000	Impact of adopting MFRS 16 RM'000	1 January 2019 RM'000
ASSETS			
Right-of-use assets[1]	-	6,694	6,694
LIABILITIES			
Other liabilities[2]	2,129,694	6,694	2,136,388

[1] Recognition of right-of-use assets.
[2] Recognition of additional lease liabilities (Note 18) and provision for restoration costs.

The following table analyses the impact of Capital Adequacy Ratios of the Bank:

	31 December 2018	Impact of adopting MFRS 16	1 January 2019
CET1 Capital (RM'000)	10,129,089	-	10,129,089
Tier 1 Capital (RM'000)	11,129,089	-	11,129,089
Total Capital (RM'000)	13,952,095	-	13,952,095
Risk Weighted Assets (RM'000)	61,884,693	6,694	61,891,387
CET1 Capital Ratio	16.368%	(0.002%)	16.366%
Tier 1 Capital Ratio	17.984%	(0.002%)	17.982%
Total Capital Ratio	22.545%	(0.002%)	22.543%

2. Accounting policies (cont'd.)

2.3 Changes in accounting policies and disclosures (cont'd.)

MFRS 128 *Long-term Interests in Associates and Joint Ventures* (Amendments to MFRS 128)

The amendments clarify that an entity applies MFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). In applying MFRS 9, an entity does not account for any losses of the associate, or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying MFRS 128 *Investments in Associates and Joint Ventures* .

The amendments apply for annual periods beginning on or after 1 January 2019. Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed. The amendments do not have any impact on the Bank's financial statements.

Annual Improvements to MFRSs 2015-2017 Cycle

(i) MFRS 3 *Business Combinations*

The amendments clarify that if an entity in a joint operation that is a business subsequently obtains control of the joint operation, it must remeasure its previously held interest at the acquisition-date fair value. Any difference between the acquisition-date fair value and previous carrying value is recognised as a gain or loss. The amendments therefore means that when the entity in a joint operation that is a business subsequently obtains control of the joint operation, it applies the same requirements already in MFRS 3 that apply to business combinations achieved in stages.

The amendments apply for annual periods beginning on or after 1 January 2019, with earlier application permitted. The amendments do not have any impact to the financial statements of the Bank.

(ii) MFRS 11 *Joint Arrangements*

The amendments clarify that if an entity that participates in (but does not have joint control over) a joint operation that is a business subsequently obtains joint control of the joint operation, it must not remeasure its previously held interest. The amendments therefore aligns with the accounting applied to transactions in which an associate becomes a joint venture and vice versa.

The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. The amendments do not have any impact to the financial statements of the Bank.

2. Accounting policies (cont'd.)

2.3 Changes in accounting policies and disclosures (cont'd.)

Annual Improvements to MFRSs 2015-2017 Cycle (cont'd.)

(iii) MFRS 112 *Income Taxes*

The amendments clarify that an entity must recognise all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend.

The amendments apply for annual periods beginning on or after 1 January 2019, with earlier application permitted. The amendments do not have any impact to the financial statements of the Bank.

(iv) MFRS 123 *Borrowing Costs*

Paragraph 14 of MFRS 123 requires an entity to exclude borrowings made specifically for the purpose of obtaining/constructing a qualifying asset i.e. specific borrowings, when determining the funds that an entity borrows generally i.e. general borrowings and the funds that it uses for the purpose of obtaining/constructing a qualifying asset. The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings. Therefore, from that date, the rate applied on those specific borrowings are included in the determination of the capitalisation rate of general borrowings accordingly.

The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. The amendments do not have any impact to the financial statements of the Bank.

MFRS 119 *Plan Amendment, Curtailment or Settlement* (Amendments to MFRS 119)

The amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement, which occurs during the reporting period. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements.

The amendments should be applied prospectively to plan amendments, curtailments or settlements that occur on or after 1 January 2019, with earlier application permitted. The amendments do not have any impact to the financial statements of the Bank.

2. Accounting policies (cont'd.)

2.3 Changes in accounting policies and disclosures (cont'd.)

IC Interpretation 23 *Uncertainty over Income Tax Treatments*

IC Interpretation 23 provides clarifications on how an entity should reflect the accounting for income taxes in its financial statements when there is uncertainty over income tax treatment. An “uncertain tax treatment” can be any tax treatment adopted by an entity in its tax returns for which it is unclear whether the relevant tax authority will accept the tax treatment under tax law.

When there is uncertainty over income tax treatment, the IC Interpretation 23 specifically addresses the following:

- It requires an entity to determine whether each uncertain tax treatment is to be assessed separately or together with other uncertain tax treatments as a group (based on whichever approach better predicts the resolution of the uncertainty).

- Assumption that a taxation authority will examine the tax position as if it has a right to examine and have full knowledge of all relevant information when carrying out those examinations (no detection risk).

- If an entity concludes that it is probable (more likely than not) that the tax authority will accept the tax treatment as reported in its income tax filing, it will record its taxable profits, tax bases, tax losses, tax credits and tax rates in its financial statements consistently with that tax treatment adopted.

- If the conclusion of the entity is otherwise, it will reflect in its financial statements the effect of the tax uncertainty it expects using whichever method that will better predict the resolution of the tax uncertainty.

- Reassessment of the uncertain tax treatment is required in the event of change in facts and circumstances.

The Bank would continuously exercise reasonable judgement in identifying any potential uncertainty over the relevant tax treatments adopted in the income tax returns. Where necessary, consultation with external professional advisors or tax litigators would be sought to support the relevant tax position adopted. The adoption of this interpretation does not have any impact to the financial statements of the Bank.

2. Accounting policies (cont'd.)

2.4 Significant changes in regulatory requirements

Revised Financial Reporting for Islamic Banking Institutions and Credit Risk policy document issued by Bank Negara Malaysia ("BNM")

On 27 September 2019, BNM issued a revised Financial Reporting for Islamic Banking Institutions and Credit Risk policy document which came into effect on 1 October 2019 and shall be applied prospectively. The revised policy document applies to financial institutions in Malaysia which covers licensed Islamic banks, licensed investment banks, licensed banks, and financial holding companies. The revised policy document superseded policy document issued by BNM previously, namely *Credit Risk* and *Financial Reporting for Islamic Banking Institutions* dated 22 January 2018 and 2 February 2018 respectively.

The revised policy documents were updated to clarify the classification of a credit facility as credit-impaired, especially on the treatment of rescheduled and restructured credit facilities.

The application of the revised policy documents does not have any significant impact to the financial statements of the Bank.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of income, expenses, assets, liabilities, the accompanying disclosures and the disclosure of contingent liabilities. Although these estimates and judgements are based on management’s best knowledge of current events and actions, actual results may differ. The most significant uses of judgements and estimates are as follows:

3.1 Going concern

The Bank’s management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank’s ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3. Significant accounting judgements, estimates and assumptions (cont'd.)

3.2 Impairment of financial investments portfolio (Notes 7 and 28(ii))

The Bank reviews its financial investments at FVOCI, and financial investments AC under MFRS 9 which required to recognise the ECL at each reporting date to reflect change in credit risk of the financial investments not at FVTPL. MFRS 9 incorporates forward-looking and historical, current and forecasted information into ECL estimation.

In carrying out the impairment review, the following management's judgements are required:

(i) Determination whether the investment is impaired based on certain indicators such as, amongst others, difficulties of the issuers or obligors, deterioration of the credit quality of the issuers or obligors; and

(ii) Determination of ECL that reflect:

(a) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(b) The time value of money; and

(c) Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

3.3 Fair value estimation of financial investments at FVTPL (Note 7), financial investments at FVOCI (Note 7), derivative financial instruments (Note 9) and financial liabilities designated at FVTPL (Note 17)

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair values are measured using valuation techniques. Valuation techniques include the discounted cash flows method, option pricing models, credit models and other relevant valuation models.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Refer to Note 39 for further disclosures.

3. Significant accounting judgements, estimates and assumptions (cont'd.)

3.4 Impairment losses on financing and advances (Notes 8 and 28(i))

The Bank reviews its individually significant financing and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgements about the borrower's or the customer's financial situation and the net realisable value of collateral. These estimates are based on assumptions on a number of factors and actual results may differ, resulting in future changes to the allowances.

The Bank's ECL calculations under MFRS 9 are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

(i) Internal credit grading model, which assigns PDs to the individual grades;

(ii) Criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;

(iii) The segmentation of financial assets when their ECL is assessed on a collective basis;

(iv) Development of ECL models, including the various formulas and the choice of inputs;

(v) 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

(vi) Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

3. Significant accounting judgements, estimates and assumptions (cont'd.)

3.5 Deferred tax (Note 19) and income taxes (Note 33)

The Bank is subject to income taxes in Malaysia and significant judgement is required in estimating the provision for income taxes. There are many transactions and interpretations of tax law for which the final outcome will not be established until some time later. Liabilities for taxation are recognised based on estimates of whether additional taxes will be payable. The estimation process includes seeking advice on the tax treatments where appropriate. Where the final liability for taxation is different from the amounts that were initially recorded, the differences will affect the income tax and deferred tax provisions in the year in which the estimate is revised or the final liability is established.

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

3.6 Leases - renewal option

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

The Bank has the option, under some of its leases to lease the assets for additional terms of three to five years. The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassess the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy). The Bank included the renewal period as part of the lease term for leases of premises and IT equipments due to the significance of these assets to its operations.

4. Standards, annual improvements to standards and IC Interpretation issued but not yet effective

The following are standards, annual improvements to standards and IC Interpretation issued by Malaysian Accounting Standards Board ("MASB"), but not yet effective, up to the date of issuance of the Bank's financial statements. The Bank intends to adopt these standards, annual improvements to standards and IC Interpretation, if applicable, when they become effective:

Description	**Effective for annual periods beginning on or**
Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to MFRS 3 – Definition of a Business	1 January 2020
Amendments to MFRS 101 and MFRS 108 - Definition of Material	1 January 2020
Amendments to MFRS 7, MFRS 9 and MFRS 139 - *Interest Rate Benchmark Reform*	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*	Deferred

Revised Conceptual Framework for Financial Reporting

The IASB issued an update to the Conceptual Framework in April 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. The main changes in the Conceptual Framework are as follows:

- Reintroduces the concept of stewardship and the information needed to assess management's stewardship;
- Reintroduces the concept of prudence;
- Defines the concept of measurement uncertainty;
- Reinstates an explicit reference to the need to "faithfully represent the substance of the phenomena that it purports to represent"; and
- Made changes to the definitions of an asset and a liability.

The revised conceptual framework is effective for annual periods beginning on or after 1 January 2020.

4. Standards, annual improvements to standards and IC Interpretation issued but not yet effective (cont'd.)

Amendments to MFRS 101 and MFRS 108 – *Definition of Material*

Amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments also explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information.

The amendments must be applied prospectively. Early application is permitted and must be disclosed.

Amendments to MFRS 7, MFRS 9 and MFRS 139 - *Profit Rate Benchmark Reform*

The amendments applies to all leasing relationship directly affected by profit rate benchmark reform. The amendments clarify that a hedging relationship is directly affected by profit rate benchmark reform only if the reform give rise to uncertainties on:

- the profit rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or

- the timing or the amount of profit rate benchmark-based cash flows of the hedged item or of the hedging instruments.

Profit rate benchmark reform refers to the market-wide reform of an profit rate benchmark, including the replacement of an profit rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report "Reforming Major Profit Rate Benchmarks".

The Bank shall disclose:

- the significant profit rate benchmarks to which the Bank's hedging relationship are exposed;

- the extent of the risk exposure the Bank manage that are directly affected by the profit rate benchmark reform;

- how the Bank are managing the process to transition to alternative benchmark rates;

- a description of significant assumptions or judgements the entity made in applying these paragraphs (for example, assumptions or judgements about when he uncertainty arising from profit rate benchmark reform is no longer present with respect to the timing and the amount of the profit rate benchmark-based cash flows); and

- the nominal amount of the hedging instruments in those hedging relationships.

4. Standards, annual improvements to standards and IC Interpretation issued but not yet effective (cont'd.)

Amendments to MFRS 7, MFRS 9 and MFRS 139 - *Profit Rate Benchmark Reform (cont'd.)*

The amendments are to be applied retrospectively in annual periods beginning on or after a 1 January 2020, earlier application is permitted. The Bank has established a project team to evaluate the potential impact of adopting this standard on the required effective date.

Amendments to MFRS 10 and MFRS 128: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments clarify that:

- Gains and losses resulting from transactions involving assets that do not constitute a business, between investor and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture; and

- Gains and losses resulting from transactions involving the sale or contribution of assets to an associate or a joint venture that constitute a business is recognised in full.

The amendments are to be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined by the Malaysian Accounting Standards Board. Earlier application is permitted. These amendments are not expected to have any impact on the Bank.

5. Cash and short-term funds

	2019 RM'000	2018 RM'000
Cash and balances with banks and other financial institutions	**2**	2,928
Money at call and interbank placements with remaining maturity not exceeding one month	**21,703,237**	21,919,175
	21,703,239	21,922,103

(a) Analysis of changes in gross carrying amount and the corresponding allowances for impairment losses on cash and short term funds are as follows:

As at 31 December 2018

Changes in the cash and short-term funds for the Bank that contributed to the changes in the loss allowances during the previous financial year ended 31 December 2018 was mainly due to the following:

- The derecognition of financial assets contributed to the decrease in the ECL allowances for cash and short-term funds.

	Stage 1	Stage 2	Stage 3	
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000
At 1 January 2018				
- effect of adopting MFRS 9	173	-	-	173
At 1 January 2018, as restated	173	-	-	173
Net remeasurement of allowances	(167)	-	-	(167)
Exchange differences	(6)	-	-	(6)
At 31 December 2018	-	-	-	-

6. Deposits and placements with banks and other financial institutions

	2019 RM'000	2018 RM'000
Licensed Islamic banks	**-**	150,781
Other financial institutions	**-**	100,547
	-	251,328

7. Financial investments portfolio

	Note	2019 RM'000	2018 RM'000
Financial investments at fair value through profit or loss	(i)	**383,194**	995,072
Financial investments at fair value through other comprehensive income	(ii)	**15,292,520**	12,447,389
Financial investments at amortised cost	(iii)	**9,671,676**	6,454,985
		25,347,390	19,897,446

(i) Financial investments at fair value through profit or loss ("FVTPL")

	2019 RM'000	2018 RM'000
At fair value		
Money market instruments:		
Malaysian Government Investment Issues	**383,194**	745,765
Unquoted securities:		
Outside Malaysia:		
Islamic Corporate Sukuk	**-**	249,307
Total financial investments at FVTPL	**383,194**	995,072

7. Financial investments portfolio (cont'd.)

(ii) Financial investments at fair value through other comprehensive income ("FVOCI")

	2019 RM'000	2018 RM'000
At fair value		
Money market instruments:		
Malaysian Government Investment Issues	**11,743,868**	9,466,355
Negotiable Islamic Instruments of Deposits	**1,198,172**	-
Khazanah Sukuk	**-**	153,244
	12,942,040	9,619,599
Unquoted securities:		
In Malaysia:		
Corporate Sukuk	**2,289,237**	2,766,366
Government Sukuk	**43,374**	43,767
Equity	**1,250**	1,250
	2,333,861	2,811,383
Outside Malaysia:		
Islamic Corporate Sukuk	**16,619**	16,407
	2,350,480	2,827,790
Total financial investments at FVOCI	**15,292,520**	12,447,389

(a) The maturity profile of money market instruments are as follows:

	2019 RM'000	2018 RM'000
Within one year	**3,377,071**	2,415,235
One year to three years	**1,061,642**	345,744
Three years to five years	**2,908,623**	2,149,254
After five years	**5,594,704**	4,709,366
	12,942,040	9,619,599

7. Financial investments portfolio (cont'd.)

(ii) Financial investments at fair value through other comprehensive income ("FVOCI") (cont'd.)

(b) Analysis of changes in gross carrying amount and the corresponding allowances for impairment losses on financial investments at FVOCI are as follows:

As at 31 December 2019

Changes in the financial investments at FVOCI for the Bank that contributed to the changes in the loss allowances during the financial year ended 31 December 2019 was mainly due to the following:

- The overall increase in the gross carrying amount of financial investments at FVOCI was mainly contributed by Negotiable Islamic Instruments of Deposits, due to new financial assets purchased. The increase in the gross carrying amount resulted in corresponding increase in ECL allowances measured on a 12-month basis.

	Stage 1	Stage 2	Stage 3	
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000
At 1 January 2019	**484**	**44**	**-**	**528**
Transferred to Stage 1	**44**	**(44)**	**-**	**-**
New financial assets originated or purchased	**1,503**	**-**	**-**	**1,503**
Net remeasurement of allowances	**119**	**-**	**-**	**119**
Financial assets derecognised	**(197)**	**-**	**-**	**(197)**
Changes in models/ risk parameters	**(87)**	**-**	**-**	**(87)**
At 31 December 2019	**1,866**	**-**	**-**	**1,866**

7. Financial investments portfolio (cont'd.)

(ii) Financial investments at fair value through other comprehensive income ("FVOCI") (cont'd.)

(b) Analysis of changes in gross carrying amount and the corresponding allowances for impairment losses on financial investments at FVOCI are as follows (cont'd.):

As at 31 December 2018

Changes in the financial investments at FVOCI for the Bank that contributed to the changes in the loss allowances during the previous financial year ended 31 December 2018 was mainly due to the following:

- The overall increase in the gross carrying amount of financial investments at FVOCI was mainly contributed by Government-related securities which have minimal ECL allowances.

- The gross carrying amount for Corporate Sukuk increased due to new financial assets purchased. These new Corporate Sukuk have low credit risk and had contributed to minimal impact on ECL allowances. The derecognition of Corporate Sukuk which have higher credit risk contributed to the overall decrease in ECL allowances.

	Stage 1	Stage 2	Stage 3	
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000
At 1 January 2018 - effect of adopting MFRS 9	1,131	155	-	1,286
At 1 January 2018, as restated	1,131	155	-	1,286
Transferred to Stage 2	(14)	14	-	-
New financial assets originated or purchased	57	-	-	57
Net remeasurement of allowances	229	30	-	259
Financial assets derecognised	(920)	(155)	-	(1,075)
Exchange differences	1	-	-	1
At 31 December 2018	484	44	-	528

7. Financial investments portfolio (cont'd.)

(ii) Financial investments at fair value through other comprehensive income ("FVOCI") (cont'd.)

(c) Equity instrument at FVOCI is as follows:

	2019 RM'000	2018 RM'000
Raeed Holdings Berhad	**1,250**	1,250

(iii) Financial investments at amortised cost

	2019 RM'000	2018 RM'000
At amortised cost		
Money market instruments:		
Malaysian Government Investment Issues	**1,843,057**	1,540,977
Unquoted Securities:		
In Malaysia:		
Corporate Sukuk	**7,846,614**	4,929,387
Accumulated impairment losses	**(17,995)**	(15,379)
Total financial investments at amortised cost	**9,671,676**	6,454,985

(a) The maturity profile of money market instruments is as follows:

	2019 RM'000	2018 RM'000
After five years	**1,843,057**	1,540,977
	1,843,057	1,540,977

7. Financial investments portfolio (cont'd.)

(iii) Financial investments at amortised cost (cont'd.)

(b) Analysis of changes in gross carrying amount and the corresponding allowances for impairment losses on financial investments at amortised cost are as follows:

As at 31 December 2019

Changes in the financial investments at amortised cost for the Bank that contributed to the changes in the loss allowances during the financial year ended 31 December 2019 were mainly due to following:

- The increase in the gross carrying amount of financial investments at amortised cost was largely contributed by Corporate Sukuk, due to new financial assets purchased which correspondingly resulted in increased ECL allowances. This is mitigated by the decrease in the ECL allowances mainly due to improvement in credit risk.

	Stage 1	Stage 2	Stage 3	
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000
At 1 January 2019	**6,025**	**9,354**	**-**	**15,379**
Transferred to Stage 1	**9,354**	**(9,354)**	**-**	**-**
Net remeasurement of allowances	**(12,129)**	**-**	**-**	**(12,129)**
New financial assets originated or purchased	**15,500**	**-**	**-**	**15,500**
Financial assets derecognised	**(290)**	**-**	**-**	**(290)**
Changes in models/ risk parameters	**(465)**	**-**	**-**	**(465)**
At 31 December 2019	**17,995**	**-**	**-**	**17,995**

7. Financial investments portfolio (cont'd.)

(iii) Financial investments at amortised cost (cont'd.)

(b) Analysis of changes in gross carrying amount and the corresponding allowances for impairment losses on financial investments at amortised cost are as follows (cont'd.):

As at 31 December 2018

Changes in the financial investments at amortised cost for the Bank that contributed to the changes in the loss allowances during the previous financial year ended 31 December 2018 were mainly due to following:

- The increase in the gross carrying amount of financial investments at amortised cost was largely contributed by Corporate Sukuk, due to new financial assets purchased which resulted in increased ECL allowances. This is mitigated by the decrease in the ECL allowances mainly due to improvement in credit risk.

	Stage 1	Stage 2	Stage 3	
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000
At 1 January 2018 - effect of adopting MFRS 9				22,157
At 1 January 2018, as restated	8,493	13,664	-	22,157
Net remeasurement of allowances	(6,253)	(4,310)	-	(10,563)
New financial assets originated or purchased	5,194	-	-	5,194
Financial assets derecognised	(1,409)	-	-	(1,409)
At 31 December 2018	6,025	9,354	-	15,379

8. Financing and advances

	2019 RM'000	2018 RM'000
Financing and advances:		
(A) Financing and advances at FVOCI	**440,383**	471,122
(B) Financing and advances at amortised cost	**280,650,934**	271,226,088
	281,091,317	271,697,210
Unearned income	**(89,087,920)**	(94,879,201)
Gross financing and advances	**192,003,397**	176,818,009
Allowances for ECL and impairment losses:		
- Stage 1 - 12-month ECL	**(371,029)**	(510,284)
- Stage 2 - Lifetime ECL not credit impaired	**(616,576)**	(983,711)
- Stage 3 - Lifetime ECL credit impaired	**(1,252,818)**	(1,055,811)
Net financing and advances	**189,762,974**	174,268,203

8. Financing and advances (cont'd.)

(i) Financing and advances analysed by type and Shariah concepts are as follows:

2019	Bai'[1] RM'000	Murabahah RM'000	Musharakah RM'000	Al-Ijarah Thumma Al-Bai' ("AITAB")[2] RM'000	Ijarah[3] RM'000	Istisna' RM'000	Others RM'000	Total financing and advances RM'000
Cashline	-	6,780,832	-	-	-	-	-	6,780,832
Term financing								
- House financing	14,680,463	70,986,581	1,975,592	-	-	-	616	87,643,252
- Syndicated financing	-	7,000,329	-	-	-	-	-	7,000,329
- Hire purchase receivables	-	4,195,944	-	36,895,190	-	-	-	41,091,134
- Lease receivables	-	-	-	-	195,334	-	-	195,334
- Other term financing	13,743,113	99,727,445	692,965	-	-	115,407	17,846	114,296,776
Trust receipts	-	140,437	-	-	-	-	-	140,437
Claims on customers under acceptance credits	-	5,275,548	-	-	-	-	-	5,275,548
Staff financing	445,245	1,889,985	8,753	175,080	636	-	42,796	2,562,495
Credit card receivables	-	-	-	-	-	-	1,269,625	1,269,625
Revolving credit	-	14,808,884	-	-	-	-	-	14,808,884
Share margin financing	-	19,594	-	-	-	-	-	19,594
Financing to:								
- Directors of the Bank	-	6,160	-	299	-	-	138	6,597
- Directors of related companies	-	480	-	-	-	-	-	480
	28,868,821	210,832,219	2,677,310	37,070,569	195,970	115,407	1,331,021	281,091,317
Unearned income								(89,087,920)
Gross financing and advances[4]								192,003,397
Allowances for ECL and impairment losses:								
- Stage 1 - 12-month ECL								(371,029)
- Stage 2 - Lifetime ECL not credit impaired								(616,576)
- Stage 3 - Lifetime ECL credit impaired								(1,252,818)
Net financing and advances								189,762,974

[1] Bai' comprises of Bai'-Bithaman Ajil, Bai' Al-Inah and Bai'-Al-Dayn.

[2] The Bank is the owner of the asset. The ownership of an asset will be transferred to the customer via sale at the end of the Ijarah financing.

[3] The Bank is the owner of the asset. The ownership of an asset will be transferred to the customer at the end of the Ijarah financing subject to the customer's execution of the purchase option.

[4] Included in financing and advances are the underlying assets under the RPSIA and Investment Accounts of Customers ("IA").

8. Financing and advances (cont'd.)

(i) Financing and advances analysed by type and Shariah concepts are as follows (cont'd.):

2018	Bai'[1] RM'000	Murabahah RM'000	Musharakah RM'000	Al-Ijarah Thumma Al-Bai' ("AITAB")[2] RM'000	Ijarah[3] RM'000	Istisna' RM'000	Others RM'000	Total financing and advances RM'000
Cashline	-	6,113,117	-	-	-	126	-	6,113,243
Term financing								
- House financing	15,968,002	65,870,117	2,140,367	-	-	-	627	83,979,113
- Syndicated financing	-	1,432,287	-	-	-	-	-	1,432,287
- Hire purchase receivables	-	224,525	-	37,895,766	-	-	-	38,120,291
- Lease receivables	-	-	-	-	9,450	-	-	9,450
- Other term financing	17,456,478	99,485,956	563,979	-	102,001	127,395	17,280	117,753,089
Bills receivable	-	163	-	-	-	-	799	962
Trust receipts	-	145,613	-	-	-	-	-	145,613
Claims on customers under acceptance credits	-	4,921,799	-	-	-	-	-	4,921,799
Staff financing	517,202	1,670,905	8,965	156,713	2,539	-	50,956	2,407,280
Credit card receivables	-	-	-	-	-	-	1,104,219	1,104,219
Revolving credit	-	15,681,860	-	-	-	-	-	15,681,860
Share margin financing	-	22,322	-	-	-	-	-	22,322
Financing to:								
- Directors of the Bank	-	2,503	-	465	-	-	8	2,976
- Directors of related companies	-	2,030	-	676	-	-	-	2,706
	33,941,682	195,573,197	2,713,311	38,053,620	113,990	127,521	1,173,889	271,697,210
Unearned income								(94,879,201)
Gross financing and advances[4]								176,818,009
Allowances for ECL and impairment losses:								
- Stage 1 - 12-month ECL								(510,284)
- Stage 2 - Lifetime ECL not credit impaired								(983,711)
- Stage 3 - Lifetime ECL credit impaired								(1,055,811)
Net financing and advances								174,268,203

[1] Bai' comprises of Bai'-Bithaman Ajil, Bai' Al-Inah and Bai'-Al-Dayn.

[2] The Bank is the owner of the asset. The ownership of an asset will be transferred to the customer via sale at the end of the Ijarah financing.

[3] The Bank is the owner of the asset. The ownership of an asset will be transferred to the customer at the end of the Ijarah financing subject to the customer's execution of the purchase option.

[4] Included in financing and advances are the underlying assets under the RPSIA and Investment Accounts of Customers ("IA").

8. Financing and advances (cont'd.)

(ii) Financing and advances analysed by type of customers are as follows:

	2019 RM'000	2018 RM'000
Domestic non-banking financial institutions	**4,193,842**	4,616,580
Domestic business enterprises:		
- Small and medium enterprises	**22,997,908**	34,744,124
- Others	**32,936,985**	17,178,166
Government and statutory bodies	**14,253,189**	13,517,323
Individuals	**116,114,222**	105,109,091
Other domestic entities	**25,025**	26,714
Foreign entities in Malaysia	**1,482,226**	1,626,011
Gross financing and advances	**192,003,397**	176,818,009

(iii) Financing and advances analysed by profit rate sensitivity are as follows:

	2019 RM'000	2018 RM'000
Fixed rate		
- House financing	**1,279,574**	1,240,669
- Hire purchase receivables	**36,490,909**	33,187,018
- Other financing	**23,203,040**	25,597,990
Floating rate		
- House financing	**46,955,607**	40,537,477
- Other financing	**84,074,267**	76,254,855
Gross financing and advances	**192,003,397**	176,818,009

(iv) Financing and advances analysed by their economic purposes are as follows:

	2019 RM'000	2018 RM'000
Purchase of securities	**24,573,547**	23,163,495
Purchase of transport vehicles	**36,351,827**	33,118,017
Purchase of landed properties:		
- Residential	**47,209,422**	40,756,304
- Non-residential	**13,313,594**	11,874,200
Purchase of fixed assets (excluding landed properties)	**101,103**	54,876
Personal use	**3,995,649**	3,853,527
Purchase of consumer durables	**226**	302
Constructions	**3,005,311**	2,576,566
Working capital	**62,136,061**	60,261,860
Credit/charge card	**1,316,657**	1,158,862
Gross financing and advances	**192,003,397**	176,818,009

8. Financing and advances (cont'd.)

(v) The maturity profile of financing and advances are as follows:

	2019 RM'000	2018 RM'000
Within one year	**33,800,893**	33,069,988
One year to three years	**7,675,303**	6,912,461
Three years to five years	**15,454,866**	14,374,816
After five years	**135,072,335**	122,460,744
Gross financing and advances	**192,003,397**	176,818,009

(vi) Movements in the credit impaired financing and advances are as follows:

	2019 RM'000	2018 RM'000
At 1 January		
- as previously stated	**2,094,107**	1,710,533
- effect of adopting MFRS 9	**-**	121,439
Gross impaired financing and advances at 1 January, as restated	**2,094,107**	1,831,972
Impaired during the financial year	**996,099**	1,367,882
Reclassified as non-impaired	**(118,390)**	(228,568)
Amount recovered	**(92,496)**	(444,519)
Amount written-off	**(359,705)**	(432,660)
Gross impaired financing and advances at 31 December	**2,519,615**	2,094,107
Less: Stage 3 - Lifetime ECL credit impaired	**(1,252,818)**	(1,055,811)
Net impaired financing and advances at 31 December	**1,266,797**	1,038,296
Calculation of ratio of net impaired financing and advances (excluding financing funded by RPSIA and IA):		
Gross impaired financing and advances	**2,395,279**	2,030,688
Less: Stage 3 - Lifetime ECL credit impaired	**(1,252,818)**	(1,055,811)
Net impaired financing and advances	**1,142,461**	974,877

8. Financing and advances (cont'd.)

(vi) Movements in the credit impaired financing and advances are as follows (cont'd.):

Calculation of ratio of net impaired financing and advances (excluding financing funded by RPSIA and IA) (cont'd.):

	2019 RM'000	2018 RM'000
Gross financing and advances	**153,974,211**	137,310,796
Less: Allowances for impaired financing and advances at amortised cost and at fair value through other comprehensive income	**(2,243,324)**	(2,555,005)
Net financing and advances	**151,730,887**	134,755,791
Ratio of net impaired financing and advances	**0.75%**	0.72%

(vii) Credit impaired financing and advances analysed by their economic purposes are as follows:

	2019 RM'000	2018 RM'000
Purchase of securities	**3,230**	5,666
Purchase of transport vehicles	**185,196**	189,958
Purchase of landed properties:		
- Residential	**307,530**	278,783
- Non-residential	**191,711**	142,442
Purchase of fixed assets (exclude landed properties)	**995**	527
Personal use	**53,901**	37,998
Purchase of consumer durables	**3**	8
Constructions	**256,497**	244,765
Working capital	**1,512,102**	1,185,588
Credit/charge card	**8,450**	8,372
	2,519,615	2,094,107

8. Financing and advances (cont'd.)

(viii) Analysis of changes in gross carrying amount and the corresponding allowances for impaired financing and advances are as follows:

As at 31 December 2019

Changes in the gross carrying amount of financing and advances carried at fair value through other comprehensive income and amortised cost for the Bank that contributed to the changes in the loss allowances during the financial year ended 31 December 2019 were mainly due to the following:

- The high volume of syndicated financing, hire purchase receivables and housing financing originated, increased the gross carrying amount by more than 100% for syndicated financing while hire purchase receivables and housing financing are increased by 8% and 4% respectively, which resulted in increased ECL allowances measured on a 12-month basis.

- There was a reduction in revolving credits and other term financing by 6% and 4% respectively which resulted in a decrease in ECL allowances.

- The write-off of financing with a total carrying amount of RM359.7million resulted in the reduction of Stage 3 lifetime ECL credit impaired by the same amount.

At fair value through other comprehensive income

	Stage 1	Stage 2	Stage 3	
As at 31 December 2019	**12-month ECL RM'000**	**Lifetime ECL not credit impaired RM'000**	**Lifetime ECL credit impaired RM'000**	**Total RM'000**
At 1 January 2019	**1,399**	**3,800**	**-**	**5,199**
Changes in models/risk parameters	**(876)**	**(1,422)**	**-**	**(2,298)**
At 31 December 2019	**523**	**2,378**	**-**	**2,901**

8. Financing and advances (cont'd.)

(viii) Analysis of changes in gross carrying amount and the corresponding allowances for impaired financing and advances are as follows (cont'd.):

As at 31 December 2019 (cont'd.)

At amortised cost

As at 31 December 2019	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
ECL allowances				
At 1 January 2019	510,284	983,711	1,055,811	2,549,806
Transferred to Stage 1	210,983	(201,830)	(9,153)	-
Transferred to Stage 2	(26,947)	94,232	(67,285)	-
Transferred to Stage 3	(1,866)	(86,803)	88,669	-
Net remeasurement of allowances	(210,195)	34,631	517,854	342,290
New financial assets originated or purchased	128,082	119,126	-	247,208
Financial assets derecognised	(59,128)	(167,654)	(205,786)	(432,568)
Changes in models/risk parameters	(197,209)	(163,389)	1,683	(358,915)
Amount related to Restricted Investment Accounts*	17,221	5,530	238,801	261,552
Amount written-off	-	-	(359,705)	(359,705)
Exchange differences	(196)	(978)	(8,071)	(9,245)
At 31 December 2019	371,029	616,576	1,252,818	2,240,423

8. Financing and advances (cont'd.)

(viii) Analysis of changes in gross carrying amount and the corresponding allowances for impaired financing and advances are as follows (cont'd.):

As at 31 December 2018

Changes in the gross carrying amount of financing and advances carried at fair value through other comprehensive income and amortised cost for the Bank that contributed to the changes in the loss allowances during the previous financial year ended 31 December 2018 were mainly due to the following:

- The high volume of new syndicated financing, cashline and other term financing originated, increased the gross carrying amount by 81%, 10% and 8% respectively, which correspondingly resulted in increased ECL allowances.

- The financing and advances derecognised arising from the financing and advances settled and matured which resulted in a decrease in ECL allowances across all stages.

- The write-off of financing and advances with a total carrying amount of RM432.7 million resulted in the reduction of Stage 3 lifetime ECL credit impaired by the same amount.

At fair value through other comprehensive income

	Stage 1	Stage 2	Stage 3	
As at 31 December 2018	**12-month ECL RM'000**	**Lifetime ECL not credit impaired RM'000**	**Lifetime ECL credit impaired RM'000**	**Total RM'000**
At 1 January 2018				
- effect of adopting MFRS 9 (Note 2.3 (i))	522	-	-	522
At 1 January 2018, as restated	522	-	-	522
Net remeasurement of allowances	45	-	-	45
New financial assets originated or purchased	1,354	3,800	-	5,154
Financial assets derecognised	(522)	-	-	(522)
At 31 December 2018	1,399	3,800	-	5,199

8. Financing and advances (cont'd.)

(viii) Analysis of changes in gross carrying amount and the corresponding allowances for impaired financing and advances are as follows (cont'd.):

As at 31 December 2018 (cont'd.)

At amortised cost

As at 31 December 2018	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
ECL allowances				
At 1 January 2018				
- as previously stated - MFRS 139				1,482,363
- effect of adopting MFRS 9				1,051,345
At 1 January 2018, as restated	409,260	1,058,009	1,066,439	2,533,708
Transferred to Stage 1	410,336	(263,234)	(147,102)	-
Transferred to Stage 2	(32,812)	69,092	(36,280)	-
Transferred to Stage 3	(2,942)	(96,473)	99,415	-
Net remeasurement of allowances*	(329,067)	180,529	723,244	574,706
New financial assets originated or purchased	194,840	128,773	-	323,613
Financial assets derecognised	(69,870)	(87,251)	(267,462)	(424,583)
Changes in models/risk parameters	(69,473)	(6,305)	(1,683)	(77,461)
Amount related to Restricted Investment Accounts	-	-	50,553	50,553
Amount written-off	-	-	(432,659)	(432,659)
Exchange differences	12	571	1,346	1,929
At 31 December 2018	510,284	983,711	1,055,811	2,549,806

8. Financing and advances (cont'd.)

(viii) Analysis of changes in gross carrying amount and the corresponding allowances for impaired financing and advances are as follows (cont'd.):

* As at 31 December 2019, the gross exposure of the financing funded by RPSIA was RM17,291.5 million (31 December 2018: RM15,942.2 million). The expected credit loss relating to these financing amounting to RM263.7 million (31 December 2018: RM274.5 million) which reflect as a reduction in both financing and advances and deposits and placements of banks and other financial institutions as disclosed in Note 16.

  The gross exposure of the financing funded by IA as at 31 December 2019 was RM20,737.7 million (31 December 2018: RM23,565.1 million).

9. Derivative financial instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of derivative's underlying asset, reference rate or index and is the basis upon which change in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the reporting date and are indicative of neither the market risks nor the credit risk.

The Bank enters into derivative financial instruments at the request and on behalf of its customers as well as to hedge the Bank's own exposures and not for speculative purpose.

	2019			2018		
	Principal amount RM'000	<--------- Fair value ----------> Assets RM'000	Liabilities RM'000	Principal amount RM'000	<---------- Fair value ----------> Assets RM'000	Liabilities RM'000
Trading derivatives						
Foreign exchange related contracts						
Currency forwards:						
- Less than one year	**5,676,819**	**14,924**	**(92,608)**	5,493,987	114,998	(24,049)
- One year to three years	**806,712**	**3,254**	**(3,254)**	870,321	4,883	(4,913)
- More than three years	**2,195,804**	**5,786**	**(5,786)**	60,842	49	(49)
	8,679,335	**23,964**	**(101,648)**	6,425,150	119,930	(29,011)
Currency swaps:						
- Less than one year	**9,668,773**	**72,024**	**(26,213)**	5,893,262	50,859	(135,612)
- One year to three years	**-**	**-**	**-**	27,111	44	(14)
	9,668,773	**72,024**	**(26,213)**	5,920,373	50,903	(135,626)
Currency spots:						
- Less than one year	**199,992**	**78**	**(329)**	191,924	69	(66)

9. Derivative financial instruments (cont'd.)

	2019			2018		
	Principal amount RM'000	<--------- Fair value ----------> Assets RM'000	Liabilities RM'000	Principal amount RM'000	<--------- Fair value ----------> Assets RM'000	Liabilities RM'000
Trading derivatives (cont'd.)						
Foreign exchange related contracts (cont'd.)						
Currency options:						
- Less than one year	**730**	**1**	**(1)**	-	-	-
Cross currency profit rate swaps:						
- Less than one year	**636,033**	**35,350**	**(35,180)**	-	-	-
- One year to three years	**2,094,722**	**7,652**	**(7,652)**	639,685	36,618	(36,110)
- More than three years	**48,050**	**139**	**(139)**	2,065,349	59,109	(59,109)
	2,778,805	**43,141**	**(42,971)**	2,705,034	95,727	(95,219)
Profit rate related contracts						
Profit rate options:						
- One year to three years	**-**	**-**	**-**	680,000	1,316	(2,734)
- More than three years	**-**	**-**	**-**	100,000	352	(352)
	-	**-**	**-**	780,000	1,668	(3,086)
Profit rate swaps:						
- Less than one year	**100,000**	**77**	**(77)**	750,000	795	(765)
- One year to three years	**571,880**	**4,394**	**(4,386)**	182,770	1,572	(1,560)
- More than three years	**3,351,901**	**56,735**	**(46,049)**	3,885,554	19,186	(12,552)
	4,023,781	**61,206**	**(50,512)**	4,818,324	21,553	(14,877)
	25,351,416	**200,414**	**(221,674)**	20,840,805	289,850	(277,885)

9. Derivative financial instruments (cont'd.)

	2019			2018		
	Principal amount RM'000	<--------- Fair value ----------> Assets RM'000	Liabilities RM'000	Principal amount RM'000	<--------- Fair value ----------> Assets RM'000	Liabilities RM'000
Hedging derivatives						
Foreign exchange related contracts						
Cross currency profit rate swaps:						
- Less than one year	-	-	-	1,515,787	112,648	(112,648)
	-	-	-	1,515,787	112,648	(112,648)
Profit rate related contracts						
Profit rate swaps:						
- Less than one year	-	-	-	620,776	1,495	(1,416)
	-	-	-	620,776	1,495	(1,416)
	-	-	-	2,136,563	114,143	(114,064)
Total	**25,351,416**	**200,414**	**(221,674)**	22,977,368	403,993	(391,949)

10. Other assets

	2019 RM'000	2018 RM'000
Amount due from holding company	**3,096,001**	3,569,497
Handling fees	**187,327**	170,830
Prepayments and deposits	**279,790**	276,695
Tax recoverable	**128,133**	176,213
Other debtors	**268,946**	49,676
	3,960,197	4,242,911

11. Statutory deposit with Bank Negara Malaysia

The non-interest bearing statutory deposit maintained with Bank Negara Malaysia is in compliance with Section 26(2)(c) and Section 26(3) of the Central Bank of Malaysia Act, 2009, the amounts of which are determined as set percentages of total eligible liabilities.

12. Property, plant and equipment

As at 31 December 2019	Office furniture, fittings, equipment and renovations RM'000	Computers and peripherals RM'000	Motor vehicles RM'000	Total RM'000
Cost				
At 1 January 2019	-	-	-	-
Additions	**1,083**	**139**	**398**	**1,620**
At 31 December 2019	**1,083**	**139**	**398**	**1,620**
Accumulated depreciation				
At 1 January 2019	-	-	-	-
Depreciation charge for the financial year (Note 30)	**123**	**7**	**34**	**164**
Exchange differences	**(1)**	**-**	**(1)**	**(2)**
At 31 December 2019	**122**	**7**	**33**	**162**
Net carrying amount	**961**	**132**	**365**	**1,458**

13. Right-of-use assets

As at 31 December 2019	Premises RM'000
Cost	
At 1 January 2019	
- effect of adopting MFRS 16 (Note 2.3)	**6,694**
At 1 January 2019, as restated	**6,694**
Additions	**5,106**
Modification	**3,296**
At 31 December 2019	**15,096**
Accumulated depreciation	
At 1 January 2019	**-**
Depreciation charge for the financial year (Note 30)	**2,145**
Exchange differences	**(15)**
At 31 December 2019	**2,130**
Net carrying amount	
At 31 December 2019	**12,966**

14. Deposits from customers

	2019 RM'000	2018 RM'000
Savings deposits		
Qard	**17,504,325**	16,081,568
Demand deposits		
Qard	**19,704,598**	18,403,932
Term deposits		
Murabahah	**123,236,922**	111,692,152
Qard	**593,295**	1,604,097
	123,830,217	113,296,249
	161,039,140	147,781,749

14. Deposits from customers (cont'd.)

(i) The maturity profile of term deposits are as follows:

	2019 RM'000	2018 RM'000
Within six months	**106,002,510**	101,144,116
Six months to one year	**17,720,477**	11,663,679
One year to three years	**89,690**	474,334
Three years to five years	**17,540**	14,120
	123,830,217	113,296,249

(ii) The deposits are sourced from the following type of customers:

	2019 RM'000	2018 RM'000
Business enterprises	**58,847,094**	51,815,432
Individuals	**39,051,336**	39,445,354
Government and statutory bodies	**30,521,401**	26,423,140
Others	**32,619,309**	30,097,823
	161,039,140	147,781,749

15. Investment accounts of customers

Mudharabah	2019 RM'000	2018 RM'000
Unrestricted Investment accounts	**20,616,075**	23,445,562
Restricted Investment accounts*	**121,595**	119,499
	20,737,670	23,565,061

* Net of expected credit losses associated with the financing assets funded by the Restricted Investment Accounts.

15. Investment accounts of customers (cont'd.)

(i) Movements in the investment accounts of customers are as follows:

	Unrestricted investment accounts RM'000	Restricted investment accounts RM'000	Total investment accounts RM'000
2019			
Funding inflows/outflows			
At 1 January	**23,445,562**	**119,499**	**23,565,061**
New placement during the financial year	**34,447,512**	**2,129**	**34,449,641**
Redemption during the financial year	**(37,270,721)**	**-**	**(37,270,721)**
Profit payable	**(6,278)**	**(33)**	**(6,311)**
At 31 December	**20,616,075**	**121,595**	**20,737,670**
2018			
Funding inflows/outflows			
At 1 January	24,555,445	-	24,555,445
New placement during the financial year	36,398,700	119,447	36,518,147
Redemption during the financial year	(37,500,226)	-	(37,500,226)
Profit payable	(8,357)	52	(8,305)
At 31 December	23,445,562	119,499	23,565,061

(ii) Investment accounts are sourced from the following type of customers:

	Unrestricted investment accounts RM'000	Restricted investment accounts RM'000	Total investment accounts RM'000
2019			
Business enterprises	**10,538,830**	**121,595**	**10,660,425**
Individuals	**8,922,749**	**-**	**8,922,749**
Government and statutory bodies	**95,817**	**-**	**95,817**
Others	**1,058,679**	**-**	**1,058,679**
	20,616,075	**121,595**	**20,737,670**
2018			
Business enterprises	11,814,357	119,499	11,933,856
Individuals	10,475,578	-	10,475,578
Government and statutory bodies	128,414	-	128,414
Others	1,027,213	-	1,027,213
	23,445,562	119,499	23,565,061

15. Investment accounts of customers (cont'd.)

(iii) Maturity structure of investment accounts are as follows:

	Unrestricted investment accounts RM'000	Restricted investment accounts RM'000	Total investment accounts RM'000
2019			
- without maturity	**13,387,845**	**-**	**13,387,845**
- with maturity	**7,228,230**	**121,595**	**7,349,825**
Within six months	**5,577,342**	**121,595**	**5,698,937**
Six months to one year	**1,633,073**	**-**	**1,633,073**
One year to three years	**15,045**	**-**	**15,045**
Three years to five years	**2,770**	**-**	**2,770**
	20,616,075	**121,595**	**20,737,670**

	Unrestricted investment accounts RM'000	Restricted investment accounts RM'000	Total investment accounts RM'000
2018			
- without maturity	13,067,406	-	13,067,406
- with maturity	10,378,156	119,499	10,497,655
Within six months	8,233,509	119,499	8,353,008
Six months to one year	2,125,559	-	2,125,559
One year to three years	5,176	-	5,176
Three years to five years	13,912	-	13,912
	23,445,562	119,499	23,565,061

15. Investment accounts of customers (cont'd.)

(iv) The allocation of investment asset are as follows:

	Unrestricted investment accounts RM'000	Restricted investment accounts RM'000	Total investment accounts RM'000
2019			
Retail financing	**18,855,165**	**-**	**18,855,165**
Non-retail financing	**1,760,910**	**121,595**	**1,882,505**
	20,616,075	**121,595**	**20,737,670**
2018			
Retail financing	21,644,759	-	21,644,759
Non-retail financing	1,800,803	119,499	1,920,302
	23,445,562	119,499	23,565,061

(v) Profit sharing ratio and rate of return are as follows:

	Investment account holder ("IAH")	
	Average profit sharing ratio (%)	Average rate of return (%)
2019		
Unrestricted investment accounts	**51.62**	**2.61**
Restricted investment accounts	**99.95**	**4.19**
2018		
Unrestricted investment accounts	55.00	2.82
Restricted investment accounts	99.95	4.31

16. Deposits and placements of banks and other financial institutions

	2019 RM'000	2018 RM'000
Mudharabah fund		
Licensed banks*	**19,307,946**	17,223,165
	19,307,946	17,223,165
Non-Mudharabah fund		
Licensed banks	**16,381,929**	11,767,354
Licensed Islamic banks	**1,125,849**	497,383
Licensed investment banks	**199,691**	-
Other financial institutions	**1,812,141**	2,686,233
	19,519,610	14,950,970
Total	**38,827,556**	32,174,135

* Mudharabah deposits and placements of licensed banks is the Restricted Profit Sharing Investment Account ("RPSIA") placed by the holding company amounting to RM19,307.9 million (31 December 2018: RM17,223.2 million). These placements are used to fund certain specific financing and advances and net of expected credit losses associated with the financing assets funded by RPSIA.

17. Financial liabilities at fair value through profit or loss

	2019 RM'000	2018 RM'000
Structured deposits	**-**	385,687

The carrying amount of structured deposits designated at fair value through profit or loss of the Bank as at 31 December 2018 was RM384,986,000. The fair value changes of the financial liabilities that are attributable to the changes in own credit risk are not significant.

18. Other liabilities

	Note	2019 RM'000	2018 RM'000
Sundry creditors		**67,616**	1,979,769
Deposit on trade financing		**35,092**	25,407
Provisions and accruals		**27,610**	25,360
Margin account with holding company		**-**	27,450
Allowances for impairment losses on financing commitments and financial guarantee contracts	(i)	**26,682**	30,942
Lease liabilities	(ii)	**12,228**	-
Structured deposits		**1,737**	-
Others		**-**	40,766
		170,965	2,129,694

(i) Movements in the allowances for impairment losses on financing commitments and financial guarantee contracts are as follows:

As at 31 December 2019	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
At 1 January 2019	**24,192**	**6,475**	**275**	**30,942**
Transferred to Stage 1	**130**	**(130)**	**-**	**-**
Transferred to Stage 2	**(302)**	**751**	**(449)**	**-**
Transferred to Stage 3	**-**	**(7)**	**7**	**-**
Net remeasurement of allowances	**(5,339)**	**(1,583)**	**2,579**	**(4,343)**
New financial assets originated or purchased	**3,519**	**2,690**	**-**	**6,209**
Financial assets derecognised	**(2,191)**	**(4,095)**	**(274)**	**(6,560)**
Changes in models/risk parameters	**4**	**455**	**-**	**459**
Exchange differences	**(10)**	**(15)**	**-**	**(25)**
At 31 December 2019	**20,003**	**4,541**	**2,138**	**26,682**

18. Other liabilities (cont'd.)

(i) Movements in the allowances for impairment losses on financing commitments and financial guarantee contracts are as follows (cont'd.):

As at 31 December 2018	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
At 1 January 2018				
- effect of adopting MFRS 9	14,888	7,550	2,222	24,660
At 1 January 2018, as restated	14,888	7,550	2,222	24,660
Transferred to Stage 1	699	(563)	(136)	-
Transferred to Stage 2	(14)	464	(450)	-
Net remeasurement of allowances	9,183	(876)	(1,256)	7,051
New financial assets originated or purchased	2,596	3,079	269	5,944
Financial assets derecognised	(3,965)	(3,187)	(388)	(7,540)
Exchange differences	805	8	14	827
At 31 December 2018	24,192	6,475	275	30,942

18. Other liabilities (cont'd.)

(ii) Lease liabilities of the Bank are payable as follows:

The movement in lease liabilities are as follows:

	2019 RM'000	2018 RM'000
At 1 January		
- as previously stated	**-**	**-**
- effect of adopting MFRS 16	**5,583**	**-**
At 1 January, as restated	**5,583**	**-**
New lease contracts	**8,902**	**-**
Finance cost on lease liabilities	**240**	**-**
Lease obligation reduction	**(2,497)**	**-**
At 31 December	**12,228**	**-**

19. Deferred tax

	2019 RM'000	2018 RM'000
At 1 January		
- as previously stated	**(24,077)**	(12,903)
- effect of adopting MFRS 9	**-**	(145)
At 1 January, as restated	**(24,077)**	(13,048)
Recognised in income statement (Note 33)	**(1,915)**	(17,719)
Recognised in statement of other comprehensive income	**108,994**	6,690
At 31 December	**83,002**	(24,077)

Presented after appropriate offsetting as follows:

	2019 RM'000	2018 RM'000
Deferred tax assets	**(22,351)**	(24,077)
Deferred tax liabilities	**105,353**	-
	83,002	(24,077)

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 income taxes relate to the same fiscal authority.

19. Deferred tax (cont'd.)

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

Deferred tax assets of the Bank:

	Impairment losses on financing, financial investment and other financial assets RM'000	**FVOCI reserve RM'000**	**Other temporary difference RM'000**	**Total RM'000**
At 1 January 2019	**(16,779)**	**(3,658)**	**(3,640)**	**(24,077)**
Recognised in income statement	**(2,778)**	**-**	**846**	**(1,932)**
Transferred to deferred tax liabilities	**-**	**3,658**	**-**	**-** **3,658**
At 31 December 2019	**(19,557)**	**-**	**(2,794)**	**(22,351)**
At 1 January 2018				
- as previously stated	-	(10,203)	(2,700)	(12,903)
- effect of adopting MFRS 9	-	(145)	-	(145)
At 1 January 2018, as restated	-	(10,348)	(2,700)	(13,048)
Recognised in income statement	(16,779)	-	(940)	(17,719)
Recognised in statement of other comprehensive income	-	6,690	-	6,690
At 31 December 2018	(16,779)	(3,658)	(3,640)	(24,077)

19. Deferred tax (cont'd.)

The component and movement of deferred tax assets and liabilities during the financial year prior to offsetting are as follows (cont'd.):

Deferred tax liabilities of the Bank:

	FVOCI reserve RM'000	Unabsorbed capital allowance RM'000	Total RM'000
At 1 January 2019	-	-	-
Recognised in income statement	-	17	17
Recognised in statement of other comprehensive income	108,994	-	108,994
Transferred from deferred tax assets	(3,658)	-	(3,658)
At 31 December 2019	105,336	17	105,353

20. Term funding

	2019 RM'000	2018 RM'000
Unsecured term funding:		
(i) Commercial Paper		
- Less than one year	7,888,771	2,734,958
(ii) Medium Term Notes		
- More than one year	2,003,222	2,003,222
Total term funding	9,891,993	4,738,180

20. Term funding (cont'd.)

Included in the unsecured term fundings issued by the Bank are as follows:

RM10.0 billion Islamic Commercial Paper/Islamic Medium Term Note Programme

On 21 February 2017, the Bank established a RM10.0 billion Islamic Commercial Paper/Islamic Medium Term Note Programme, pursuant to which the Bank may issue, from time to time, Ringgit Malaysia Islamic Commercial Papers ("RM ICPs") and/or Ringgit Malaysia Islamic Medium Term Notes ("RM IMTNs") of up to RM10.0 billion in nominal value under the Shariah principle of Wakalah Bi Al-Istithmar.

The ICP/IMTN Programme will give the Bank flexibility to raise funds via the issuance of Islamic commercial papers and/or Islamic medium term notes from time to time which can be utilised, amongst others, to fund the Bank's working capital, general banking and other Shariah compliant corporate purposes, including the refinancing of any existing financing or debt instruments issued by the Bank.

The following are the changes in the term funding include the commercial papers/medium term notes/sukuk issued/redeemed by the Bank during the financial year ended 31 December 2019:

Issuance/Redemption of Commercial Papers

The aggregate nominal value of the commercial papers issued by the Bank and outstanding as at 31 December 2019 are as follows:

Currency	Description	Aggregate Nominal Value (RM' million)
RM	Zero Profit ICP	8,000.0

21. Subordinated sukuk

	Note	2019 RM'000	2018 RM'000
RM1,500 million subordinated sukuk due in 2024	(i)	**-**	1,516,593
RM1,000 million subordinated sukuk due in 2026	(ii)	**1,017,708**	1,017,708
RM1,000 million subordinated sukuk due in 2029	(iii)	**1,010,603**	-
		2,028,311	2,534,301

The details of the issued subordinated sukuk are as follows:

Note	Description/nominal value	Issue date	First call date	Maturity date	Profit rate (% p.a.)	Nominal Value (RM' million)
	RM10.0 billion Subordinated Sukuk Murabahah Programme					
(i)	Subordinated Sukuk Murabahah[1]	7-Apr-14	5-Apr-19	5-Apr-24	4.75	1,500.0
(ii)	Subordinated Sukuk Murabahah[2]	15-Feb-16	15-Feb-21	13-Feb-26	4.65	1,000.0
(iii)	Subordinated Sukuk Murabahah[2]	5-Apr-19	5-Apr-24	5-Apr-29	4.50	1,000.0

[1] These subordinated notes were fully redeemed on the respective first call dates.

[2] The Bank may, subject to the prior consent of BNM, redeem these subordinated sukuk, in whole or in part, on the first call date and on each semi-annual profit payment date thereafter.

22. Capital securities

Description	Issue date	First call date	Maturity date	2019 RM'000	2018 RM'000
RM10.0 billion Additional Tier 1 Sukuk Wakalah Programme					
RM1,000.0 million 4.95% Additional Tier 1 Sukuk Wakalah[1]	14-Dec-17	14-Dec-22	Perpetual	**1,002,170**	1,002,441

[1] The Bank, may redeem these capital securities, in whole or in part on the first call date and on every Periodic Distribution Date thereafter.

On 14 December 2017, the Bank issued RM1.0 billion of Additional Tier 1 Sukuk Wakalah ("the AT1 Sukuk Wakalah") in nominal value with a tenure of Perpetual Non-Callable five (5) years pursuant to AT1 Sukuk Wakalah Programme of up to RM10.0 billion nominal value established on 23 November 2017. The proceeds from the issuance will be utilised for general banking, working capital and other Shariah compliant corporate purposes, as well as to refinance any existing financing or sukuk of the Bank.

23. Share capital

	2019 '000	2018 '000	2019 RM'000	2018 RM'000
Issued and fully paid:				
At 1 January	**338,910**	281,556	**7,197,398**	5,481,783
Issued during the year	**-**	57,354	**-**	1,715,615
At 31 December	**338,910**	338,910	**7,197,398**	7,197,398

There were no new shares issuance by the Bank during the financial year ended 31 December 2019.

24. Reserves

	Note	2019 RM'000	2018 RM'000
Non-distributable:			
Equity contribution from the holding company		**1,697**	1,697
FVOCI reserve		**338,321**	(5,865)
Exchange fluctuation reserve		**82**	-
Regulatory reserve	(a)	**846,497**	313,516
		1,186,597	309,348
Distributable:			
Retained profits	(b)	**2,676,002**	2,970,618
Total reserves		**3,862,599**	3,279,966

(a) Regulatory reserve

Regulatory reserve is maintained in aggregate, loss allowance for non-credit impaired exposures (commonly known as Stage 1 and Stage 2 provisions) that has been assessed and recognised in accordance with MFRS and which has been transferred from the retained profits, in accordance with BNM's Revised Financial Reporting Policy document issued on 27 September 2019.

(b) Retained profits

The retained profits of the Bank as at 31 December 2019 and 31 December 2018 are distributable profits and may be distributed as dividends under the single-tier system.

25. Income derived from investment of depositors' funds

	2019 RM'000	2018 RM'000
Income derived from investment of:		
(i) General investment deposits	**7,334,262**	6,770,867
(ii) Other deposits	**2,203,823**	2,060,940
	9,538,085	8,831,807

(i) Income derived from investment of general investment deposits

	2019 RM'000	2018 RM'000
Finance income and hibah		
Financing and advances	**5,804,548**	5,480,214
Financial investments at fair value through profit or loss	**10,382**	7,579
Financial investments at fair value through other comprehensive income	**373,320**	320,704
Financial investments at amortised cost	**315,222**	178,607
Money at call and deposits with financial institutions	**395,819**	363,169
	6,899,291	6,350,273
Accretion of discount less amortisation of premium	**18,123**	35,965
Total finance income and hibah	**6,917,414**	6,386,238
Other operating income		
Fee income:		
- Processing fees	**32,065**	40,849
- Commissions	**116,288**	99,055
- Service charges and other fees	**153,024**	123,036
Gains on disposal of financial investments at fair value through other comprehensive income	**54,550**	4,291
Gains/(losses) on disposal of financial investments at fair value through profit or loss	**5,537**	(1,639)
Unrealised gains/(losses) on revaluation of:		
- Derivatives	**444**	19,659
- Financial investments at fair value through profit or loss	**669**	(151)
- Financial liabilities at fair value through profit or loss	**516**	(4,523)
Gains/(losses) on foreign exchange:		
- Realised	**45,171**	(24,710)
- Unrealised	**5,629**	123,149
Realised gain on derivatives	**2,955**	5,613
Total other operating income	**416,848**	384,629
Total	**7,334,262**	6,770,867

Included in finance income are income on impaired assets amounting to RM57.9 million (2018: RM41.6 million).

25. Income derived from investment of depositors' funds (cont'd.)

(ii) Income derived from investment of other deposits

	2019 RM'000	2018 RM'000
Finance income and hibah		
Financing and advances	**1,744,170**	1,668,086
Financial investments at fair value through profit or loss	**3,120**	2,307
Financial investments at fair value through other comprehensive income	**112,177**	97,617
Financial investments at amortised cost	**94,719**	54,365
Money at call and deposits with financial institutions	**118,937**	110,542
	2,073,123	1,932,917
Accretion of discount less amortisation of premium	**5,446**	10,947
Total finance income and hibah	**2,078,569**	1,943,864
Other operating income		
Fee income:		
- Processing fees	**9,635**	12,435
- Commissions	**34,942**	30,151
- Service charges and other fees	**45,981**	37,450
Gains on disposal of financial investments at fair value through other comprehensive income	**16,391**	1,306
Gains/(losses) on disposal of financial investments at fair value through profit or loss	**1,664**	(499)
Unrealised gains/(losses) on revaluation of:		
- Derivatives	**133**	5,984
- Financial investments at fair value through profit or loss	**201**	(46)
- Financial liabilities at fair value through profit or loss	**155**	(1,377)
Gains/(losses) on foreign exchange:		
- Realised	**13,573**	(7,521)
- Unrealised	**1,691**	37,485
Realised gain on derivatives	**888**	1,708
Total other operating income	**125,254**	117,076
Total	**2,203,823**	2,060,940

Included in finance income are income on impaired assets amounting to RM17.4 million (2018: RM12.7 million).

26. Income derived from investment of investment account funds

	2019 RM'000	2018 RM'000
Finance income and hibah		
Financing and advances	**1,051,371**	1,078,834
Total finance income and hibah	**1,051,371**	1,078,834
Other operating income		
Fee income:		
- Commissions	**282**	1,107
- Service charges and other fees	**76**	19,127
Total other operating income	**358**	20,234
Total	**1,051,729**	1,099,068

27. Income derived from investment of shareholder's funds

	2019 RM'000	2018 RM'000
Finance income and hibah		
Financing and advances	**337,378**	348,143
Financial investments at fair value through profit or loss	**603**	481
Financial investments at fair value through other comprehensive income	**21,699**	20,373
Financial investments at amortised cost	**18,322**	11,346
Money at call and deposits with financial institutions	**23,006**	23,071
	401,008	403,414
Accretion of discount less amortisation of premium	**1,053**	2,285
Total finance income and hibah	**402,061**	405,699

27. Income derived from investment of shareholder's funds (cont'd.)

	2019 RM'000	2018 RM'000
Other operating income		
Fee income		
- Processing fees	**1,864**	2,595
- Commissions	**6,759**	6,293
- Service charges and other fees	**8,894**	7,816
Gains/(losses) on sale of financial investments at fair value through profit or loss	**322**	(104)
Gains on disposal of financial investments at fair value through other comprehensive income	**3,171**	273
Unrealised gains/(losses) on revaluation of:		
- Derivatives	**26**	1,249
- Financial investments at fair value through profit or loss	**39**	(10)
- Financial liabilities at fair value through profit or loss	**30**	(287)
Gains/(losses) on foreign exchange:		
- Realised	**2,625**	(1,570)
- Unrealised	**327**	7,823
Realised gain on derivatives	**172**	357
Total other operating income	**24,229**	24,435
Total	**426,290**	430,134

Included in finance income are income on impaired assets amounting to RM3.4 million (2018: RM2.0 million).

28. (Writeback of)/allowances for impairment losses

(i) (Writeback of)/allowances for impairment losses on financing and advances, net

	2019 RM'000	2018 RM'000
(Writeback of)/allowances for impairment losses on financing and advances:		
Stage 1 - 12-month ECL, net	**(343,333)**	(264,879)
Stage 2 - Lifetime ECL not credit impaired, net	**(181,241)**	218,562
Stage 3 - Lifetime ECL credit impaired, net	**316,056**	452,724
Impaired financing and advances		
- Written-off	**21,940**	12,124
- Recovered	**(96,161)**	(43,446)
(Writeback of)/allowances for impairment losses on other debts	**(127)**	161
	(282,866)	375,246

28. (Writeback of)/allowances for impairment losses (cont'd.)

(ii) Allowances for/(writeback of) impairment losses on financial investments, net

	2019 RM'000	2018 RM'000
Financial investments at fair value through other comprehensive income		
Stage 1 - 12-month ECL, net	**1,338**	(634)
Stage 2 - Lifetime ECL not credit impaired, net	**-**	(125)
	1,338	(759)
Financial investments at amortised cost		
Stage 1 - 12-month ECL, net	**2,616**	(2,468)
Stage 2 - Lifetime ECL not credit impaired, net	**-**	(4,310)
	2,616	(6,778)
	3,954	(7,537)

(iii) Writeback of impairment losses on other financial assets, net

	2019 RM'000	2018 RM'000
Cash and short-term funds		
Stage 1 - 12-month ECL, net	**-**	(167)
	-	(167)

29. Profit distributed to depositors

	2019 RM'000	2018 RM'000
Deposits from customers		
- Non-mudharabah fund	**4,408,492**	4,043,778
Deposits and placements of banks and other financial institutions		
- Mudharabah fund	**686,555**	702,226
- Non-mudharabah fund	**458,611**	241,868
	1,145,166	944,094
Financial liabilities at fair value through profit or loss		
- Non-mudharabah fund	**4,298**	41,865
Structured deposits		
- Non-mudharabah fund	**10**	-
Total	**5,557,966**	5,029,737

30. Overhead expenses

	2019 RM'000	2018 RM'000
Personnel expenses:		
- Salaries and wages	**24,493**	21,853
- Allowances and bonuses	**8,339**	13,878
- Social security cost	**162**	155
- Pension cost - defined contribution plan	**5,175**	5,650
- Share/Options granted under ESGP	**1,239**	-
- Other staff related expenses	**7,275**	5,256
	46,683	46,792
Establishment costs:		
- Depreciation right-of-use assets (Note 13)	**2,145**	-
- Depreciation property, plant and equipment (Note 12)	**164**	-
- Rental of premises	**715**	1,715
- Repairs, servicing and maintenance	**222**	47
- Information technology expenses	**3,217**	3,625
- Finance cost on lease liabilities	**240**	-
- Others	**4**	2
	6,707	5,389
Marketing costs:		
- Advertisement and publicity	**6,149**	2,079
- Others	**10,184**	9,266
	16,333	11,345
Administration and general expenses:		
- Fees and brokerage	**57,978**	58,006
- Administrative expenses	**12,291**	7,923
- General expenses	**13,507**	47,403
- Auditors' remuneration		
- Audit	**560**	536
- Regulatory-related services	**274**	333
- Directors' fees and other remunerations (Note 31)	**1,363**	1,179
- Shared service costs paid/payable to Maybank	**1,298,097**	1,238,664
	1,384,070	1,354,044
Total	**1,453,793**	1,417,570

31. Chief executive officer, directors and Shariah committee members' remuneration

	2019 RM'000	2018 RM'000
Chief executive officer:		
Salary and other remuneration, including meeting allowance	**3,504**	3,024
ESGP expenses	**301**	-
Estimated monetary value of benefit-in-kind	**97**	53
Pension cost - defined contribution plan	**607**	484
Other remunerations	**293**	-
	4,802	3,561
Non-executive directors:		
Fees	**1,067**	982
Other remunerations	**204**	154
Estimated monetary value of benefit-in-kind	**92**	43
	1,363	1,179
Shariah committee members	**966**	817
Total	**7,131**	5,557
Total (excluding benefit-in-kind)	**6,942**	5,461

The total remuneration of the directors are as follows:

2019	Fees RM'000	Meeting allowances RM'000	Benefits-in-kind RM'000	Total RM'000
Non-executive directors:				
Encik Zainal Abidin bin Jamal	**230**	**24**	**50**	**304**
Dato' Dr Muhammad Afifi al-Akiti[1]	**111**	**20**	**1**	**132**
Encik Dali bin Sardar	**183**	**52**	**8**	**243**
Encik Nor Hizam bin Hashim[2]	**80**	**26**	**8**	**114**
Datuk Mohd Anwar bin Yahya	**162**	**36**	**13**	**211**
Dato' Zulkiflee Abbas bin Abdul Hamid[3]	**115**	**20**	**7**	**142**
Associate Professor Dr Aznan bin Hasan[3]	**103**	**14**	**5**	**122**
Encik Shariffuddin bin Khalid[4]	**83**	**12**	**-**	**95**
Total directors' remuneration	**1,067**	**204**	**92**	**1,363**

[1] Retired on 14 August 2019
[2] Retired on 12 June 2019
[3] Appointed on 25 April 2019
[4] Appointed on 13 June 2019

31. Chief executive officer, directors and Shariah committee members' remuneration (cont'd.)

The total remuneration of the directors are as follows (cont'd.):

2018	**Fees RM'000**	**Meeting allowances RM'000**	**Benefits-in-kind RM'000**	**Total RM'000**
Non-executive directors:				
Encik Zainal Abidin bin Jamal	212	17	34	263
Dato' Dr Muhammad Afifi al-Akiti	169	24	3	196
Encik Dali bin Sardar	173	43	3	219
Encik Nor Hizam bin Hashim	169	38	-	207
Datin Paduka Jam'iah Abdul Hamid[1]	117	15	-	132
Datuk Mohd Anwar bin Yahya	142	17	3	162
Total directors' remuneration	982	154	43	1,179

[1] Demised on 19 November 2018

The total remuneration of the Shariah committee members are as follows:

2019	**Fees RM'000**	**Meeting allowances RM'000**	**Total RM'000**
Dr. Aznan bin Hasan	**120**	**56**	**176**
Dr. Ahcene Lahsasna	**33**	**14**	**47**
Dr. Marjan binti Muhammad	**83**	**46**	**129**
Dr. Mohamed Fairooz bin Abdul Khir	**100**	**56**	**156**
Ustaz Mohd Kamal bin Mokhtar	**100**	**56**	**156**
Dr. Oni Sahroni	**100**	**46**	**146**
Dr. Syahnaz binti Sulaiman	**100**	**56**	**156**
Total Shariah committee remuneration	**636**	**330**	**966**

31. Chief executive officer, directors and Shariah committee members' remuneration (cont'd.)

The total remuneration of the Shariah committee members are as follows (cont'd.):

2018	Fees RM'000	Meeting allowances RM'000	Total RM'000
Dr. Aznan bin Hasan	116	37	153
Dr. Ahcene Lahsasna	88	39	127
Dr. Marjan binti Muhammad	96	39	135
Dr. Mohamed Fairooz bin Abdul Khir	96	37	133
Ustaz Mohd Kamal bin Mokhtar	96	41	137
Dr. Oni Sahroni	48	20	68
Dr. Syahnaz binti Sulaiman	48	16	64
Total Shariah committee remuneration	588	229	817

32. Finance cost

	2019 RM'000	2018 RM'000
Islamic Subordinated Sukuk	**98,260**	117,750
Capital Securities	**49,500**	49,500
Term Funding	**268,862**	176,235
	416,622	343,485

33. Taxation

	2019 RM'000	2018 RM'000
Malaysian income tax	**794,655**	641,904
Foreign income tax	**75**	50
	794,730	641,954
Over provision in prior period:		
Malaysian income tax	**(42,576)**	(18,552)
	752,154	623,402
Deferred tax (Note 19):		
Relating to origination and reversal of temporary differences	**(1,915)**	(17,719)
	750,239	605,683

33. Taxation (cont'd.)

Domestic current income tax is calculated at the statutory tax rate of 24% of the estimated chargeable profit for the financial year.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Bank is as follows:

	2019 RM'000	**2018 RM'000**
Profit before taxation	**3,299,819**	2,604,951
Taxation at Malaysian statutory tax rate of 24%	**791,957**	625,188
Foreign income tax	**75**	50
Expenses not deductible for tax purposes	**6,137**	19,707
Over provision of tax expense in prior years	**(42,576)**	(18,552)
Origination and reversal of temporary differences	**(1,915)**	(17,719)
Effect of zakat deduction	**(3,439)**	(2,991)
Tax expense for the financial year	**750,239**	605,683

34. Earnings per share ("EPS")

The basic and diluted EPS of the Bank are calculated by dividing the net profit for the financial year by the weighted average number of ordinary shares in issue during the financial year.

	2019	**2018**
Net profit for the financial year attributable to equity holder of the Bank (RM'000)	**2,519,229**	1,975,610
Weighted average number of ordinary shares in issue ('000)	**338,910**	301,455
Basic/diluted EPS (sen)	**743.3**	655.4

35. Dividends

	2019 RM'000	2018 RM'000
Interim tax exempt (single-tier) dividend of RM3.09, on 338,910,000 ordinary shares in respect of the financial year ended 31 December 2019	**1,047,232**	-
Final tax exempt (single-tier) dividend of RM3.64, on 338,910,000 ordinary shares in respect of the financial year ended 31 December 2018	**1,233,632**	-
Interim tax exempt (single-tier) dividend of RM2.37, on 312,840,000 ordinary shares in respect of the financial year ended 31 December 2018	**-**	741,431
Final tax exempt (single-tier) dividend of RM3.46, on 281,556,000 ordinary shares in respect of the financial year ended 31 December 2017	**-**	974,184
	2,280,864	1,715,615

At the forthcoming Annual General Meeting, a final tax-exempt (single tier) dividend in respect of the current financial year ended 31 December 2019 of RM4.32 per share on 338,910,000 ordinary shares, amounting to a dividend payable of RM1,464,091,200 will be proposed for the shareholder's approval.

The financial statements for the current financial year do not reflect this proposed final dividend. Such dividend, if approved by the shareholder, will be accounted for in the statements of changes in equity as an appropriation of retained profits in the next financial year ending 31 December 2020.

36. Significant related party transactions and balances

(a) The Bank's significant transactions and balances with related parties are as follows:

	2019 RM'000	2018 RM'000
Holding company		
Expenditure:		
Profit distributed to depositors	**1,062,698**	871,134
Finance cost	**406,776**	305,463
Shared service cost paid/payable to Maybank	**1,298,097**	1,238,664
Other expenses	**1,378**	2,155
	2,768,949	2,417,416

36. Significant related party transactions and balances (cont'd.)

(a) The Bank's significant transactions and balances with related parties are as follows (cont'd.):

	2019 RM'000	2018 RM'000
Related companies		
Income:		
Commission	**55,543**	49,923
Shariah Fee	**-**	483
	55,543	50,406
Expenditure:		
Profit distributed to depositors	**26,397**	15,348
Information technology expenses*	**3,080**	3,348
Fees and brokerage*	**130**	130
General expenses	**1,787**	1,833
	31,394	20,659

* Included in these expenses are services rendered in Malaysia.

(b) Included in the statement of financial position of the Bank are amounts due to and from holding company and related companies represented by the following:

	2019 RM'000	2018 RM'000
Holding company		
Amount due from:		
Current accounts and deposits	**1,343,316**	51,174
Derivative assets	**137,646**	236,926
Others	**3,096,001**	3,569,497
	4,576,963	3,857,597
Amount due to:		
Current accounts and deposits	**34,005,077**	28,393,218
Negotiable instruments of deposits		
- Remaining maturity less than one year	**-**	597,301
Derivative liabilities	**123,837**	341,069
Subordinated sukuk	**2,028,311**	1,725,541
Capital securities	**1,002,170**	1,002,441
Term funding	**9,891,993**	4,738,180
	47,051,388	36,797,750

36. Significant related party transactions and balances (cont'd.)

(b) Included in the statement of financial position of the Bank are amounts due to and from holding company and related companies represented by the following (cont'd.):

	2019 RM'000	2018 RM'000
Related companies		
Amount due to:		
Fixed return investment deposits	**688,408**	449,958
	688,408	449,958

The above transactions have been entered into in the normal course of business and have been established under terms and conditions that are no less favourable than those arranged with independent parties.

(c) Key management personnel compensation

(i) The remuneration of directors and other members of key management during the financial year are as disclosed in Note 31. The movement in share options of key management personnel is as follows:

	2019 '000	2018 '000
At 1 January	**-**	966
Vested and exercisable	**-**	(966)
At 31 December	**-**	-

The share options were granted on the same terms and conditions as those offered to other employees of Maybank Group.

(ii) The numbers of shares awarded for ESGP Shares to key management personnel is as follows:

	2019 '000	2018 '000
At 1 January	**104**	-
Awarded	**104**	104
At 31 December	**208**	104

Name	Year	Award date	Number of ESGP shares awarded '000
Dato' Mohamed Rafique Merican bin Mohd Wahiduddin Merican	2019	30.09.2019	104
	2018	14.12.2018	104

36. Significant related party transactions and balances (cont'd.)

(d) Government-related entities

Permodalan Nasional Berhad ("PNB"), a government-linked entity and a shareholder with significant influence on the Bank, with direct shareholding of 7.80% (2018: 7.53%) and indirect shareholding of 34.42% (2018: 33.53%) via Amanah Raya Trustee Berhad (Skim Amanah Saham Bumiputera) as at 31 December 2019. PNB and entities directly controlled by PNB are collectively referred to as government-related entities to the Group and the Bank.

All the transactions entered into by the Bank with the government-related entities are conducted in the ordinary course of the Bank's business on terms comparable to those with other entities that are not government-related. The Bank has established credit policies, pricing strategy and approval process for financing and advances, which are independent of whether the counterparties are government-related entities or not.

(i) Individually significant transaction with PNB due to its size of transaction:

	2019 **RM'000**	**2018** **RM'000**
Transactions during the financial year:		
Financing income	**281,541**	205,596
Balances as at reporting dates:		
Financing and advances	**3,951,508**	4,343,531

(ii) Collectively, but not individually, significant transactions

There was no collectively significant transactions with other government-related entities during the financial year ended 31 December 2019 and 31 December 2018.

36. Significant related party transactions and balances (cont'd.)

(e) Credit exposure arising from credit transactions with connected parties

	2019	2018
Outstanding credit exposure with connected parties (RM'000)	**4,552,249**	5,537,105
Percentage of outstanding credit exposure to connected parties as a proportion of total credit exposure	**2.0%**	2.8%
Percentage of outstanding credit exposure to connected parties which are non-performing or in default	**-**	**-**

The credit exposure above are derived based on paragraph 9.1 of the Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties.

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

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

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

(iii) 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;

(iv) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iii) 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;

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

(vi) 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.

37. Commitments and contingencies

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

The risk-weighted exposures of the Bank as at 31 December are as follows:

	2019			2018		
	Full commitment RM'000	Credit equivalent amount* RM'000	Risk weighted amount* RM'000	Full commitment RM'000	Credit equivalent amount* RM'000	Risk weighted amount* RM'000
Contingent liabilities						
Direct credit substitutes	**1,881,752**	**1,842,448**	**1,409,369**	1,406,819	1,282,494	1,188,080
Certain transaction-related contingent items	**3,381,084**	**1,669,027**	**1,166,710**	3,382,496	1,669,190	1,292,876
Short-term self-liquidating trade-related contingencies	**252,361**	**50,472**	**21,087**	210,731	54,669	25,219
	5,515,197	**3,561,947**	**2,597,166**	5,000,046	3,006,353	2,506,175
Commitments						
Irrevocable commitments to extend credit:						
- maturity within one year	**23,199,822**	**872,079**	**135,683**	22,252,458	5,315,091	2,611,836
- maturity more than one year	**9,856,695**	**11,998,105**	**4,523,695**	8,719,317	2,599,960	1,124,353
	33,056,517	**12,870,184**	**4,659,378**	30,971,775	7,915,051	3,736,189
Miscellaneous commitments and contingencies	**53,198**	**-**	**-**	84,129	-	-
Total credit-related commitments and contingencies	**38,624,912**	**16,432,131**	**7,256,544**	36,055,950	10,921,404	6,242,364

37. Commitments and contingencies (cont'd.)

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions (cont'd.).

The risk-weighted exposures of the Bank as at 31 December are as follows (cont'd.):

	2019			2018		
	Full commitment RM'000	Credit equivalent amount* RM'000	Risk weighted amount* RM'000	Full commitment RM'000	Credit equivalent amount* RM'000	Risk weighted amount* RM'000
Derivative financial instruments						
Foreign exchange related contracts:						
- less than one year	**16,182,347**	**218,387**	**131,094**	13,094,961	219,591	113,693
- one year to less than five years	**3,258,181**	**44,984**	**22,946**	3,663,308	56,062	25,064
- more than five years	**1,887,107**	**102,275**	**53,482**	-		
Profit rate related contracts:						
- less than one year	**100,000**	**127**	**53**	1,370,775	141,687	25,037
- one year to less than five years	**3,563,781**	**68,230**	**95,954**	2,452,770	440,646	196,829
- more than five years	**360,000**	**-**	**-**	2,395,554	167,587	145,821
Total treasury-related commitments and contingencies	**25,351,416**	**434,003**	**303,529**	22,977,368	1,025,573	506,444
Total commitments and contingencies	**63,976,328**	**16,866,134**	**7,560,073**	59,033,318	11,946,977	6,748,808

* The credit equivalent amount and risk weighted amount are arrived at using the credit conversion factors and risk weights respectively as specified by Bank Negara Malaysia for regulatory capital adequacy purposes.

38. Financial risk management policies

(a) Financial risk management overview

Risk Management is a critical pillar of the Bank's operating model, complementing the other two pillars, which are business sectors and support sectors. A dedicated Board-level Risk Management Committee provides risk oversight of all material risks across the Bank.

The Management-level Risk Management Committees, which include the Group Executive Risk Committee, Group Operational Risk Management Committee, Group Asset and Liability Management Committee ("Group ALCO") and Group Management Credit Committee, are responsible for the management of all material risks within the Bank.

The Bank's approach to risk management is premised on the following Seven Principles of Risk Management:

(a) Establishment of a risk appetite and strategy which articulates the nature, type and level of risk the Bank is willing to assume and must be approved by the Board.

(b) Capital management driven by the Bank's strategic objectives and accounts for the relevant regulatory, economic and commercial environments in which the Bank operates.

(c) Proper governance and oversight through a clear, effective and robust Bank governance structure with well-defined, transparent and consistent lines of responsibility established within the Bank.

(d) Promotion of a strong risk culture which supports and provides appropriate standards and incentives for professional and responsible behaviour.

(e) Implementation of integrated risk frameworks and policies to ensure that risk management practices and processes are effective at all levels.

(f) Execution of sound risk management processes to actively identify, measure, control, monitor and report risks inherent in all products and activities undertaken by the Bank.

(g) Ensure sufficient resources and systems infrastructure are in place to enable effective risk management.

38. Financial risk management policies (cont'd.)

(b) Impairment assessment

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the summary of significant accounting policies.

- The Bank's definition and assessment of default and cure (Note 38(b)(i)).
- An explanation of the Bank's internal grading system (Note 38(e)(5)).
- How the Bank defines, calculates and monitors the probability of default, exposure at default and loss given default (Note 38(e)(1)).
- When the Bank considers there has been a significant increase in credit risk of an exposure (Note 38(b)(ii)).
- The Bank's policy of segmenting financial assets where ECL is assessed on a collective basis (Note 38(b)(iii)).
- The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 assets (Note 2.2(i)(d)(i)).

(i) Definition of default and cure

The Bank considers a financial instruments defaulted and therefore Stage 3 (credit-impaired) for ECL calculations when:

- Principal or profit or both are past due for more than 90 days; or
- Account less than 90 days past due which exhibit indications of credit weaknesses; or
- Impaired financing and advances have been rescheduled and restructured, the financing and advances will continue to be classified as impaired until repayments based on rescheduled or restructured terms have been observed continuously for a period of six (6) months; or
- Default occurs for repayments scheduled on intervals of three (3) months or longer.

The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

38. Financial risk management policies (cont'd.)

(b) Impairment assessment (cont'd.)

(i) Definition of default and cure (cont'd.)

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- significant deterioration in customer's credit rating from initial recognition or last reviewed date
- breach of covenant not waived by the Bank
- customer is insolvent
- it is becoming probable that the customer will enter bankruptcy
- customer’s listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Bank’s policy to consider a financial instrument as ‘cured’ and therefore re-classified out of Stage 3 when none of the default criteria have been present. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated indicators at the time of the cure, and the asset no longer showing significant increase in credit risk compared to initial recognition.

(ii) Significant increase in credit risk

The Bank continuously monitors all financial assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or Lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events explained in Note 38(b)(i) are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly.

When estimating ECL on a collective basis for a group of similar assets (as set out in Note 38(b)(iii)), the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

38. Financial risk management policies (cont'd.)

(b) Impairment assessment (cont'd.)

(iii) Grouping financial assets measured on a collective basis

As explained in Note 2.2(i)(d)(ii), depending on the factors below, the Bank calculates ECL either on a collective or an individual basis.

Financial assets subject to ECL that have been assessed individually but for which no impairment is required and all individually insignificant exposure are then assessed collectively, in groups of assets with similar credit risk characteristics.

The Bank groups these exposure into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the financial assets.

(c) Analysis of inputs to the ECL model under multiple economic scenarios

An overview of the approach to estimating ECLs is set out in Note 2.2 *Summary of significant accounting policies* and in Note 3 *Significant accounting judgements, estimates and assumptions*. To ensure completeness and accuracy, the Bank obtain the data used from Maybank Group Economist, Maybank Kim Eng, including determining the weights attributable to the multiple scenarios as at every year end to apply on next financial year's ECL computations.

The following table shows the forecast of the key forward looking economic variables/ assumptions used in each of the economic scenarios for the ECL calculations for financial year ended 31 December 2019 and 31 December 2018. The figures for “Subsequent years” represent a long-term average for each scenario.

31 December 2019

Key Variables	ECL Scenario	Assigned Probabilities	2019	2020	2021	2022	2023	Subsequent years
Real GDP (%)	Base case	60	4.8	4.9	4.9	4.9	4.9	4.9
	Upside	10	5.2	5.3	5.3	5.3	5.3	5.3
	Downside	30	4.0	4.1	4.2	4.1	4.1	4.1
Property Price Index ("PPI") (%)	Base case	60	2.5	2.5	2.5	2.5	2.5	2.5
	Upside	10	3.0	3.0	3.0	3.0	3.0	3.0
	Downside	30	1.5	1.5	1.5	1.5	1.5	1.5
Overnight Policy Rate ("OPR") (%)	Base case	60	3.3	3.3	3.3	3.3	3.3	3.3
	Upside	10	3.3	3.3	3.5	3.5	3.5	3.5
	Downside	30	3.0	3.0	3.0	3.0	3.0	3.0
Unemployment Rate (%)	Base case	60	3.4	3.4	3.3	3.3	3.3	3.3
	Upside	10	3.2	3.2	3.0	3.0	3.0	3.0
	Downside	30	3.5	3.5	3.4	3.4	3.4	3.4

38. Financial risk management policies (cont'd.)

(c) Analysis of inputs to the ECL model under multiple economic scenarios (cont'd.)

31 December 2018

Key Variables	ECL Scenario	Assigned Probabilities	2018	2019	2020	2021	2022	Subsequent years
Real GDP (%)	Base case	80	5.3	5.1	5.0	5.0	5.0	5.0
	Upside	10	5.6	5.4	5.3	5.3	5.3	5.3
	Downside	10	5.0	4.8	4.7	4.7	4.7	4.7
Property Price Index ("PPI") (%)	Base case	80	5.0	4.0	3.0	3.0	3.0	3.0
	Upside	10	5.3	4.2	3.2	3.2	3.2	3.2
	Downside	10	4.7	3.8	2.8	2.8	2.8	2.8
Overnight Policy Rate ("OPR") (%)	Base case	80	3.3	3.5	3.5	3.5	3.5	3.5
	Upside	10	3.3	3.5	3.5	3.5	3.5	3.5
	Downside	10	3.0	3.3	3.3	3.3	3.3	3.3
Unemployment Rate (%)	Base case	80	3.3	3.3	3.2	3.2	3.1	3.1
	Upside	10	3.1	3.1	3.0	3.0	2.9	2.9
	Downside	10	3.5	3.5	3.4	3.4	3.3	3.3

38. Financial risk management policies (cont'd.)

(d) Financial instruments by category

2019	Fair value through profit or loss RM'000	Fair value through other comprehensive income RM'000	At amortised costs RM'000	Sub-total RM'000	Assets not in scope of MFRS 9 RM'000	Total RM'000
Assets						
Cash and short-term funds	-	-	21,703,239	21,703,239	-	21,703,239
Financial investments portfolio*	383,194	15,292,520	9,671,676	25,347,390	-	25,347,390
Financing and advances	-	440,383	189,322,591	189,762,974	-	189,762,974
Derivative assets	200,414	-	-	200,414	-	200,414
Other assets	-	-	3,364,947	3,364,947	595,250	3,960,197
Statutory deposit with Bank Negara Malaysia	-	-	4,242,037	4,242,037	-	4,242,037
Property, plant and equipment	-	-	-	-	1,458	1,458
Right-of-use assets	-	-	-	-	12,966	12,966
TOTAL ASSETS	583,608	15,732,903	228,304,490	244,621,001	609,674	245,230,675

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

38. Financial risk management policies (cont'd.)

(d) Financial instruments by category (cont'd.)

2019	Fair value through profit or loss RM'000	Other financial liabilities RM'000	Sub-total RM'000	Liabilities not in scope of MFRS 9 RM'000	Total RM'000
Liabilities					
Customers' funding:					
- Deposits from customers	-	161,039,140	161,039,140	-	161,039,140
- Investment accounts of customers	-	20,737,670	20,737,670	-	20,737,670
Deposits and placements of banks and other financial institutions	-	38,827,556	38,827,556	-	38,827,556
Bills and acceptances payable	-	137,893	137,893	-	137,893
Derivative liabilities	221,674	-	221,674	-	221,674
Other liabilities	-	147,864	147,864	23,101	170,965
Provision for zakat	-	-	-	30,304	30,304
Term funding	-	9,891,993	9,891,993	-	9,891,993
Subordinated sukuk	-	2,028,311	2,028,311	-	2,028,311
Capital securities	-	1,002,170	1,002,170	-	1,002,170
Deferred tax liabilities	-	-	-	83,002	83,002
TOTAL LIABILITIES	221,674	233,812,597	234,034,271	136,407	234,170,678

38. Financial risk management policies (cont'd.)

(d) Financial instruments by category (cont'd.)

2018	Fair value through profit or loss RM'000	Fair value through other comprehensive income RM'000	At amortised costs RM'000	Sub-total RM'000	Assets not in scope of MFRS 9 RM'000	Total RM'000
Assets						
Cash and short-term funds	-	-	21,922,103	21,922,103	-	21,922,103
Deposits and placements with banks and other financial institutions	-	-	251,328	251,328	-	251,328
Financial investments portfolio*	995,072	12,447,389	6,454,985	19,897,446	-	19,897,446
Financing and advances	-	471,122	173,797,081	174,268,203	-	174,268,203
Derivative assets	403,993	-	-	403,993	-	403,993
Other assets	-	-	3,619,174	3,619,174	623,737	4,242,911
Statutory deposit with Bank Negara Malaysia	-	-	4,205,000	4,205,000	-	4,205,000
Deferred tax assets	-	-	-	-	24,077	24,077
TOTAL ASSETS	1,399,065	12,918,511	210,249,671	224,567,247	647,814	225,215,061

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

38. Financial risk management policies (cont'd.)

(d) Financial instruments by category (cont'd.)

2018	Fair value through profit or loss RM'000	Other financial liabilities RM'000	Sub-total RM'000	Liabilities not in scope of MFRS 9 RM'000	Total RM'000
Liabilities					
Customers' funding:					
- Deposits from customers	-	147,781,749	147,781,749	-	147,781,749
- Investment accounts of customers	-	23,565,061	23,565,061	-	23,565,061
Deposits and placements of banks and other financial institutions	-	32,174,135	32,174,135	-	32,174,135
Bills and acceptances payable	-	11,050	11,050	-	11,050
Derivative liabilities	391,949	-	391,949	-	391,949
Other liabilities	-	2,065,498	2,065,498	64,196	2,129,694
Provision for zakat	-	-	-	23,450	23,450
Financial liabilities at fair value through profit or loss	385,687	-	385,687	-	385,687
Term funding	-	4,738,180	4,738,180	-	4,738,180
Subordinated sukuk	-	2,534,301	2,534,301	-	2,534,301
Capital securities	-	1,002,441	1,002,441	-	1,002,441
TOTAL LIABILITIES	777,636	213,872,415	214,650,051	87,646	214,737,697

38. Financial risk management policies (cont'd.)

(e) Credit risk management

1. Credit risk management overview

Credit risk definition

Credit risk is the risk of loss of principal or income arising from the failure of an obligor or counterparty to perform their contractual obligations in accordance with agreed terms.

Management of credit risk

Corporate and institutional credit risks are assessed by business units and evaluated and approved by an independent party within the Bank, where each customer is assigned a credit rating based on the assessment of relevant qualitative and quantitative factors including customer's financial position, future cash flows, types of facilities and securities offered.

Reviews are conducted at least once a year with updated information on customer's financial position, market position, industry and economic condition and account conduct. Corrective actions are taken when the accounts show signs of credit deterioration.

Retail credit exposures are managed on a programme basis. Credit programmes are assessed jointly between credit risk and business units. Reviews on credit programmes are conducted at least once a year to assess the performance of the portfolios.

Counterparty credit risk is the risk arising from the possibility that a counterparty may default on current and future payments as required by contract for treasury-related activities. Counterparty credit risk originates from the Bank's financing business, investment and treasury activities that impact the Bank's trading and banking books through dealings in foreign exchange, money market instruments, fixed income securities, commodities, equities and over-the-counter ("OTC") derivatives. The primary distinguishing feature of counterparty credit risk compared to other forms of credit risk is that the future value of the underlying contract is uncertain, and may be either positive or negative depending on the value of all future cash flows.

38. Financial risk management policies (cont'd.)

(e) Credit risk management (cont'd.)

1. Credit risk management overview (cont'd.)

Management of credit risk (cont'd.)

Counterparty credit risk exposures are managed via counterparty limits either on a single counterparty basis or counterparty group basis that adheres to BNM's Single Counterparty Exposure Limits. The Bank actively monitors and manages its exposure to ensure that exposures to a single counterparty or a group of connected counterparties are within prudent limits at all times. Counterparty risk exposures which may be materially affected by market risk events are identified, reviewed and acted upon by management and highlighted to the appropriate risk committees.

For counterparty risk exposures (on-balance sheet), the Bank employs risk treatments that are in accordance with BNM Guidelines and Basel II requirements. While for off-balance sheet exposures, the Bank measures the credit risk using Credit Risk Equivalent via the Current Exposure Method. This method calculates the Bank’s credit risk exposure after considering both the mark-to-market exposures and the appropriate add-on factors for potential future exposures. The add-on factors employed are in accordance with BNM Guidelines and Basel II requirements.

The Bank wide hierarchy of credit approving authorities and committee structures are in place to ensure appropriate underwriting standards are enforced consistently throughout the Bank.

In managing large exposures and to avoid undue concentration of credit risk in its financing portfolio, the Bank has emplaced, amongst others, the following limits and related lending guidelines, for:

- Countries;
- Business segments;
- Economic sectors;
- Single customer groups;
- Banks & non-bank financial institutions;
- Counterparties; and
- Collaterals.

Reviews of the said limits and related lending guidelines are undertaken on a periodic basis, whereupon any emerging concentration risks are addressed accordingly. Any exception to the limits and lending guidelines would be subject to approvals from higher credit authorities.

38. Financial risk management policies (cont'd.)

(e) Credit risk management (cont'd.)

1. Credit risk management overview (cont'd.)

Management of credit risk (cont'd.)

The Bank has dedicated teams at Head Office and Regional Offices to effectively manage vulnerable corporate, institutional and consumer credits of the Bank. Special attention is given to these vulnerable credits where more frequent and intensive reviews are performed in order to accelerate remedial action.

The Bank's credit approving process encompasses pre-approval evaluation, approval and post-approval evaluation. Bank Credit Risk is responsible for developing, enhancing and communicating an effective and consistent credit risk management policies, tools and methodologies across the Bank to ensure appropriate standards are in place to identify, measure, control, monitor and report such risks.

In view that authority limits are directly related to the risk levels of the customer and transaction, a Risk-Based Authority Limit structure was implemented based on the Expected Loss ("EL") principles and internally developed Credit Risk Rating System ("CRRS").

Credit risk measurement

The Bank's retail portfolios are under Basel II Advanced Internal Ratings-Based ("AIRB") Approach. This approach calls for more extensive reliance on the Bank's own internal experience whereby estimations for all the three components of Risk-Weighted Assets ("RWA") calculation namely Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD") are based on its own historical data. Separate PD, EAD and LGD statistical models were developed at portfolio level; each model covering customer with fundamentally similar risk profiles in a portfolio. The estimates derived from the models are used as input for RWA calculations.

For non-retail portfolios, the Bank uses internal credit models for evaluating the majority of its credit risk exposures. For corporate and bank portfolios, the Bank has adopted the Foundation Internal Ratings-Based ("FIRB") approach, which allows the Bank to use its internal PD estimates to determine an asset risk weighting and apply supervisory estimates for LGD and EAD.

38. Financial risk management policies (cont'd.)

(e) Credit risk management (cont'd.)

1. Credit risk management overview (cont'd.)

Credit risk measurement (cont'd.)

CRRS is developed to allow the Bank to identify, assess and measure corporate, commercial and small business customers' credit risk. CRRS is a statistical default prediction model. The model was developed and recalibrated to suit the Bank's banking environment using internal data. The model development process was conducted and documented in line with specific criteria for model development in accordance to Basel II. The EL principles employed in the Bank enables the calculation of EL using PD estimates (facilitated by the CRRS), LGD and EAD.

To account for differences in risk due to industry and size, CRRS is designed to rate all corporate and commercial customers by their respective industry segments (e.g. manufacturing, services, trading, contractors, property developers (single project), property investors (single property)).

2. Maximum exposure to credit risk

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

	Maximum Exposure	
	2019	**2018**
	RM'000	**RM'000**
Credit exposure for on-balance sheet financial assets:		
Cash and short-term funds	**21,703,239**	21,922,103
Deposits and placements with banks and other financial institutions	**-**	251,328
Financial investments portfolio*	**25,346,140**	19,896,196
Financing and advances	**189,762,974**	174,268,203
Derivative assets	**200,414**	403,993
Other assets	**3,364,947**	3,619,174
Statutory deposit with Bank Negara Malaysia	**4,242,037**	4,205,000
	244,619,751	224,565,997

38. Financial risk management policies (cont'd.)

(e) Credit risk management (cont'd.)

2. Maximum exposure to credit risk (cont'd.)

	Maximum Exposure	
	2019	**2018**
	RM'000	**RM'000**
Credit exposure for off-balance sheet items:		
Direct credit substitutes	**1,881,752**	1,406,819
Certain transaction-related contingent items	**3,381,084**	3,382,496
Short-term self-liquidating trade-related contingencies	**252,361**	210,731
Irrevocable commitments to extend credit	**33,056,517**	30,971,775
Miscellaneous	**53,198**	84,129
	38,624,912	36,055,950
Total maximum credit risk exposure	**283,244,663**	260,621,947

* Financial investments portfolio consists of financial assets at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments at amortised cost. The portfolio excludes unquoted shares.

Credit exposure for on-balance sheet financial assets that are not subject to impairment:

	2019	**2018**
	RM'000	**RM'000**
Financial assets at fair value through profit & loss		
- Investments	**383,194**	995,072
- Derivatives	**200,414**	403,993
	583,608	1,399,065

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for financing and advances as at 31 December 2019 for the Bank is at 82% (31 December 2018: 71%). The financial effect of collateral held for other financial assets is not significant.

38. Financial risk management policies (cont'd.)

(e) Credit risk management (cont'd.)

3. Credit risk concentration profile

Concentration risk is the risk that can materialise from excessive exposures to single counterparty and persons connected to it, a particular instrument or a particular market segment/sector. The Bank analyses the concentration credit risk by geographic purpose and industry segment as follows:

(a) Concentration of credit risk for both on-balance sheet financial assets and off-balance sheet exposures analysed by geographic purpose are as follows:

	Cash and short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments portfolio* RM'000	Financing and advances RM'000	Derivative assets RM'000	Other assets RM'000	Statutory deposit with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
2019									
Malaysia	**21,703,239**	**-**	**25,346,140**	**189,762,974**	**200,414**	**3,364,671**	**4,242,037**	**244,619,475**	**38,624,912**
Dubai	**-**	**-**	**-**	**-**	**-**	**276**	**-**	**276**	**-**
	21,703,239	**-**	**25,346,140**	**189,762,974**	**200,414**	**3,364,947**	**4,242,037**	**244,619,751**	**38,624,912**
2018									
Malaysia	21,922,103	251,328	19,896,196	174,268,203	403,993	3,619,174	4,205,000	224,565,997	36,055,950

* Financial investments portfolio consists of financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments at amortised cost. The portfolio excludes unquoted shares.

38. Financial risk management policies (cont'd.)

(e) Credit risk management (cont'd.)

3. Credit risk concentration profile (cont'd.)

(b) Concentration of credit risk for both on-balance sheet financial assets and off-balance sheet exposures analysed by industry sector are as follows:

2019	Cash and short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments portfolio* RM'000	Financing and advances RM'000	Derivative assets RM'000	Other assets RM'000	Statutory deposit with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	25,617	6,340,394	143	-	-	6,366,154	532,149
Mining and quarrying	-	-	-	384,888	-	-	-	384,888	163,423
Manufacturing	-	-	-	7,066,692	17,114	-	-	7,083,806	1,283,909
Construction	-	-	15,375	14,234,592	-	-	-	14,249,967	3,580,007
Electricity, gas and water supply	-	-	2,479,763	537,345	24,696	-	-	3,041,804	133,108
Wholesale, retail trade, restaurants and hotels	-	-	2,227,132	10,452,297	61	-	-	12,679,490	1,193,009
Finance, insurance, real estate and business	21,703,239	-	16,372,927	28,026,295	156,352	3,364,947	4,242,037	73,865,797	18,163,419
Transport, storage and communication	-	-	1,486,641	5,145,644	2,048	-	-	6,634,333	661,212
Education, health and others	-	-	158,106	1,719,110	-	-	-	1,877,216	168,665
Household	-	-	-	115,855,426	-	-	-	115,855,426	8,699,974
Others	-	-	2,580,579	291	-	-	-	2,580,870	4,046,037
	21,703,239	-	25,346,140	189,762,974	200,414	3,364,947	4,242,037	244,619,751	38,624,912

38. Financial risk management policies (cont'd.)

(e) Credit risk management (cont'd.)

3. Credit risk concentration profile (cont'd.)

(b) Concentration of credit risk for both on-balance sheet financial assets and off-balance sheet exposures analysed by industry sector are as follows (cont'd.):

2018	Cash and short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial investments portfolio* RM'000	Financing and advances RM'000	Derivative assets RM'000	Other assets RM'000	Statutory deposit with Bank Negara Malaysia RM'000	Total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	49,635	6,042,494	4,020	-	-	6,096,149	413,794
Mining and quarrying	-	-	-	1,359,978		-	-	1,359,978	355,291
Manufacturing	-	-	-	7,434,103	2,533	-	-	7,436,636	903,135
Construction	-	-	-	13,760,292		-	-	13,760,292	3,671,017
Electricity, gas and water supply	-	-	2,737,573	694,715	24,994	-	-	3,457,282	130,774
Wholesale, retail trade, restaurants and hotels	-	-	1,392,261	8,163,135	191	-	-	9,555,587	1,044,804
Finance, insurance, real estate and business	21,922,103	251,328	2,235,644	27,013,954	373,986	3,619,174	4,205,000	59,621,189	17,536,923
Transport, storage and communication	-	-	1,478,609	3,661,766	1	-	-	5,140,376	256,458
Education, health and others	-	-	-	1,646,378	-	-	-	1,646,378	131,167
Household	-	-	-	81,405,722	-	-	-	81,405,722	9,590,314
Others	-	-	12,002,474	23,085,666	(1,732)	-	-	35,086,408	2,022,273
	21,922,103	251,328	19,896,196	174,268,203	403,993	3,619,174	4,205,000	224,565,997	36,055,950

* Financial investments portfolio consists of financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments at amortised cost. The portfolio excludes unquoted shares.

38. Financial risk management policies (cont'd.)

(e) Credit risk management (cont'd.)

4. Collateral

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

- For mortgages - charges over residential properties;
- For auto financing - ownership claims over the vehicle financed;
- For share margin financing - pledges over securities from listed exchange;
- For commercial property financing - charges over the properties financed;
- For other financing - charges over business assets such as premises, inventories, trade receivable or deposits; and
- For derivatives - cash and securities collateral for over-the-counter ("OTC") traded derivatives.

5. Credit quality of financial assets

Credit classification for financial assets

The four (4) risks categories set out and defined below and on the following page, from very low to high, apart from impaired, describe the credit quality of the Bank's financing. These classifications encompass a range of more granular, internal gradings assigned to financing and advances whilst external gradings are applied to financial investments. There is no direct correlation between the internal and external ratings at a granular level, except to the extent that each falls within a single credit quality band.

Risk Category	Probability of default ("PD") grade	External credit ratings based on S&P's ratings	External credit ratings based on RAM's ratings
Very low	1 - 5	AAA to BBB+	AAA to AA1
Low	6 - 10	BBB+ to BB+	AA1 to A3
Medium	11 - 15	BB+ to B+	A3 to BB1
High	16 - 21	B+ to CCC	BB1 to C

38. Financial risk management policies (cont'd.)

(e) Credit risk management (cont'd.)

5. Credit quality of financial assets (cont'd.)

Credit classification for financial assets (cont'd.)

Risk categories are as described below:

Very low:	Obligors rated in this category have an excellent capacity to meet financial commitments with very low credit risk.
Low:	Obligors rated in this category have a good capacity to meet financial commitments with very low credit risk.
Medium:	Obligors rated in this category have a fairly acceptable capacity to meet financial commitments with moderate credit risk.
High:	Obligors rated in this category have uncertain capacity to meet financial commitments and are subject to high credit risk.

Other than the above rated risk categories, other categories used internally are as follows:

Impaired/ default:	Obligors with objective evidence of impairment as a result of one or more events that has an impact on the estimated future cash flows of the obligors that can be reliably estimated. The detailed definition is further disclosed in Note 2.2(i)(d).
Unrated:	Refer to obligors which are currently not assigned with obligors' ratings due to unavailability of ratings models.
Sovereign:	Refer to obligors which are governments.

38. Financial risk management (cont'd.)

(e) Credit risk management (cont'd.)

5. Credit quality of financial assets (cont'd.)

The following tables set out information about the credit quality of financial assets measured at fair value through other comprehensive income ("FVOCI") and at amortised cost. Unless otherwise stated, for financial assets, the amounts in the table represent gross carrying amounts.

Financial investments - at FVOCI

2019	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
Very Low	**12,427,680**	**-**	**-**	**12,427,680**
Low	**2,420,008**	**-**	**-**	**2,420,008**
Medium	**387,777**	**-**	**-**	**387,777**
High	**55,805**	**-**	**-**	**55,805**
Carrying amount - fair value	**15,291,270**	**-**	**-**	**15,291,270**
Expected credit loss	**(1,866)**	**-**	**-**	**(1,866)**

2018	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
Very Low	11,967,371	-	-	11,967,371
Low	478,768	-	-	478,768
Carrying amount - fair value	12,446,139	-	-	12,446,139
Expected credit loss	(484)	(44)	-	(528)

38. Financial risk management (cont'd.)

(e) Credit risk management (cont'd.)

5. Credit quality of financial assets (cont'd.)

The following tables set out information about the credit quality of financial assets measured at fair value through other comprehensive income ("FVOCI") and at amortised cost. Unless otherwise stated, for financial assets, the amounts in the table represent gross carrying amounts (cont'd.).

Financial investments - at amortised cost

2019	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
Very Low	**2,466,051**	**-**	**-**	**2,466,051**
Low	**4,484,467**	**-**	**-**	**4,484,467**
Medium	**2,739,153**	**-**	**-**	**2,739,153**
	9,689,671	**-**	**-**	**9,689,671**
Less:				
Expected credit loss	**(17,995)**	**-**	**-**	**(17,995)**
Net carrying amount	**9,671,676**	**-**	**-**	**9,671,676**

2018	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
Very Low	2,929,961	-	-	2,929,961
Low	1,870,347	1,419,818	-	3,290,165
Medium	250,238	-	-	250,238
	5,050,546	1,419,818	-	6,470,364
Less:				
Expected credit loss	(6,025)	(9,354)	-	(15,379)
Net carrying amount	5,044,521	1,410,464	-	6,454,985

38. Financial risk management (cont'd.)

(e) Credit risk management (cont'd.)

5. Credit quality of financial assets (cont'd.)

The following tables set out information about the credit quality of financial assets measured at fair value through other comprehensive income ("FVOCI") and at amortised cost. Unless otherwise stated, for financial assets, the amounts in the table represent gross carrying amounts (cont'd.).

Financing and advances - at FVOCI

	Stage 1	Stage 2	Stage 3	
2019	**12-month ECL RM'000**	**Lifetime ECL not credit impaired RM'000**	**Lifetime ECL credit impaired RM'000**	**Total RM'000**
Very Low	**-**	**-**	**-**	**-**
Low	**315,383**	**-**	**-**	**315,383**
Medium	**-**	**125,000**	**-**	**125,000**
Carrying amount - fair value	**315,383**	**125,000**	**-**	**440,383**
Expected credit loss	**(523)**	**(2,378)**	**-**	**(2,901)**

	Stage 1	Stage 2	Stage 3	
2018	**12-month ECL RM'000**	**Lifetime ECL not credit impaired RM'000**	**Lifetime ECL credit impaired RM'000**	**Total RM'000**
Low	46,000	-	-	46,000
Medium	115,903	125,000	-	240,903
Unrated	184,219	-	-	184,219
Carrying amount - fair value	346,122	125,000	-	471,122
Expected credit loss	(1,399)	(3,800)	-	(5,199)

38. Financial risk management (cont'd.)

(e) Credit risk management (cont'd.)

5. Credit quality of financial assets (cont'd.)

The following tables set out information about the credit quality of financial assets measured at fair value through other comprehensive income ("FVOCI") and at amortised cost. Unless otherwise stated, for financial assets, the amounts in the table represent gross carrying amounts (cont'd.).

Financing and advances - at amortised cost

2019	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
Very Low	**70,394,611**	**201,986**	**-**	**70,596,597**
Low	**63,046,080**	**3,804,096**	**-**	**66,850,176**
Medium	**27,447,150**	**8,492,685**	**-**	**35,939,835**
High	**834,497**	**4,299,146**	**-**	**5,133,643**
Unrated	**10,149,340**	**373,808**	**-**	**10,523,148**
Impaired	**-**	**-**	**2,519,615**	**2,519,615**
	171,871,678	**17,171,721**	**2,519,615**	**191,563,014**
Less:				
Expected credit loss	**(371,029)**	**(616,576)**	**(1,252,818)**	**(2,240,423)**
Net carrying amount	**171,500,649**	**16,555,145**	**1,266,797**	**189,322,591**

2018	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
Very Low	61,973,810	177,510	-	62,151,320
Low	56,142,283	3,465,864	-	59,608,147
Medium	24,603,431	9,212,911	-	33,816,342
High	772,343	4,513,880	-	5,286,223
Unrated	12,853,986	536,763	-	13,390,749
Impaired	-	-	2,094,106	2,094,106
	156,345,853	17,906,928	2,094,106	176,346,887
Less:				
Expected credit loss	(510,284)	(983,711)	(1,055,811)	(2,549,806)
Net carrying amount	155,835,569	16,923,217	1,038,295	173,797,081

38. Financial risk management (cont'd.)

(e) Credit risk management (cont'd.)

5. Credit quality of financial assets (cont'd.)

The following tables set out information about the credit quality of financial assets measured at fair value through other comprehensive income ("FVOCI") and at amortised cost. Unless otherwise stated, for financial assets, the amounts in the table represent gross carrying amounts (cont'd.).

Cash and short-term funds

2019	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
Sovereign	**19,211,706**	**-**	**-**	**19,211,706**
Low	**2,390,946**	**-**	**-**	**2,390,946**
Medium	**100,587**	**-**	**-**	**100,587**
Net carrying amount	**21,703,239**	**-**	**-**	**21,703,239**

2018	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
Sovereign	20,315,211	-	-	20,315,211
Very Low	1,603,963	-	-	1,603,963
Unrated	2,929	-	-	2,929
Net carrying amount	21,922,103	-	-	21,922,103

38. Financial risk management (cont'd.)

(e) Credit risk management (cont'd.)

5. Credit quality of financial assets (cont'd.)

The following tables set out information about the credit quality of financial assets measured at fair value through other comprehensive income ("FVOCI") and at amortised cost. Unless otherwise stated, for financial assets, the amounts in the table represent gross carrying amounts (cont'd.).

Deposits and placements with financial institutions

	Stage 1	Stage 2	Stage 3	
2019	**12-month ECL RM'000**	**Lifetime ECL not credit impaired RM'000**	**Lifetime ECL credit impaired RM'000**	**Total RM'000**
Low	-	-	-	-
Net carrying amount	-	-	-	-

	Stage 1	Stage 2	Stage 3	
2018	**12-month ECL RM'000**	**Lifetime ECL not credit impaired RM'000**	**Lifetime ECL credit impaired RM'000**	**Total RM'000**
Low	251,328	-	-	251,328
Net carrying amount	251,328	-	-	251,328

38. Financial risk management (cont'd.)

(e) Credit risk management (cont'd.)

5. Credit quality of financial assets (cont'd.)

The following tables set out information about the credit quality of financial assets measured at fair value through other comprehensive income ("FVOCI") and at amortised cost. Unless otherwise stated, for financial assets, the amounts in the table represent gross carrying amounts (cont'd.).

Statutory deposits with central bank

2019	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
Sovereign	**4,242,037**	**-**	**-**	**4,242,037**
Net carrying amount	**4,242,037**	**-**	**-**	**4,242,037**

2018	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
Sovereign	4,205,000	-	-	4,205,000
Net carrying amount	4,205,000	-	-	4,205,000

Other assets

2019	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
Unrated	**3,960,197**	**-**	**-**	**3,960,197**
Net carrying amount	**3,960,197**	**-**	**-**	**3,960,197**

2018	Stage 1 12-month ECL RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
Unrated	4,242,911	-	-	4,242,911
Net carrying amount	4,242,911	-	-	4,242,911

38. Financial risk management (cont'd.)

(e) Credit risk management (cont'd.)

5. Credit quality of financial assets (cont'd.)

The following tables set out information about the credit quality of financial assets measured at fair value through other comprehensive income ("FVOCI") and at amortised cost. Unless otherwise stated, for financial assets, the amounts in the table represent gross carrying amounts (cont'd.).

Financing commitments

	Stage 1	Stage 2	Stage 3	
2019	**12-month ECL RM'000**	**Lifetime ECL not credit impaired RM'000**	**Lifetime ECL credit impaired RM'000**	**Total RM'000**
Very Low	**185,429**	**800**	**-**	**186,229**
Low	**-**	**194**	**-**	**194**
Medium	**1,900,184**	**279,315**	**-**	**2,179,499**
Impaired	**-**	**-**	**147**	**147**
	2,085,613	**280,309**	**147**	**2,366,069**
Less:				
Expected credit loss	**(20,003)**	**(4,541)**	**(2,138)**	**(26,682)**
Net carrying amount	**2,065,610**	**275,768**	**(1,991)**	**2,339,387**

	Stage 1	Stage 2	Stage 3	
2018	**12-month ECL RM'000**	**Lifetime ECL not credit impaired RM'000**	**Lifetime ECL credit impaired RM'000**	**Total RM'000**
Very Low	609,675	-	-	609,675
Low	1,092,804	164,627	-	1,257,431
Medium	686,256	258,387	-	944,643
High	-	228	-	228
Unrated	146,307	19,303	-	165,610
Impaired	-	-	339	339
	2,535,042	442,545	339	2,977,926
Less:				
Expected credit loss	(24,192)	(6,475)	(275)	(30,942)
Net carrying amount	2,510,850	436,070	64	2,946,984

38. Financial risk management (cont'd.)

(e) Credit risk management (cont'd.)

5. Credit quality of financial assets (cont'd.)

The following table sets out information about the credit quality of financial assets measured at FVTPL:

2019	Financial investments RM'000
At FVTPL	
Very Low	**383,194**
Carrying amount - fair value	**383,194**

2018	Financial investments RM'000
At FVTPL	
Very Low	745,765
Low	249,307
Carrying amount - fair value	995,072

38. Financial risk management (cont'd.)

(e) Credit risk management (cont'd.)

7. Credit quality of impaired financial assets

(i) Impaired financial assets analysed by geography are as follows:

	Financing and advances	
	2019	**2018**
	RM'000	**RM'000**
Malaysia	**2,519,615**	2,094,107

(ii) Impaired financial assets analysed by industry sectors are as follows:

	Financing and advances	
	2019	**2018**
	RM'000	**RM'000**
Agriculture	**484,108**	33,189
Mining and quarrying	**281,135**	296,632
Manufacturing	**139,489**	96,713
Construction	**281,542**	333,584
Electricity, gas and water supply	**53,891**	20,346
Wholesale, retail trade, restaurants and hotels	**182,210**	171,093
Finance, insurance, real estate and business	**109,356**	96,484
Transport, storage and communication	**372,598**	488,122
Education, health and others	**29,133**	15,516
Household	**586,152**	542,341
Others	**1**	87
	2,519,615	2,094,107

38. Financial risk management policies (cont'd.)

(f) Market risk management

1. Market risk management overview

Market risk is defined as the risk of loss or adverse impact on earnings or capital arising from changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates, commodity prices and equity prices. The primary categories of market risk for the Bank are:

(i) Profit rate risk: arising from changes in yield curves, credit spreads and implied volatilities on profit rate options;

(ii) Foreign exchange rate risk: arising from adverse movements in the exchange rates of two currencies; and

(iii) Equity price risk: arising from changes in the prices of equities, equity indices and equity baskets.

2. Market risk management

Management of trading activities

The Bank's traded market risk exposures are primarily from proprietary trading, client servicing and market making. The risk measurement techniques employed by the Bank comprise both quantitative and qualitative measures.

Value at Risk ("VaR") measures the potential loss of value resulting from market movements over a specified period of time within a specified probability of occurrence under normal business situations. The method adopted is based on historical simulation, at a 99% confidence level using a 1-day holding period. The VaR model is back tested and is subject to periodic independent validation to ensure it meets its intended use. Also, the Bank computes a Stressed VaR based on a 1-day holding period to measure the VaR arising from market movements over a previously identified stress period.

Besides VaR, the Bank utilises other non-statistical risk measures, such as exposure to a one basis point increase in yield ("PV01") for managing portfolio sensitivity to market profit rate movements, net open position ("NOP") limit for managing foreign currency exposure and Greek limits for controlling options risk. These measures provide granular information on the Bank's market risk exposures and are used for control and monitoring purposes.

38. Financial risk management policies (cont'd.)

(f) Market risk management (cont'd.)

2. Market risk management (cont'd.)

Management and measurement of Profit Rate Risk ("PRR")/Rate of Return Risk ("RoR") in the banking book

The Bank emphasises the importance of managing PRR/RoR in the banking book as most of the balance sheet items of the Bank generate profit income and expense, which are indexed to profit rates. Volatility of earnings can pose a threat to the Bank's profitability while economic value provides a more comprehensive view of the potential long-term effects on the Bank's overall capital adequacy.

PRR/RoR in the banking book encompasses repricing risk, yield curve risk and basis risk arising from different profit rate benchmarks and embedded optionality. The objective of the Bank's PRR/RoR in the banking book framework is to ensure that all PRR/RoR in the banking book is managed within its risk appetite.

PRR/RoR in the banking book is measured and monitored proactively, using the following principal measurement techniques:

- Repricing Gap Analysis
- Economic Value at Risk
- Stress Testing

38. Financial risk management policies (cont'd.)

(f) Market risk management (cont'd.)

3. Profit rate risk

The Bank is exposed to various risk associated with the effects of fluctuations in the prevailing levels of market yield/profit rate on the financial position and cash flows. Yield/Profit rate risk is identified, measured, monitored and controlled through limits and procedures set by the Asset and Liability Management Committee ("ALCO") to protect total net profit income from changes in market profit rates.

The table below summarises the Bank's exposure to yield/profit rate risk. The table indicates effective average yield/profit rates at the reporting date and the periods in which the financial instruments either repriced or matured, whichever is earlier.

2019	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading books RM'000	Total RM'000	Effective profit rate %
Assets									
Cash and short-term funds	21,703,237	-	-	-	-	2	-	21,703,239	2.83%
Financial investments at fair value through profit or loss	-	-	-	-	-	-	383,194	383,194	3.19%
Financial investments at fair value through other comprehensive income	1,198,172	-	2,304,793	5,376,080	6,413,475	-	-	15,292,520	3.92%
Financial investments at amortised cost	-	-	251,404	5,530,038	3,890,234	-	-	9,671,676	5.18%
Financing and advances									
- Non-impaired	138,219,586	4,804,276	1,995,019	13,205,039	31,259,862	-	-	189,483,782	5.16%
- Impaired*	1,266,797	-	-	-	-	-	-	1,266,797	-
- 12-month ECL and lifetime ECL not credit impaired	-	-	-	-	-	(987,605)	-	(987,605)	-
Derivative assets	-	-	-	-	-	-	200,414	200,414	-
Other assets	-	-	-	-	-	3,960,197	-	3,960,197	-
Other non-yield/profit sensitive balances	-	-	-	-	-	4,256,461	-	4,256,461	-
Total assets	162,387,792	4,804,276	4,551,216	24,111,157	41,563,571	7,229,055	583,608	245,230,675	

* This is arrived after deducting the stage 3 - lifetime ECL credit impaired from the gross impaired financing and advances.

38. Financial risk management policies (cont'd.)

(f) Market risk management (cont'd.)

3. Profit rate risk (cont'd.)

	Non-trading book								
2019	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading books RM'000	Total RM'000	Effective profit rate %
Liabilities and shareholder's equity									
Customers' funding:									
- Deposits from customers	55,296,998	34,871,824	42,658,754	11,835,855	16,375,709	-	-	161,039,140	2.71%
- Investment accounts of customers	3,779,986	1,542,473	5,589,442	4,260,753	5,565,016	-	-	20,737,670	2.51%
Deposits and placements of banks and other financial institutions	5,492,626	11,113,999	5,045,166	11,793,492	4,948,589	433,684	-	38,827,556	3.15%
Bills and acceptances payable	-	-	-	-	-	137,893	-	137,893	-
Derivative liabilities	-	-	-	-	-	-	221,674	221,674	-
Term funding	-	2,186,776	7,705,217	-	-	-	-	9,891,993	3.72%
Subordinated sukuk	-	-	-	2,028,311	-	-	-	2,028,311	4.58%
Capital securities	-	-	-	1,002,170	-	-	-	1,002,170	4.95%
Other liabilities	1,737	-	-	-	-	169,228	-	170,965	0.98%
Other non-yield/profit sensitive balances	-	-	-	-	-	113,306	-	113,306	-
Total liabilities	64,571,347	49,715,072	60,998,579	30,920,581	26,889,314	854,111	221,674	234,170,678	
Shareholder's equity	-	-	-	-	-	11,059,997	-	11,059,997	
Total liabilities and shareholder's equity	64,571,347	49,715,072	60,998,579	30,920,581	26,889,314	11,914,108	221,674	245,230,675	
On-balance sheet yield/profit rate sensitivity gap	97,816,445	(44,910,796)	(56,447,363)	(6,809,424)	14,674,257	(4,685,053)	361,934		
Off-balance sheet yield/profit rate sensitivity gap	(662)	(317)	-	769	210	-	-		
Total profit rate sensitivity gap	97,815,783	(44,911,113)	(56,447,363)	(6,808,655)	14,674,467	(4,685,053)	361,934		
Cumulative yield/profit rate sensitivity gap	97,815,783	52,904,670	(3,542,693)	(10,351,348)	4,323,119	(361,934)	-		

38. Financial risk management policies (cont'd.)

(f) Market risk management (cont'd.)

3. Profit rate risk (cont'd.)

2018	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading books RM'000	Total RM'000	Effective profit rate %
Assets									
Cash and short-term funds	21,919,175	-	-	-	-	2,928	-	21,922,103	3.24%
Deposits and placements with banks and other financial institutions	-	251,328	-	-	-	-	-	251,328	3.76%
Financial investments at fair value through profit or loss	-	-	-	-	-	-	995,072	995,072	3.18%
Financial investments at fair value through other comprehensive income	10,194	469,069	2,733,842	3,791,560	5,442,724	-	-	12,447,389	4.06%
Financial investments at amortised cost	-	-	95,407	1,498,350	4,861,228	-	-	6,454,985	5.38%
Financing and advances									
- Non-impaired	121,550,596	5,270,560	2,672,553	15,503,032	29,727,161	-	-	174,723,902	5.19%
- Impaired*	1,038,296	-	-	-	-	-	-	1,038,296	-
- 12-month ECL and lifetime ECL not credit impaired	-	-	-	-	-	(1,493,995)	-	(1,493,995)	-
Derivative assets	-	-	-	-	-	-	403,993	403,993	-
Other assets	-	-	-	-	-	4,242,911	-	4,242,911	-
Other non-yield/profit sensitive balances	-	-	-	-	-	4,229,077	-	4,229,077	-
Total assets	144,518,261	5,990,957	5,501,802	20,792,942	40,031,113	6,980,921	1,399,065	225,215,061	

* This is arrived after deducting the stage 3 - lifetime ECL credit impaired from the gross impaired financing and advances.

38. Financial risk management policies (cont'd.)

(f) Market risk management (cont'd.)

3. Profit rate risk (cont'd.)

2018	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading books RM'000	Total RM'000	Effective profit rate %
Liabilities and shareholder's equity									
Customers' funding:									
- Deposits from customers	58,173,144	29,743,313	36,911,444	8,898,940	14,054,908	-	-	147,781,749	3.01%
- Investment accounts of customers	3,848,649	2,930,004	8,522,215	3,460,920	4,803,273	-	-	23,565,061	2.79%
Deposits and placements of banks and other financial institutions	5,655,028	6,114,040	5,058,624	9,954,739	4,909,155	482,549	-	32,174,135	3.34%
Bills and acceptances payable	-	-	-	-	-	11,050	-	11,050	-
Financial liabilities at fair value through profit or loss	-	-	-	385,687	-	-	-	385,687	3.79%
Derivative liabilities	-	-	-	-	-	-	391,949	391,949	-
Term funding	748,078	1,986,880	-	2,003,222	-	-	-	4,738,180	4.06%
Subordinated sukuk	-	-	1,516,593	1,017,708	-	-	-	2,534,301	4.72%
Capital securities	-	-	-	1,002,441	-	-	-	1,002,441	4.95%
Other liabilities	-	-	-	-	-	2,129,694	-	2,129,694	-
Other non-yield/profit sensitive balances	-	-	-	-	-	23,450	-	23,450	-
Total liabilities	68,424,899	40,774,237	52,008,876	26,723,657	23,767,336	2,646,743	391,949	214,737,697	
Shareholder's equity	-	-	-	-	-	10,477,364	-	10,477,364	
Total liabilities and shareholder's equity	68,424,899	40,774,237	52,008,876	26,723,657	23,767,336	13,124,107	391,949	225,215,061	
On-balance sheet yield/profit rate sensitivity gap	76,093,362	(34,783,280)	(46,507,074)	(5,930,715)	16,263,777	(6,143,186)	1,007,116		
Off-balance sheet yield/profit rate sensitivity gap	(15)	(955)	-	760	210	-	-		
Total profit rate sensitivity gap	76,093,347	(34,784,235)	(46,507,074)	(5,929,955)	16,263,987	(6,143,186)	1,007,116		
Cumulative yield/profit rate sensitivity gap	76,093,347	41,309,112	(5,197,962)	(11,127,917)	5,136,070	(1,007,116)	-		

38. Financial risk management policies (cont'd.)

(f) Market risk management (cont'd.)

4. Sensitivity analysis for profit rate risk

The table below shows the sensitivity of the Bank's profit after tax to an up and down 100 basis point parallel rate shocks.

	2019				2018	
	Tax rate	RM'000 + 100 basis points	RM'000 - 100 basis points	Tax rate	RM'000 + 100 basis points	RM'000 - 100 basis points
Impact to profit before tax		**354,933**	**(354,933)**		274,617	(274,617)
Impact to profit after tax	**24%**	**269,749**	**(269,749)**	24%	208,709	(208,709)

Impact to profit after tax is measured using Earnings-at-Risk ("EaR") methodology which is simulated based on a set of standardised rate shock on the profit rate gap profile derived from the statement of financial position of the Bank. The profit rate gap is the mismatch of rate sensitive assets and rate sensitive liabilities taking consideration the earlier of repricing or remaining maturity, behavioural assumptions of certain indeterminate maturities products such as current and savings deposits, to reflect the actual sensitivity behaviour of these profit bearing liabilities.

Impact to revaluation reserve is assessed by applying up and down 100 basis points rate shock to the yield curve to model the impact on mark-to-market for financial investments of fair value through of comprehensive income ("FVOCI") portfolio:

	2019		2018	
	RM'000 + 100 basis points	RM'000 - 100 basis points	RM'000 + 100 basis points	RM'000 - 100 basis points
Impact to revaluation reserve for FVOCI	**(765,324)**	**765,324**	(648,733)	648,733

38. Financial risk management policies (cont'd.)

(f) Market risk management (cont'd.)

5. Foreign exchange risk

Foreign exchange ("FX") risk arises as a result of movements in relative currencies due to the Bank's operating business activities, trading activities and structural foreign exchange exposures from foreign investments and capital management activities.

Generally, the Bank is exposed to three types of foreign exchange risk such as translation risk, transactional risk and economic risk which are managed in accordance with the market risk policy and limits. The FX translation risks are mitigated as the assets are funded in the same currency. The Bank controls its FX exposures by transacting in permissible currencies. It has an internal FX NOP to measure, control and monitor its FX risk and implements FX hedging strategies to minimise FX exposures. Stress testing is conducted periodically to ensure sufficient capital to buffer the FX risk.

The table below analyses the net foreign exchange positions of the Bank as at 31 December 2019 and 31 December 2018 by major currencies, which are mainly in Ringgit Malaysia, Singapore Dollar, the Great Britain Pound, Hong Kong Dollar, United States Dollar, Indonesia Rupiah and Euro. The "others" foreign exchange risk include mainly exposure to Australian Dollar, Japanese Yen, Chinese Renminbi, Philippine Peso and Brunei Dollar.

2019	Malaysian Ringgit RM'000	Singapore Dollar RM'000	Great Britain Pound RM'000	Hong Kong Dollar RM'000	United States Dollar RM'000	Indonesia Rupiah RM'000	Euro RM'000	Others RM'000	Total RM'000
Assets									
Cash and short-term funds	**20,359,923**	**47,471**	**46,205**	**5,151**	**21,069**	**258**	**127,957**	**1,095,205**	**21,703,239**
Financial investments portfolio*	**25,287,397**	**-**	**-**	**-**	**59,993**	**-**	**-**	**-**	**25,347,390**
Financing and advances	**184,980,457**	**18,821**	**1,069,023**	**-**	**3,432,231**	**-**	**25,389**	**237,053**	**189,762,974**
Derivative assets	**2,451,110**	**(107,020)**	**121,956**	**(69)**	**(2,489,257)**	**(30)**	**(5,002)**	**228,726**	**200,414**
Other assets	**2,376,610**	**1,850**	**106,035**	**749**	**2,074,068**	**958**	**(16,657)**	**(583,416)**	**3,960,197**
Statutory deposit with Bank Negara Malaysia	**4,242,037**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,242,037**
Property, plant and equipment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,458**	**1,458**
Right-of-use assets	**9,098**	**-**	**-**	**-**	**-**	**-**	**-**	**3,868**	**12,966**
Total assets	**239,706,632**	**(38,878)**	**1,343,219**	**5,831**	**3,098,104**	**1,186**	**131,687**	**982,894**	**245,230,675**

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

38. Financial risk management policies (cont'd.)

(f) Market risk management (cont'd.)

5. Foreign exchange risk (cont'd.)

2019	Malaysian Ringgit RM'000	Singapore Dollar RM'000	Great Britain Pound RM'000	Hong Kong Dollar RM'000	United States Dollar RM'000	Indonesia Rupiah RM'000	Euro RM'000	Others RM'000	Total RM'000
Liabilities									
Deposits from customers	152,209,871	27,223	1,028,484	1,486	6,649,440	-	154,624	968,012	161,039,140
Investment accounts of customers	20,737,670						-	-	20,737,670
Deposits and placements of banks and other financial institutions	34,678,819	-	1,059,933	-	2,922,910	-	-	165,894	38,827,556
Bills and acceptances payable	137,893	-	-	-	-	-	-	-	137,893
Derivative liabilities	8,371,067	(68,563)	(847,481)	4,094	(7,078,116)	-	(2,294)	(157,033)	221,674
Other liabilities	163,873	-	-	528	1,650	-	78	4,836	170,965
Provision for zakat	30,304	-	-	-	-	-	-	-	30,304
Term funding	9,891,993	-	-	-	-	-	-	-	9,891,993
Subordinated sukuk	2,028,311	-	-	-	-	-	-	-	2,028,311
Capital Securities	1,002,170	-	-	-	-	-	-	-	1,002,170
Deferred Tax Liabilities	83,002	-	-	-	-	-	-	-	83,002
Total liabilities	229,334,973	(41,340)	1,240,936	6,108	2,495,884	-	152,408	981,709	234,170,678
On-balance sheet open position	10,371,659	2,462	102,283	(277)	602,220	1,186	(20,721)	1,185	11,059,997
Less: Derivative assets	(2,451,110)	107,020	(121,956)	69	2,489,257	30	5,002	(228,726)	(200,414)
Add: Derivative liabilities	8,371,067	(68,563)	(847,481)	4,094	(7,078,116)	-	(2,294)	(157,033)	221,674
Net open position	16,291,616	40,919	(867,154)	3,886	(3,986,639)	1,216	(18,013)	(384,574)	11,081,257

38. Financial risk management policies (cont'd.)

(f) Market risk management (cont'd.)

5. Foreign exchange risk (cont'd.)

2018	Malaysian Ringgit RM'000	Singapore Dollar RM'000	Great Britain Pound RM'000	Hong Kong Dollar RM'000	United States Dollar RM'000	Indonesia Rupiah RM'000	Euro RM'000	Others RM'000	Total RM'000
Assets									
Cash and short-term funds	21,870,929	5,556	40,619	3,867	-	-	-	1,132	21,922,103
Deposits and placements with banks and other financial institutions	251,328	-	-	-	-	-	-	-	251,328
Financial investments portfolio*	19,587,965	-	-	-	309,481	-	-	-	19,897,446
Financing and advances	170,074,889	31,651	1,189,520	-	2,668,355	-	24,593	279,195	174,268,203
Derivative assets	(2,379,840)	793,181	3,674	-	1,985,567	(96)	1,296	211	403,993
Other assets	2,409,932	1,996	69,506	226	1,779,745	929	(21,354)	1,931	4,242,911
Statutory deposit with Bank Negara Malaysia	4,205,000	-	-	-	-	-	-	-	4,205,000
Deferred tax assets	24,077	-	-	-	-	-	-	-	24,077
Total assets	216,044,280	832,384	1,303,319	4,093	6,743,148	833	4,535	282,469	225,215,061

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

38. Financial risk management policies (cont'd.)

(f) Market risk management (cont'd.)

5. Foreign exchange risk (cont'd.)

2018	Malaysian Ringgit RM'000	Singapore Dollar RM'000	Great Britain Pound RM'000	Hong Kong Dollar RM'000	United States Dollar RM'000	Indonesia Rupiah RM'000	Euro RM'000	Others RM'000	Total RM'000
Liabilities									
Deposits from customers	142,026,794	8,430	1,258,674	3,280	4,420,264	-	20,183	44,124	147,781,749
Investment accounts of customers	23,565,061	-	-	-	-	-	-	-	23,565,061
Deposits and placements of banks and other financial institutions	28,054,811	27,112	1,176,590	-	2,664,058	828	6,005	244,731	32,174,135
Bills and acceptances payable	11,050	-	-	-	-	-	-	-	11,050
Financial liabilities at fair value through profit or loss	385,687	-	-	-	-	-	-	-	385,687
Derivative liabilities	1,887,879	795,190	(1,206,044)	-	(1,082,563)	(518)	(354)	(1,641)	391,949
Other liabilities	2,062,603	-	11	-	66,921	-	140	19	2,129,694
Provision for zakat	23,450	-	-	-	-	-	-	-	23,450
Term funding	4,738,180	-	-	-	-	-	-	-	4,738,180
Subordinated sukuk	2,534,301	-	-	-	-	-	-	-	2,534,301
Capital Securities	1,002,441	-	-	-	-	-	-	-	1,002,441
Total liabilities	206,292,257	830,732	1,229,231	3,280	6,068,680	310	25,974	287,233	214,737,697
On-balance sheet open position	9,752,023	1,652	74,088	813	674,468	523	(21,439)	(4,764)	10,477,364
Less: Derivative assets	2,379,840	(793,181)	(3,674)	-	(1,985,567)	96	(1,296)	(211)	(403,993)
Add: Derivative liabilities	1,887,879	795,190	(1,206,044)	-	(1,082,563)	(518)	(354)	(1,641)	391,949
Net open position	14,019,742	3,661	(1,135,630)	813	(2,393,662)	101	(23,089)	(6,616)	10,465,320

38. Financial risk management policies (cont'd.)

(f) Market risk management (cont'd.)

6. Sensitivity analysis for foreign exchange risk

Foreign exchange risk

Foreign exchange risk arises from the movements in exchange rates that adversely affect the revaluation of the Bank and the foreign currency positions. Considering that other risk variables remain constant, the foreign currency revaluation sensitivity for the Bank on their unhedged position are as follows:

	2019		2018	
	1% appreciation RM'000	1% depreciation RM'000	1% appreciation RM'000	1% depreciation RM'000
Impact to profit after tax	**(6,883)**	**6,883**	(7,253)	7,253

Interpretation of impact

The Bank measures the foreign exchange sensitivity based on the foreign exchange net open positions (including foreign exchange structural position) under an adverse movement in all foreign currencies against reporting currency - Ringgit Malaysia ("RM"). The result implies that the Bank may be subject to additional translation (loss)/gain if the RM appreciated/depreciated against other currencies and vice versa.

(g) Liquidity risk management

1. Liquidity risk management overview

Liquidity risk management

Liquidity risk is defined as the risk of an adverse impact to the Bank's financial condition or overall safety and soundness that could arise from its inability (or perceived inability) or unexpected higher cost to meet its obligations.

The Bank has taken BNM Liquidity Framework and leading practices as a foundation to manage and measure its liquidity risk exposure. The Bank also uses a range of tools to monitor and control liquidity risk exposure such as liquidity gap, early warning signals, liquidity indicators and stress testing. The liquidity positions of the Bank are monitored regularly against the established policies, procedures and limits.

38. Financial risk management policies (cont'd.)

(g) Liquidity risk management (cont'd.)

1. Liquidity risk management overview (cont'd.)

Liquidity risk management (cont'd.)

The Bank has a diversified liability structure to meet its funding requirements. The primary source of funding includes customer deposits, interbank deposits, debt securities, swap market, bank financing syndication and medium term funds. The Bank also initiates and implements strategic fund raising programmes as well as institutes standby lines with external parties on a need basis. Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, provider, product and term thus minimising excessive funding concentration.

Management of liquidity risk

For day-to-day liquidity management, the treasury operations will ensure sufficient funding to meet its intraday payment and settlement obligations on a timely basis. Besides, the process of managing liquidity risk also includes:

- Maintaining a sufficient amount of unencumbered high quality liquidity buffer as a protection against any unforeseen interruption to cash flows;
- Managing short and long-term cash flows via maturity mismatch report and various indicators;
- Monitoring depositor concentration at the Bank levels to avoid undue reliance on large depositors;
- Managing liquidity exposure by domestic and significant foreign currencies;
- Diversifying funding sources to ensure proper funding mix;
- Conducting liquidity stress testing under various scenarios as part of prudent liquidity control;
- Maintaining a robust contingency funding plan that includes strategies, decision-making authorities, internal and external communications and courses of action to be taken under different liquidity crisis scenarios; and
- Conducting Contingency Funding Plan ("CFP") testing to examine the effectiveness and robustness of the plans to avert any potential liquidity disasters affecting the Bank's liquidity soundness and financial solvency.

38. Financial risk management policies (cont'd.)

(g) Liquidity risk management (cont'd.)

2. Contractual maturity of total assets and liabilities

The table below analyses assets and liabilities (inclusive of non-financial instruments) of the Bank in the relevant maturity tenures based on remaining contractual maturities as at 31 December 2019 and 31 December 2018.

These disclosures are made in accordance with the requirement of policy document on Financial Reporting issued by BNM:

2019	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	No-specific maturity RM'000	Total RM'000
Assets									
Cash and short-term funds	21,703,239	-	-	-	-	-	-	-	21,703,239
Financial investments portfolio*	1,198,172	-	2,365,295	352,507	7,173,860	10,290,640	3,966,916		25,347,390
Financing and advances	25,975,996	4,880,284	1,440,307	946,360	7,591,380	15,312,994	133,615,653	-	189,762,974
Derivative assets	14,864	75,138	28,356	4,097	15,300	40,623	22,036	-	200,414
Other financial assets	-	-	-	3,960,197	-	-	-	-	3,960,197
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	-	4,242,037	4,242,037
Property, plant and equipment	-	-	-	-	-	-	-	1,458	1,458
Right-of-use assets	-	-	-	-	-	-	-	12,966	12,966
Total assets	48,892,271	4,955,422	3,833,958	5,263,161	14,780,540	25,644,257	137,604,605	4,256,461	245,230,675

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

38. Financial risk management policies (cont'd.)

(g) Liquidity risk management (cont'd.)

2. Contractual maturity of total assets and liabilities (cont'd.)

2019	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	No-specific maturity RM'000	Total RM'000
Liabilities									
Customer funding:									
- Deposits from customers	87,915,687	33,730,965	21,265,080	17,895,367	214,501	17,520	20	-	161,039,140
- Investment accounts of customers	15,897,860	1,020,809	2,168,113	1,633,073	15,045	2,770	-	-	20,737,670
Deposits and placements of banks and other financial institutions	5,821,876	11,112,193	4,520,309	523,914	7,969,586	4,082,026	4,797,652	-	38,827,556
Bills and acceptances payable	137,893	-	-	-	-	-	-	-	137,893
Derivative liabilities	17,209	100,719	32,495	3,984	15,292	37,443	14,532	-	221,674
Other financial liabilities	1,737	-	-	169,228	-	-	-	-	170,965
Provision for zakat	-	-	-	-	-	-	-	30,304	30,304
Term funding	-	2,186,775	2,763,275	2,938,721	2,003,222	-	-	-	9,891,993
Subordinated sukuk	-	-	-	-	-	-	2,028,311	-	2,028,311
Capital securities	-	-	-	-	-	-	1,002,170	-	1,002,170
Deferred tax liabilities	-	-	-	-	-	-	-	83,002	83,002
Total liabilities	109,792,262	48,151,461	30,749,272	23,164,287	10,217,646	4,139,759	7,842,685	113,306	234,170,678
Net liquidity gap	(60,899,991)	(43,196,039)	(26,915,314)	(17,901,126)	4,562,894	21,504,498	129,761,920	4,143,155	11,059,997

38. Financial risk management policies (cont'd.)

(g) Liquidity risk management (cont'd.)

2. Contractual maturity of total assets and liabilities (cont'd.)

2018	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	No-specific maturity RM'000	Total RM'000
Assets									
Cash and short-term funds	21,922,103	-	-	-	-	-	-	-	21,922,103
Deposits and placements with banks and other financial institutions	-	251,328	-	-	-	-	-	-	251,328
Financial investments portfolio*	10,194	718,376	3,151,891	311,727	1,296,272	4,105,035	10,302,701	1,250	19,897,446
Financing and advances	25,648,510	4,544,004	1,370,717	947,641	6,717,444	14,275,710	120,764,177	-	174,268,203
Derivative assets	16,430	86,744	158,926	20,549	42,648	61,870	16,826	-	403,993
Other financial assets	-	-	-	3,619,174	-	-	-	623,737	4,242,911
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	-	4,205,000	4,205,000
Deferred tax assets	-	-	-	-	-	-	-	24,077	24,077
Total assets	47,597,237	5,600,452	4,681,534	4,899,091	8,056,364	18,442,615	131,083,704	4,854,064	225,215,061

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

38. Financial risk management policies (cont'd.)

(g) Liquidity risk management (cont'd.)

2. Contractual maturity of total assets and liabilities (cont'd.)

2018	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	No-specific maturity RM'000	Total RM'000
Liabilities									
Customer funding:									
- Deposits from customers	87,800,043	27,672,750	20,156,966	11,663,543	474,328	14,119	-	-	147,781,749
- Investment accounts of customers	15,287,661	1,861,981	4,270,772	2,125,559	5,176	13,912	-	-	23,565,061
Deposits and placements of banks and other financial institutions	6,099,592	6,114,040	4,249,955	846,655	6,116,175	3,838,564	4,909,154	-	32,174,135
Bills and acceptances payable	11,050	-	-	-	-	-	-	-	11,050
Financial liabilities at fair value through profit or loss	-	-	-	-	385,687	-	-	-	385,687
Derivative liabilities	34,950	61,216	157,968	19,770	45,982	61,870	10,193	-	391,949
Other financial liabilities	-	-	-	2,129,694	-	-	-	-	2,129,694
Provision for zakat	-	-	-	-	-	-	-	23,450	23,450
Term funding	748,078	1,986,880	-	-	-	2,003,222	-	-	4,738,180
Subordinated sukuk	-	-	-	-	-	-	2,534,301	-	2,534,301
Capital securities	-	-	-	-	-	-	1,002,441	-	1,002,441
Total liabilities	109,981,374	37,696,867	28,835,661	16,785,221	7,027,348	5,931,687	8,456,089	23,450	214,737,697
Net liquidity gap	(62,384,137)	(32,096,415)	(24,154,127)	(11,886,130)	1,029,016	12,510,928	122,627,615	4,830,614	10,477,364

38. Financial risk management policies (cont'd.)

(g) Liquidity risk management (cont'd.)

3. Contractual maturity of financial liabilities on an undiscounted basis

The tables below present the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities as at 31 December 2019 and 31 December 2018. The amounts disclosed in the table will not agree to the carrying amounts reported in the statements of financial position as the amounts incorporated all contractual cash flows, on an undiscounted basis, relating to both principal and profit analysis. The Bank manage inherent liquidity risk based on discounted expected cash flows.

2019	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Non-derivative liabilities								
Customers' funding:								
- Deposits from customers	88,682,505	34,049,806	21,825,128	18,120,002	97,206	20,290	-	162,794,937
- Investment accounts of customers	15,935,517	1,034,677	2,202,377	1,678,553	17,272	3,281	-	20,871,677
Deposits and placements of banks and other financial institutions	5,830,539	11,172,227	4,561,763	529,442	8,428,244	4,490,492	6,198,294	41,211,001
Bills and acceptances payable	137,893	-	-	-	-	-	-	137,893
Other financial liabilities	1,737	-	-	169,228	-	-	-	170,965
Term funding	-	2,186,776	2,805,275	2,980,721	2,168,000	-	-	10,140,772
Subordinated sukuk	-	23,250	22,500	45,750	183,000	183,000	2,272,250	2,729,750
Capital securities	-	-	24,750	24,750	1,099,000	-	-	1,148,500
	110,588,191	48,466,736	31,441,793	23,548,446	11,992,722	4,697,063	8,470,544	239,205,495
Commitments and contingencies								
Direct credit substitutes	73,427	257,220	175,332	785,289	88,471	2,013	500,000	1,881,752
Certain transaction-related contingent items	223,983	177,331	270,734	371,730	938,538	1,282,305	116,463	3,381,084
Short-term self-liquidating trade-related contingencies	90,373	113,542	14,175	10,727	23,544	-	-	252,361
Irrevocable commitments to extend credit	-	-	-	23,199,822	9,856,695	-	-	33,056,517
Miscellaneous	-	-	-	53,198	-	-	-	53,198
	387,783	548,093	460,241	24,420,766	10,907,248	1,284,318	616,463	38,624,912

38. Financial risk management policies (cont'd.)

(g) Liquidity risk management (cont'd.)

3. Contractual maturity of financial liabilities on an undiscounted basis (cont'd.)

2018	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Non-derivative liabilities								
Customers' funding:								
- Deposits from customers	87,999,872	28,015,365	20,405,128	11,953,734	497,396	16,325	-	148,887,820
- Investment accounts of customers	15,300,495	1,887,180	4,325,717	2,179,445	5,568	16,461	-	23,714,866
Deposits and placements of banks and other financial institutions	6,110,497	6,141,080	4,252,048	911,854	6,515,615	4,297,417	6,323,163	34,551,674
Bills and acceptances payable	11,050	-	-	-	-	-	-	11,050
Other financial liabilities	-	-	-	2,129,694	-	-	-	2,129,694
Financial liabilities at fair value through profit or loss	3,505	143	1,338	-	381,418	-	-	386,404
Term funding	748,078	1,986,880	42,000	42,000	168,000	2,084,000	-	5,070,958
Subordinated sukuk	-	23,250	35,625	58,875	235,500	235,500	2,651,875	3,240,625
Capital securities	-	-	24,750	24,750	99,000	1,049,500	-	1,198,000
	110,173,497	38,053,898	29,086,606	17,300,352	7,902,497	7,699,203	8,975,038	219,191,091
Commitments and contingencies								
Direct credit substitutes	129,382	131,743	144,189	286,265	169,145	45,595	500,500	1,406,819
Certain transaction-related contingent items	195,080	109,341	251,069	479,943	863,818	1,297,501	185,744	3,382,496
Short-term self-liquidating trade-related contingencies	71,318	98,111	30,534	10,768	-	-	-	210,731
Irrevocable commitments to extend credit	-	-	-	22,252,458	8,719,317	-	-	30,971,775
Miscellaneous	-	-	-	84,129	-	-	-	84,129
	395,780	339,195	425,792	23,113,563	9,752,280	1,343,096	686,244	36,055,950

38. Financial risk management policies (cont'd.)

(g) Liquidity risk management (cont'd.)

3. Contractual maturity of financial liabilities on an undiscounted basis (cont'd.)

The tables below analyse the Bank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings by remaining contractual maturities as at 31 December 2019 and 31 December 2018. The amounts disclosed in the tables are the contractual undiscounted cash flows.

2019	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Net settled derivatives								
Derivative financial liabilities								
Trading derivatives								
- Foreign exchange related contracts	**(141)**	**-**	**-**	**-**	**-**	**-**	**-**	**(141)**
- Profit rate related contracts	**-**	**(1,295,102)**	**(1,890,586)**	**(4,314,779)**	**(14,818,657)**	**(6,747,070)**	**(4,330)**	**(29,070,524)**
Hedging derivatives								
- Profit rate related contracts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	(141)	**(1,295,102)**	**(1,890,586)**	**(4,314,779)**	**(14,818,657)**	**(6,747,070)**	**(4,330)**	**(29,070,665)**
Gross settled derivatives								
Derivative financial liabilities								
Trading derivatives								
Derivatives:								
- Outflow	**(1,348,738)**	**(4,547,268)**	**(2,418,054)**	**(341,937)**	**(1,544,104)**	**(124,778)**	**(944,076)**	**(11,268,955)**
- Inflow	**1,337,437**	**4,477,793**	**2,342,149**	**329,532**	**1,522,746**	**129,082**	**1,009,954**	**11,148,693**
Hedging derivatives								
Derivatives:								
- Outflow	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Inflow	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	(11,301)	**(69,475)**	**(75,905)**	**(12,405)**	**(21,358)**	**4,304**	**65,878**	**(120,262)**

38. Financial risk management policies (cont'd.)

(g) Liquidity risk management (cont'd.)

3. Contractual maturity of financial liabilities on an undiscounted basis (cont'd.)

The tables below analyse the Bank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings by remaining contractual maturities as at 31 December 2019 and 31 December 2018. The amounts disclosed in the tables are the contractual undiscounted cash flows.

2018	Up to 1 month RM'000	> 1 to 3 months RM'000	> 3 to 6 months RM'000	> 6 months to 1 year RM'000	> 1 to 3 years RM'000	> 3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Net settled derivatives								
Derivative financial liabilities								
Trading derivatives								
- Profit rate related contracts	(209)	(1,359)	(1,418)	(2,671)	(4,765)	(1,259)	740	(10,941)
Hedging derivatives								
- Profit rate related contracts	-	(1,421)	-	-	-	-	-	(1,421)
	(209)	(2,780)	(1,418)	(2,671)	(4,765)	(1,259)	740	(12,362)
Gross settled derivatives								
Derivative financial liabilities								
Trading derivatives								
Derivatives:								
- Outflow	(2,232,290)	(1,626,458)	(1,609,367)	(1,006,203)	(948,226)	(1,102,054)	-	(8,524,598)
- Inflow	2,436,936	1,566,143	1,563,553	986,781	892,955	1,027,560	-	8,473,928
Hedging derivatives								
Derivatives:								
- Outflow	-	-	(827,197)	-	-	-	-	(827,197)
- Inflow	-	-	716,579	-	-	-	-	716,579
	204,646	(60,315)	(156,432)	(19,422)	(55,271)	(74,494)	-	(161,288)

38. Financial risk management policies (cont'd.)

(h) Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

The Bank's operational risk management is premised on the three lines of defence concept. Risk taking units (Strategic Business Unit), as first line of defence are primarily responsible for the day-to-day management of operational risks within their respective business operations. They are responsible for establishing and maintaining their respective operational manuals and ensuring that activities undertaken by them comply with the Bank's operational risk management framework.

The Operational Risk Management ("ORM") team, as the second line of defence, is responsible for the formulation and implementation of operational risk management policy within the Bank, which encompasses the operational risk management strategy and governance structure. Another key function is the development and implementation of operational risk management tools and methodologies to identify, measure, control, report and monitor operational risks.

Internal Audit plays the third line of defence by providing independent assurance in respect of the overall effectiveness of the operational risk management process, which includes performing independent review and periodic validation of the ORM policy and process as well as conducting regular review on implementation of ORM tools by ORM and the respective business units.

39. Fair values measurements

This disclosure provides information on fair value measurements for both financial instruments and non-financial assets and liabilities and is structured as follows:

(a) Valuation principles;
(b) Valuation techniques;
(c) Fair value measurements and classification within the fair value hierarchy;
(d) Transfers between Level 1 and Level 2 in the fair value hierarchy;
(e) Movements of Level 3 instruments;
(f) Sensitivity of fair value measurements to changes in unobservable input assumptions; and
(g) Financial instruments not measured at fair value.

39. Fair values measurements (cont'd.)

(a) Valuation principles

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market as of the measurement date. The Bank determines the fair value by reference to quoted prices in active markets or by using valuation techniques based on observable inputs or unobservable inputs. Management's judgement is exercised in the selection and application of appropriate parameters, assumptions and modelling techniques where some or all of the parameter inputs are not observable in deriving fair value. The Bank has also established a framework and policies that provide guidance concerning the practical considerations, principles and analytical approaches for the establishment of prudent valuation for financial instruments measured at fair value.

Valuation adjustment is also an integral part of the valuation process. Valuation adjustment is to reflect the uncertainty in valuations generally for products that are less standardised, less frequently traded and more complex in nature. In making a valuation adjustment, the Bank follow methodologies that consider factors such as bid-offer spread, unobservable prices/inputs in the market and uncertainties in the assumptions/parameters.

The Bank continuously enhances their design, validation methodologies and processes to ensure the valuations are reflective. The valuation models are validated both internally and externally, with periodic reviews to ensure the model remains suitable for their intended use.

For disclosure purposes, the level in the hierarchy within which the instruments is classified in its entirety is based on the lowest level input that is significant to the position's fair value measurements:

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

  Refers to instruments which are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, and those prices which represent actual and regularly occurring market transactions in an arm’s length basis. Such financial instruments include actively traded government securities, listed derivatives and cash products traded on exchange.

39. Fair values measurements (cont'd.)

(a) Valuation principles (cont'd.)

For disclosure purposes, the level in the hierarchy within which the instruments is classified in its entirety is based on the lowest level input that is significant to the position's fair value measurements (cont'd.):

- Level 2: Valuation techniques for which all significant inputs are, or are based on, observable market data

  Refers to inputs other than quoted price included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices). Examples of Level 2 financial instruments include over–the–counter ("OTC") derivatives, corporate and other government bonds, illiquid equities and consumer financing and advances with homogeneous or similar features in the market.

- Level 3: Valuation techniques for which significant inputs are not based on observable market data

  Refers to instruments where fair value is measured using significant unobservable market inputs. The valuation techniques used are consistent with the Level 2 but incorporates the Bank's own assumptions and data. Examples of level 3 instruments include corporate bonds in illiquid markets, private equity investments and financing and advances priced primarily based on internal credit assessment.

(b) Valuation techniques

The valuation techniques used for both the financial instruments and non-financial assets and liabilities that are not determined by reference to quoted prices (Level 1) are described below:

Derivatives

The fair values of the Bank's derivative instruments are derived using discounted cash flows analysis, option pricing and benchmarking models.

Financial investments at fair value through profit or loss and financial investments at fair value through other comprehensive income

The fair values of financial investments are determined by reference to prices quoted by independent data providers and independent brokers.

Financing and advances at fair value through other comprehensive income

The fair values are estimated based on expected future cash flows of contractual instalment payments, discounted at applicable and prevailing rates at reporting date offered for similar facilities to new customers with similar credit profiles.

39. Fair values measurements (cont'd.)

(b) Valuation techniques (cont'd.)

The valuation techniques used for both the financial instruments and non-financial assets and liabilities that are not determined by reference to quoted prices (Level 1) are described below (cont'd.):

Financial liabilities at fair value through profit or loss

The fair value of financial liabilities designated at fair value through profit or loss are derived using discounted cash flows.

(c) Fair value measurements and classification within the fair value hierarchy

The classification in the fair value hierarchy of the Bank's financial and non-financial assets and liabilities measured at fair value is summarised in the table below:

		Valuation technique using		
	Quoted Market Price	Observable Inputs	Unobservable Inputs	
	Level 1	Level 2	Level 3	Total
2019	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial assets measured at fair values:				
Financial investments at FVTPL	**-**	**383,194**	**-**	**383,194**
Financial investments at FVOCI	**-**	**15,291,270**	**1,250**	**15,292,520**
Financing and advances at FVOCI	**-**	**-**	**440,383**	**440,383**
Derivative assets	**-**	**200,414**	**-**	**200,414**
	-	**15,874,878**	**441,633**	**16,316,511**
Financial liabilities measured at fair values:				
Derivative liabilities	**-**	**221,674**	**-**	**221,674**
	-	**221,674**	**-**	**221,674**

39. Fair values measurements (cont'd.)

(c) Fair value measurements and classification within the fair value hierarchy (cont'd.)

The classification in the fair value hierarchy of the Bank's financial and non-financial assets and liabilities measured at fair value is summarised in the table below (cont'd.):

		Valuation technique using		
	Quoted Market Price	Observable Inputs	Unobservable Inputs	
	Level 1	Level 2	Level 3	Total
2018	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial assets measured at fair values:				
Financial investments at FVTPL	-	995,072	-	995,072
Financial investments at FVOCI	-	12,446,139	1,250	12,447,389
Financing and advances at FVOCI	-	-	471,122	471,122
Derivative assets	-	403,993	-	403,993
	-	13,845,204	472,372	14,317,576
Financial liabilities measured at fair values:				
Derivative liabilities	-	391,949	-	391,949
Financial liabilities at FVTPL	-	385,687	-	385,687
	-	777,636	-	777,636

(d) Transfers between Level 1 and Level 2 in the fair value hierarchy

The accounting policy for determining when transfers between levels of the fair value hierarchy occurred is disclosed in Note 2.2(xv). There were no transfers between Level 1 and Level 2 for the Bank during the financial year ended 31 December 2019.

39. Fair values measurements (cont'd.)

(e) Movements of Level 3 instruments

The following tables present additional information about Level 3 assets and liabilities measured at fair value on a recurring basis.

	Financial investments FVOCI 2019 RM'000	Financing and advances 2019 RM'000	Financial investments FVOCI 2018 RM'000	Financing and advances 2018 RM'000
At 1 January	**1,250**	**471,122**	750	-
Effect of adopting MFRS 9	**-**	**-**	-	434,456
Restated as at 1 January	**1,250**	**471,122**	750	434,456
Unrealised gain recognised in other comprehensive income	**-**	**3,911**	-	6,522
Purchases/additions	**-**	**8,750**	500	281,700
Settlements	**-**	**(43,400)**	-	(251,556)
At 31 December	**1,250**	**440,383**	1,250	471,122

(f) Sensitivity of fair value measurements to changes in unobservable input assumptions

Changing one or more of the inputs to reasonable alternative assumptions would not change the value significantly for the financial assets and financial liabilities in Level 3 of the fair value hierarchy.

(g) Financial instruments not measured at fair value

The on-balance sheet financial assets and financial liabilities of the Bank whose fair values are required to be disclosed in accordance with MFRS 132 comprise all their assets and liabilities with the exception of property, plant and equipment, provision for current and deferred taxation.

For financing and advances to customers, where such market prices are not available, various methodologies have been used to estimate the approximate fair values of such instruments. These methodologies are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in the assumptions could significantly affect these estimates and the resulting fair value estimates. Therefore, for a significant portion of the Bank's financial instruments, including financing and advances to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amounts that the Bank could realise in a sale transaction as at the reporting date. The fair value information presented herein should also in no way be construed as representative of the underlying value of the Bank as a going concern.

39. Fair values measurements (cont'd.)

(g) Financial instruments not measured at fair value (cont'd.)

The estimated fair values of those on-balance sheet financial assets and financial liabilities as at the reporting date approximate their carrying amounts as shown in the statement of financial position, except for the financial assets and liabilities as disclosed below.

The table below analyses financial instruments not carried at fair value for which fair value is disclosed, together with carrying amount as shown in the statement of financial position:

2019	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total fair value RM'000	Carrying amount RM'000
Financial assets					
Financing and advances	-	15,040,498	186,541,367	201,581,865	189,762,974
Financial investments at amortised cost	-	9,753,627	-	9,753,627	9,671,676
Financial liabilities					
Deposits from customers	-	160,938,044	-	160,938,044	161,039,140
Investment accounts of customers	-	20,738,073	-	20,738,073	20,737,670
Deposits and placements of banks and other financial institutions	-	38,792,077	-	38,792,077	38,827,556
Term funding	-	9,920,743	-	9,920,743	9,891,993
Subordinated sukuk	-	2,150,739	-	2,150,739	2,028,311
Capital securities	-	1,018,218	-	1,018,218	1,002,170

39. Fair values measurements (cont'd.)

(g) Financial instruments not measured at fair value (cont'd.)

The table below analyses financial instruments not carried at fair value for which fair value is disclosed, together with carrying amount as shown in the statement of financial position (cont'd.):

2018	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total fair value RM'000	Carrying amount RM'000
Financial assets					
Financing and advances	-	24,385,491	151,331,186	175,716,677	174,268,203
Financial investments at amortised cost	-	6,454,985	-	6,454,985	6,454,985
Financial liabilities					
Deposits from customers	-	147,777,720	-	147,777,720	147,781,749
Investment accounts of customers	-	23,565,595	-	23,565,595	23,565,061
Deposits and placements of banks and other financial institutions	-	32,116,353	-	32,116,353	32,174,135
Term funding	-	4,730,383	-	4,730,383	4,738,180
Subordinated sukuk	-	2,584,647	-	2,584,647	2,534,301
Capital securities	-	998,975	-	998,975	1,002,441

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

(i) Financial investments at amortised cost

Fair values of securities that are actively traded are determined by quoted bid prices. For non-actively traded securities, independent broker quotations are obtained. Fair values of equity securities are estimated using a number of methods, including earnings multiples and discounted cash flows analysis. Where discounted cash flows technique is used, the estimated future cash flows are discounted using applicable prevailing market or indicative rates of similar instruments at the reporting date.

39. Fair values measurements (cont'd.)

(g) Financial instruments not measured at fair value (cont'd.)

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments (cont'd.).

(ii) Financing and advances

The fair values of variable rate financing and advances are estimated to approximate their carrying values. For fixed rate financing, the fair values are estimated based on expected future cash flows of contractual instalment payments, discounted at applicable and prevailing rates at reporting date offered for similar facilities to new customers with similar credit profiles. In respect of impaired financing, the fair values are deemed to approximate the carrying values which are net of impairment allowances.

(iii) Deposits and placements of banks and other financial institutions

The fair values of deposits payable on demand and deposits and placements with maturities of less than one year approximate their carrying amount due to the relatively short maturity of these instruments. The fair values of fixed deposits and placements with remaining maturities of more than one year are estimated based on discounted cash flows using applicable rates currently offered for deposits and placements with similar remaining maturities.

(iv) Term funding and subordinated sukuk

The fair values of subordinated sukuk are estimated by discounting the expected future cash flows using the applicable prevailing profit rates for similar instruments as at reporting date.

40. Offsetting of financial assets and financial liabilities

Derivative assets and derivative liabilities are offset and the net amounts are reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Nostro foreign accounts related balances are reclassified and presented net against amount due from holding company included within other assets to better reflect the operationalisation and settlement of Nostro accounts.

Amount are not offset in the statement of financial position are related to:

(i) the counterparties' offsetting exposures with the Bank where the right to set-off is only enforceable in the event of default, insolvency or bankruptcy by the counterparties; and

(ii) cash and securities that are received or pledged with counterparties.

40. Offsetting of financial assets and financial liabilities (cont'd.)

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

				Amount not offset in the statement of financial position		
	Gross amount of recognised financial assets/ financial liabilities RM'000	Gross amount offset in the statement of financial position RM'000	Amount presented in the statement of financial position RM'000	Financial instruments RM'000	Financial collateral received/ pledged RM'000	Net amount RM'000
2019						
Financial assets						
Derivative assets	**200,414**	**-**	**200,414**	**(5,610)**	**(45,690)**	**149,114**
Financial liabilities						
Derivative liabilities	**221,674**	**-**	**221,674**	**(5,610)**	**-**	**216,064**
2018						
Financial assets						
Derivative assets	403,993	-	403,993	-	-	403,993
Financial liabilities						
Derivative liabilities	391,949	-	391,949	-	-	391,949

41. Capital management

The Bank’s approach to capital management is driven by its strategic objectives and takes into account all relevant regulatory, economic and commercial environments in which the Bank operates. The Bank regards having a strong capital position as essential to the Bank's business strategy and competitive position. As such, implications on the Bank's capital position are taken into account by the Board and senior management prior to implementing major business decisions in order to preserve the Bank's overall capital strength.

The Bank's key thrust of capital management are to diversify its sources of capital; to allocate and deploy capital efficiently, guided by the need to maintain a prudent relationship between available capital and the risks of its underlying businesses; and to meet the expectations of key stakeholders, including investors, regulators and rating agencies. In addition, the Bank's capital management is also implemented with the aim to:

- Maintain adequate capital ratios at all times, at levels sufficiently above the minimum regulatory requirements across the Bank;
- Support the Bank's credit rating from local and international rating agencies;
- Deploy capital efficiently to businesses and optimise returns on capital;
- Remain flexible to take advantage of future opportunities; and
- Build and invest in businesses, even in a reasonably stressed environment.

The quality and composition of capital are key factors in the Board and senior management’s evaluation of the Bank’s capital adequacy position. The Bank places strong emphasis on the quality of its capital and, accordingly, holds a significant amount of its capital in the form of common equity which is permanent and has the highest loss absorption capability on a going concern basis.

The Bank’s capital management is guided by the Bank Capital Management Framework to ensure that capital is managed on an integrated approach and ensure a strong and flexible financial position to manage through economic cycles across the Bank.

The Bank's capital management is also supplemented by Bank Annual Capital Plan to facilitate efficient capital levels and utilisation across the Bank. The plan is updated on an annual basis covering at least a three year horizon and approved by the Board for implementation at the beginning of each financial year. The Bank Annual Capital Plan is reviewed by the Board semi-annually in order to keep abreast with the latest development on capital management and also to ensure effective and timely execution of the plans contained therein.

41. Capital management (cont'd.)

Pursuant to Bank Negara Malaysia's ("BNM") Capital Adequacy Framework for Islamic Banks (Capital Components) issued on 2 February 2018, all financial institutions shall hold and maintain at all times, the minimum Common Equity Tier 1 Ratio of 4.5%, Tier 1 Ratio of 6%, and Total Capital Ratio of 8%. BNM has also introduced additional capital buffer requirements which comprises Capital Conservation buffer of 2.5% of total RWA and Countercyclical Capital Buffer ranging between 0% - 2.5% of total RWA. The framework also provides further guidance on the computation approach and operations of the Countercyclical Capital Buffer ranging between 0% - 2.5%.

In addition, as banking institutions in Malaysia evolve to become key regional players and identified as systemically important, BNM will assess at a later date the need to require large banking institutions to operate at higher levels of capital, commensurate with their size, extent of cross-border activities and complexity of operations.

42. Capital adequacy

(a) Compliance and application of capital adequacy ratios

The capital adequacy ratio of the Bank are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks (Capital Components) and Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets) issued on 2 February 2018 and 3 May 2019 respectively. The total RWA are computed based on the following approaches:

(i) Credit risk under Internal-Ratings Based Approach and Standardised Approach;
(ii) Market risk under Standardised Approach; and
(iii) Operational risk under Basic Indicator Approach.

The minimum regulatory capital adequacy requirements for CET1, Tier 1 and Total Capital are 4.5%, 6.0% and 8.0% of total RWA for the current financial year ended 31 December 2019 (2018: 4.5%, 6.0% and 8.0% of total RWA).

(b) The capital adequacy ratios of the Bank

The capital adequacy ratios of the Bank as at the reporting dates, are as follows:

	2019	**2018**
Capital ratios		
CET1 capital ratio	**14.101%**	16.368%
Tier 1 capital ratio	**15.508%**	17.984%
Total capital ratio	**18.845%**	22.545%

42. Capital adequacy (cont'd.)

(c) Components of Tier 1 and Tier 2 capital

	2019 RM'000	2018 RM'000
CET1 Capital		
Paid-up share capital	**7,197,398**	7,197,398
Retained profits	**2,676,002**	2,970,618
Other reserves	**1,181,830**	303,622
CET1 capital before regulatory adjustments	**11,055,230**	10,471,638
Less: Regulatory adjustment applied in CET1 capital	**(1,033,520)**	(342,549)
Deferred tax assets	**-**	(24,077)
Gain of financial instruments classified as 'fair value through other comprehensive income'	**(187,023)**	(4,956)
Regulatory reserve	**(846,497)**	(313,516)
Total CET1 Capital	**10,021,710**	10,129,089
Additional Tier 1 Capital		
Capital securities	**1,000,000**	1,000,000
Total Tier 1 Capital	**11,021,710**	11,129,089
Tier 2 Capital		
Subordinated sukuk	**2,000,000**	2,500,000
General provision[1]	**17,675**	23,310
Surplus of eligible provision over expected loss	**354,063**	299,696
Total Tier 2 capital	**2,371,738**	2,823,006
Total Capital	**13,393,448**	13,952,095

[1] Refers to loss allowance measured at an amount equal to 12-month and lifetime expected credit losses and regulatory reserve, to the extent they are ascribed to non-credit impaired exposures, determined under Standardised Approach for credit risk.

42. Capital adequacy (cont'd.)

(d) The breakdown of RWA by each major risk categories for the Bank are as follows:

	2019 RM'000	2018 RM'000
Standardised Approach exposure	**3,069,539**	5,647,539
Internal Ratings-Based Approach exposure after scaling factor	**69,483,314**	60,816,283
Total RWA for credit risk	**72,552,853**	66,463,822
Total RWA for credit risk absorbed by the holding company and Investment Account Holder ("IAH")^	**(10,472,880)**	(13,113,007)
Total RWA for market risk	**963,780**	1,152,312
Total RWA for operational risk	**8,029,045**	7,381,566
Total RWA	**71,072,798**	61,884,693

^ In accordance to the BNM Investment Account policy, the credit risk weighted assets funded by investment accounts (Unrestricted Investment Account and Restricted Investment Account) are excluded from the calculation of capital adequacy ratio of the Bank.

43. Shariah disclosures

(a) Shariah governance

The Bank has put in place a sound Shariah governance framework to ensure strict adherence to Shariah requirements in its processes. A dedicated Shariah Committee ("SC") provides Shariah oversight on all material Shariah non-compliance risks across the Bank. Supporting the SC is the Shariah Risk Management and Shariah Review and Compliance ("SRC") that facilitates the identification, assessment and reporting of Shariah Non-Compliance risks and provides oversight on Shariah compliance within the Bank. Underpinning the governance framework is the detailed policies and procedures that includes the required steps to ensure that each transaction executed by the Bank complies with Shariah requirements. A dedicated internal audit team was also established to provide the required check and balance in ensuring strict compliance with the policies and procedures.

Any transaction suspected as Shariah non-compliant will be escalated to the SC for deliberation and decision whether any Shariah requirements have been breached. Shariah Risk Management will track on the incident and rectification status, and ensure timely reporting to the SC, Board and Bank Negara Malaysia. For any Shariah non-compliant transactions, the related income will be purified by channelling the amount to an approved charitable organisation.

43. Shariah disclosures (cont'd.)

(a) Shariah governance (cont'd.)

For the financial year ended 31 December 2019, the nature of transactions deliberated to SC for Shariah non-compliance are as follows:

(i) Shariah non-compliant events

2019	**No. of event**	**RM'000**
Ujrah fee charged on terminated/cancelled credit card	**1**	**Nil**
Conventional will writing fee capitalised in the Islamic Home Financing facility	**1**	**-***
	2	**-**

2018	**No. of event**	**RM'000**
Non-execution of Commodity Murabahah trading prior to financing disbursement	1	28
	1	28

Apart from the purification of income from Shariah non-compliance events, the Bank has implemented several rectification measures relating to systems, processes and procedures to enhance control mechanism and minimize recurrence of Shariah non-compliance incidents.

(ii) Sources and uses of charity funds

	2019 RM'000	**2018 RM'000**
Sources of charity funds		
Shariah non-compliant/prohibited income	**-***	28
Total sources of charity funds during the year	**-***	28
Uses of charity funds		
Contribution to non-profit organisation	**-***	28
Total uses of charity funds during the year	**-***	28
Undistributed charity funds as at 31 December 2019/2018	-*	-

* Denotes RM36.72

43. Shariah disclosures (cont'd.)

(b) Recognition and measurement by main class of Shariah contracts

The recognition and measurement of each main class of Shariah contract is dependent on the nature of the products, either financing or deposit product. The accounting policies for each of these products are disclosed in their respective policies.